socio-economic report

Nearly a decade after South Africa's historic transition to democracy, pervasive poverty and inequality still pose the greatest threat to human dignity and social cohesion. Statistics show that roughly half of our population continues to live in poverty, despite a significant expansion of social service delivery.

The Government's draft Ten Year Review document and the 2003 Medium Term Budget Policy Statement reflect an awareness of the fragility of the past decade's advances and the need to adopt a developmental paradigm to consolidate those gains.

This report looks at indicators measuring economic growth, imports and exports, foreign direct investments, productivity, labour costs, company profits, interest rates as well as inflation and foreign exchange rates. These indicators alone, however, say little about improvements in the lives of people, especially the vast majority of whom are the poor working class.

The use of these indicators shows a dramatic improvement from the past decade. The Labour Research Service, in its Volume 9 Report, refers to Gelb (1991:1), who states that the problems of the 1980's "make a long and depressing list". He sights the main ones as being:

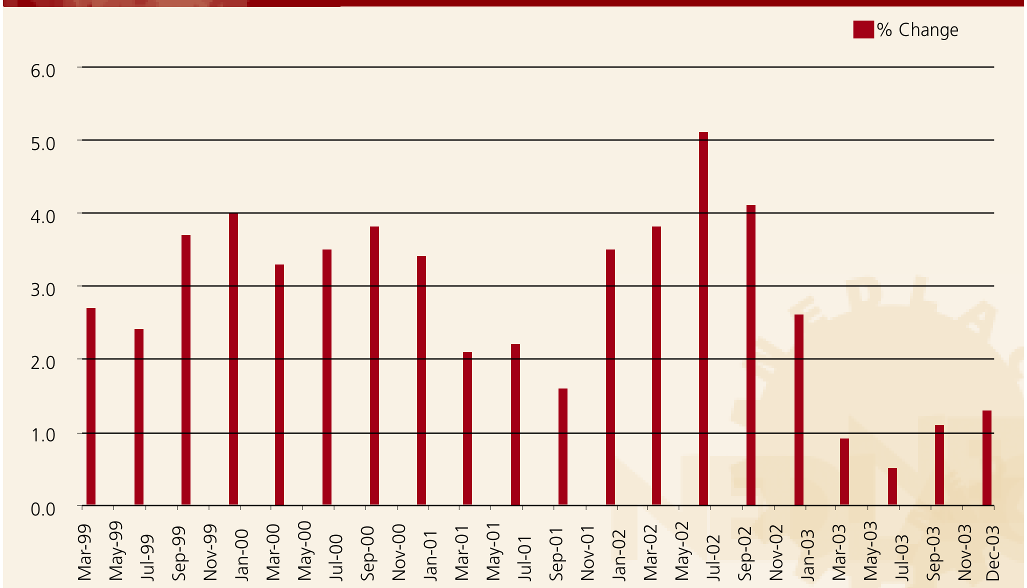
- Stagnation in output growth
- Inflation entrenched at over 13%
- A weak and weakening rand
- A permanent decline in foreign exchange reserves
- Historically low personal savings ratios
- Massive and growing unemployment
- Wage increases relative to productivity were too high and relative to purchasing power too low
- Shortages of essential consumer items

As this report shows, much on this list has been improved upon during the past decade.

Economic Indicators

ECONOMIC GROWTH

REAL GDP PERCENTAGE CHANGE (QUARTERLY)



Source: South African Reserve Bank Quarterly Bulletin, March 2004

In 2003 as a whole real gross domestic product rose by roughly 2%, while on a quarter-to-quarter basis the lowest annualized growth rate recorded was $^1/_2$% in the second quarter, picking up to 1% in the third quarter and 1$^1/_2$% in the final quarter of 2003.

This is lower than the 3.6% growth recorded in 2002, due to output growth falling significantly behind growth in real domestic expenditure during the course of 2003. Despite the acceleration in global economic activity, South African export volumes remained subdued. The significant recovery of the exchange rate of the rand in 2002 and 2003 also reduced South Africa's price competitiveness in the world market, dampening exports and boosting imports.

Under these circumstances, the goods producing sector in South Africa performed poorly, with production volumes in manufacturing contracting during all four quarters of 2003. Real value added in agriculture also declined, suppressed by adverse climatic conditions and lower product prices. In mining real production rose in 2003, while the services sector recorded firm growth.

