Provincial Review 2016: Free State

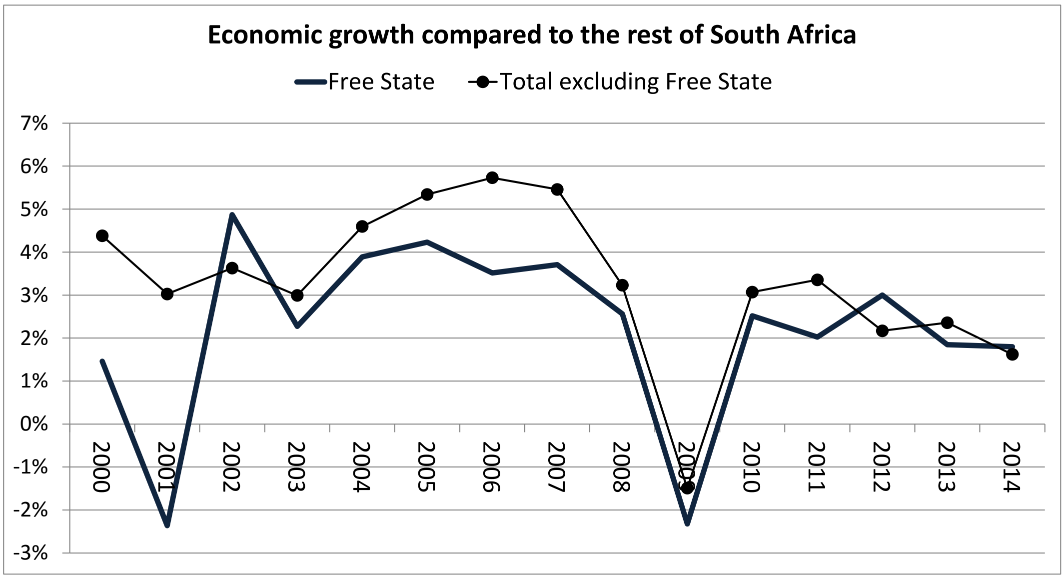
The Free State's real economy is dominated by gold mining and agriculture, with limited manufacturing and construction. Only a small share of the population lives in former "homeland" regions. The result has historically been a combination of high employment levels with comparatively low pay. The province has battled with the long decline in gold mining, which has dampened growth in both output and employment.

The real economy in the Free State: Structure and growth

The Free State, with 2,8 million residents, accounted for 5% of South Africa's population in 2014/2015 and contributed proportionately to the GDP. In 2014 – the latest available data – the real economy (represented by agriculture, mining, manufacturing and construction) made up 27% of the Free State's output.

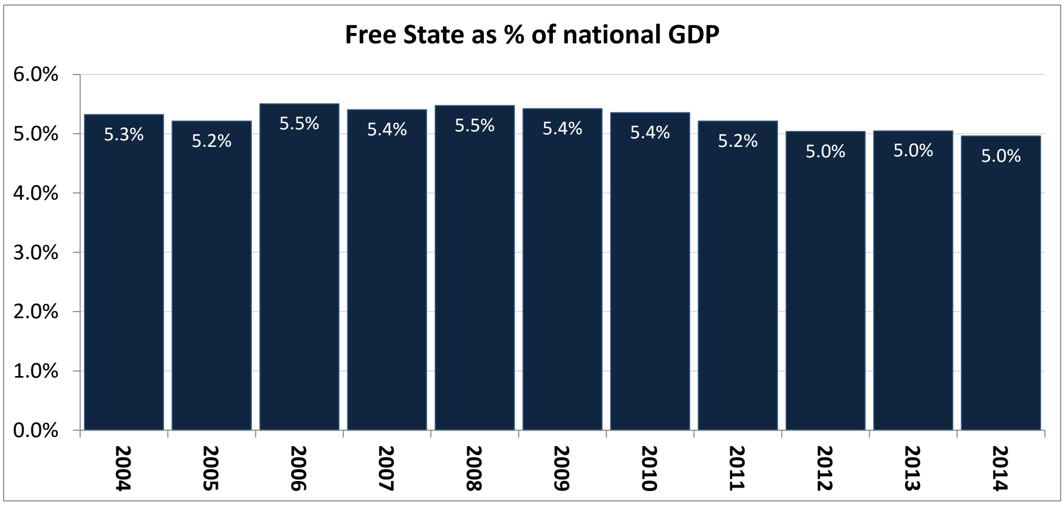
The largest real-economy sector was mining, at 11% of the provincial economy, followed by manufacturing at 9%, agriculture at 4%, and construction at 3%. The Free State contributed 10% of national agriculture and 7% of national mining, but just 4% of national manufacturing and 3,5% of national construction.

