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Industrial Development Corporation

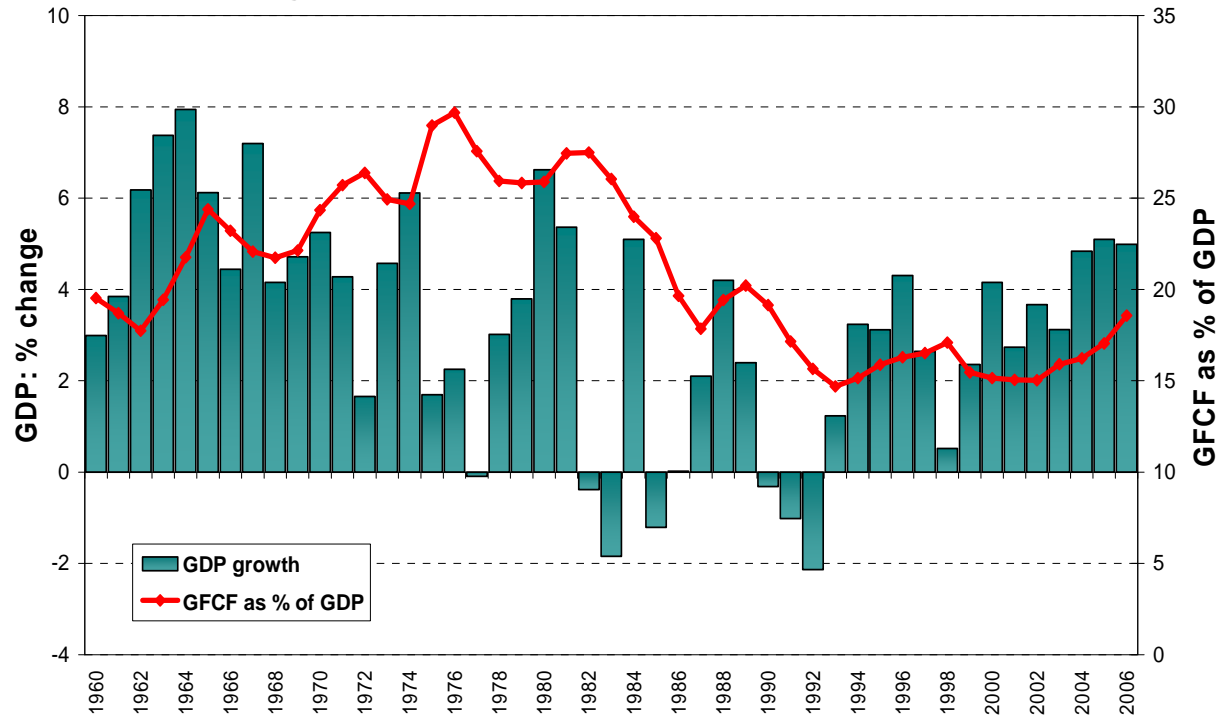
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Overview of recent trends in the South African economy

3 July 2007

Economic performance

GDP growth and Gross Fixed Capital Formation (GFCF)

