LONG-TERM FORECAST OF THE SOUTH AFRICAN ECONOMY

By making use of SAFRIM (South African Inter-Industry Macro-Economic Model)

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1960: The economy experienced high growth rates
- mining
- raw materials
- economy was tightly controlled.

1970: factors such as the world oil crises and changing gold prices slowed down the economy.

1971-1993: increased public spending, economic sanctions, and the effects of political instability stifled the economy. This period was characterised by
- poor growth performance,
- low levels of investment,
- rising unemployment, political instability,
- currency instability,
- widening deficits,
- falling living standards
- growing inequalities.
1994: the government has been firm about getting the macro-economic balance right, in order to

- attract investors,
- reduce the budget deficit and
- fight inflation through high interest rates.

The government set economic objectives to achieve economic growth to create employment, and in that way lessen inequality and poverty.
Average growth from 1994-2007 = 3.4%

Average growth from 1980-1994 = 1.1%

Average growth from 2007-2010 = 0.4%
HISTORICAL SECTORAL COMPOSITION

1980

- Tertiary Sector 56%
- Secondary Sector 29%
- Primary Sector 15%

2010

- Tertiary Sector 68%
- Secondary Sector 23%
- Primary Sector 9%
Population Growth
- 44.8 million (2001 National Census) to 49.9 million (StatsSA, 2010), i.e. 1.1% per annum.

Government Expenditure
- There is still a large backlog in the provision of socio-economic infrastructure and services in South Africa.
- Government spending has increased in the recent past in an effort to address the situation.

Global Economic Trends
- Due to the South African economy’s reliance on mineral exports, the country’s economic growth is very much linked to what happens to its major trading partners.

International Trade - South Africa, the Gateway of Africa
- Since the 1994 political dispensation, South Africa has become a major role player in the economic development of Sub-Saharan Africa as a service and manufacturing hub.
BROAD OVERVIEW OF MODELLING SYSTEM

- Macro-Economic, dynamic and multi-sectoral.

- Projections
  - Aggregated GDP,
  - GDP components,
  - Demand categories that determine GDP.

- Multi-sectoral and includes input-output table and accounting which shows intermediate consumption.

- Behavioural equations for final demand.
DEMAND AND SUPPLY COMPONENTS

- Final Consumption Expenditure by Households
- Final Consumption Expenditure by General Government
- Gross Fixed Capital Formation
- Change in Inventories
- Exports
- Imports
- Intermediate Demand

- Compensation of Employees
- Gross Operating Surplus
- Net Indirect Taxes
- Price Income Block
- Accountant

Production Block

Monetary Variables
DATA AND DATA SOURCES

- Updated to 2010
- National accounts - South African Reserve Bank (SARB)
- Input-output tables, value added components, final demand components, investment, employment - Quantec
- Prices, trade data, capital - Conningarth Economists
- Historically from 1970 - 2030
Mainly determined by the average propensity to save.

\[ p_{pec_{22}} = f(\text{time}, \text{private disposable income per capita}, \text{prime overdraft rate}, \text{relative prices}_{22}) \]
1 Furniture, Household Appliances etc
Consumption of Durables (Constant Prices)
11 Food, Beverages and Tobacco
Consumption of Non-Durables (Constant Prices)
Estimating International Competitiveness

**Exports**

- Impact on Exports = \( f(\text{World production}, \text{Relative prices}) \)

- World Production \( \equiv \) World GDP expressed in US$

- Relative prices = \( f(\text{South African Inflation (PPI)}, \text{US inflation rate}) \)

**Imports**

- Impact on Imports = \( f(\text{RSA production}, \text{Relative prices, International trade sanctions}) \)

- RSA Production \( \equiv \) RSA GDP

- Relative prices = \( f(\text{South African Inflation (PPI)}, \text{US inflation rate}) \)
2 Coal mining

EXPORTS


Predicted
Actual
8 Textiles
Imports

Predicted vs Actual
Two main components that were used:

- Labour productivity coefficient, and
- Remuneration per employee

Labour productivity coefficient = \( f(\text{time}, \text{business cycle, fixed capital stock/employment}) \)

Remuneration per employee
\[ = f(\text{Inflation (CPI), labour productivity coefficient}) \]
PRODUCTIVITY (CONTINUE)

22 Steel

Predicted  Actual
## GDP and Final Demand Components, constant 2005 prices

<table>
<thead>
<tr>
<th>GDP and Final Demand Components</th>
<th>2010 - 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final consumption expenditure by Households</td>
<td>2.6%</td>
</tr>
<tr>
<td>• Durable goods</td>
<td>2.4%</td>
</tr>
<tr>
<td>• Semi-durable goods</td>
<td>3.0%</td>
</tr>
<tr>
<td>• Non-durable goods</td>
<td>2.4%</td>
</tr>
<tr>
<td>• Services</td>
<td>2.8%</td>
</tr>
<tr>
<td>Final consumption expenditure by Government</td>
<td>3.0%</td>
</tr>
<tr>
<td>Investment</td>
<td>4.0%</td>
</tr>
<tr>
<td>Exports</td>
<td>2.9%</td>
</tr>
<tr>
<td>Imports</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total GDP</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
# LONG-TERM GROWTH PROJECTIONS

Estimated Long-Term GDP Growth of the 9 Main Sectors

<table>
<thead>
<tr>
<th>Main Economic Sector</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>2.9%</td>
</tr>
<tr>
<td>Mining</td>
<td>1.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.2%</td>
</tr>
<tr>
<td>Electricity, gas &amp; water</td>
<td>2.6%</td>
</tr>
<tr>
<td>Construction</td>
<td>4.6%</td>
</tr>
<tr>
<td>Wholesale and retail trade, catering and accommodation</td>
<td>3.1%</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>4.0%</td>
</tr>
<tr>
<td>Financial intermediation, insurance, real estate and business services</td>
<td>3.9%</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Total South African Economy</strong></td>
<td><strong>3.5%</strong></td>
</tr>
</tbody>
</table>