



Faculty of Economic  
and  
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# New investment opportunities in South Africa – which sectors gain ground?

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# Basic facts

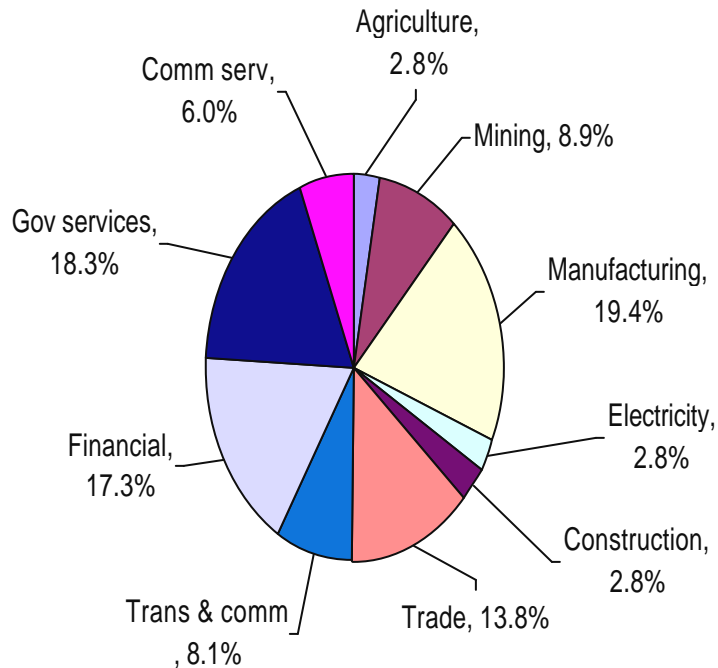
- Past decade has been characterised by:
  - Real average economic growth rate of 2.8%
  - Period of restructuring, liberalisation and deregulation
  - Drive to become more competitive
  - Impact of exposure to *cold winds* of international economic environment
  - Shift from primary (11%) and secondary sector (24%) activity to tertiary sector activity (65%) – knowledge driven
- Current environment:
  - More stable
  - Healthy domestic demand
  - Improvement in supply-side of the economy – capacity utilisation on the improve
  - Shift in government from macroeconomic stablisation to micro/industry focus
- Economic growth expected to accelerate to between 3.6% and 4.2% in next five years



