

# SOCIO-ECONOMIC REPORT

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## Introduction

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Although the South African economy appears to be resilient in the face of volatility in the global markets, improving growth rates to the level generally accepted as necessary to ensure job creation and faster development, 5-6%, remains an elusive target. The growth rate averaged 2% over the last year.

This performance is despite the significant increase in manufacturing output as a percentage of production, that has increased by almost three times and a stronger showing by beneficiated products generally, that have increased by almost 15%. Part of the answer to this question, how can growth be increased, must lie in the level of trade that has been slower due to the global slowdown.

There is no doubt that the decline in the value of the rand, whatever its positive effects in terms of making exports more competitive, has had negative consequences in terms of the overall performance of the economy. This, together with the rise in crude oil prices, is one of the main contributors to the failure to achieve the inflation target set by the government. The situation overall is one in which there has been low growth and slightly higher inflation than previously.

There is some promise in the increased investments into the economy that could herald growth in the future, but these are still not at the levels required. Continued low savings rates ensure that domestic investment is limited, making the reliance on foreign investment a key structural issue in the economy that still needs to be addressed.

In the labour market, unemployment is still the key challenge, sitting at 29.5% in terms of the narrow definition. The continued racialised and gendered nature of joblessness is also a structural issue that has yet to be dealt with, no doubt exacerbated by the skills profile in the economy.

Ironically, labour productivity is soaring, but this seems to be mainly driven by the shedding of workers and mechanisation rather than increasing the output of workers through skills development.

The wage gap has been further exacerbated by the average increases for company directors and managers averaging 23% and workers only 7%, in nominal terms. At the same time company results show a general improvement in performance, with earnings

Unemployment is still a key challenge.

increasing by 30% on average. These indicators point to the fact that there is growth but it is not growth that is shared.

## Social Indicators

These reveal interesting trends. There is steady roll-out of delivery of basic services but there are still significant backlogs. Housing is a case in point, where the backlog remains more than 2 million units with well over one million delivered.

There is steady roll-out of delivery of basic services, but still significant backlogs.

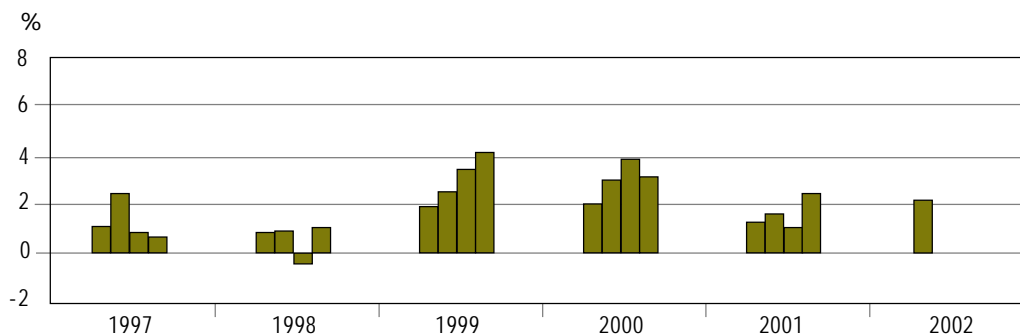
The most worrying indicators are in terms of health and in particular in terms of preventable diseases. Apart from the increase in reported cases of HIV/AIDS cases, there is an increase in the number of TB cases. Other illnesses that relate to the lack of social services and basic infrastructure, such as cholera, are also still a characteristic of our society.

There is some hope in the extension of basic services such as the welfare grants. These types of transfers remain a key poverty alleviation mechanism given the unemployment rate.

# Economic Indicators

## Economic growth

FIGURE 1:  
REAL GROSS DOMESTIC PRODUCT PERCENTAGE CHANGE OVER FOUR QUARTERS

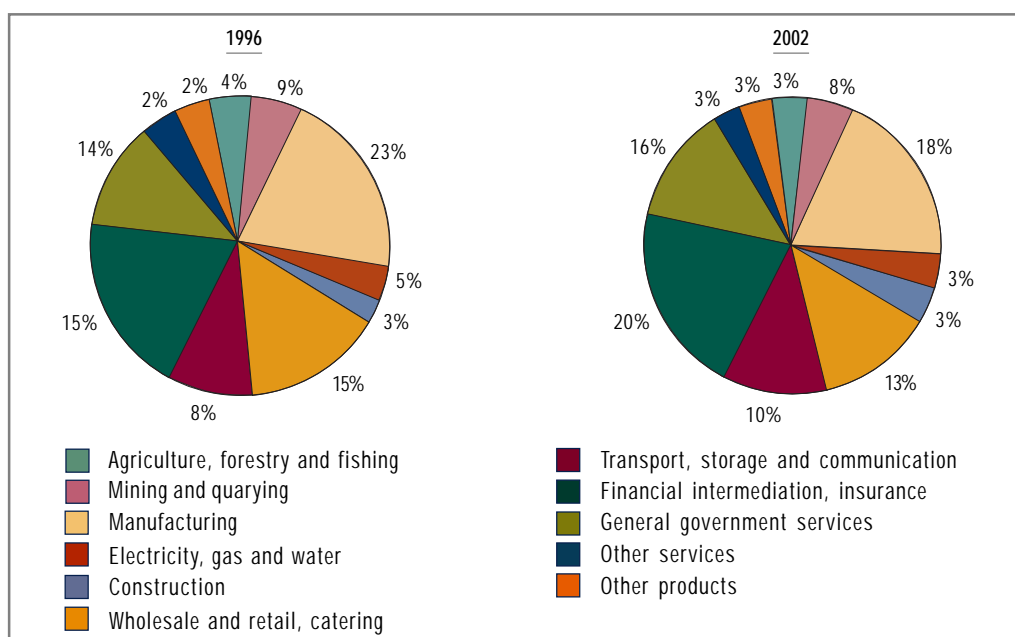


Source: South African Reserve Bank Quarterly Bulletin June 2002

The seasonally adjusted and annualised growth in real gross domestic product accelerated from 1% in the third quarter of 2001 to 2½% in the fourth quarter. This was sustained in the first quarter of 2002. There was a decline in year to year growth from 3½% in 2000 to 2% in 2001. The Reserve Bank is of the view that this was a result of the global slow down.

Growth in 2001 slowed down from an annual rate of 3.1% in 2000 to 2% in 2001.