The breakdown of value-added by kind of economic activity can be seen in Figures 2 and 3.

Figure 2

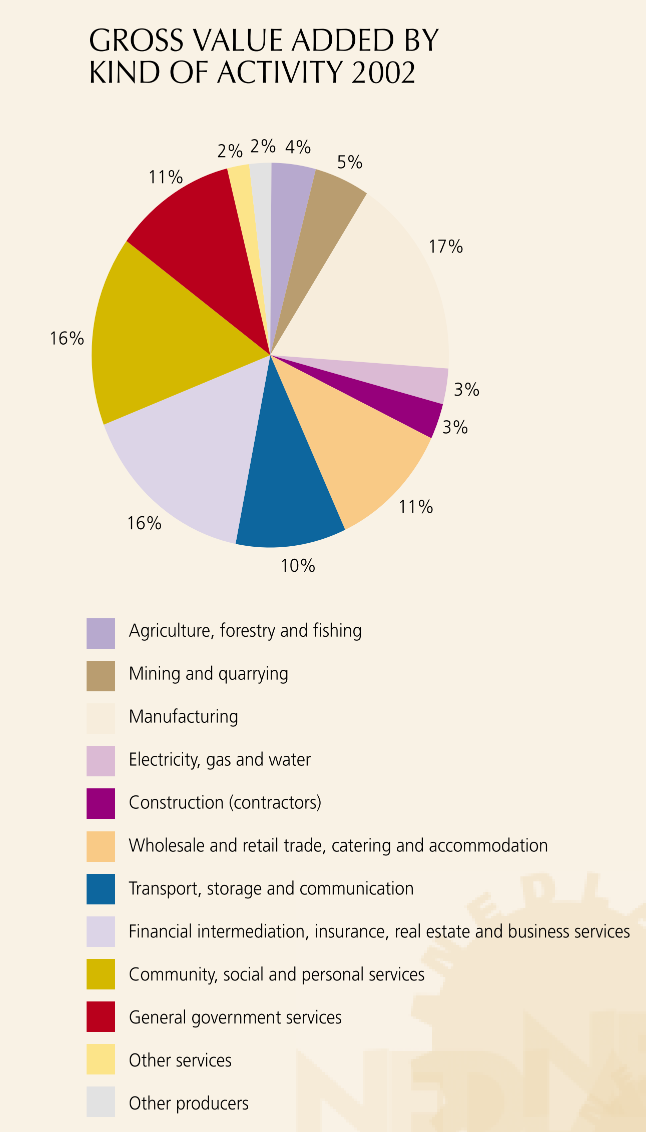
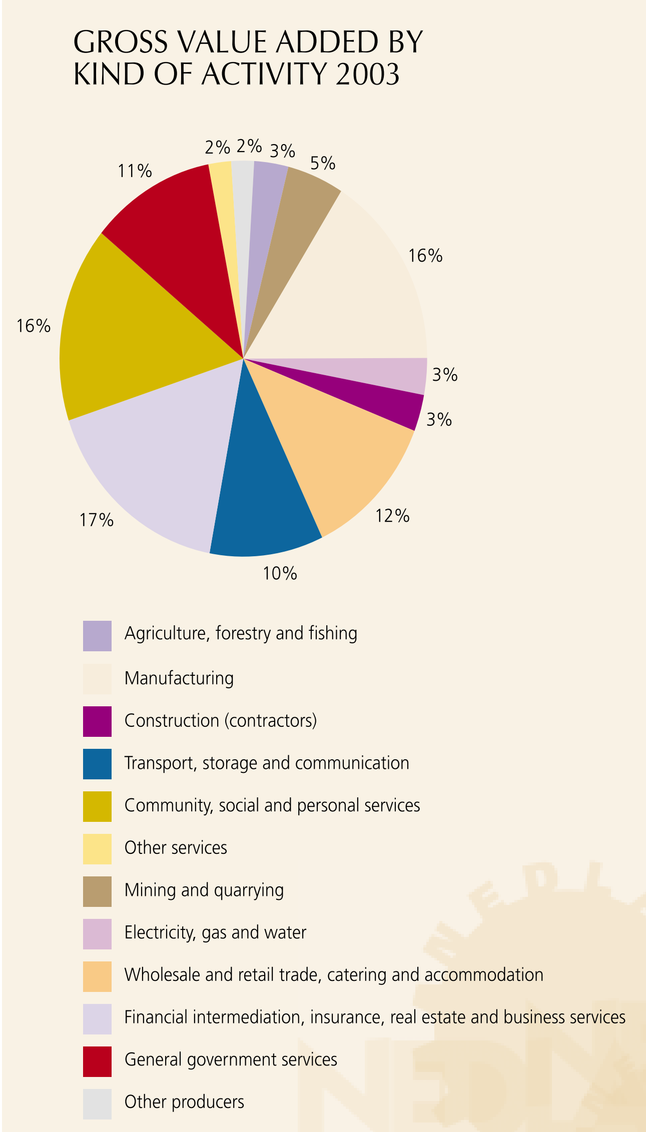


