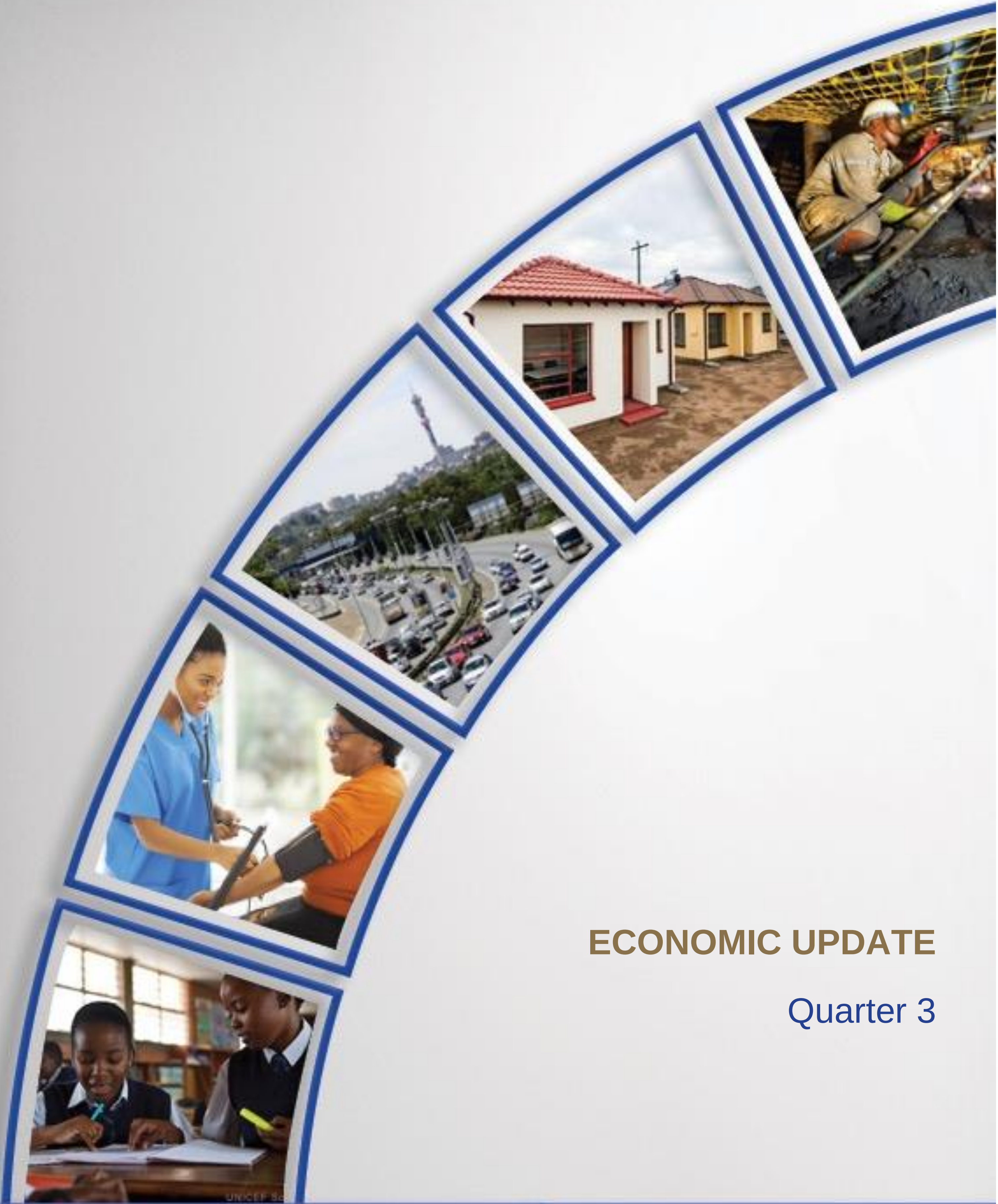


ECONOMIC UPDATE

Quarter 3

Together, Moving Gauteng City Region Forward

GAUTENG PROVINCE
TREASURY
REPUBLIC OF SOUTH AFRICA

Overview

Global economic growth prospects continue to improve. The International Monetary Fund[1] (IMF) predicts that 2017 growth will reach 3.6 per cent, up from 3.5 percent previously, and 3.7 per cent in 2018. Global economic growth is primarily driven by better economic performance in advanced economies, and a rebound in emerging and developing economies driven by improvements in industrial production, investment, and commodity prices.

Advanced economies' growth is expected at 2.2 per cent in 2017 (up from 1.7 in 2016), and emerging and developing economies growth is expected at 4.6 per cent for 2017 (up from 4.3 per cent in 2016). For advanced economies, the United States (US) is expected to be a key driver with growth of 2.2 per cent in 2017, followed by the Euro Area with 2.2 per cent and Japan with 1.5 per cent. In emerging and developing economies China and India remain key, with Sub-Saharan Africa (SSA) showing signs of recovery.

On the downside, productivity growth remains a challenge in advanced economies and this could result in the exacerbation of price pressures, as economic growth gains momentum. Concerns continue to grow about a potential credit bubble in China driven by credit led efforts to maintain economic growth of around 7 per cent. In SSA economies continue efforts to recover from difficult fiscal positions as commodity prices show signs of recovery. However, this recovery in commodity prices remains fragile for some commodities such as oil. This is likely to make the recovery in this region uneven.

In South Africa, the recent local currency downgrade has increased uncertainty, which continues to weigh heavily on business confidence and consumer confidence. Although economic growth has rebounded in the last two quarters, it is too early to characterise this as a recovery. However, an outcome from the current election period in the African National Congress (ANC) which brings a commitment to a sustainable economic policy path, could ensure an improved growth trajectory.

The Gauteng economy continues to also show signs of recovery, after a contraction in the first quarter. Manufacturing, mining and quarrying, and agriculture have recovered somewhat in recent quarters. However growth remains fragile as the main sectors (government services and financial services) in the provincial economy remain subdued. A recovery in these sectors would ensure a sustainable growth path. However these sectors remain constrained by the national challenges of weak public finances which have constrained the expansion of public services, and the various sovereign credit rating downgrades which have constrained growth in financial services.

[1] International Monetary Fund. (2017). *World Economic Outlook – October 2017*. Accessed (November 2017) www.imf.org

This edition of the Economic Update focuses on the latest economic developments which have implications for the Gauteng economy. The edition has three main parts, which focus on global economic developments, economic developments in South Africa and finally economic developments in Gauteng. It concludes by drawing some implications for the Gauteng economy in the upcoming quarters.

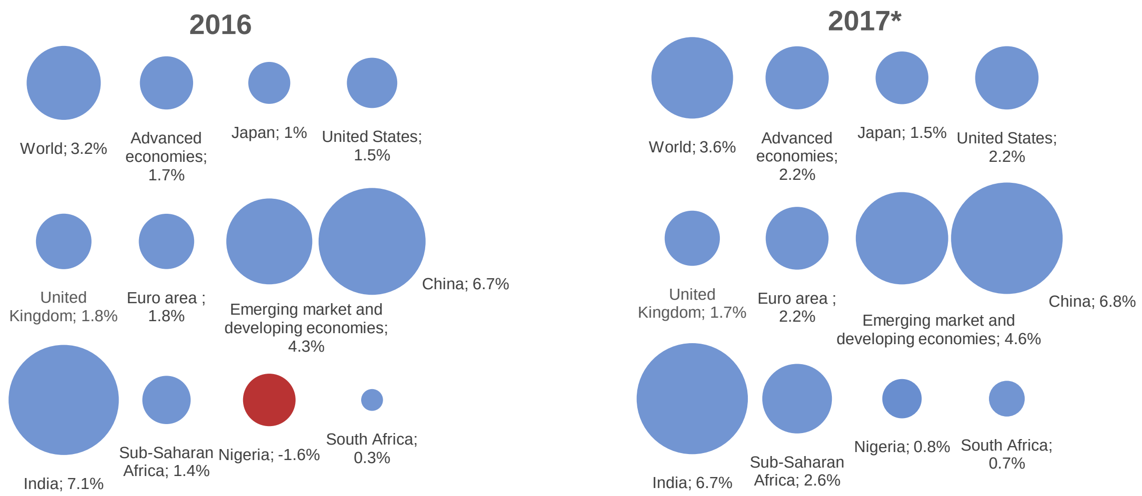
Global Economic Developments

Global Recovery Gaining Momentum

The IMF predicts that the global economic recovery will marginally quicken in the medium term.[2] The IMF forecasts 3.6 per cent growth in world output for 2017 and 3.7 per cent for 2018 (see Figure 1). These latest forecasts for both years are 0.1 percentage points (pp) higher than the previous ones. This continued recovery world growth is broad-based as its drivers are improvements in industrial production, investment activity, and trade volumes. All these are supported by greater business and consumer confidence.