FIGURE 2:  
VALUE ADDED TO GDP BY SECTOR: 1996 AND 2002



Source: South African Reserve Bank, 1996 and 2002

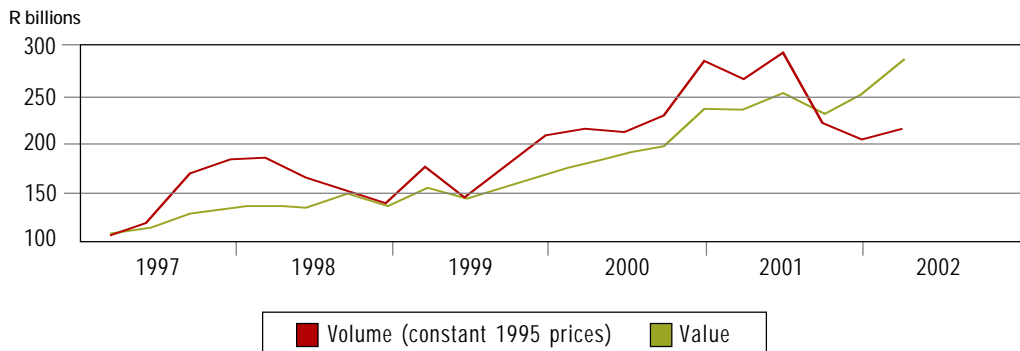
The sector contributing the largest to the GDP in 2002 is the financial intermediation, insurance, real estate and business services sector, which has grown substantially since 1996.

The next biggest sector is manufacturing, although this sector has declined in terms of the share it contributes to GDP from 1996 to 2002.

## Trade

FIGURE 3  
MERCHANDISE EXPORTS (VOLUME) AT CONSTANT 1995 PRICES

Exports have followed global downward trends.



Source: South African Reserve Bank, Quarterly Bulletin June 2002

In 2001, as a whole, the volume of merchandise exports rose only marginally, owing largely to the slowdown in the global economy. World merchandise trade grew in volume terms by only 2% in 2001, compared with 12% in 2000. Export price growth on the other hand, rose 19 percent, primarily because of the depreciation in the rand.

TABLE 1  
CHANGING COMPOSITION OF MERCHANDISE EXPORTS

CATEGORY	1990	1999	2000
PRIMARY PRODUCTS	58,5	36,7	20,0
BENEFICIATED PRIMARY PRODUCTS	26,2	31,8	45,5
MATERIAL INTENSIVE PRODUCTS	6,1	7,9	7,8
MANUFACTURED PRODUCTS	9,2	23,6	26,7
TOTAL	100,0	100,0	100,0

Source: IDC

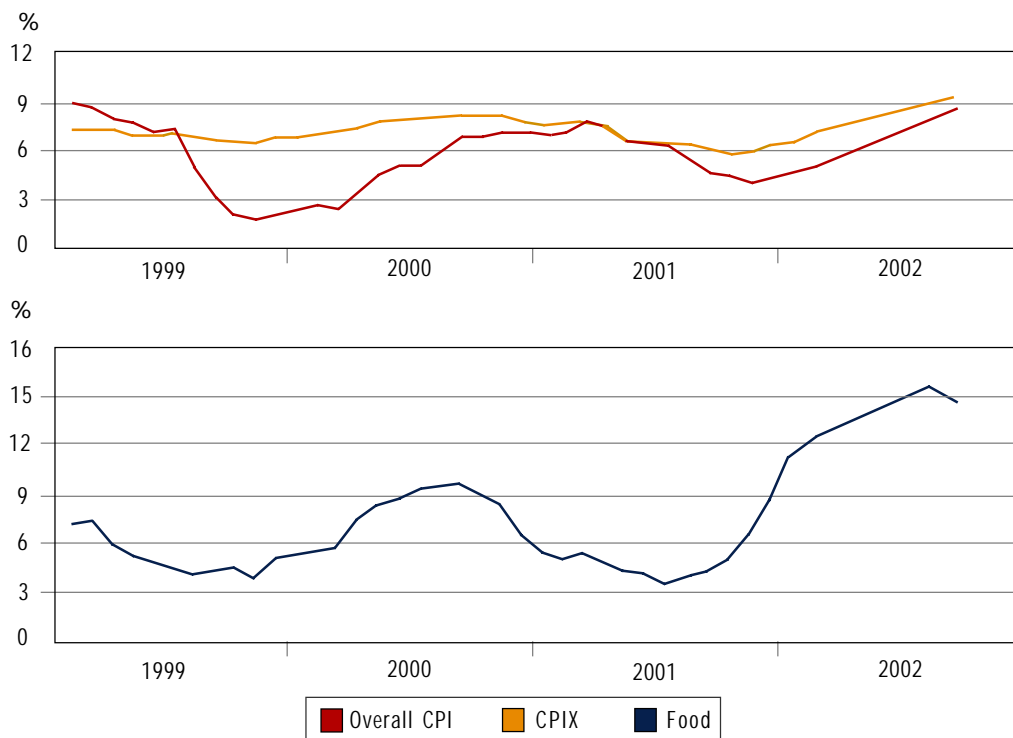
2000 figures are estimates

The percentage of merchandise exports represented by manufactured products has increased from 9.2% in 1990 to 26.7% in the year 2000. The percentage of primary products in the export basket on the other hand saw a decline from 58.5% in 1990 to 20% in 2000. However, the biggest shift has been around beneficiated primary products, which contributed 31.8% in 1999 and 45.5% in 2000.

There has been a significant increase in the percentage of beneficiated primary products exported.

## Inflation

FIGURE 4  
CONSUMER PRICE INFLATION – PERCENTAGE CHANGE OVER 12 MONTHS



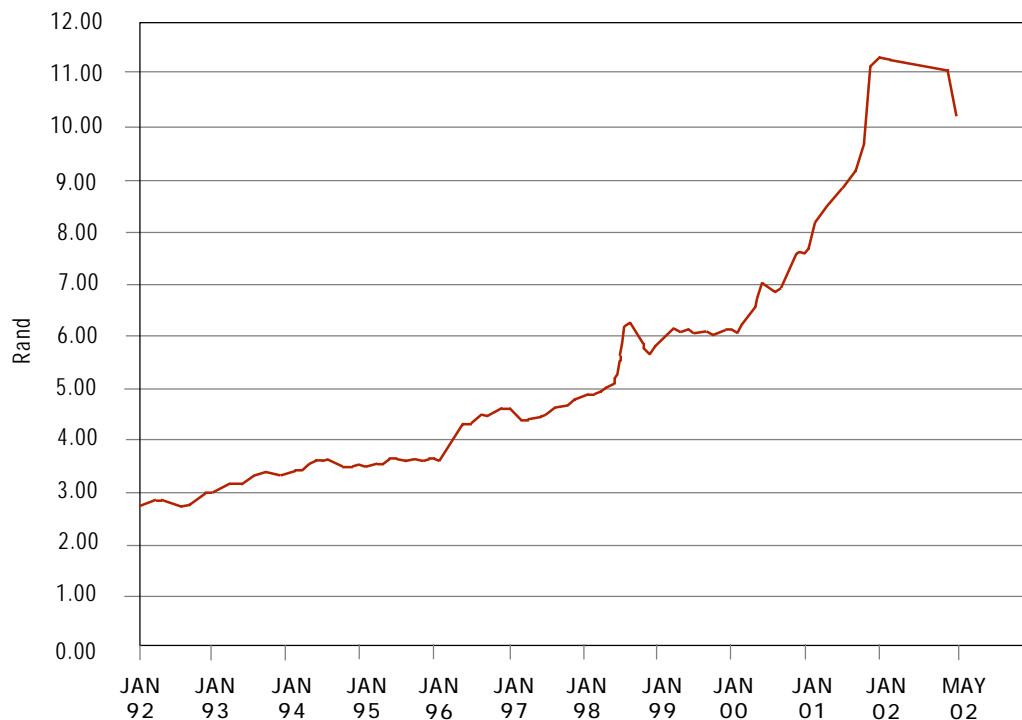
Source: Stats SA May 2002

The inflation target of 3-6% was not met. While there has been a progressive decrease in inflation for a number of years, this trend has reversed. This is largely due to the increasing costs of products that are imported into the country, for instance oil, and the depreciation in the currency.