Figure 3



Source: South African Reserve Bank Quarterly Bulletin March 2004

TRADE

Exports vs Imports (1992 - 2003)

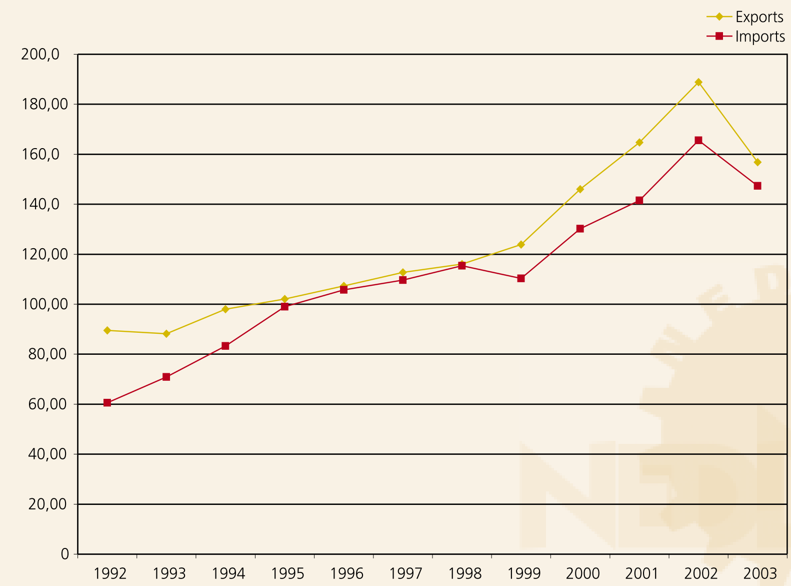


Figure 4 Source: Department of Trade and Industry

In gross terms, South Africa's imports and exports have risen between 1992 and 2003. In 2002, export volumes grew strongly over the first half, helped by the recovery in international commodity prices and a competitive exchange rate. However, the value of merchandise exports, which had advanced in third quarter of 2003, receded by 5.5% in the fourth quarter. This was mainly due to a decline of 5% in the physical volume of exports over the period. The volume of exported manufactured goods, which had been declining consistently since the first quarter of 2003, contracted further in the fourth quarter. Exports of chemicals, textile articles, vehicles and transport equipment declined materially.

Although declines in the physical quantity of exports were recorded in some of the quarters of 2003, the overall volume of goods exported for the year as a whole was still 1% higher than in 2002.

Notwithstanding the higher dollar level of international commodity prices, the rand prices of merchandise exports fell by some 0.5% in the fourth quarter of 2003 following the appreciation of the exchange rate of the rand against the major international currencies.

According to the Reserve Bank, for the calendar year of 2003 the rand prices of all exported goods declined by about 12%, while the rand prices of commodity exports declined by about 18.5% as a consequence of an appreciation of 25% in the average nominal effective exchange rate of the rand over the same period.

If one looks at a breakdown of exports by major sector, as shown in table one below, the division of traded goods between the manufacturing, mining and agricultural sectors provides a picture of important structural changes in the SA economy over the last decade. The proportion of manufactured goods in exports has increased significantly - as more of South Africa's raw materials are processed before being exported.

