

RESERVE BANK QUARTERLY BULLETIN ANALYSIS FOR DECEMBER 2005

1. Introduction

Generally, this quarterly bulletin report outlines a positive view of the South African economy. South Africa has been experiencing economic upswing for the past consecutive quarters of uninterrupted expansion until the third quarter of 2005. This analysis will look at the following areas of the quarterly bulletin: domestic economic development, foreign trade and public finance and the implications of national growth on the Mpumalanga economy.

2. Domestic economic development

Whilst the economic growth (Real GDP) has been showing uninterrupted growth for the past consecutive quarters since 2004, there has been a rather decelerating growth in the primary sector and secondary sector. However, the growth in the tertiary sector has been positive in all quarters since 2004 and maintained its momentum in 2005. This National growth pattern of economic sectors is a replica of the performances of Provincial economic sectors. The table below outlines the contribution of each sector to the real GDP quarterly since 2004.

2.1 Real gross domestic product

Table 1: Percentage change at seasonally adjusted annualized rates (quarter)

Sectors	2004					2005		
	1 st qr	2 nd qr	3 rd qr	4 th qr	Year	1 st qr	2 nd qr	3 rd qr
Primary sector	1,5	2	7,5	-1	1,5	8,5	3,5	2,5
Agriculture	2,5	3,5	7	3,5	-1,5	6,5	3	10
Mining	1	1,5	7,5	-3	3	9,5	4	-0,5
Secondary sector	9	11	10	3	5	-0,5	7,5	5,5
Manufacturing	9	11,5	11	3	4,5	-2,5	8	5,5
Tertiary sector	4	5,5	5,5	5,5	4,5	6	4,5	4,5
Non-agricultural sector	5	6,5	6,5	4,5	4,5	4,5	5	4
Total	5	6,5	6,5	4,5	4,5	4,5	5,5	4

Source: Quarterly Bulletin December 2005

The negative growth in the mining of $-0,5$ percent in the third quarter of 2005 from 4 percent in the second quarter resulted in an overall slow growth in the real value added by the Primary sector from 3,5 percent in the second quarter of 2005 to 2,5 percent in the third quarter of the same year. It is indicated that the decline in the mining was as a result of Gold and Diamond-mining output, which contracted in the third quarter due to rising input costs and disruptions at some mines. However, Agriculture showed an impressive growth of 10 percent in the third quarter of 2005 from a slump of 3 percent in the second quarter.

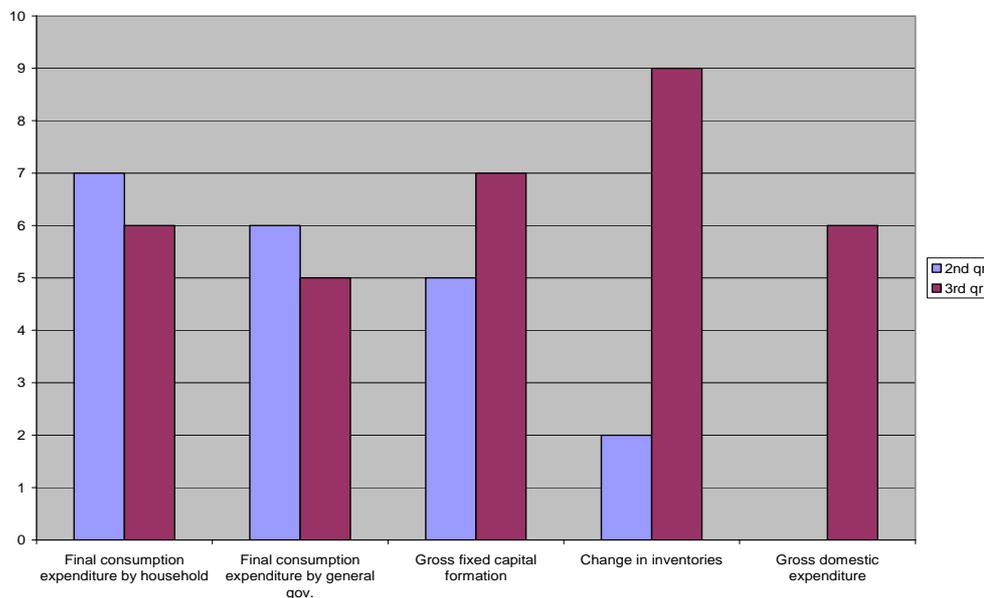
Although decelerating, Secondary sector showed improvement of 7,5 percent in the second quarter and remained positive in the third quarter of 2005. The decelerating growth could be attributed to the decline of the sector that supplies electricity, gas, water, iron and steel, non-ferrous metal products, metal products, machinery, textiles, as well as clothing and leather and footwear. On the other hand solid increases in production were recorded in the sub sectors that manufacture motor vehicles and transport equipment, petroleum and chemical products, rubber and plastic products, construction as well as food and beverages.