## Exchange rate

FIGURE 5  
RAND TO DOLLAR EXCHANGE RATE

After depreciating significantly against the dollar in 2001, the rand regained some value in early 2002.



Source: SARB (2002) Quarterly Bulletin. June

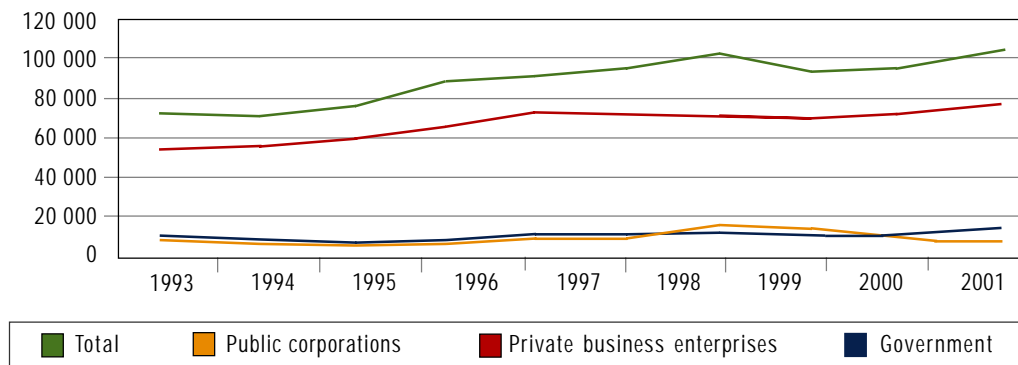
The rand has depreciated sharply in the past decade and significantly in the past year. This has been attributed to a number of factors. Among these are the global slowdown, a general nervousness about emerging markets, uncertainty over exchange control regulation and other external factors that impact on the South African economy, such as the price of crude oil. However, since early 2002 the value of the rand has strengthened against the dollar.

## Investment

### Fixed domestic investment trends

On average, real gross fixed capital formation has increased since 1992. In 1999, there was an overall decline in outlays on fixed private capital, but this trend has been reversed. Investment by public corporations has been on the decline since 1999. Government on the other hand has displayed a relatively constant trend.

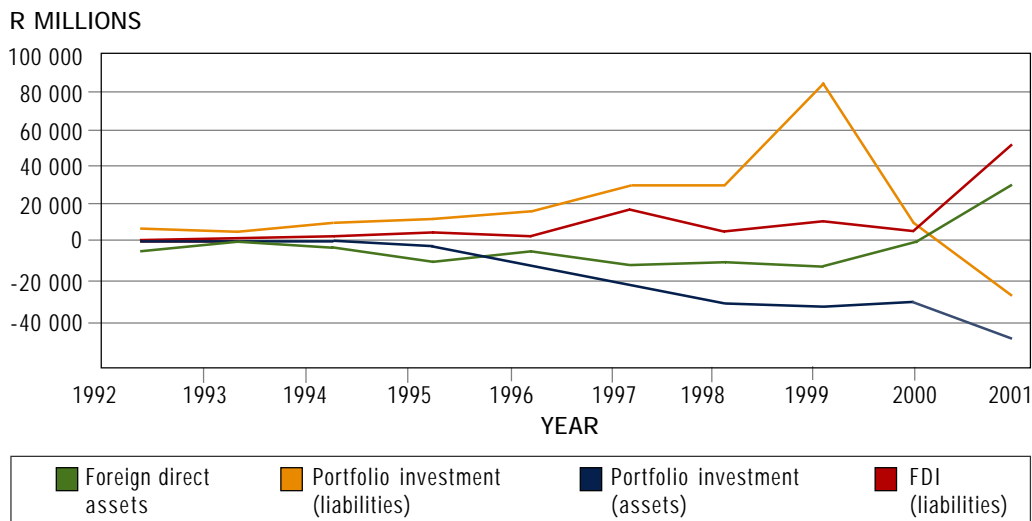
**FIGURE 6**  
GROSS FIXED CAPITAL FORMATION AT CONSTANT 1995 PRICES



Source: SARB Quarterly Bulletin June 2002

## Foreign investment trends

**FIGURE 7**  
INVESTMENT TRENDS



Source: SARB Quarterly Bulletin March 2002

Both Foreign Direct Investment and Foreign Direct Assets have seen marked increases.

The above graph highlights the internationalisation of the South African economy, where both foreign ownership of South African interests and South African ownership of foreign assets has increased.

Foreign Direct Investment (liabilities), which refers to investment by foreigners in undertakings in South Africa in which they have at least 10% voting rights, increased markedly in 2001. Foreign Portfolio Investment (liabilities), investment by foreigners in local equities, has seen a decline since 1999.

Foreign Direct Assets, representing investment by South African residents in

undertakings abroad in which they have at least 10% of the voting rights, has been on the increase since 1999, whilst South Africans' investments in foreign equities (Portfolio Investment Assets), declined in 2001.

## Black business ownership of listed companies

TABLE 2

	NO FIRMS	MAR CAP	% OF JSE
OCTOBER 1997	17	37	3
NOVEMBER 1997	26	52	4
FEBRUARY 1998	27	55	4.8
JULY 1998	28	68	5.6
SEPTEMBER 1998	28	48	4
NOVEMBER 1998	33	66	6.8
JANUARY 1999	35	59	5.5
APRIL 1999	35	67	6
AUGUST 1999	38	53	4.2
NOVEMBER 1999	36	42	3.1
FEBRUARY 2000	36	61	3.8
MAY 2000	32	37	2.7
AUGUST 2000	33	98	5.9
NOVEMBER 2000	34	78	5.2
FEBRUARY 2001	22	84	4.8
FEBRUARY 2002	23	74	2.2