EXPORTS AND IMPORTS BY SECTOR

Exports **Rand million** constant 95 prices	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Total	89,488	88,213	97,963	102,100	107,281	112,725	116,053	123,915	145,982	164,764	188,870	156,824
Agriculture	3,272	3,290	5,105	4,326	5,357	5,123	5,617	6,098	5,472	6,676	8,408	7,556
Mining	48,352	48,056	49,214	45,012	43,992	44,665	46,321	46,981	55,442	62,435	69,620	51,985
Manufacturing	35,960	35,593	42,235	51,257	57,119	62,301	63,467	70,092	84,419	95,201	110,542	96,833
Other Trade	1,904	1,273	1,408	1,504	813	636	648	743	649	452	299	450
Imports **Rand million** constant 95 prices	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Total	60,525	70,898	83,281	99,020	105,746	109,618	115,388	110,294	130,213	141,543	165,556	147,318
Agriculture	3,435	2,340	1,830	2,875	2,520	2,331	2,362	2,046	2,253	1,982	3,572	2,838
Mining	4,689	8,265	6,953	9,600	10,679	14,997	10,268	12,414	21,235	21,311	21,910	19,442
Manufacturing	52,171	59,960	74,203	86,304	92,299	92,072	102,547	95,653	106,452	118,000	139,605	124,683
Other Trade	231	332	295	241	248	218	210	181	273	250	468	356

Table One: Source: Department of Trade and Industry (2003)

The largest proportion of imported goods comprise manufactured goods, of which a significant part are machinery and electrical equipment, which is indicative of an economy gearing for higher production and deeper penetration of global markets (Budget Review, 2003).

INFLATION

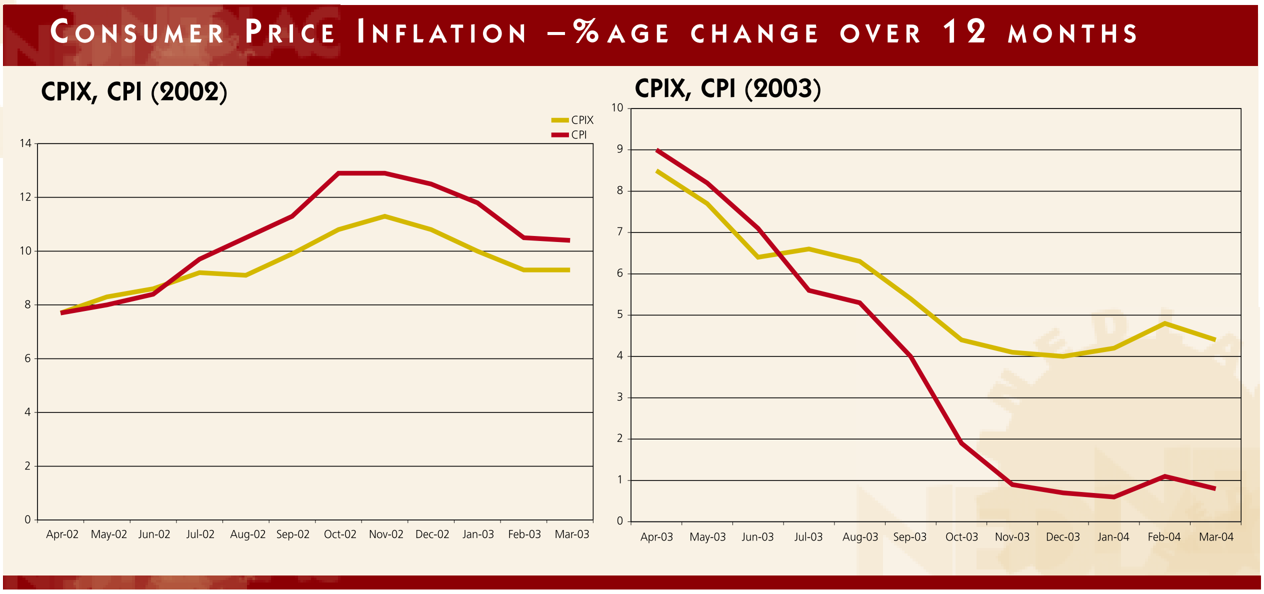


Figure 4

South African Reserve Bank Quarterly Bulletin,March 2004

The twelve-month CPIX inflation receded to 4% in December 2003. This is the lowest since CPIX data became available in 1997. In January 2004, CPIX inflation increased marginally to 4.2%. Simultaneously, headline inflation reached 0.2% in January 2003, its lowest twelve-month value since August 1954. Being less susceptible to the forces of international competition, however, inflation in most services prices remained well above inflation in the prices of goods.