The growth in the Tertiary sector can be attributed to the strong increase in the real value added by the communication sector, in particular cellular phone communication and accelerated growth by the finance, insurance, real estate and business sector.

It is interesting to note that the real value added by general government increased by 1 percent in both the second and the third quarters of 2005 as this reflects the steady increasing trend at which the government employment continues.

2.2 Real gross domestic expenditure

Figure1: Percentage change at seasonally adjusted annualized rates: 2005



Source: Quarterly bulletin December 2005

Growth in household consumption eased a little in the third quarter due to a slowdown in the demand of durable goods. The growth momentum slowed partly on account of a high base in the second quarter of 2005 and the absence of further cut in interest rates in the third quarter. However, growth in the household consumption expenditure remained positive and strong due to accelerated purchases of furniture, household appliances, recreational and entertainment goods, medical equipment, semi-durable goods and sustained growth in spending on non-durable goods. There is a parallel increases in household spending and household debt, this suggests that most spending on goods and services is financed by means of borrowed funds. The relatively favorable lending and borrowing conditions, low interest rates, rising income and expenditure and strong consumer confidence exacerbate this consumer behaviour. As a result household debt as a percentage of annualized disposable income rose from 61 percent in the second quarter of 2005 to 63, 5 percent in the third quarter.

From the figure above, looking at gross domestic expenditure (GDE) which comprises of household consumption expenditure, government consumption expenditure, fixed capital formation and change in inventories. GDE accelerated by 6 percent in the third quarter of 2005 from equivalent of 0 percent in the second quarter. This accelerated growth arose from increased inventory accumulation and fixed capital formation. The buoyant growth in fixed capital formation was driven by the stronger growth rates in real capital outlays in several sectors including manufacturing, construction, commerce as well as the transport and communication sectors. On the other hand, the increase in inventory was mainly due to increase in agricultural stock-in-trade as more quantities of maize were accumulated.

Savings is critical for capital formation; it is encouraging to note that Government savings improved marginally in the third quarter, but growth savings by private sector as a percentage of GDP receded from 10,5 percent in the first quarter of 2005 to 10 percent in both second and third quarters. However, gross saving as a percentage of GDP went down slightly in from 13,5 percent in the second quarter of 2005 to 13 percent in the third quarter.

According to the quarterly bulletin as reflected in the Statistics South Africa labour force survey, unemployment rate decreased from 31,2 percent in March 2003 to 26,5 percent in March 2005 and employment increased by 1,2 percent over the year to the second quarter of 2005. The main driver of employment is public sector which recorded an increase of 3,0 percent, whilst the private sector employment increased by 1,7 percent. The main detractors to employment in the private sector were mining and electricity generating sectors. On the other hand, the Mpumalanga provincial unemployment rate has increased by 2,1 percent from 24,8 percent in September 2004 to 26,9 percent in September 2005. This places a huge challenge on the provincial government and provincial private sector to look into integrated measures that would ensure increase in employment levels in the province. Public private partnership strategies to effectively deal with the unemployment challenge are needed.

The cost of labour is the largest cost factor in the economy, it is interesting to note that, with the decline in formal non-agricultural employment in the two quarters to March 2005, labour productivity growth picked up by 4,3 percent in the first quarter of 2005.

Consumer price index excluding mortgage interest (CPIX) remains within the target range of 3 to 6 percent. However, there have been considerable accelerations of price inflation in the domestic economy due to steep increases in international crude oil prices driven by supply disruptions, under-investment in refining capacity and relatively brisk global economic conditions that resulted in high demand of crude oil. These inflationary effects of higher oil prices were partly mitigated by a recovery in the external value of the rand in the third quarter of 2005. Hence, CPIX was at 4,4 percent in October 2005.

3. Foreign trade and payments

Global economy continued to grow at a fairly strong pace in the first three quarters of 2005 despite a slowdown in economic activities in some countries. South Africa's trade balance with the rest of the world recorded its sixth consecutive deficit in the third quarter of 2005. This could be attributed to the sustained increase of real domestic expenditure, which gave rise to a sharp increase in the value of merchandise imports. The table below outlines the balance of payments on current account.