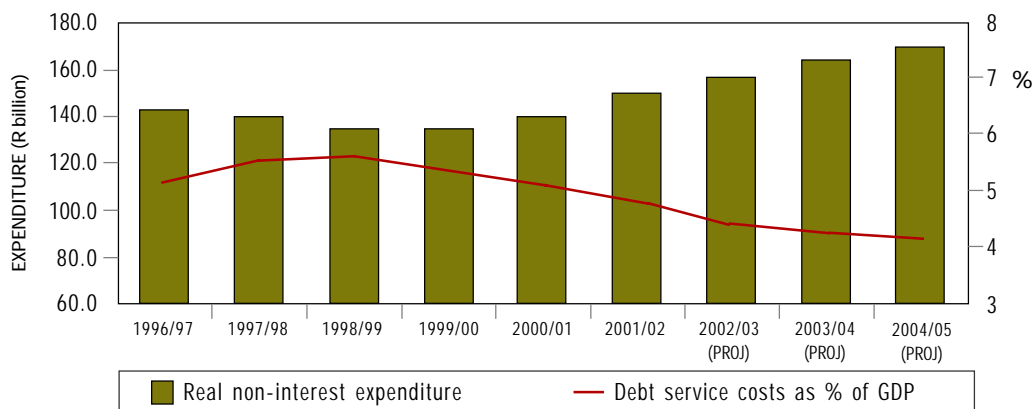
BusinessMap Foundation, 2002

There was a marked increase in black business ownership of companies listed on the JSE from 1995 to August 1999 where it reached a peak. Subsequently, the following years have witnessed a decline in the number of listed black-owned firms. This is largely a result of a loss of confidence in black owned companies displayed by the financial institutions.

By February 2002, the percentage of black business ownership of listed companies on the JSE had declined to 2.2%.

## Government expenditure

**FIGURE 8**  
DEBT SERVICE COSTS AS A PERCENTAGE OF EXPENDITURE

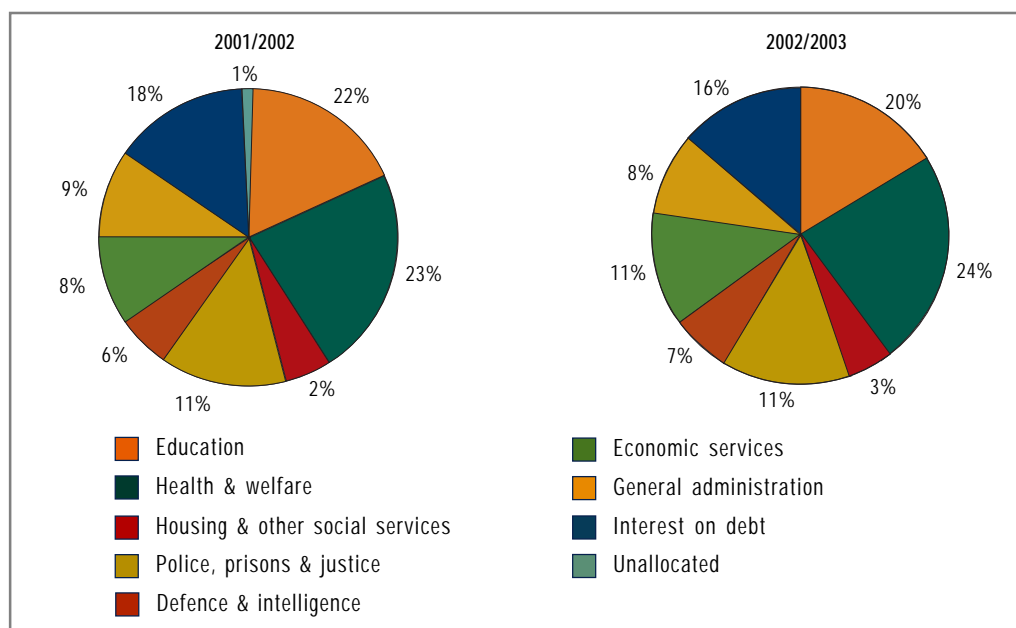


Source: Department of Finance Budget, 2002

Since 1996 government has consistently reduced the budget deficit. It has therefore had to borrow less each year and spend less on servicing debt. The graph shows that real non-interest expenditure has consistently increased over the same period.

Reducing expenditure on debt servicing and general administration has enabled government to increase spending in other areas.

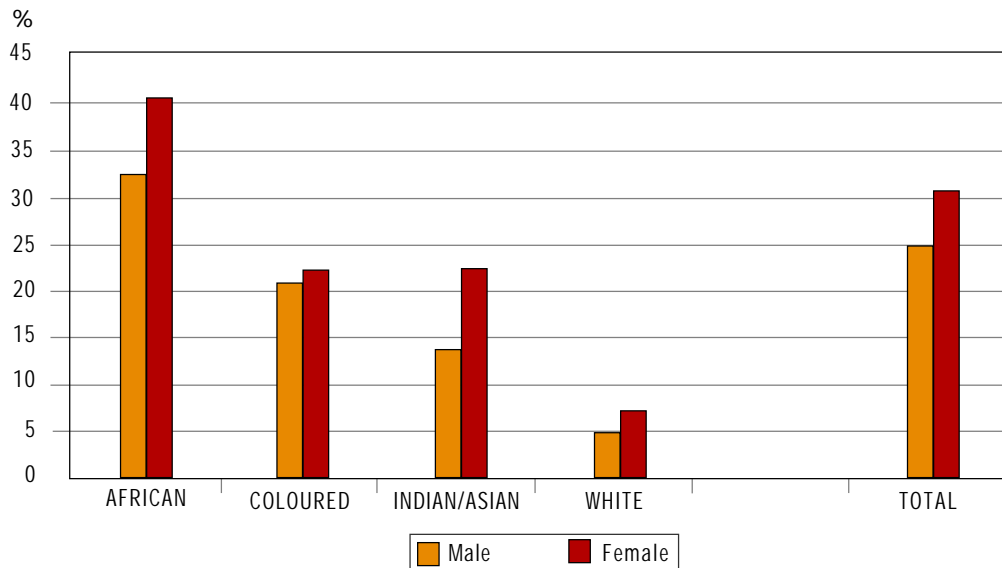
**FIGURE 9**  
GOVERNMENT EXPENDITURE



The above pie charts shows the breakdown of consolidated national and provincial spending in 2002/2003 compared to 2001/2002. They confirm the trend towards lower debt interest costs and higher social spending.