While the significant recovery in the exchange rate made South African exports less competitive, it was nonetheless an important force in bringing down the inflation rate through heightened competition from imports. Over the twelve months to January 2004, the production prices of imported goods in rand terms declined by almost 9%. Production prices of domestically produced goods rose at a subdued pace, reflecting stiffer competition from abroad but also the effect of prudent monetary and fiscal policy.

EXCHANGE RATE

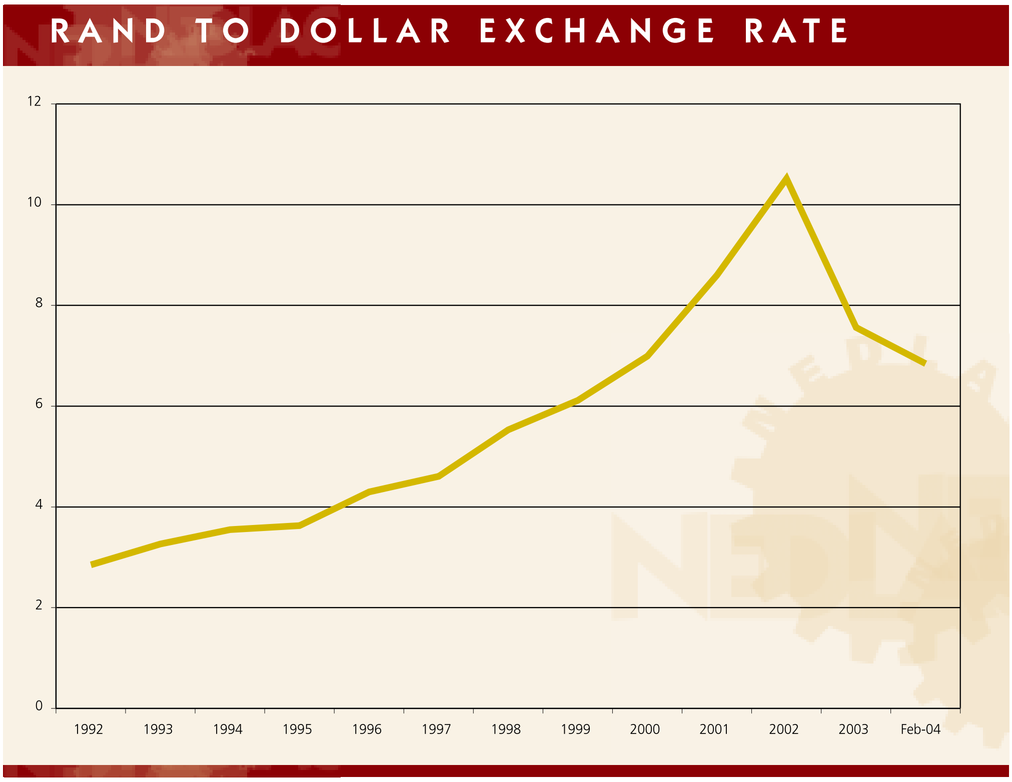


Figure 5

Source: South African Reserve Bank Quarterly Bulletin March 2004

The weighted average exchange rate of the rand, which had increased by 24.2% from the end of December 2001 to the end of December 2002, continued this trend during 2003 and rose by 16.2% from the end of December 2002 to the end of December 2003.

According to the Reserve Bank, the following are the factors that contributed to the continued recovery of the external value of the rand during 2003:

- The continued weakness of the US dollar;
- The upgrading by Standard & Poor's and Fitch Ratings of South Africa's foreign and local currency sovereign debt ratings in May 2003;
- The closing out during 2003 of the Reserve Bank's net oversold international liquidity position, formerly referred to as the net open foreign-currency position;
- Rising foreign-currency prices of South Africa's export commodities;
- The positive, although shrinking, interest rate differential between South Africa and its main trading partners; and
- The continued commitment of national government and the Reserve Bank to prudent fiscal and monetary policies.