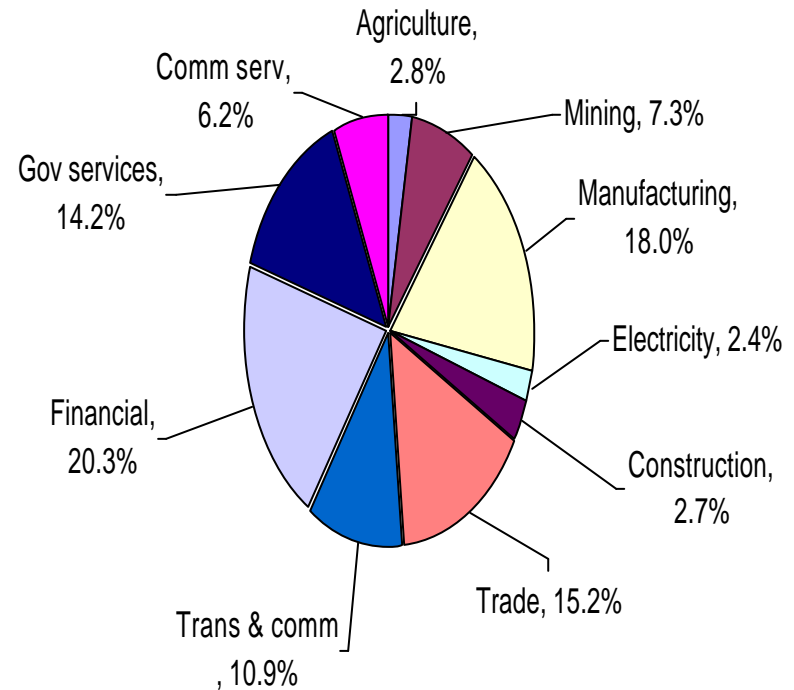


# Sectoral contribution: 2004 versus 1995

## 1995 Sectoral Contribution



## 2004 Sectoral Contribution





# Sector contribution to GDP

- **Declining performance**

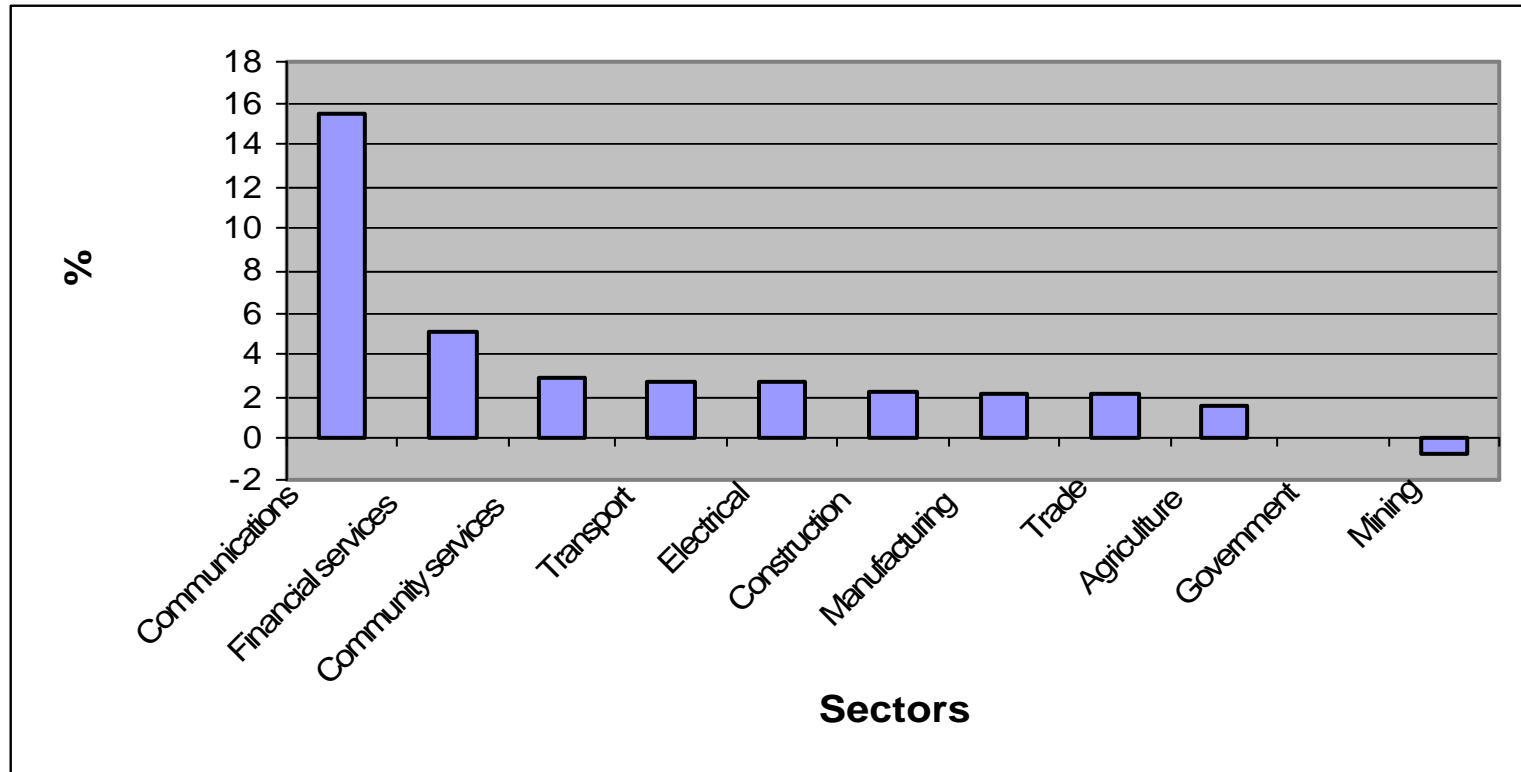
- Mining: 7.3%
- Manufacturing: 18%
- Electricity: 2.4%
- Construction: 2.7%
- Community services: 6%
- Government services: 14%
- Agriculture: 2.8%

- **Increased performance**

- Wholesale and retail trade: 15%
- Transport, storage and communication: 11%
- Financial sector: 20%