## The Labour Market

FIGURE 10  
OFFICIAL UNEMPLOYMENT RATE BY POPULATION GROUP AND GENDER

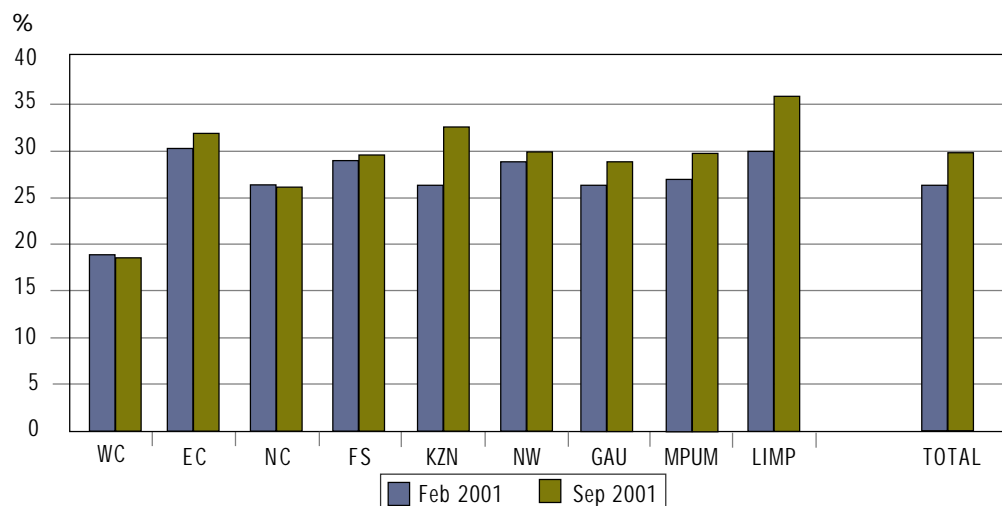


Source: Stats SA, Labour Force Survey September 2001

Unemployment has risen over the past year. Official unemployment refers to those people within the economically active population who have taken active steps to look for work or start some form of self employment in the four weeks prior to the interview. (narrow definition) The official unemployment rate at September 2001 was 29,5%. This was up from 25,8% in September 2000. African people are most likely to be unemployed. Overall, women are more affected than men by joblessness.

FIGURE 11  
UNEMPLOYMENT IN THE PROVINCES

Unemployment continued to increase in most provinces in 2001.

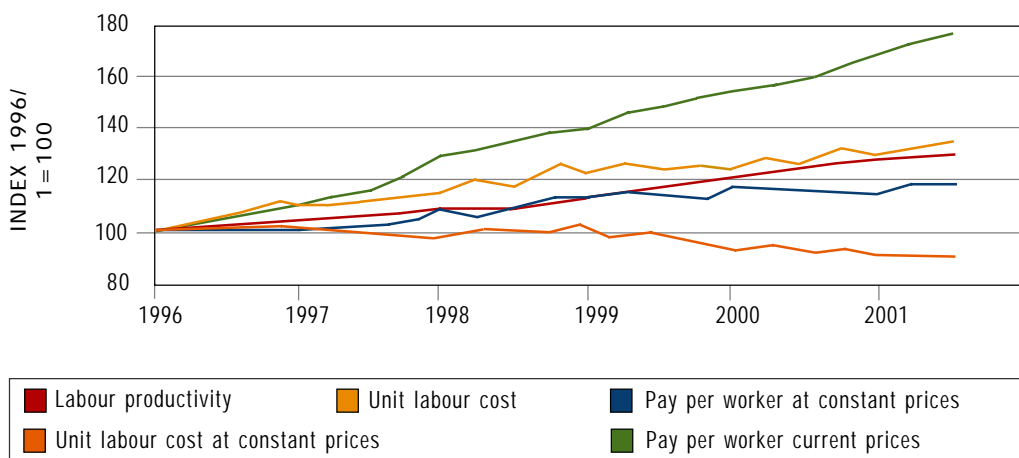


Source: Stats SA, Labour Force Survey September 2001

Between February 2001 and September 2001 there was an increase in unemployment in all provinces except the Western Cape and the Northern Cape. However, the change is more marked in KwaZulu-Natal and Limpopo.

## Labour costs and productivity

**FIGURE 12**  
AVERAGE PRODUCTIVITY, UNIT LABOUR COST AND PAY PER WORKER IN THE PRIVATE SECTOR  
1996-01 TO 2001-03



Labour productivity has continued to rise in 2001, with real pay per worker increasing at a lower rate than productivity.

Source: National Productivity Institute, 2002

Real pay per worker has increased at a lower rate than labour productivity. Unit labour cost is the relative cost of employee compensation paid by the industry, adjusted by gains or losses in productivity. This is usually only calculated in nominal values, as it is a competitive measure and not bought in constant prices. However, the graph above shows that real unit labour cost has declined significantly since 1996.

## Earnings and wages

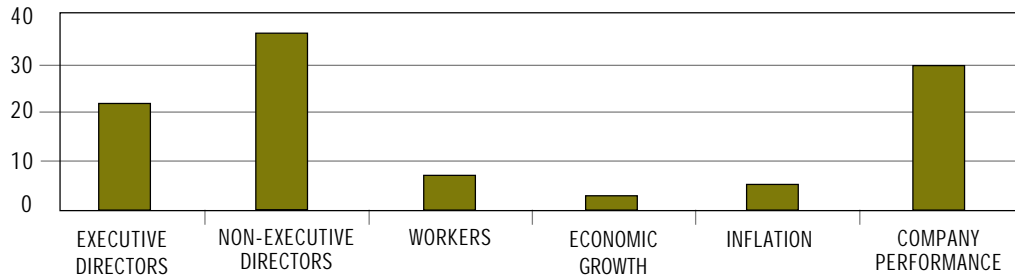
According to the Labour Research Service, Executive Directors' earnings are up from last year by 23% from an average of R1 511 323 for 2000 to an average of R1 859 626 for 2001, as Figure 13 shows. The earnings of non-executive directors have also increased, from an average of R120 091 in 2000 to R162 008 in 2002 – an increase of 35%. As against this, workers wages increased by 7% (nominal terms).

Company performance, measured by net pre-tax profit, improved by 30% between 2000 and 2001.

The average real wage for employees has increased by 3.03%

Whilst Director's earnings increased by an average 29% worker wages increased only 7% in 2001 (nominal terms).

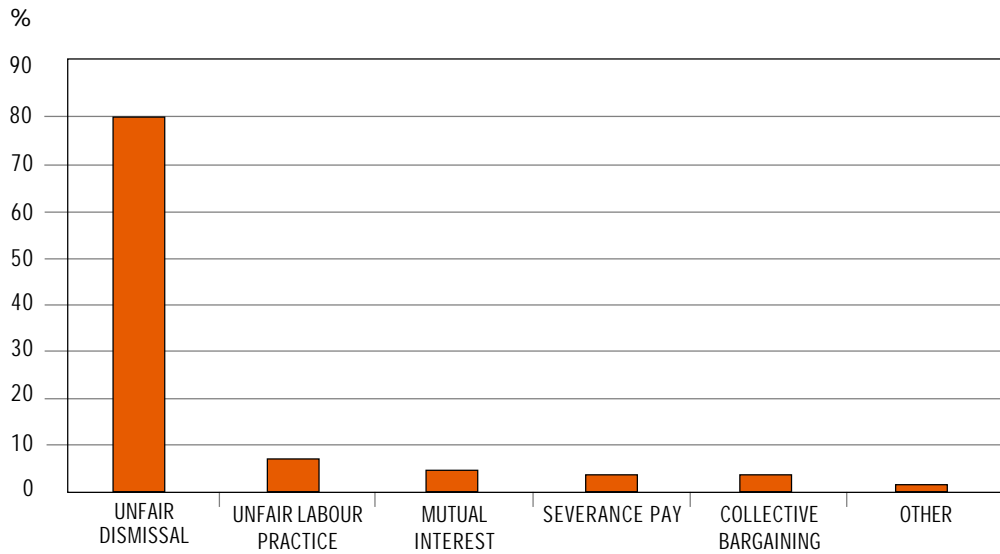
**FIGURE 13**  
PERCENTAGE INCREASE OF DIRECTOR'S FEES, WORKERS' WAGES, GDP, CPIX, COMPANY PERFORMANCE FOR 2001