As the following chart shows, economic growth in the Free State has generally lagged national growth. The main reason has been the maturing of the gold mines, which offset the benefits of the commodity boom for the province.



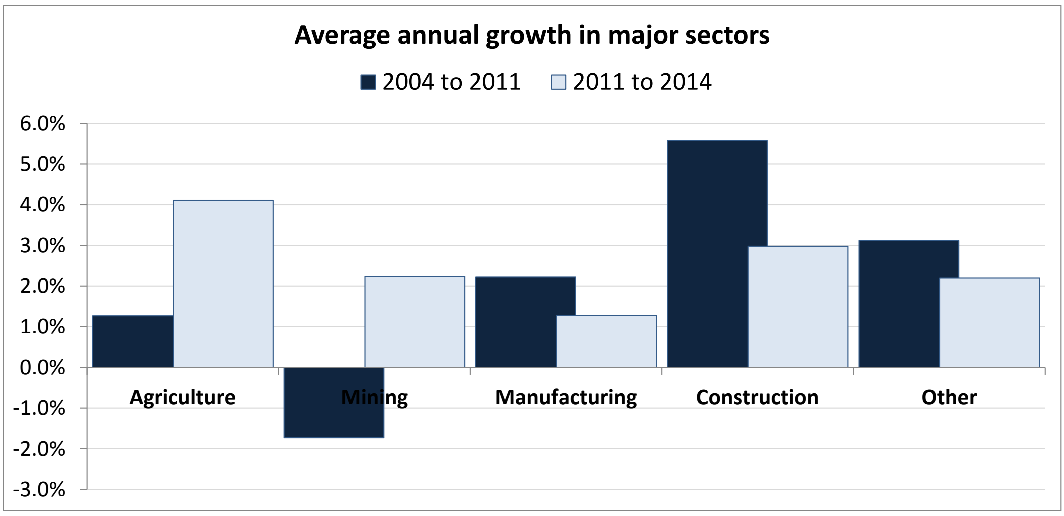
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

Overall, the Free State's share in the national economy (in current rand) decreased from 2003 to the end of the commodity boom in 2011, then fell further with the commodity bust.



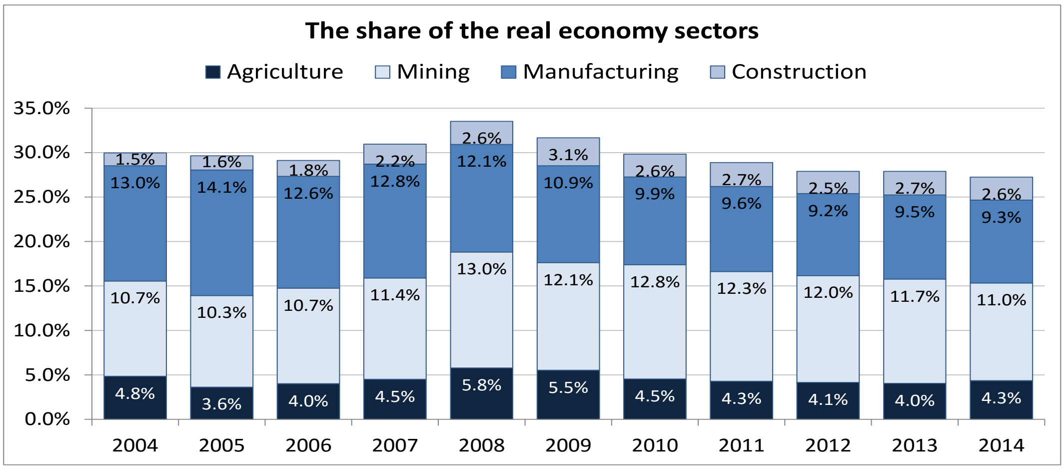
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The following table shows growth rates for the main sectors of the real economy of the Free State from 2004 to 2011 and from 2011 to 2014. From 2004 to 2011, construction was the fastest growing sector in the real economy, growing an average of 5,6% a year. It slowed to 3% a year from 2011 to 2014, however. In volume terms, mining production declined during the commodity boom, although higher prices helped offset the fall in output. Manufacturing has consistently lagged growth in the rest of the provincial economy, falling to 1,3% a year from 2011 to 2014.



Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

These growth trends meant that both mining and manufacturing generally declined as a share of the provincial economy over the past decade.



Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

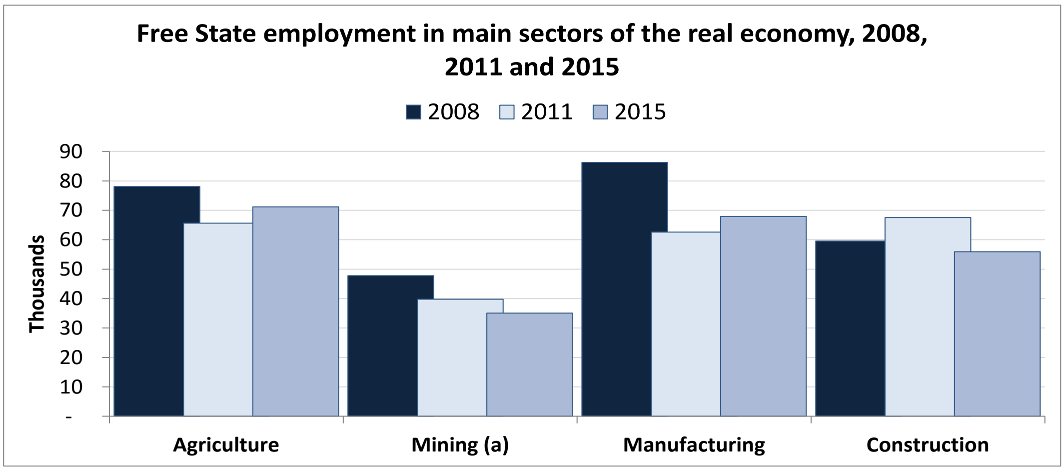
In 2015 (using the average for year of the Quarterly Labour Force Survey – QLFS), the province accounted for 5% of total employment in South Africa. Some 232 000 people were employed in the real economy sectors, which contributed 29% of total provincial employment.

In employment terms, in 2015 agriculture, manufacturing and mining led the real economy in the Free State.

Of the employed in the province:

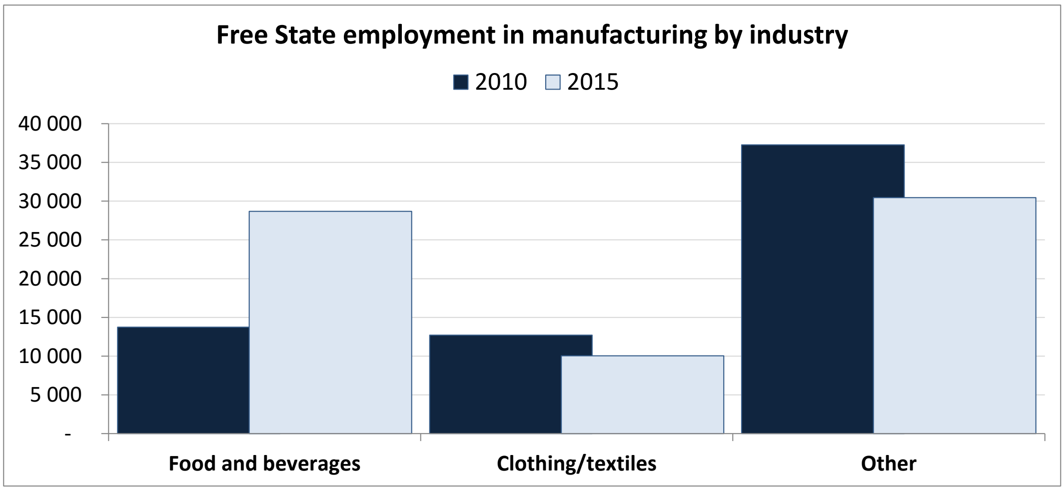
- 71 000 were in agriculture
- 68 000 were in manufacturing
- 56 000 were in construction
- 35 000 were in mining (in 2014)

