THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA PROVINCIAL REVIEW 2016

Provincial Review 2016: Limpopo

Limpopo's growth since 2003 has been dominated by the mining sector, especially platinum, and by national construction projects. As a result, the provincial economy grew rapidly during the mining boom from 2003 to 2011, but has since slowed to below the national rate. The province also has by far the largest share of residents in former so-called "homeland" areas in the country, which poses challenges because they continue to face a lack of employment opportunities, poor incomes, weak infrastructure and low educational levels. The result has been high out-migration both to Limpopo's urban areas – now among the fastest growing in the country – and to other provinces.

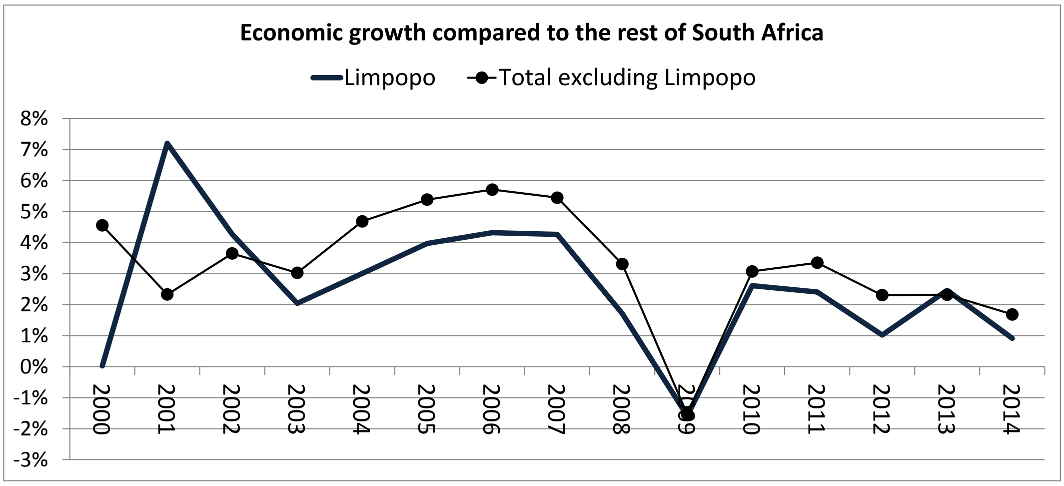
The real economy in Limpopo

While Limpopo, with 5,7 million residents, accounted for 10% of South Africa's population in 2014/2015, it contributed just 7% of the GDP. In 2014 – the latest available data – the real economy (represented by agriculture, mining, manufacturing and construction) made up 33% of Limpopo's output.

Mining dominated the real economy, at 25% of the provincial economy. In contrast, construction and manufacturing contributed just 3%, and agriculture 2%. Limpopo accounted for 24% of national mining output, 7% of national agriculture and 6% of national construction, but just 2% of national manufacturing.

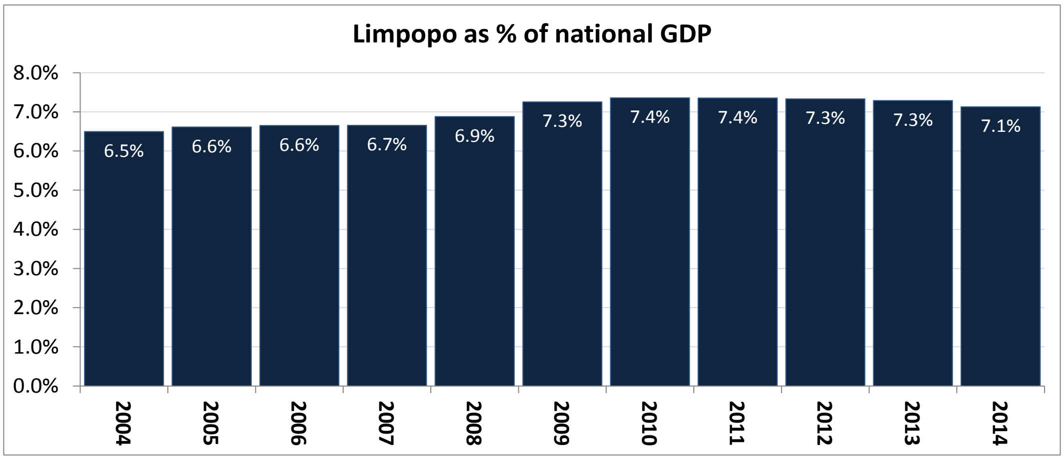
The rapid increase in mining prices compared to other products during the commodity boom, and their subsequent sharp decline, makes it more difficult to assess GDP growth at provincial level. Looking only at the volume of production understates the benefits for Limpopo and other mining-dependent provinces during the boom as well as the slowdown afterwards, and exaggerates the relative performance of provinces that do not have much mining activity.