Labour Research Service, 2002

## Dispute resolution

**FIGURE 14**  
DISPUTE REFERRALS BY ISSUE



Source: CCMA, 2002

The Commission for Conciliation, Mediation and Arbitration (CCMA) is an institution that caters for the process of labour disputes between employers and employees through conciliation, mediation and arbitration. Unfair dismissals represent the highest percentage of the total caseload of the CCMA.

## Skills development

TABLE 3

TOTAL NUMBER OF EMPLOYERS PAYING THE LEVY	120 225
NUMBER OF EMPLOYERS CLAIMING	26 228 (21%)
TOTAL LEVY COLLECTED (0,5% 2000/2001, 1% 2001/2002)	R 3 225 633 190,00
TRANSFERRED TO THE NSF (20% OF LEVY COLLECTED)	R 645 126 638,00
TRANSFERRED TO SETAs (80% OF LEVY COLLECTED)	R 2 580 506 552,00
LESS SETA ADMINISTRATION (20% YEAR 1, 10% YEAR 2)	R596 574 117,00
AVAILABLE FOR GRANT DISBURSEMENT	R 1 983 932 435,00

Source: Department of Labour (2002)

Whilst over R3 billion was collected in levies, only 21% of employers paying the levy were claiming. Almost R2 billion is available for grant disbursement.

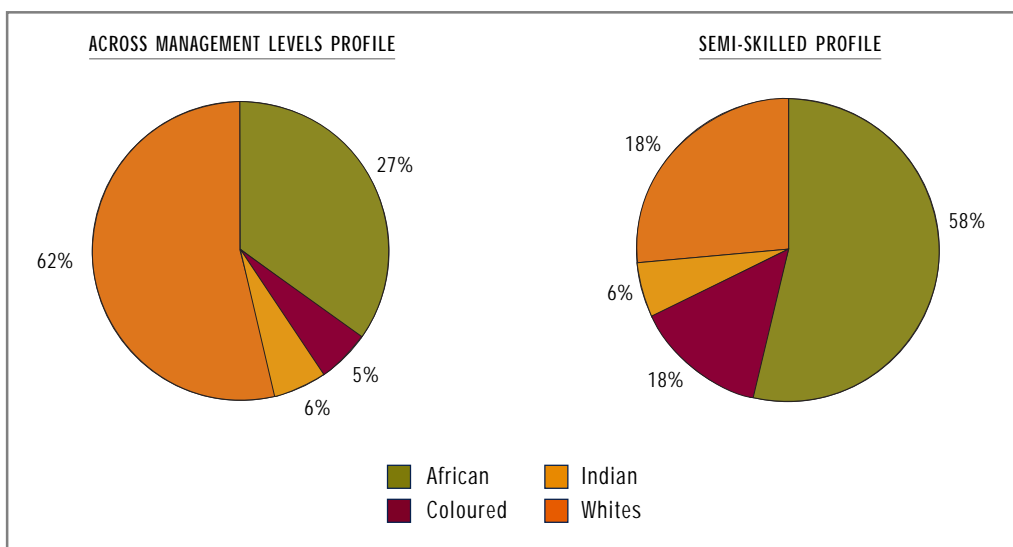
Only 21% of employers are claiming from skills development levies.

## Employment equity

When combining all levels of management and professional employment, 38% of managers are Black. Of those currently in employment, 82% of all semi-skilled workers are Black, 98% of unskilled workers are Black, 15% of semi-skilled workers are women.

FIGURE 15

ACROSS MANAGEMENT LEVELS PROFILE AND SEMI SKILLED PROFILE

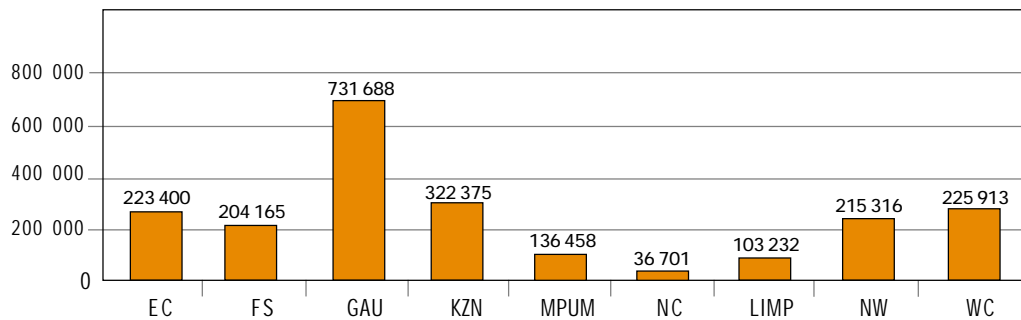


Source: Commission for Employment Equity, 2002

# Social development indicators

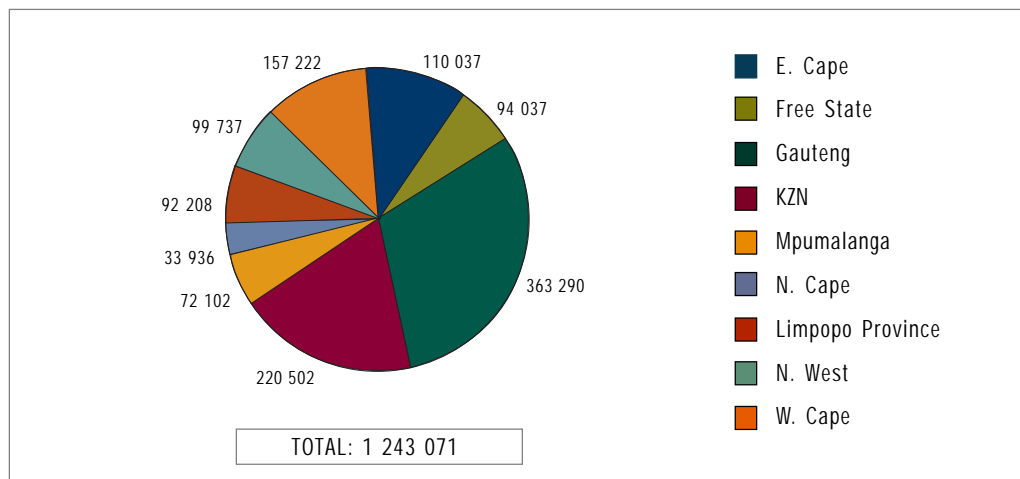
## Housing

**FIGURE 16**  
HOUSING BACKLOG, 1996



Source: Stats SA (census, 1996)

**FIGURE 17**  
HOUSES COMPLETED OR UNDER CONSTRUCTION BY PROVINCE:  
APRIL 1994 - NOVEMBER 2001



Source: Department of Housing (2001)

Roughly half the estimated backlog of 1996 had been overcome by November 2001.