Factors inhibiting the global growth recovery include stagnant productivity growth in some advanced economies and lower commodity export income for several emerging and developing economies due to the lower commodity prices (particularly oil). A key risk in China (the largest emerging and developing economy) is the aggressive expansion of credit which has the potential to create a credit bubble. The possibility of a credit bubble bursting is a significant risk to the future of the global recovery as China contributes significantly to global growth.

Figure 1: GDP Growth



Source: International Monetary Fund, 2017. Note: * indicates forecasts

[2] International Monetary Fund. (2017). *World Economic Outlook – October 2017*. Accessed (November 2017) www.imf.org

It is expected that, when annual data for 2017 is released, it will reveal that the global economic recovery picked up momentum in 2017. The advanced economies are expected to drive this growth, with 2017 growth forecast to rise from 1.7 to 2.2 per cent.

The exception to this is the United Kingdom (UK) due to the continuing negative effects of its vote to exit the European Union. According to Bloomberg[3], Brexit negations with the European Union (EU) continue to unfold with the UK, amongst others, discussions on an identical trade deal (free-trade deal) to the one that currently prevails.

Yet to be a significant risk to growth in the United States (US), the proposed tax plan by the Republican Party is likely to have an impact in the medium term (12-24 months)[4]. The current debate is polarised with the US government suggesting that the proposed tax cuts (for example reducing the corporate tax rate to 20 per cent) are likely to pay for themselves through higher economic growth, and therefore are expected to remain deficit neutral. On the other side, the Democrats and other private economists suggest that the US government is overestimating the growth upside of the plan, and that the plan is inherently regressive and will likely increase the deficit in the long run. Indications are that the plan is likely to be implemented in its current form.

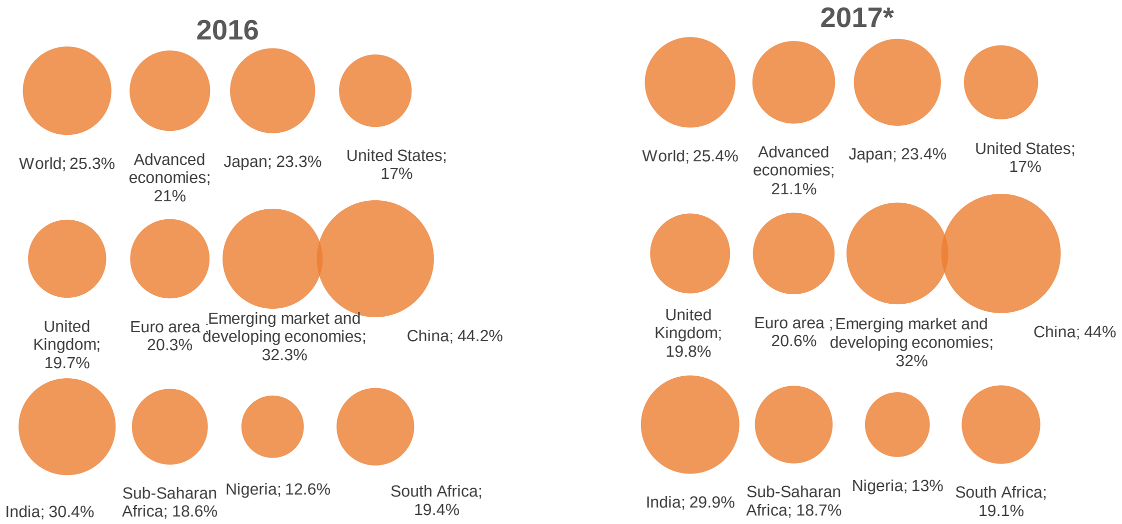
Emerging and developing economies are also expected to record higher growth rates, particularly in SSA where growth is forecast to rise from 1.4 to 2.6 per cent. Nigeria is predicted to recover from a contraction of 1.6 per cent in 2016, caused by low oil prices and disruptions to oil production, to a growth rate of positive 0.8 per cent in 2017 due to the higher price of oil and the repairing of oil production.

Global Investment Remains Robust in 2017

Investment is important for an economy because it lays the foundation for future growth. In 2016, global investment was equal to slightly more than one quarter of world output. This is expected to remain true for 2017.

[3] Bloomberg. 2017. *Bloomberg Terminal.*
[4] Bloomberg. 2017. *Bloomberg Terminal*

Figure 2: Investment as a percentage of GDP



Source: International Monetary Fund, 2017. Note: * indicates forecasts

In 2016, investment in the advanced economies, at 21 per cent, was lower than in the emerging and developing economies, at 32 per cent (see Figure 2). This was primarily driven by China as it is both the largest of the emerging and developing economies and its investment was much higher 44.2 per cent of its GDP. The investment ratio of China is expected to decrease only marginally, to 44 per cent in 2017.

Moderate Global Inflation in 2017

It is expected that the conditions leading to higher growth rate forecasts for the advanced economies in 2017 will also translate into higher inflation rates, rising from 0.8 per cent in 2016 to a predicted 1.7 per cent in 2017. This is due, in large part, to increasing demand and to excess production capacity returning to use.

Figure 3: Consumer Price Inflation

Source: International Monetary Fund, 2017. Note: * indicates forecast

Another factor contributing to inflation forecasts remaining low for 2017 is the fact that oil price increases of 2016 lost much momentum in 2017. This is particularly noticeable in the emerging and developing economies where inflation is expected to fall marginally, from 4.3 per cent to 4.2 per cent. This is partly due to the oil-exporting emerging and developing economies relying on that industry for much of their economic activity and therefore that reduced oil income results in significantly reduced overall economic activity, which then leads to lower demand putting less upward pressure on the general price level.

US Employment Increasing and Moving Away From Part-Time Jobs

Total formal, non-agricultural employment in the US rose by 261,000 in October, pushing the unemployment rate down to 4.1 per cent.[5] There were notable increases in employment in the professional and business services, health care and in manufacturing. The number of long-term unemployed persons[6] was largely unchanged at 1.6 million persons and accounted for 24.8 per cent of the unemployed. The labour force participation rate declined to 62.7 per cent in October, from 62.3 per cent in September.

The number of involuntary part-time workers, that is, individuals employed part time for economic reasons, declined by 369,000 to 4.8 million in October. These persons were working part time because they were unable to find full-time jobs or because their hours had been cut back, even though they would have preferred full-time employment. On an annual basis, the number of involuntary part-time workers decreased by 1.1 million. The growth rate in the average hourly earnings for all non-agricultural employees remained steady at 3.4 per cent, year-on-year.[7] This was driven more by persons who changed jobs, at 4.1 per cent, than persons who stayed in their existing jobs, at 2.9 per cent.