The following chart shows growth in Limpopo using standard figures that show only the volume of production, effectively ignoring the impact of changes in prices on the purchasing power of the province. By this measure, Limpopo consistently lagged national economic growth.



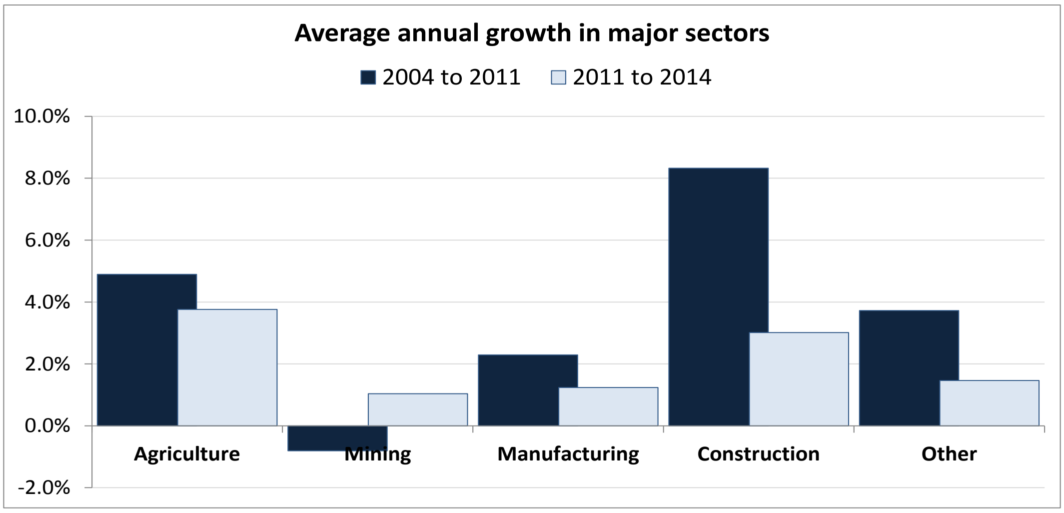
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

In contrast, as a share of the national GDP, which uses current values of output, Limpopo's fortunes tracked the commodity boom. Overall, Limpopo's share in the national economy (in current rand) increased from 2003 to the end of the commodity boom in 2011, then fell.



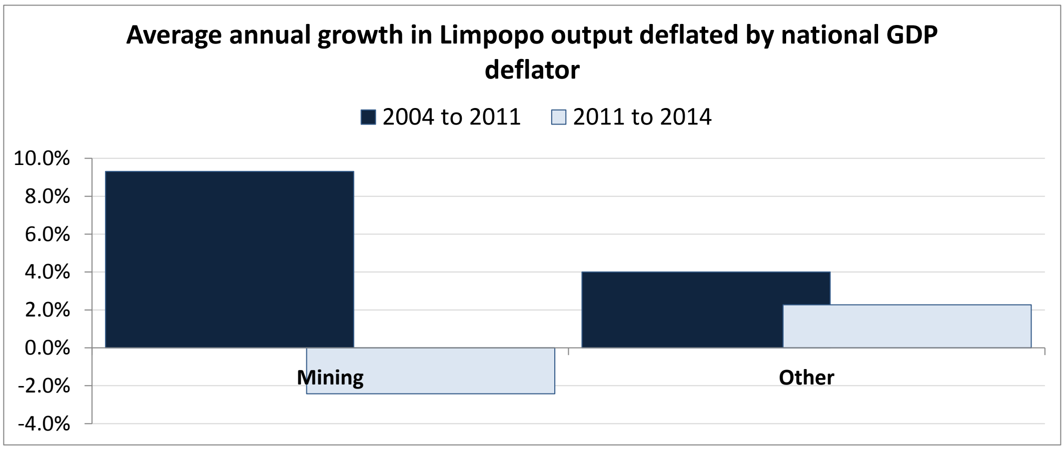
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

A similar paradox emerges from the figures for growth by sector over the past decade. In volume terms, as the following chart shows, mining output in Limpopo fell during the commodity boom. Overall, mining and manufacturing output increased at only around 1% a year in the decade to 2014. In terms of volume, the fastest-growing sector was construction, which benefited from both national infrastructure projects and large-scale rural-urban migration in the province as well as the mining boom.