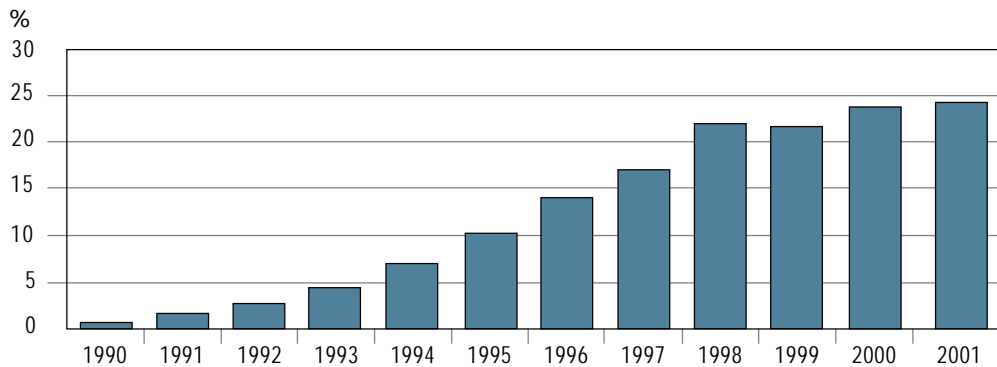
Significant progress has been made in relation to the delivery of houses. As can be seen from figure 18, a total of 1 243 071 houses have been completed or were under construction in the period April 1994 to November 2001.

At the census in 1996 it was estimated that there was a backlog of 2 202 248 houses.

## Health

### HIV/AIDS

**FIGURE 18**  
NATIONAL HIV PREVALENCE TRENDS AMONG ANTENATAL CLINIC ATTENDEES

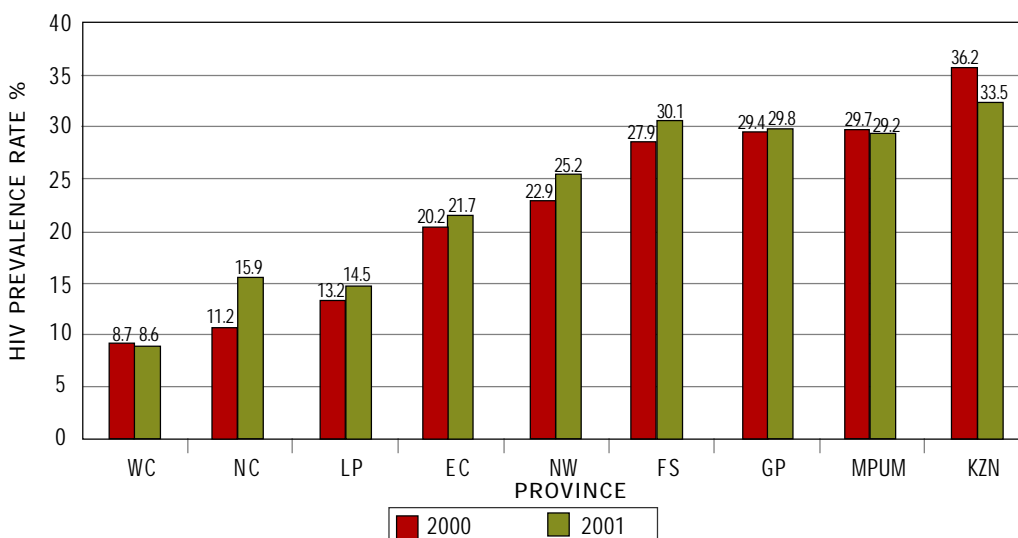


Source: Department of Health, 2002

While the rate of infection being measured is high and HIV/AIDS is a significant public health problem, the findings from a recent Department of Health survey indicate that there is not a statistically significant growth in the epidemic from 2000 to 2001. The research was based on 16 730 blood samples tested for HIV during the survey. The Department estimates that nationally, 24.8% of pregnant women were infected with HIV by the end of 2001. This is in comparison with a prevalence rate of 24.5% recorded for 2000.

Measured HIV prevalence increased significantly in the Northern Cape and North West provinces, whilst it decreased in KwaZulu-Natal.

**FIGURE 19**  
HIV PREVALENCE BY PROVINCE AMONG ANTENATAL ATTENDEES

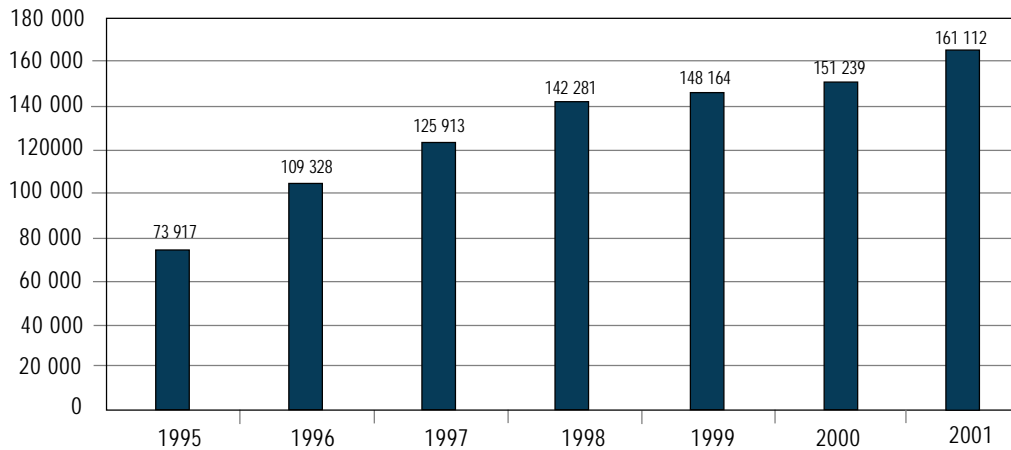


Source: Department of Health 2002

There were large increases in HIV prevalence in the Northern Cape and North West.