The following chart shows the change in employment by major sector in the real economy in 2008, 2011 and 2015, using the average of quarterly figures for each year. The data show a significant decline from 2008 to 2011, a period in which national employment was growing, followed by higher employment in 2015 in every major sector except construction.



Notes: (a) 2014. *Source:* Except for mining, Statistics South Africa, QLFS Trends 2008-2016. Excel spreadsheet. Average of four quarters for the year. For mining, Department of Mineral Resources. B1 Statistical Tables. Excel spreadsheet.

The Free State accounted for 4% of South African manufacturing employment. The top five manufacturing industries in the province, in terms of employment, were food and beverages; clothing, textiles and footwear; basic iron and steel plus metal products; chemicals and plastic; and the residual category of furniture, recycling and other smaller industries. The province accounted for 7% of employment in food and beverages, its largest manufacturing industry.



Source: For 2010, Statistics South Africa, Labour Market Dynamics 2010. Electronic database. For 2015, average of four quarters, Statistics South Africa, QLFS for relevant quarters. Electronic database.

Gold dominated mining employment in the Free State. Generally, gold mining saw job losses during the commodity boom, while platinum mining, coal and iron ore created employment. According to Department of Mineral Resources data, which is more reliable for mining, total mining employment in the Free State fell from 56 000 in 2003 to 40 000 in 2011. Sales of mining products also declined from 11% of the national total to 5%. From 2011 to 2014, the number of the Free State miners dropped even further to 35 000, while sales stabilised at 5% of the national total, mostly because the prices of iron ore and coal fell much faster than gold and platinum after 2011.

Major public and private projects announced for the real economy of the Free State over the past three years included the following.

Large recent public and private real-economy projects in the Free State

Project Name	Company	Value	Sector	Industry
Sasol Fischer Tropsch Wax Expansion Project	Sasol Performance Chemicals	R13,6 billion	Private	Manufacturing
Maluti-A-Phofong Special Economic Zone	Free State Development Corporation	R4,8 million	Public	Construction
Lace Diamond Mine Development Project	Lace Diamond Mines	R384 million	Private	Mining

Employment and unemployment

The Free State is more or less at the national norm for employment. Around 43% of the working-age population was employed in 2015, compared to a national average of over 4%. The international norm is around 60%. The share of working-age people with employment had risen from 42% in 2010, when employment hit a low point following the 2008/9 global financial crisis.

In 2014, the median formal wage in the Free State was R3 900 and the median wage for domestic, informal and agricultural workers was R1 200. Formal wages were close to the national median formal wage of R4 000. Other employees, including the large number of farmworkers, earned less than the national median wage, which was R1 500. In the Free State, 67% of total employment was in the non-agricultural formal sector, compared to the national average of 69%.

The decline in mining and overall low pay help explain significant out-migration from the Free State over the past 20 years. Its population grew 7% from 1996 to 2015, compared to a national average of 35%.

The Free State economy and the national spatial economy

Apartheid geography has a significant impact on economic structures, and especially on access to economic opportunities for ordinary South Africans.

The Free State has:

- A relatively low share of former “homeland” areas within its borders. In 2015, 9% of the population lived in former “homeland” regions, compared to 27% for the country as a whole.
- One metro area and one secondary city, out of a total of 24 municipalities. Metros and secondary cities account for 41% of the province’s population. That was almost exactly equal to the national average.
- A relatively small share of non-Africans in the total population, at 12% compared to 20% nationally.