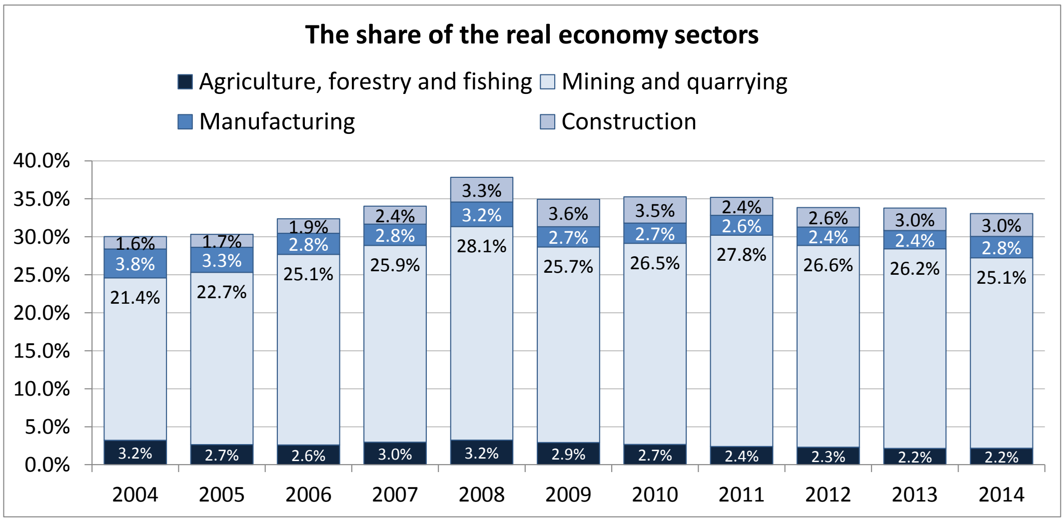
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The impact of higher metals prices on mining becomes clear, however, if we compare the change in mining output deflated by the GDP deflator with the figures for growth in the volume of production. As the following chart shows, by this measure mining production climbed 9% a year from 2004 to 2011, but since then has fallen back to -2% a year. In terms of purchasing power, as measured by the deflated rand value of production, mining growth far exceeded the rest of the Limpopo economy during the commodity boom.



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

The importance of mining for Limpopo emerged from its dominant share in the provincial economy. With the end of the commodity boom, however, its share dropped from 28% in 2011 to 25% in 2014.



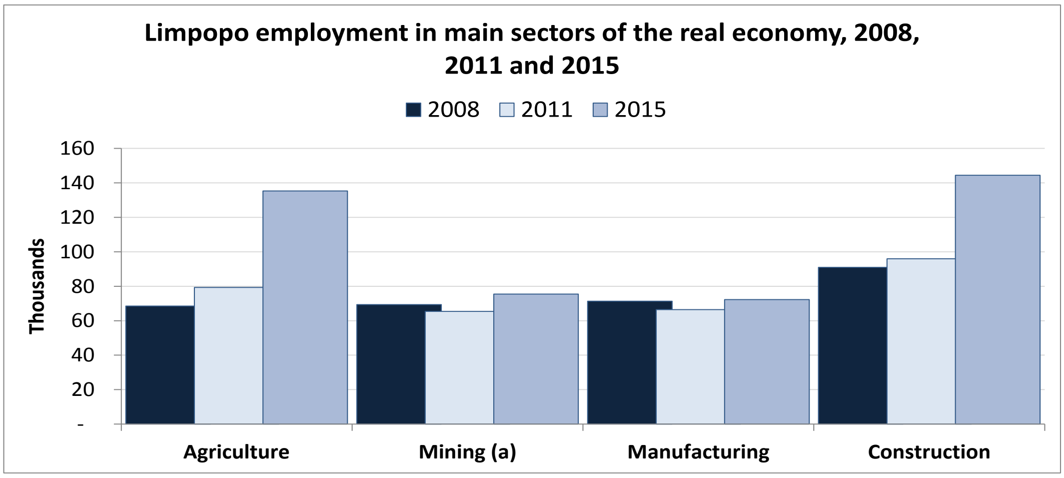
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

The employment data shed further light on the structure of the economy in the Limpopo.