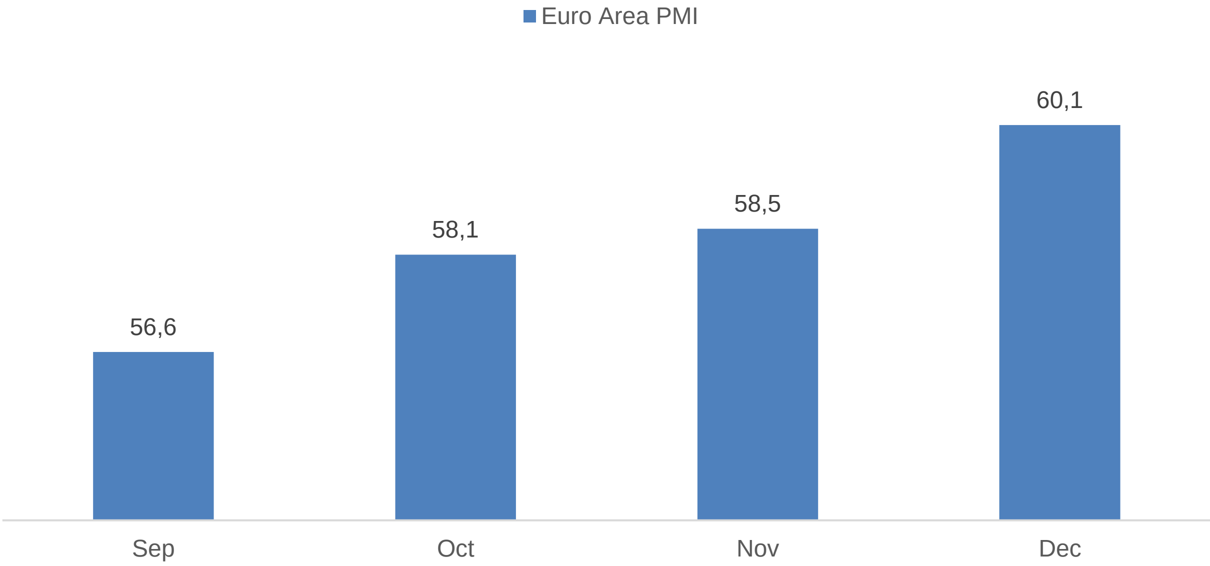
European Economic Growth on the Rise as Manufacturing Becomes More Competitive

Economic growth in Europe has picked up momentum. This has been driven primarily by increased domestic demand.[8] The most notable exception is that of the UK, where concerns over Brexit have devalued the British Pound and therefore reduced real incomes.

[5] US Bureau of Labour Statistics. (2017). *The Employment Situation for October 2017.* Accessed (November 2017) www.bls.gov
[6] The long-term unemployed are defined as those persons who have been without employment for 27 weeks or longer.
[7] Atlanta Federal Reserve. (2017). *Current Population Survey*. Accessed (November 2017) Bloomberg
[8] International Monetary Fund. (2017). *Regional Economic Outlook – Europe November 2017*. Accessed (November 2017) www.imf.org

Purchasing Managers' Index (PMI), which are used to assess the health of the manufacturing industry, have moved further into expansionary territory in advanced Europe, while those of emerging and developing European countries have begun indicating expansion after previously fluctuating around the neutral 50 index point (ip) mark.

Figure 5: Euro Area Purchasing Managers Index



Source: Bloomberg, 2017

This is partly because wage growth in Europe has lagged behind increases in labour productivity, particularly in advanced Europe, making European manufactured goods more competitive on the international market. The IMF suggests that this relatively lower wage growth may be partly due to a deliberate effort to be more internationally competitive. Another possible reason that may be contributing to lower wages is increased automation reducing demand for labour by the manufacturing industry.

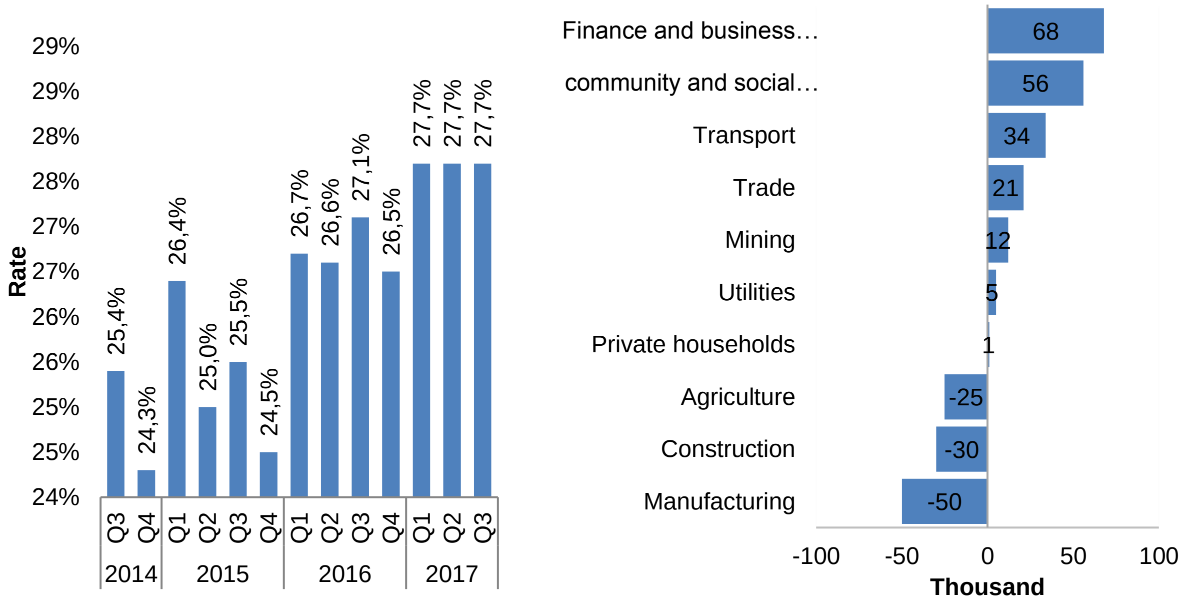
As highlighted in Figure 5, the aggregate PMI of the Euro area has been rising further above the neutral, 50ip mark, from 56.6ip in September to 60.1ip in the December release. This indicates that the Euro area manufacturing industry not only expanding, it is doing so at an increasing rate.

Domestic Economic Developments

Third Quarter South Africa Unemployment Rate Remained Unchanged

South Africa's official unemployment rate remained unchanged at 27.7 per cent in the third quarter of 2017, the same as in the previous two quarters of 2017 and remaining the highest rate in 13 years. Statistics South Africa (Stats SA) indicated that employment in the third quarter of 2017 grew by 92 000. However, the growth in employment was offset by an additional 33 000 job seekers in the same period, yielding in the unchanged unemployment rate of 27.7 per cent[9] when taking job losses into account.

Figure 6: Unemployment Rate and Employment Gains/Losses by Sector



Source: Statistics South Africa, 2017

The employment gain of 92 000 was spread between seven of ten sectors. The growth in employment was mainly driven by finance and other business services sector which grew by 68 000. The community, social and personal services sector was the second largest employer with 56 000 and transport with 34 000.

In the same quarter, construction, manufacturing and agriculture sectors experienced reduced employment levels. The three sectors shed 105 000 jobs in total, whereby most of the job losses were recorded in the manufacturing sector (50 000), followed by construction (30 000) and agricultural sector (25 000).

Weaker Expected GDP Growth and Rising Debt Trigger Deeper Downgrades

Two of the three major ratings agencies, namely, Fitch's and Standard and Poor (S&P) downgraded South Africa's foreign and local currency government debt, while Moody's placed the country on review for downgrade. Moody's indicated that political uncertainty is the key cause to the country's inability to tackle low growth and stabilize government finances. Therefore, Moody's postponed the decision until after the outcome of the ANC electoral conference in December and

[9] Statistics South Africa. (2017). *Quarterly Labour Force Survey Quarter 3: 2017*. Accessed (November 2017): www.statsa.gov.za

the 2018/19 main budget in February, stating that political instability could moderate, which may help the government take measures to improve economic growth and stabilize public finances in the short term.[10]