# Current growth performance: Real growth rates in sectors, 1994-2004





# Contribution to employment, 2004, and employment growth rates over past 10 years

- **Employment ranking:**

1. Government: 20%
2. Trade
3. Manufacturing
4. Financial services
5. Agriculture
6. Mining
7. Community services
8. Construction
9. Transport
10. Communication
11. Electricity

- **Employment creating sectors:**

Financial services: 3.5%  
Community services: 3%  
Trade: 2.1%

- **Employment destroying sectors:**

Agriculture: -1.6%  
Electrical: -1.6%  
Manufacturing: -1.9%  
Communications: -3.4%  
Transport: -4.8%  
Mining: -4.9%  
Construction: -5.2%



# Sectoral growth forecasts (real % growth)



Sector	Forecast 2004-2009	Relative to previous period
Coal mining	5.5	4.2
Non-metallic mineral	4.0	5.7
Chemicals	5.5	-0.9
Wood products	3.7	2.0
Paper products	4.2	2.0
Steel and other metals	5.1	1.5
Civil construction	9.2	5.0
Financials	3.2	-2.0
Communication services	3.4	-9.3



# Sectoral growth forecasts (real % growth)



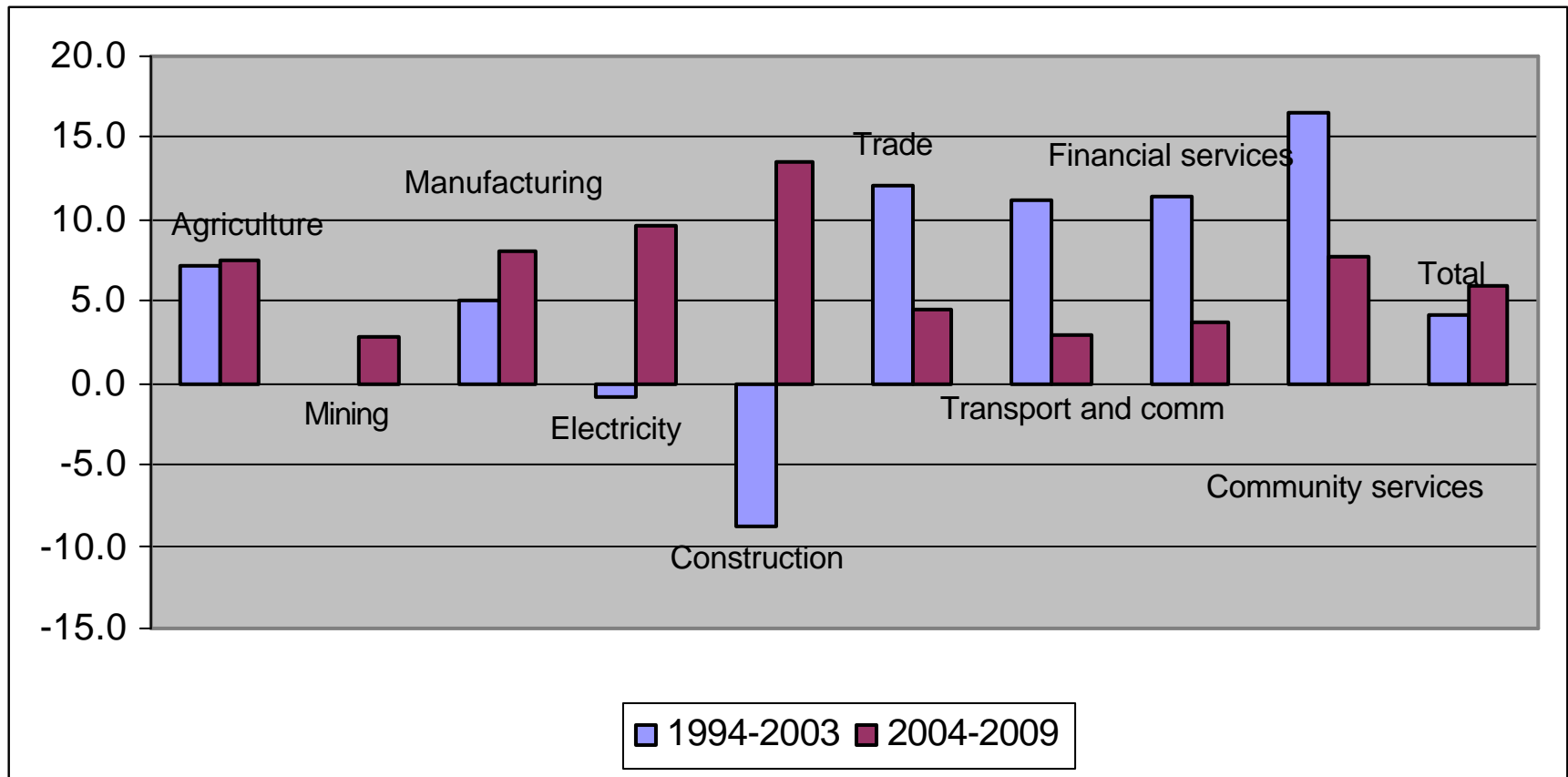
Sector	Forecast 2004-2009	Relative to previous period
Medical and health services	4.0	-0.9
Motor vehicle parts	5.0	-0.7
Wholesale and retail trade	3.7	-0.6
Television, radio and communication equip.	5.7	7.2
Electronic and electrical equipment	5.0	1.5
Machinery and equipment	5.4	4.6
Professional and scientific equipment	5.4	7.3
Glass and glass products	4.6	3.5