These factors help explain the province's economic structure and key constraints on growth. Under apartheid, African areas and especially the former “homeland” regions typically excluded natural resources, and for decades were largely deprived of infrastructure and government services. In contrast, the historically “white” regions, which dominated in the Free State, enjoyed much stronger investment in infrastructure and government services.

The Free State’s dependence on mining and agriculture combined with a relatively small share of former “homeland” regions makes it unique among South Africa’s provinces. The small share of former “homeland” regions combined with extensive low-wage industries emerged in the key indicators outlined below.

- According to the 2015 General Household Survey, the median household income in the Free State was R3 000 a month, compared to R3 260 nationally. In the relatively small former "homeland" regions, however, it was only R1 000 a month.
- In 2015, only 24% of working-age people in the former "homeland" regions were employed, compared to 42% in the rest of the Free State.
- According to Census data, the population in the former so-called "homeland" regions in the Free State shrank by 12% from 1996 to 2011, while the rest of the province saw population growth of 6% – still far below national population growth.
- In 2015, matric degrees were held by 28% of the province's working-age population aged over 20, but by just 23% in the former "homeland" regions. For the country as a whole, the figure was 29%. The share of adults in the Free State with matric had climbed from 13% in 1996. 11% of the Free State's adult population had a degree, compared to 13% nationally.
- Municipal services in the Free State were comparatively advanced, reflecting the low level of former "homeland" regions in the province. The 2015 General Household Survey found that 90% of households in the Free State had running water in their houses or yards, compared to 70% in 1996, which was well above the national average at that time. Some 89% had electricity, up from 57% in 1996. Nationally, 73% of households had running water and 85% electricity.
- Municipal expenditure per person in the Free State came to R6000 in 2015/6, compared to R5900 nationally. The metros and secondary cities spent R7200 per person compared to R5200 per person in the other municipalities in the Free State. The metros and secondary cities, with 41% of the population, raised 57% of all municipal rates and tariffs in the province and got 47% of capital transfers and subsidies, although they received only 34% of current transfers. Most of municipal transfers came from the national government.

Economic policy initiatives

The main national industrial policy and development initiatives that affected the Free State included the following.

- In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/5, a total of 18 projects were approved under the Manufacturing Competitiveness Enhancement Programme (MCEP) in the Free State, for a total value of R67 million. A further ten projects were approved under the Manufacturing Investment Programme (MIP), with a value of R30 million.
- Under the National Infrastructure Plan, the Free State will benefit primarily from the development of the corridor along the Durban-Gauteng rail and road routes. The Free State planned a Special Economic Zone at Harrismith that would focus on automotive logistics, agro-processing and pharmaceuticals.

- The Industrial Development Corporation (IDC) invested 7% of its total spending in the Free State. Most of the funds went to mining, although it also supported a number of agro-processing projects.

The Free State budget totalled R22 billion in 2015/2016. Per person, the province spent R7 700, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPI), the budget had risen by 0,4% from 2014/2015. From 2011/2012, it had climbed by a total of 2%.

Some 93% of the Free State's budget went for education and health. That compared to 90% for provincial budgets as a whole.

In 2015/2016, the provincial budget showed a significant focus on infrastructure. It set aside R2,1 billion, or 9,6% of the total, for investment in buildings and public works. As a group, the provinces budgeted R35 billion, or 8% of their total expenditure, for these purposes.

In addition, transfers to households for housing came to R1 billion, or 4.8% of the Free State's 2015/2016 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The economic departments in the provincial government in 2015 were:

- Economic and Small Business Development, Tourism and Environmental Affairs, and
- Agriculture and Rural Development.

It also had a provincial investment agency, the Free State Development Agency, and the Free State Tourism Authority.

In 2015/2016, the combined budgets of the Free State's Economics Departments came to around R1,2 billion, or about 6% of the provincial budget. The provinces as a group spent an average of 5% of their budgets on these functions, with the lowest share of spending, at 3%