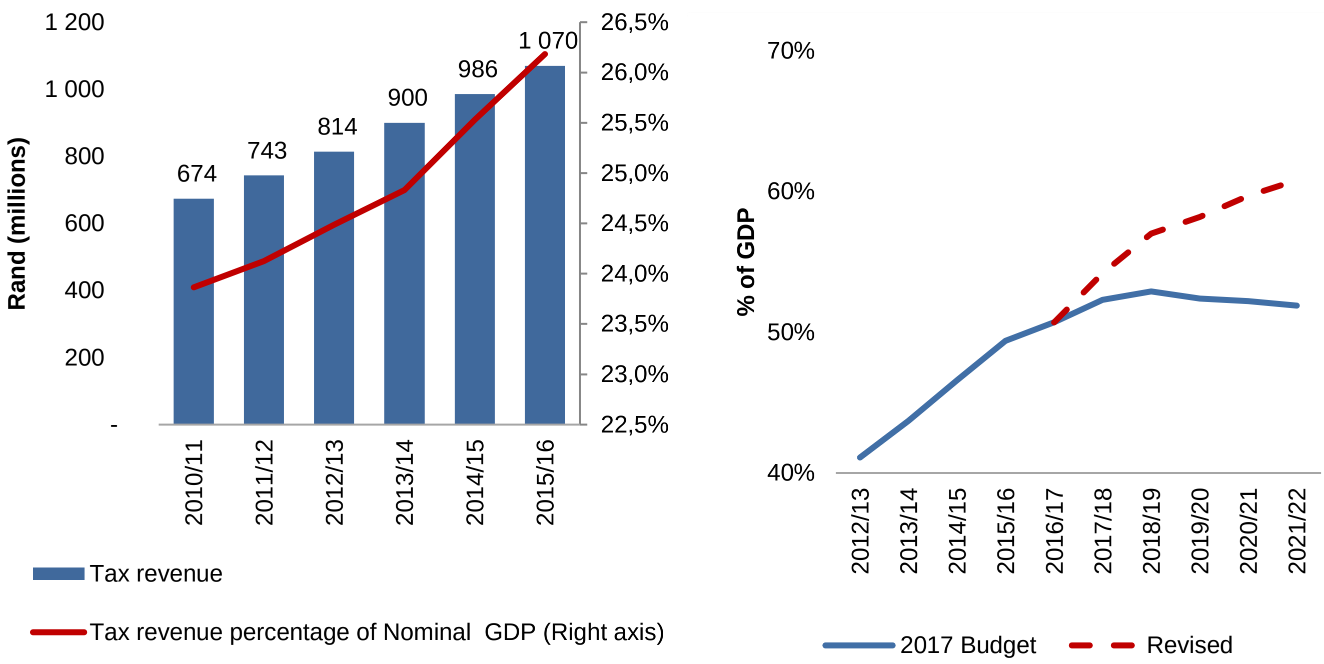
S&P lowered South Africa's local currency rating to BB+, which is sub-investment grade, as well as lowering the foreign currency rating, which was already junk, a notch further to BB with a stable outlook,[11] indicating that weak real GDP growth that has led to further deterioration of South Africa's public finances beyond the rating agency's previous expectations. This followed a similar announcement by Fitch's ratings of BB+ with a stable outlook.[12]

Sovereign debt downgrades make it more expensive for South Africa to borrow money, and it increases the amount of the government budget that will be spent on interest. It, therefore, also reduces the money available to fund key projects such as housing, education, healthcare and social grants and other service deliveries.[13]

The downgrades came after the Finance Minister, Malusi Gigaba presented the 2017/2018 Medium Term Budget Policy Statement (MTBPS), indicating sharply weaker growth expectations, which place more strain on already low levels of business and consumer confidences, a wider budget deficit and rising government debt, and revenue shortfalls have emerged alongside increased spending pressures.[14]

[10] Moody's Investor Service. (2017). *Moody's Places South Africa's Baa3 Ratings On Review For Downgrade*. Accessed (November 2017): www.moodys .com
[11] Standard and Poor. (2017). Accessed (November 2017): www.standardandpoors.com
[12] Fitch. (2017). *Fitch Affirms South Africa at BB+ With Outlook Stable*. Accessed (November 2017): www.fitchratings.com
[13] Independent Online. (2017). *Fiscal Discipline, Cutting Ballooning Debt Vital To Save SA*. Accessed (November 2017): www.iol.cco.za
[14] National Treasury. (2017). *2017 Medium Term Budget Policy Statement.* South Africa. Pretoria

Figure 7: Tax Revenue and Government Debt as a percentage of GDP



Source: National Treasury and South African Revenue Service, 2017

Weak GDP growth has led to further deterioration of South Africa's public finances. National Treasury revised down the economic growth from 1.3 per cent predicted earlier, in the February budget to 0.7 per cent for this year, and also reduced growth forecasts for the next three years.[15] Despite a declining rate of economic growth, tax revenue is expected to continue to grow at a slower pace than that of expenditure.

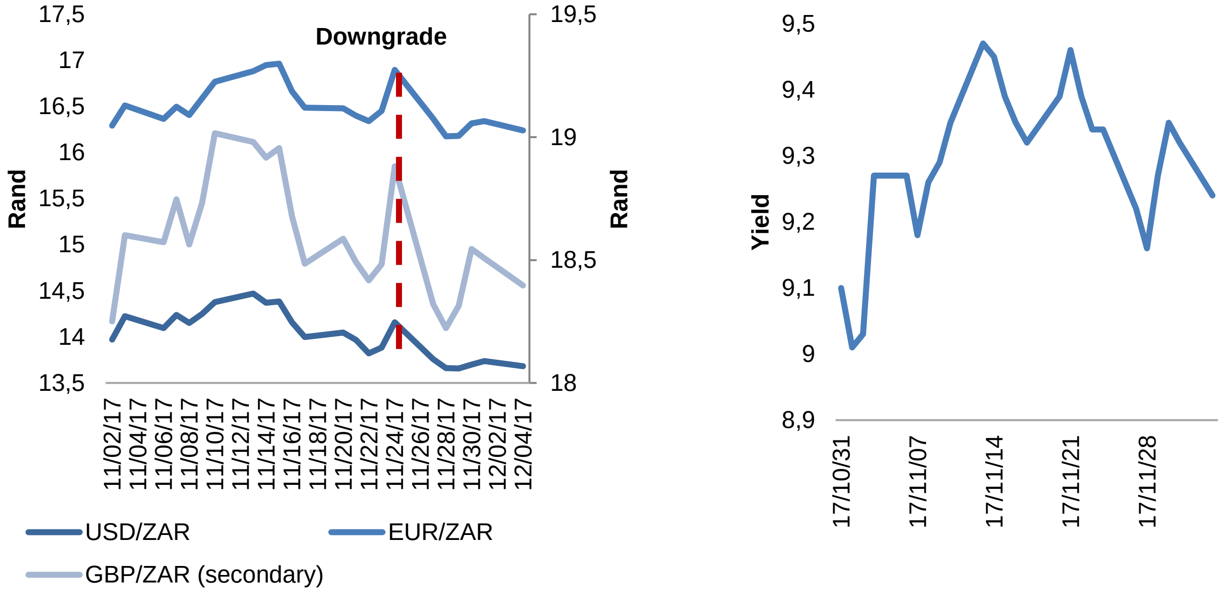
The National Treasury projects revenue shortfalls of at R50.8 billion in 2017/18, R69.3 billion in 2018/19 and R89.4 billion in 2019/20. Public debt is expected to exceed 60 per cent of GDP by 2021/22

The Impact of the Credit Rating Downgrades in the Financial Markets

Following S&P's downgrades announcement, the rand, which had been trading around R13.88 against US dollar, depreciated immediately after the S&P announcement. The rand closed on the 24th of November at R14.15/USD, R16.89/EUR and R18.88/GBP. However, it recovered on the 27th of November taking some relief from Moody's decision to place South Africa on review for downgrade (see Figure 8).