3.1 Balance of payments on current account

Table2: Seasonally adjusted and annualised

R billions

	2004			2005		
	3 rd qr	4 th qr	Year	1 st qr	2 nd qr	3 rd qr
Merchandise exports.....	289,1	293,1	281,8	281,3	327,0	338, 4
Net gold exports.....	25, 8	30, 6	28, 7	24, 9	25, 9	26, 0
Merchandise imports.....	-317, 1	-336,7	-311, 8	-319, 5	-357, 3	-384,1
Trade balance.....	-2, 5	-13, 0	-1,3	-13, 3	-4, 4	-19, 7
Net services, income and current						
Transfer payments.....	-44, 8	- 48,8	-46,2	-50,1	-51,1	-53,2
Balance of current account...	-47,3	-61,8	-47,5	-63,4	-55,5	-72,9

Source: Quarterly bulletin December 2005

The table above indicates the trade deficit of R19,7 billions in the third quarter of 2005 and the total current account deficit was R72,9 billions. Part of the deficit is accounted for by rising imports of capital and consumption goods. However, improved merchandise exports are encouraging.

3.2 Financial account

The table below outlines the trends of inflow of investments to South Africa and the outflow of investments to other countries. The foreign direct investment into South Africa recorded an inflow of R32, 2 billion in the third quarter of 2005. This is a huge increase when compared to R1, 4 billion recorded in the first and second quarters. This indicates positive sentiments by external business community towards investment in South Africa.

On the other hand the outflow of direct investment amounted to R1, 7 billion in the third quarter of 2005 and other outward investment by South Africa amounted to R26, 4 billion.

The portfolio investments declined 3rd quarter to R7.3bn from R25.3 2nd quarter. This sentiment is a good factor for the currency situation as the portfolio funds tend to enhance the appreciation of the rand and they are not sustainable.

Table 3: Net financial transaction not related to reserves

R billions

	2004			2005		
	3 rd qr	4 th qr	Year	1 st qr	2 nd qr	3 rd qr
Change in liabilities.....						
Direct investment.....	2, 0	-3, 9	5,1 1, 4	1, 4	32, 2	
Portfolio investment.....	3, 0	22, 7	44, 9	7, 8	25, 3	7, 3
Other investment.....	-2, 9	3, 8	10, 9	22, 3	-2, 4	1, 9
Change in assets						
Direct investment.....	-0, 4	1, 2	-8, 8	-0, 6	3, 2	-1, 7
Portfolio investment.....	-1, 3	-3, 2	-6, 0	2, 3	-1, 5	-3, 2
Other investment.....	1, 6	4, 1	-2, 1	-6, 3	0, 7	-26,4
Total financial transactions.....	21, 4	27, 9	84, 6	16, 5	35,4	26, 6

Source: Quarterly bulletin December 2005

4. Public finance

The public finance outlook is good; this can be attributed to an improved system of revenue collection and good fiscal performance. As a result national government expenditure in the first six months of fiscal 2005/06 amounted to R204 billion, representing a year on year rate of increase of 12,6 percent. The Budget Review 2005 projected that national government expenditure would increase by 13,4 percent to amount to R418 billion for the fiscal year.

5. Implications of national economic growth trends to Provincial economic outlook

Given the positive growth and impressive performances by most economic sectors in the country, it is interesting to note that Provincial economy is in line with the national economic trends. Mpumalanga economy is growing solidly and its economic growth average was at 4,2 percent in 2004. This trend is expected to continue because of the government expansionary fiscal policy stance without sacrificing fiscal policy discipline and that the Mpumalanga economic production structure is becoming more diversified and less dependent on the primary sector. According to the national economic outlook the provincial economy will continue to expand further during the medium term period. It is evident that the Province is enjoying its economic expansion but the benefits are yet to filter to the poor segment of the population since the Province is sitting at an average unemployment rate of 37,9 percent.

Since the Province has been afforded an opportunity to host some games during 2010 world cup there is a huge potential for the Province to attract foreign direct and indirect investment and also domestic investment. However there is a need for the Province to create conducive environment for businesses to prosper in the province by reviewing issues such as infrastructure, things like infrastructure development, high property prices and serious crimes that affect the tourism sector in a negative way. Effective functioning of municipalities is also vital for the overall economic growth and economic development in the Province.

6. Conclusion

In conclusion, growth in expenditure by general government slowed somewhat as the pace of spending on non-wage goods and services eased and growth in real consumption of employees was moderate. Government spending is expected to run just above 3,0 percent per annum over the medium term, excluding the acquisition of further major military equipment. The provincial budget expenditure has increased by 9,9 percent from the previous year's budget. The hope is that, the ordinary citizens of the province will feel the impact of the increase in budget. The Mpumalanga economic growth will expand further in line with the national trends.