Of employed people in the real economy in Limpopo in 2015:

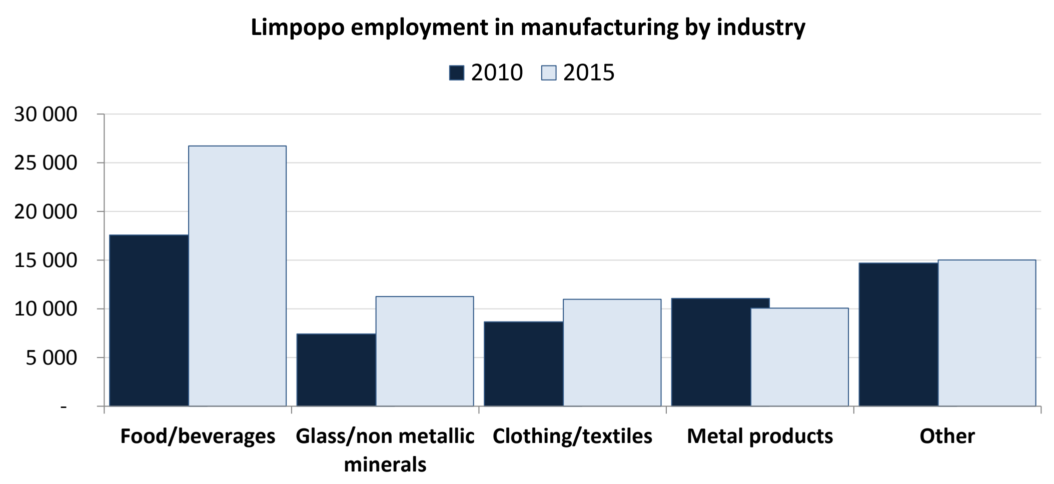
- 144 000 were in construction
- 135 000 were in agriculture
- 75 500 were in mining (in 2014)
- 72 000 were in manufacturing

The following chart shows the change in employment by major sector in the real economy from 2008 to 2015. The bulk of new jobs in the real economy emerged in agriculture and construction, despite their relatively small share of the provincial economy. In contrast, mining employed only around half as many, and barely increased during the commodity boom.



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.

Limpopo accounted for only 4% of South African manufacturing employment. The top manufacturing industries in the province for employment were food and beverages; glass and non-metallic minerals; and clothing. But all of its industries were relatively small. The province contributed just 7% of national 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.

Platinum dominated mining employment in Limpopo. 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 Limpopo climbed from 56 500 in 2003 to 65 500 in 2011, while sales rose from 10% of the national total to 13%. From 2011 to 2014, the number of Limpopo miners increased to 75 500, while sales rose further, reaching 16% of the national total.

Major private projects announced for the real economy of Limpopo over the past three years included the following.

Large recent private real-economy projects in Limpopo

Project Name	Company	Value	Industry
De Beers Venetia Underground Project	De Beers Consolidated Mines (DBCM)	R20 billion	Mining
Makhado cocoking coal project	Boabab Mining and Exploration, subsidiary of Coal of Africa Limited	R 4 billion	Mining
Biokarabelo Coal Project	Resource Generation (Resgen)	$480 million	Mining
Ivan Plaatreef Project	Ivanhoe Mines and Partners	$1,2 billion	Mining

Employment and unemployment

Limpopo has relatively high levels of joblessness, although the mining and construction boom brought substantial improvements. Just 36% of the working-age population was employed in 2015, compared to a national average of more than 40%. The international norm is around 60%. The share of working-age people with employment had risen sharply from 29% in 2010, when employment hit a low point following the 2008/2009 global financial crisis.

Limpopo has an unusually low share of formal employment, reflecting the dominance of the former “homeland” regions. Only 53% of total employment in the province was in the formal sector, compared to the national average of 69%.

Limpopo has relatively low pay levels. In 2014, the median formal wage was R3450 and the median wage for domestic, informal and agricultural workers was R1200. That compared to R4 000 nationally for formal workers, and R1 500 for other employees.

Relatively high joblessness and poor pay explain out-migration from Limpopo despite the boom from 2003 to 2011. Its population grew 25% from 1996 to 2015, compared to a national average of 35%.

The Limpopo 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. Limpopo has:

- A very high share of former so-called “homeland” areas within its borders. In 2015, 71% of the population lived in former “homeland” regions, compared to 27% for the country as a whole.
- Very limited urbanisation by national standards. The province has no metro areas and one secondary city, out of a total of 30 municipalities. The secondary city, Polokwane, accounts for 9% of the province’s population. That compared to 40% of the national population living in metro areas and secondary cities.
- A very small share of non-Africans in the total population, at 2% 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.