[15] National Treasury. (2017). *2017 Medium Term Budget Policy Statement.* South Africa. Pretoria

Figure 8: Rand to Major Currencies and Government Bond Yields



Source: Bloomberg, 2017

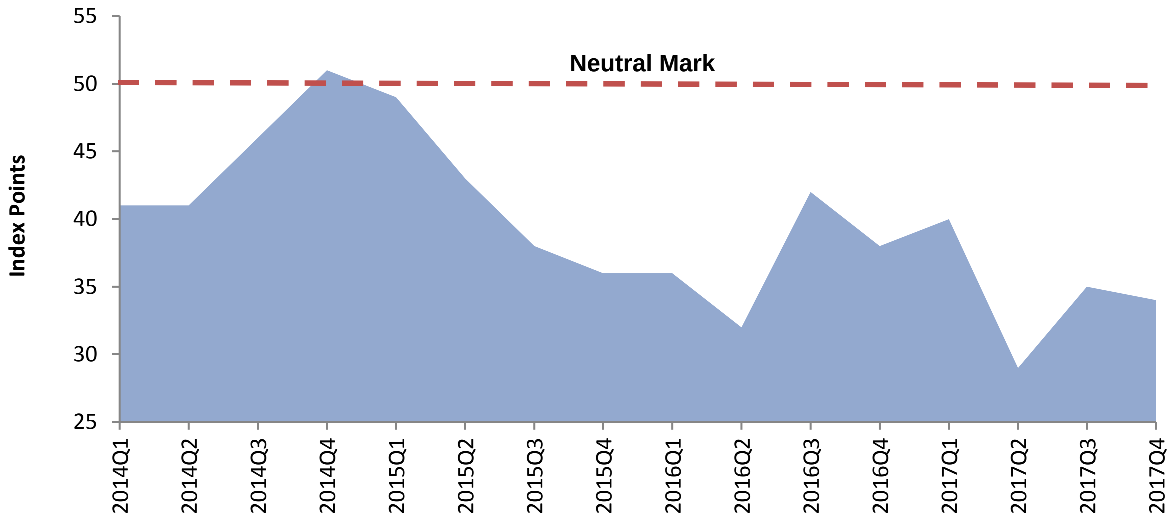
After initially rising, the R186 10 year government bond yield declined to 9.22 per cent from 9.34 per cent, following the downgrades. Again, the Moody's decision on hold meant that government bonds can continue to appear on the main bond indexes, on which financial markets rely on.

Strong Private and Public Intervention Needed to Improve Business Confidence

The low growth economic trajectory has restrained domestic business sentiment. The Rand Merchant Bank/ Bureau for Economic Research (RMB/BER) business confidence declined to 34 index points in the fourth quarter of 2017.[16] The business climate in South Africa remains depressed and hostile as it trended below the neutral 50 point mark. Business confidence has trended below the neutral mark, since the fourth quarter of 2014 which does not bode well for a country with a low growth (see Figure 9).

[16] Bureau for Economic Research. 2017. *Business Confidence Index Quarter 4*. www.ber.ac.za

Figure 9: Business Confidence Index



Source: Bureau of Economic Research, 2017

Low business confidence can suppress credit demand by private sector which in turn delays investment and economic growth. Gross fixed investment contracted by 2.6 per cent in the second quarter of 2017, following a steady expansion of 1.3 per cent in the first quarter.[17] The decline in gross fixed investment can be attributed to subdued domestic demand and the uncertainty presented by sovereign downgrade to sub-investment grade by rating agencies. All of these result, amongst others, are underpinned by low business confidence.

Table 1: Growth in Real Gross fixed investment

	2016			2017	
	Q3	Q4	Year	Q1	Q2
Private Business Enterprises	-5.0%	-1.6%	-6.8%	2.9%	-6.9%
Public Corporation	-7.4%	-3.4%	0.7%	-1.0%	-3.1%
General Government	6.6%	19.8%	1.1%	-1.1%	12.4%
Total	-3.5%	1.7%	-3.9%	1.3%	-2.6%

Source: South African Reserve Bank, 2017

Real gross fixed investment by private business enterprises and public corporations also deteriorated by 6.9 per cent and 3.1 per cent in the second quarter respectively. Real gross fixed

[17] South African Reserve Bank. 2017. *Quarterly bulletin September. Pretoria*

investment by general government expanded significantly by 12.4 per cent in the second quarter of 2017, following a decline of 1.1 per cent in the first quarter.

Monetary Policy Committee Keeps Policy Rate Unchanged

The Monetary Policy Committee (MPC) decided to maintain the Repurchase (Repo) rate unchanged at 6.75 per cent in their last meeting of 2017. This is the second time the MPC kept rates unchanged following a 25-basis points cut in July. Amongst other things, the MPC stressed that unfavorable fiscal consolidation plans pose threat of sovereign credit downgrades thus limiting scope of monetary policy accommodation[18]

Despite an uptick in global oil prices and depreciation of domestic currency, the MPC anticipates inflation to remain within the target range of 3-6 per cent. Furthermore, household consumption has improved moderately, mainly driven by wage growth and positive real income will contribute to keeping inflation in check. The MPC predict that the Repo rate could rise gradually up to 75 basis points by 2019, compared to previous prediction of a single 25 basis points hike in Repo rate in the same period.[19] However, the predictions can be overturned if economic prospects improve going forward

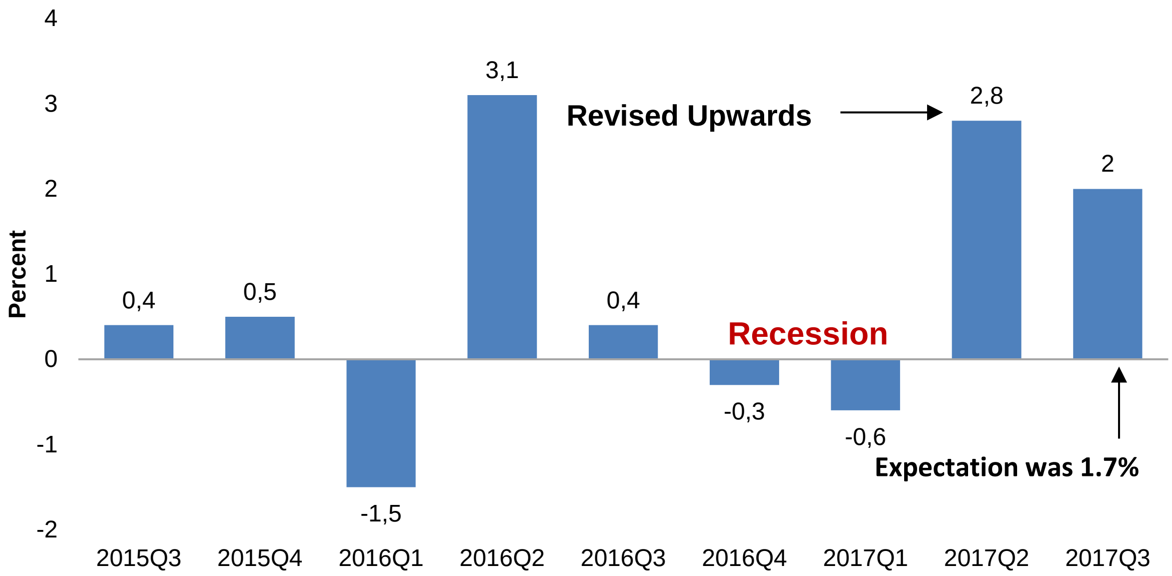
The MPC further paints a bleak picture on the outlook of the domestic economy. Despite improvements in global economic conditions, domestic growth prospects remain mixed as the MPC anticipates growth to be 0.7 per cent in 2017 and a gradual recovery of 1.2 per cent in 2018.

Third Quarter GDP Surprises on the Upside

Economic growth surprised on the upside, growing by 2 per cent in the third quarter. Despite being lower than 2.8 per cent recorded in the second quarter, growth was higher than market estimate of 1.7 per cent. Amongst others, the primary sector remains the main driver of economic growth as the drought effect has faded and rising global commodity prices and rising output levels in agriculture and mining have been beneficial. Manufacturing has shown signs of recovery and contributed positively to the economic growth.

[18] South African Reserve Bank. 2017. *Monetary policy statement November. Pretoria*
[19] South African Reserve Bank. 2017. *Monetary policy statement November. Pretoria*

Figure 10: GDP Growth



Source: South African Reserve Bank, 2017.

Economic growth prospects remain mixed due to political instability and the potential negative impact of a local currency debt downgrade. However, growth continues to remain resilient and recovering gradually, following poor performance in the fourth quarter of 2016 and first quarter of 2017. Furthermore, it is anticipated that growth forecasts will be revised upwards.