# Current and forecasted export growth



# Pockets of excellence: Agriculture and mining



- **Agriculture**

- Structure of primary agriculture is changing
- Price sensitive products such as maize and wheat are declining
- Table grapes, tea, citrus, cut flowers are less price sensitive and more responsive to consumer demand
- Export performance tend to outperform general trend
- 45% of production are exported
- Largest export partner is Europe – 49 %

- **Mining**

- Platinum and aluminium demand remains high, especially from China
- Coal mining have performed strongly over the past decade, but is dampened by cost of importation of equipment, static EU demand and implementation of Kyoto Protocol
- Export intensity is very high – 130%
- But, export performance slipped below average for economy and expected to continue due to continued weakness of dominant gold sector





# Pockets of excellence: Manufacturing

- Motor vehicle parts
- Television, radio and communication equipment
- Electronic and electrical equipment
- Machinery and equipment
- Professional and scientific equipment
- Glass and glass products



# Pockets of excellence: Electricity, gas and water



- Stable is its share to GDP over past decade
- Tend to under-perform to total economic activity
- Eskom is expected to de-mothball power plants to expand electricity supply – depending on imported equipment
- Gas sector remains small but growing. Sasol is involved in natural gas projects, which could expand
- A number of larger water projects could have a significant impact on the sector's performance





# Pockets of excellence: Construction

- Strong upswing in residential building activity could start tapering off
- Non-residential activity strong in shopping space and industrial warehousing
- Civil engineering activity will increase.
- Drivers:
  - Increased infrastructural spending by government on power, transport logistics and water
  - Gautrain rapid rail link
  - 2010 Soccer World Cup upgrade
  - Sishen Expansion Project (iron-ore mining)
  - EPWP



# Pockets of excellence: Transport and communication



## • Transport

- Growth tend to accelerate due to expansion of activities to 17 African countries
- Export intensity shows a rapid on the increase – 45%
- Stable growth expected
- Upgrade in ports and rail on the cards
- Restructuring of taxi industry

## • Communication

- Spectacular growth performance over past ten years
- Three cellular network providers – 18.2 million subscribers and a potential 12 million more
- Expanded into a number of African countries
- Only one fixed line provider – Telkom
- Strong growth expected in ASDL broadband
- 45% of services are exported





# Pockets of excellence: Financial services

- Financial services: 44%
  - Robust growth in banking sector. Due to the high base, it will consolidate
  - Four major banks in SA – level of concentration comparable with those in other emerging market economies
  - More recently the acquisition of Barclays in ABSA
  - Consolidation in insurance industry
- Real estate: 34%
- Business services: 22%
  - Expanding into Africa





# Conclusion

- SA economy set to move to a higher and more sustainable growth path
- Opportunities exist in all sectors – selective
- Upgrading of infrastructure could support potential exporters
- Investment promoting agencies: TISA and various provincial agencies.
- Port to untapped African market