Some indicators of the implications for Limpopo are:

- The 2015 General Household Survey found the median household income was R2 400 a month, compared to R3 260 nationally. This was R2 000 in the former “homeland” areas of Limpopo, while it was R3 500 in the rest of the province.
- In 2015, only 26% of working-age people in the former “homeland” regions were employed, compared to 55% in the rest of Limpopo. Both levels were higher than the norm for the type of region. Nonetheless, overall employment was low because of the unusually high share of “homeland” spaces in the province.
- According to Census data, the population in the former so-called “homeland” regions in Limpopo increased by 9% from 1996 to 2011, while the rest of the province saw population growth of 70%.
- In 2015, matric degrees were held by 21% of the province's working-age population aged over 20, and by 19% in the former “homeland” regions. For the country as a whole, the figure was 29%. The share of adults in Limpopo with matric climbed from

13% in 1996. Some 12% of Limpopo's adult population had a degree, compared to 13% nationally.

- The General Household Survey found that 47% of households in Limpopo had running water in their houses or yards, compared to 36% in 1996. Some 93% had electricity, up from 39% in 1996. Nationally, 73% of households had water on site, and 85% had electricity.
- Most Limpopo towns are poor by national standards. Municipal expenditure per person came to R2 600 in 2015/2016, compared to R5 900 nationally. Polokwane, with 9% of the population, raised 30% of all municipal rates and tariffs in the province. It received 9% of current and 10% of capital transfers and subsidies, mostly from national government. However, it spent R3 600 per person compared to R2 500 per person in other Limpopo municipalities – still far below the norm for large municipalities.

Economic policy initiatives

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

- In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/2015, 12 projects were approved under the Manufacturing Competitiveness Enhancement Programme (MCEP) for R39 million. A further 20 projects were approved under the Manufacturing Investment Programme (MIP), with a value of R37 million. The dti has been working to establish aquaculture in Limpopo under the Industrial Policy Action Plan (IPAP).
- Limpopo proposed two special economic zones – one for platinum group metals, at Tubatse, and one for logistics, petrochemicals and regional trade, at Musina. The dti is working with the Limpopo Economic Development Agency to establish a metallurgical cluster at Musina.
- The Industrial Development Corporation (IDC) invested 3,7% of its total spending in Limpopo.
- While industrial initiatives in Limpopo seemed limited, the province benefited from major logistics, water and electricity infrastructure projects. These large investments, which were planned at the height of the commodity boom, aimed both to support Eskom's new electricity plants and to open up mining across the province. Some of them may, however, face difficulties if mining slows further, since the anticipated demand (and associated revenues) may not emerge. The following table summarises the major projects that were included in the 2016/2017 national Budget Review. In addition, the province should benefit from investments in hospitals, clinics, schools and colleges, as well as the roll-out of broadband to poor communities.

Major infrastructure projects Limpopo as of 2016/2017

Project name	Agent	Rbn	Description
Medupi power station	Eskom	145	4800MW coal plant in the Waterberg region
Ingula pumped-storage scheme	Eskom	29,6	1332MW pumped-storage scheme
Works and pipelines to obtain bulk water from Mokolo, West Crocodile and Olifants Rivers	TCTA	10 to 23	Pump and pipelines for domestic and industrial water supply to new power stations, associated mining activities and growing population
Waterberg rail (in feasibility)	Transnet	5.1	Develop Waterberg as coal hub, increasing coal tonnage to 23 million tonnes per annum (mtpa) over seven years

Limpopo itself spent relatively little on infrastructure. In 2015/2016, the provincial budget set aside R1,4 billion, or 3% 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 from the Limpopo budget came to R1,3 billion, or 3% of Limpopo's 2015/2016 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The Limpopo budget totalled R45 billion in 2015/2016. Per person, the province spent R7 900, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPI), the budget had fallen by 5% from 2014/2015. It was 3,4% lower than in 2011/12.

Some 89% of Limpopo's budget went for education and health, up from 84% in 2011/2012. That compared to 90% for provincial budgets as a whole.

The economic departments in the provincial government in 2015 were Economic Development and Tourism and Agriculture. Together, their budgets came to R2,8 billion, or 6% of the provincial total. The provinces as a group spent an average of 5% of their budgets on these functions, with the lowest share of spending, at 3%, in the most industrialised provinces of Gauteng and the Western Cape.