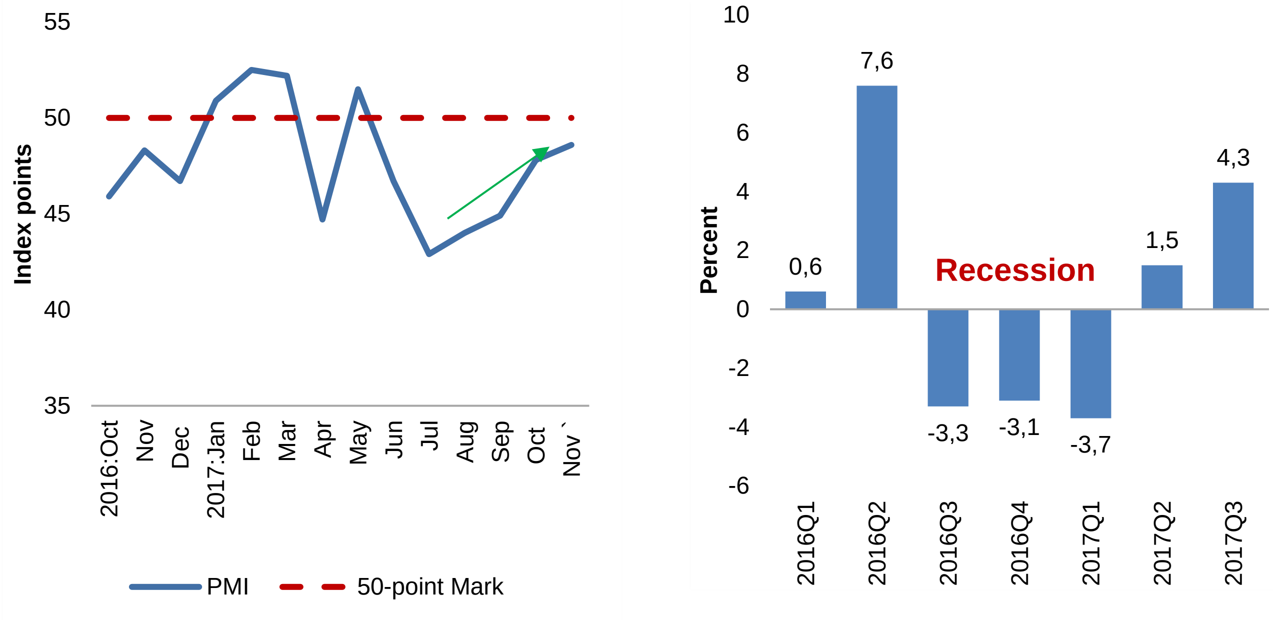
Manufacturing industry gradually Gaining Momentum

The manufacturing industry is gradually gaining momentum, as shown by a pick-up in the PMI. The ABSA PMI increased to a six month high of 48 ip (see Figure 11 below).[20] Although trending below the 50-point mark, the index was much higher than anticipated.

The manufacturing industry is recovering from its recession which lasted for three quarters (from the third quarter of 2016 to the first quarter of 2017) as a result of industrial actions and electricity outrages. However, firms remain pessimistic about the outlook as domestic demand remains subdued respite improvement in global demand. On the upside, the manufacturing industry grew by 4.3 per cent in the third quarter.[21]The pick-up in industry activities can be attributed to improved exports demand for machinery divisions and motor car parts and accessories.

[20] Bureau for Economic Research. 2017. *Purchasing Managers' Index November.* www.ber.ac.za
[21] Statistics South Africa. 2017. *Gross Domestic Product third quarter 2017.* www.statssa.gov.za

Figure 11: Purchasing Managers' Index and Manufacturing Growth



Source: Bureau of Economic Research and Statistics South Africa, 2017

The improvement in manufacturing growth suggests that the PMI will gradually increase above the neutral 50-point mark and that it will improve in business conditions going forward. Strong manufacturing activities will continue in the fourth quarter and are likely to remain a significant driver for economic growth

Gauteng Economic Developments

Provincial Foreign Direct Investment Contributing to Job Creation

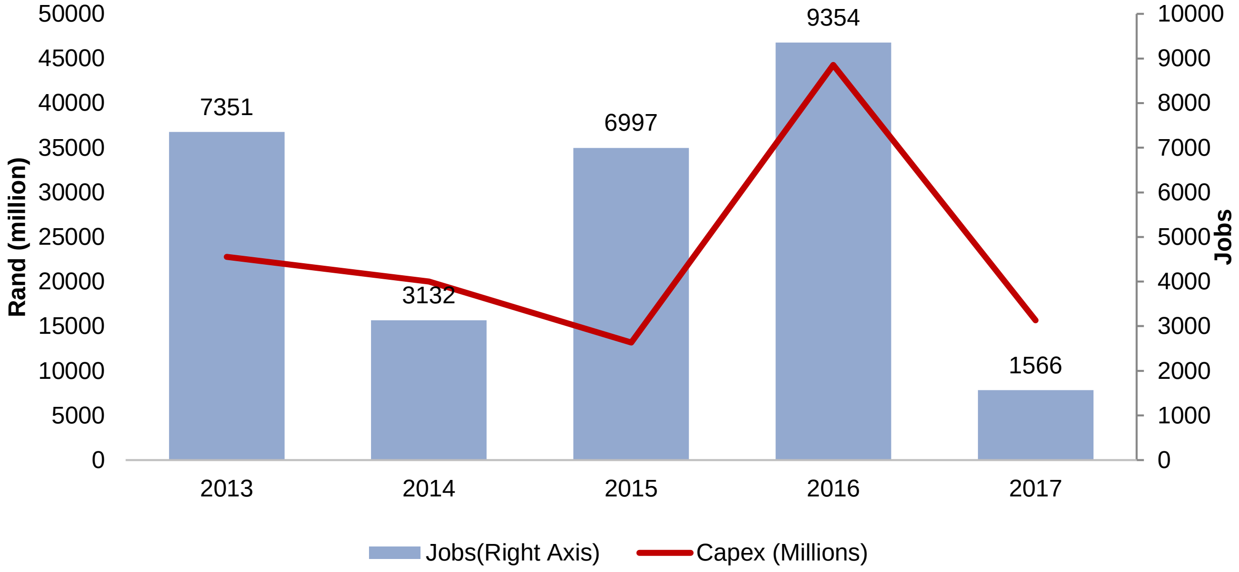
Sustainable economic growth is achieved through adequate supply of investment, which allows the economic expansion by optimally using available resources and thus reducing unemployment which has been troubling South Africa. The South African economy is largely a consumption led economy, making it difficult for the economy to generate enough domestic savings for investment.[22] As a result, Foreign Direct Investment (FDI) is important to close this gap.

The Gauteng province attracted 320 FDI projects between 2013 and 2016.[23] Amongst Gauteng's cities, Johannesburg attracted more FDI projects and between 2013 and 2017 these projects

[22] Investec. (2015). *Snapshot of SA's savings culture*. South Africa. Johannesburg
[23] FDI Markets. (2017). *FDI's into Gauteng between 2013 and 2017.* South Africa

created 10 895 jobs. Around 86.9 per cent of the projects were new projects and 36 per cent were expansions from existing projects[24].