## Tuberculosis

FIGURE 20  
REPORTED TUBERCULOSIS CASES 1995 TO 2001

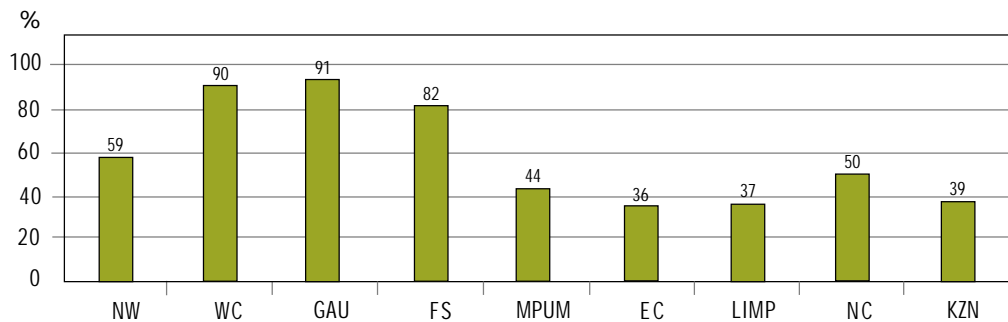


Source: Department of Health (2002)

The number of cases of tuberculosis continued to grow. As this is one of the opportunistic diseases related to HIV/AIDS, its increase could be attributed to the increase in HIV/AIDS cases.

## Water provision

FIGURE 21  
ACCESS TO FREE BASIC WATER



Source: Department of Health (2002)

Since 1994, half of the backlog of 14 million people requiring access to water had been provided with clean, safe water.

In 1994, there were 14 million people who required access to clean, safe water. Since 1994, government has provided access to clean safe water for approximately 7,068 million people in rural areas at a cost of R4,5 billion (Department of Water Affairs and Forestry, 2002).

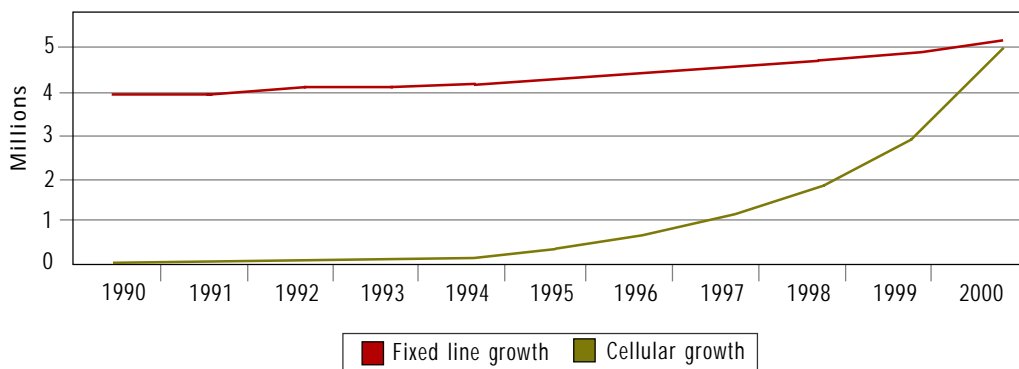
In 2002, 66% of the total population in the country who have access to water infrastructure are benefiting from the policy of free basic water, i.e. 26 million people have access to 6000 litres of free water per household per month.

## Telecommunications

As a sector, telecommunications has grown dramatically to 4,5% of GDP. South Africa spends more on telecommunications as a percentage of GDP than most developed European nations. South Africa has 2.5 million active internet users, 5% of the population. This is 30 times larger than any other country in Africa. Whilst access to fixed lines has been growing steadily, there has been a huge increase in the use of cellular telephones, with the current subscriber base estimated to be 9 million people. (BMI Tech May 2002).

Cellular telephone growth has been huge.

**FIGURE 22**  
FIXED LINE GROWTH AND CELLULAR GROWTH IN SOUTH AFRICA



Source: ITU Telecom Africa, 2001

## Education

**TABLE 4**  
NUMBER OF SCHOOLS WITH CLASSROOM SHORTAGES AND THE NUMBER OF CLASSROOMS REQUIRED

PROVINCE	TOTAL NUMBER OF SCHOOLS	NUMBER OF SCHOOLS WITH CLASSROOM SHORTAGES	PERCENTAGE	NUMBER OF CLASSROOMS REQUIRED
EASTERN CAPE	6 260	2 969	47	11 557
FREE STATE	2 500	394	16	1 759
GAUTENG	2 204	566	26	2 963
KWAZULU-NATAL	5 734	2 750	48	9 867
MPUMALANGA	1 810	996	55	6 218
NORTHERN CAPE	482	50	10	266
LIMPOPO	4 261	2 107	49	9 071
NORTH WEST	2 304	636	28	2 071
WESTERN CAPE	1 593	265	17	1 344
<b>TOTAL</b>	<b>27 148</b>	<b>10 733</b>	<b>35</b>	<b>45 116</b>

Source: Information extracted from the 2000 School Register of Needs Department of Education, 2002

Whilst progress has been made in terms of school infrastructure, there is a tremendous backlog to address.

The information in Table 4, extracted from the 2000 School Register of Needs, shows the extent of the backlog. Almost 50% of the schools in Eastern Cape, KwaZulu-Natal, Mpumalanga and the Limpopo require classrooms. The Department of Education reports that R847.23 million was spent on infrastructure in 2001/2002, out of a budget of R1,2 billion available nationally. This represents a 71% spending rate. Some provinces, however, underspent considerably, such as Free State (17%) and North West (11%). (Minister of Education's 5<sup>th</sup> Report to the President on the Provinces, May 2002).

## Welfare grants

TABLE 5  
TRENDS IN NUMBER OF GRANT BENEFICIARIES

	APRIL 1998	APRIL 1999	APRIL 2000	APRIL 2001
OLD AGE	1 702 647	1 812 695	1 848 726	1 882 188
DISABILITY	660 198	633 778	607 537	631 758
CARE DEPENDENCY	10 126	16 835	22 789	30 269
FOSTER CARE	43 906	46 496	49 843	61 268
CHILD SUPPORT	0	34 471	348 532	1 078 884
PARENT ALLOWANCE	160 462	173 662	144 870	296
CHILD ALLOWANCE	230 633	213 762	193 772	153 114
WAR VETERANS	10 441	9 197	7 908	6 062
GRANT-IN-AID	9 113	8 496	8 570	9 715
TOTAL	2 827 526	2 949 392	3 232 547	3 853 554

Source: Department of Social Development (Welfare), Annual Report 2001

Direct income transfers by the government is a central part of its poverty alleviation strategy.

Direct income transfers by the government is a central part of its poverty alleviation strategy. The number of beneficiaries has been increasing since 1998. The child support grant has replaced the parent allowance and the child allowance, which is why the number of people receiving these grants has decreased. The roll-out of the child support grant, from 0 in 1998 to over a million in 2001, has been a significant achievement.

The value of the old age grant is R620 per month, disability and care dependency R620 per month, child support is R450, whilst child allowance is R130. War veterans receive R638 per month.