INVESTMENT

Fixed domestic investment trends

The year under review saw growth in real fixed capital expenditure accelerating from 3% and 7.5% in the second and third quarters, to an annualized 8.5% in the fourth quarter. The contributors to the robust growth in the fourth quarter were the government sector and public corporations. The year-to-year growth rate of total real gross fixed capital formulation accelerated from 6% in 2002 to 8.5% in 2003.

Growth in real fixed capital outlays by private business enterprises slowed down to an annualized rate of 5.5% in the fourth quarter from an increase of 10% in the third quarter of 2003. This can be attributed to a contraction in real capital expenditure by the agricultural sector. However, strong increases in real capital outlays by the mining and transport and communication sectors more than offset the decline in agriculture. The mining sector benefited from an ongoing capacity expansion, particularly in platinum mines. Cellular telephone companies were engaged in infrastructure expansion to meet ongoing strong demand for their services.

The acquisition of aircraft by South African Airways and the continued expansion of the Coega development project contributed to an increase in real gross fixed capital by public corporations.

Real fixed capital expenditure by general government was relatively strong in the fourth quarter of 2003, mainly due to increased infrastructure expenditure by provincial and local governments.

GROSS FIXED CAPITAL FORMATION AT CONSTANT 1995 PRICES

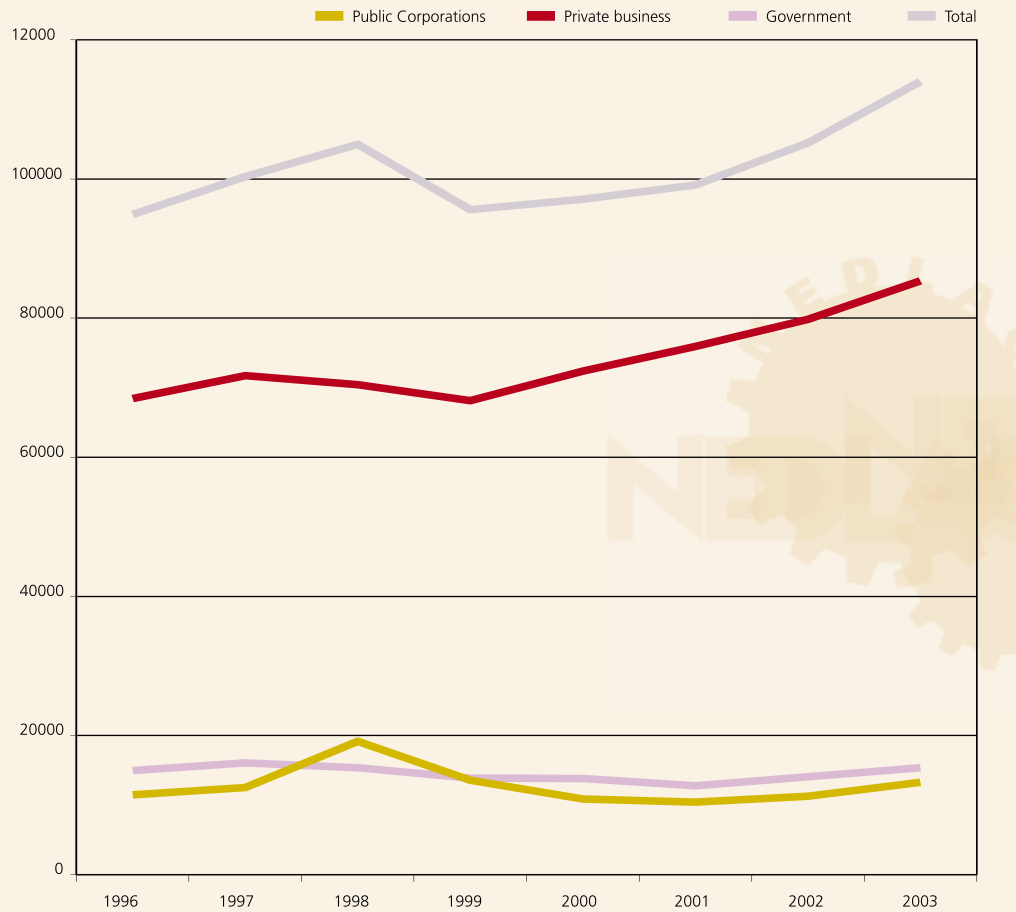


Figure 6

Source: South African Reserve Bank Quarterly Bulletin, March 2004

FOREIGN INVESTMENT TRENDS

CAPITAL MOVEMENTS

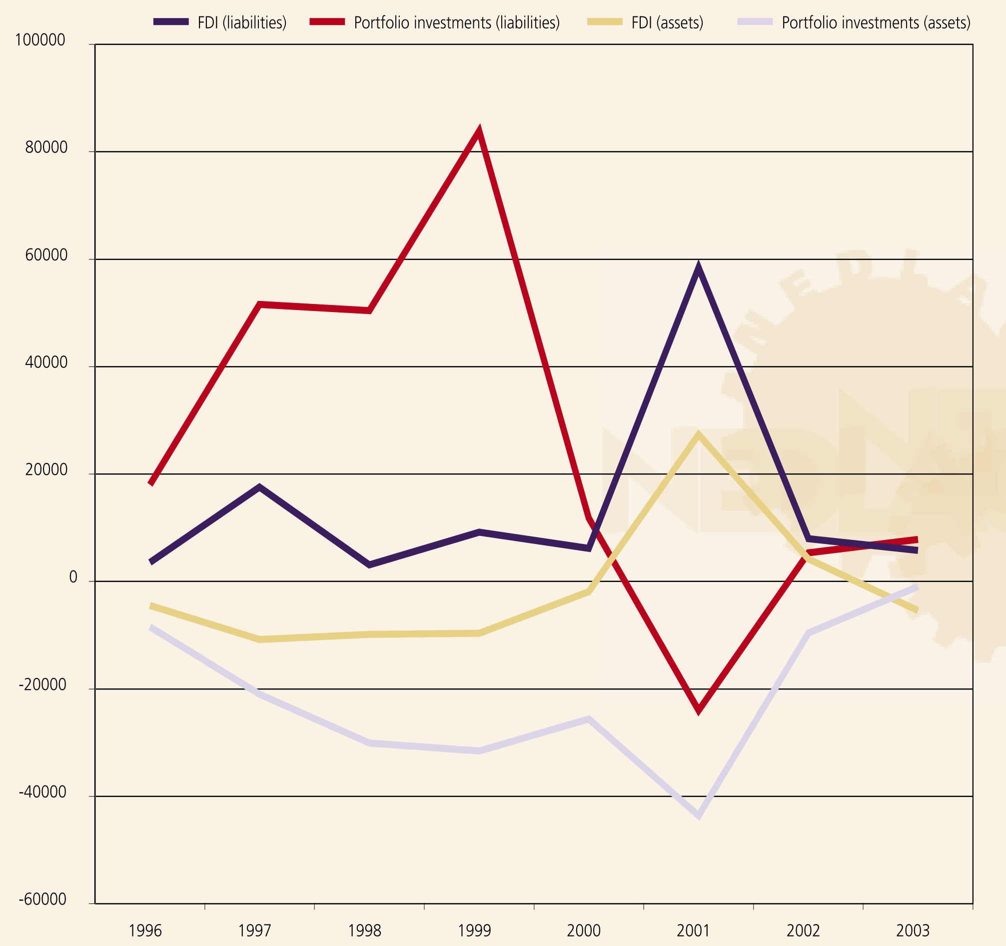


Figure 7

Source: SARB Quarterly Bulletin, March 2004

Inflows of foreign direct investment capital picked up in the third and fourth quarter of 2003. The increased inflows were mainly attributable to an increase of the investment by a foreign company in a local steel producer, as well as the takeover of a domestic information technology company by a United Kingdom based company.

Foreign portfolio investments which had seen an increase in the first half of 2003 were reduced in the third and fourth quarter. The Reserve Bank attributes this outflow of capital to the net sales of domestic debt securities by non-residents and the maturing of a Deutsche Mark bond of the national government to the value of 256 million euro during the fourth quarter. During the fourth quarter drawings by the national government on financing facilities under its defense procurement agreements resulted in an inflow of capital.

South African companies continued to increase their equity and loan capital investments in the rest of the world during 2003.