Figure 12: Gauteng FDI Inflows and Job Creation



Source: FDI Intelligence, 2017

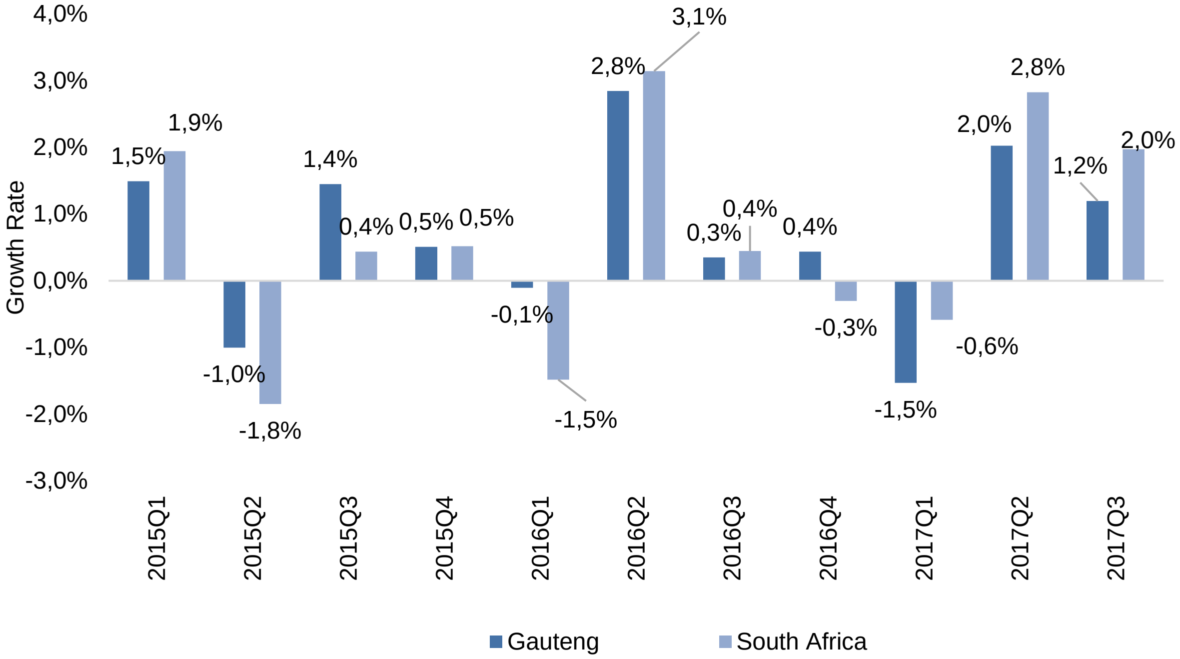
Figure 12 shows that FDI inflow in Gauteng increased between 2015 and 2016, after it had been declining between 2013 and 2015, with 2013 having the highest number of projects which totalled to 80.[25] The number jobs created in 2013 was the second highest, at 7351. The most number of jobs were created in 2016 at 9354 and the FDI peaked to 44.2 billion. This was due to 75 projects and even though this was lower than the number of projects in 2013, projects in 2016 had more value and created more jobs.[26] Although 2017 only has 10 months of data, its investment value is already above that of 2015.

Third Quarter Gauteng Growth Lower than SA Growth

Gauteng Gross Domestic Product by Region (GDP-R) growth rate grew by 1.2 per cent in the third quarter of 2017, following a contraction of 0.6 per cent in the first quarter, and an expansion of 2 per cent in the second quarter. Although this growth is lower than the revised growth of 2 per cent in the second quarter, it is still above previous forecasts. Figure 13 below summarises GDP performance for the country and province between 2015 and 2017.

[24] FDI Markets. (2017). *FDI's into Gauteng between 2013 and 2017.* South Africa
[25] FDI Markets. (2017). *FDI's into Gauteng between 2013 and 2017.* South Africa
[26] FDI Markets. (2017). *FDI's into Gauteng between 2013 and 2017.* South Africa

Figure 13: Gauteng GDP-R and South Africa GDP

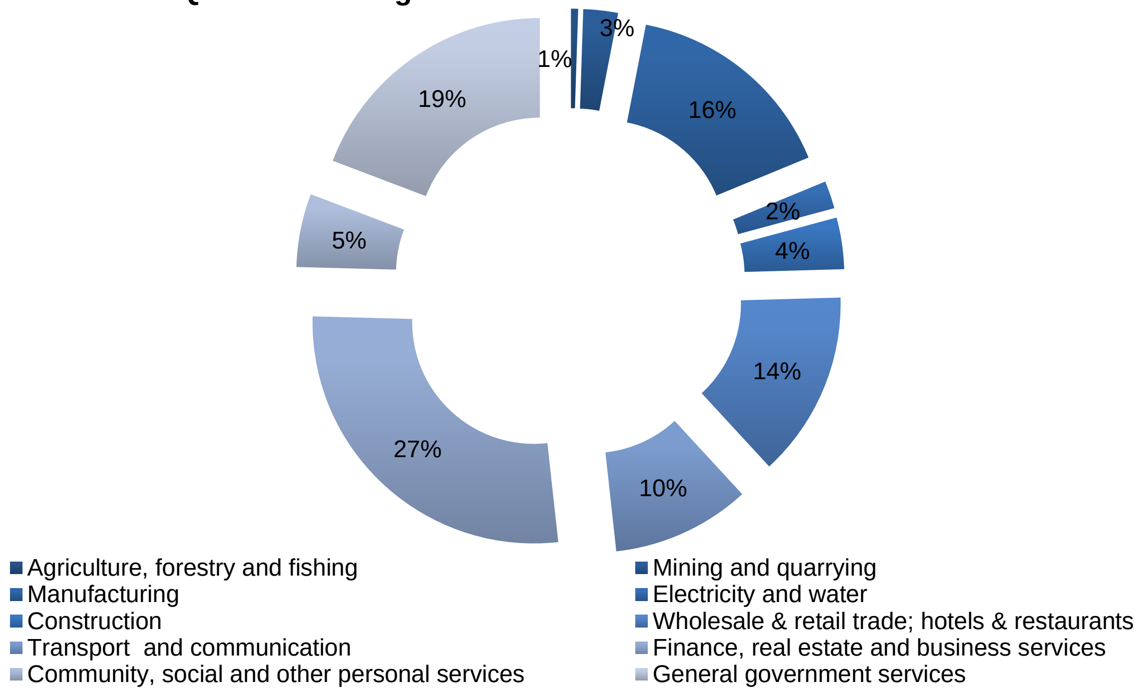


Source: Quantec Research, 2017

Similar to the first two quarters of 2017, Gauteng's third quarter GDP grew at a rate that is below that of the national of 2 per cent. This is an unusual precedence when comparing with historical data. This suggests that key sectors in the Gauteng economy such as financial and government services continue to face difficulty, and therefore this growth is driven by primary sectors such as agriculture and mining which comparatively contribute less to the provincial economy.

Figure 14 illustrates that in the third quarter of 2017 agriculture only made up a share of one per cent of the growth and mining, 3 per cent. However, manufacturing is also among the sectors which make up a relatively sizeable share in the Gauteng economy with good growth in the third quarter, which supported the growth.

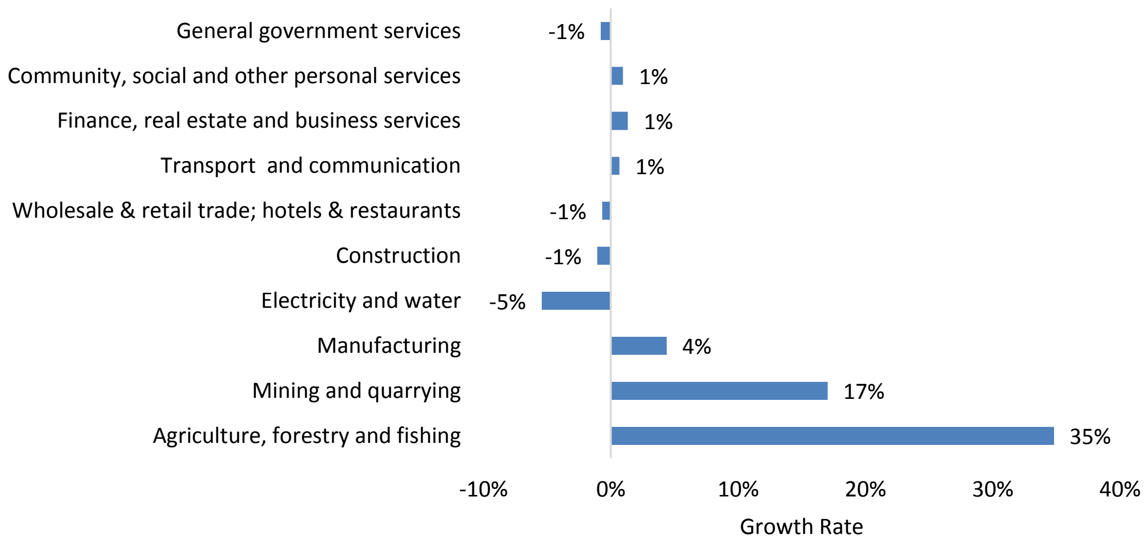
Figure 14: Third Quarter Gauteng Economic Sectors Shares



Source: Quantec Research, 2017

In 2017, the primary sector's production in Gauteng recovered significantly in the third quarter. As shown in Figure 15 below, agricultural, forestry and fishing, and mining and quarrying outperformed their respective second quarter growths. Mining and quarrying grew by 17 per cent, whilst agriculture, forestry and fishing grew by 35 per cent. These sectors continue to grow off a low base after a significant period of contraction due to lower than expected commodity prices and a severe drought, particularly in 2015.

Figure 15: Third Quarter Gauteng Sectoral Growth



Source: Quantec Research, 2017

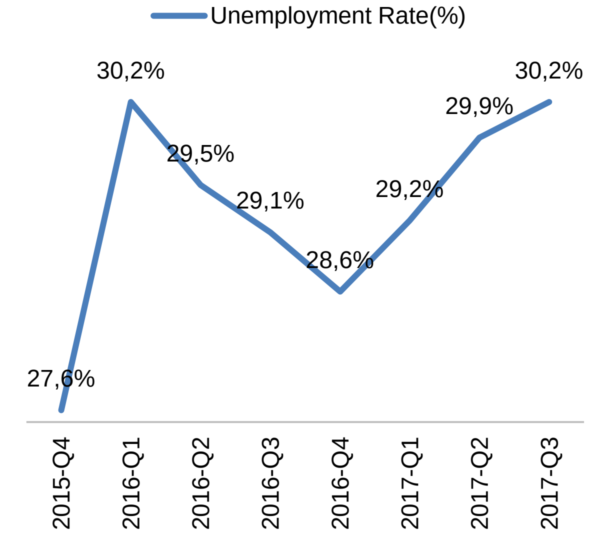
The manufacturing sector also had a positive impact on the economy (growing by 4 per cent), as it recovered to 4 per cent from the first quarter negative growth and a one per cent growth in the second quarter. GDP data shows that the positive manufacturing production was propelled by the production petroleum and metal products.[27]

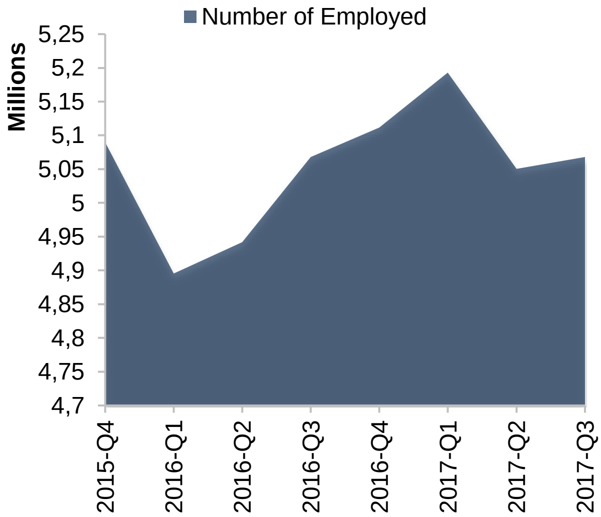
Gauteng was the second worst performing province in the third quarter[28]. The Eastern Cape was the worst with a growth of 0.9 per cent. Due to strong recovery in the mining sector, the North West province was able to record the highest growth of 3.9 per cent. The Gauteng economy could see itself back to being best performing economy in South Africa, if the financial and government services recover in 2018.

Third Quarter Unemployment Rate Remains High

Gauteng unemployment rate is above the national unemployment, and this has been the case consistently since the fourth quarter of 2014.[29] Gauteng had 2.19 million unemployed people in the third quarter of 2017, which made up 35 per cent of the national total unemployment number. The number of those who are unemployed increased by 40 thousand in the third quarter of 2017 when compared to the second quarter.

Figure 16: Gauteng Unemployment Rate and Employment





Source: Statistics South Africa, 2017

[27] Statistics South Africa. (2017). *Gross Domestic Production Third Quarter 2017*. South Africa. Pretoria
[28] Quantec. (2017). *Easy Data Database- Third Quarter Estimates.*
[29] Statistics South Africa. (2017). *Quarterly Labour Force Survey Trends 2008-2017 Third quarter*. South Africa. Gauteng

Figure 16 shows Gauteng's unemployment rate and the number of employed. Employment numbers took a knock in the first quarter of 2016 when the number of the employed decreased by 194 thousand when compared to the fourth quarter of 2015. The unemployment rate also spiked from 27.6 per cent in the fourth quarter of 2015 to 30.2 per cent in the first quarter of 2016. However unemployment rate declined steadily in the last three quarters of 2016, as employment growth was visible in these quarters.

In the third quarter of 2017, unemployment rate reverted back to 30.2 per cent. This was despite better employment numbers than the one recorded in the 2016 first quarter, when unemployment peaked to 30.2 per cent.

Gauteng Medium Term Budget Policy Statement Provides Hope

Weak business and consumer confidence continue to constrain economic growth. It is estimated that 2017 economic growth will be less than one per cent. The detrimental effects of the sluggish growth impacts the lives of the ordinary South Africans, which is reflected in the recent Statistic South Africa poverty trends report. One third of the Gauteng residents live in conditions of poverty and one in three Gauteng citizens are unemployed.

Immigration to Gauteng poses a key challenge on the ability of the Gauteng Provincial Government (GPG) to provide basic government services. Moreover, the national MTBS highlighted that there will be no adjustments to the medium term projections. Therefore, next year's services must be provided in the existing medium-term projections.

The GPG is still committed to its key roles in driving the South African economy despite the unfavourable conditions. As the role of infrastructure is crucial to the economy to promote social and economic transformation, in the 2016/17 financial year, R12.4 billion has been spent on infrastructure delivery. More than 96 per cent of the appropriated infrastructure budget was spent and resulted in the completion of a new hospital, clinics, new schools, refurbishment of schools, upgrading of roads, and a new license department.

The GPG has continued to use its procurement powers to drive meaningful transformation through the creation of job opportunities and business opportunities for young people in the province. About 92 per cent of the procurement budget since 2014 was spent on businesses associated with historically disadvantage individuals, where 11 036 firms benefited through an expenditure of R 53.9 billion over the past three and half years. The Tshepo One Million programme befitted over

400 thousand young people since 2014 and Business Process Outsourcing[30], created 600 new jobs in 2017. The Tshepo One Million program will continue to create 24 thousand more jobs in the next three years, exclusively for the new young labour market entrants.

The Gauteng government has managed to collect R 5.8 billion in 2016/17 which is an increase of 16 per cent in own revenue over the past three years. The equitable share of the Gauteng budget increased by R17.93 billion between 2014 and 2011. However this is a moderate growth since it only increased at an average growth rate of 2.3 per cent, which is not enough to meet Gauteng province's demands, induced by the fast growing population.

On the positive side, the province's gambling tax review is about to be concluded. This will ensure that the province's gambling tax revenue increases by over 12 per cent. Strategies of using more technology to reduce the operational costs of the Gauteng government departments, such as the introduction of the new telephone systems, have already saved GPG resources.

Conclusion

Despite a difficult 2017, as the centre of economic activity in South Africa, the provincial economy remains key to a recovery of the South African economy. As outlined above, current forecasts suggest a return to sustained growth for the provincial economy in 2018 and 2019. However, this is dependent on the mitigation of current national economic challenges of weak public finance and low business and consumer confidence, to allow key provincial economic sectors to return to growth and a better policy certainty for the country. Global economic conditions remain accommodative for a significant recovery in economic growth for both the country and province. Therefore, all that remains is the political and policy to provide a pro-growth environment.

[30] Partnership between government, and industry leaders' focus on how we grow economic sectors and create jobs both by attracting investment from major players and growing exports and market access on the African continent.

Contact Information

Physical Address:
75 Fox Street, Imbumba House,
Johannesburg

Postal Address:
Private Bag X12,
Marshalltown,
Johannesburg,
2107

Switchboard:
011 227 9000

For a full set of research documents produced by the GPT Macro-Economic Analysis Unit go to:
www.treasury.gpg.gov.za/Document/Pages/default.aspx

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Author Unknown

Author Unknown

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