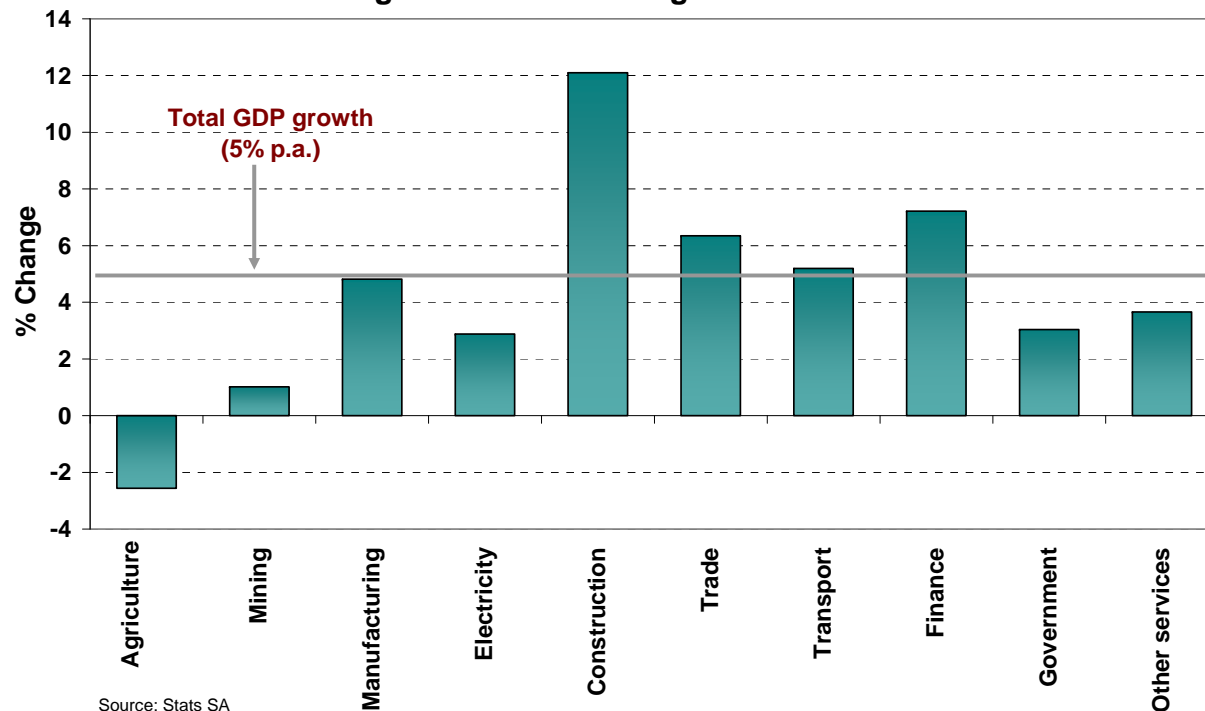


Source: SARB

- South Africa is currently enjoying the **longest sustained period of economic growth** on record.
- Three consecutive years of GDP growth of roughly 5% p.a.
- **Domestic demand** has been the key driver:
 - **Consumer spending** has been increasingly financed by credit, with the household-debt-to-disposable-income ratio rising to a new all-time high of 75.9% by the first quarter of 2007;
 - Rapid increase in **fixed investment** being underpinned by the **R420 bn infrastructure investment plan**, as well as increased fixed investment activity by the private sector.
- SA economy progressively **dominated by services-related sectors** - in line with international trends.

Economic performance

Average annual real GDP growth : 2004 - 2006

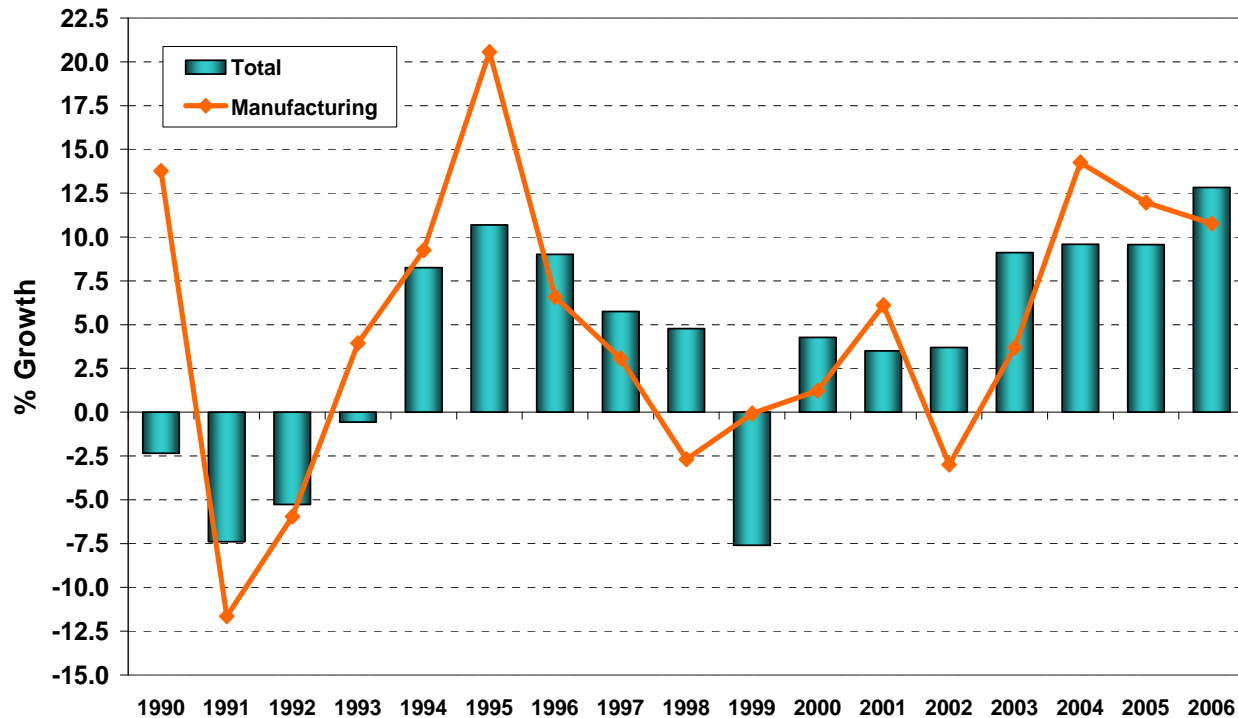


Source: Stats SA

- The **solid growth performance** of the South African economy in recent years continued throughout 2006 as well as in Q1 of 2007.
- The **construction sector** reported the strongest growth in recent years, **underpinned by increased building construction activity** as well as substantially higher levels of **fixed investment** across most sectors of our economy.
- The strong **consumer boom** was reflected in high growth rates in the **trade and financial service sectors**.
- The **brisk growth in the manufacturing sector** was mainly due to strong **domestic demand** as exporters faced a challenging global trading environment.
- **Mining activity** has been **adversely affected by a continued decline in gold production**, although this has partially been offset by the excellent performance of the platinum mining sub-sector.

Economic performance

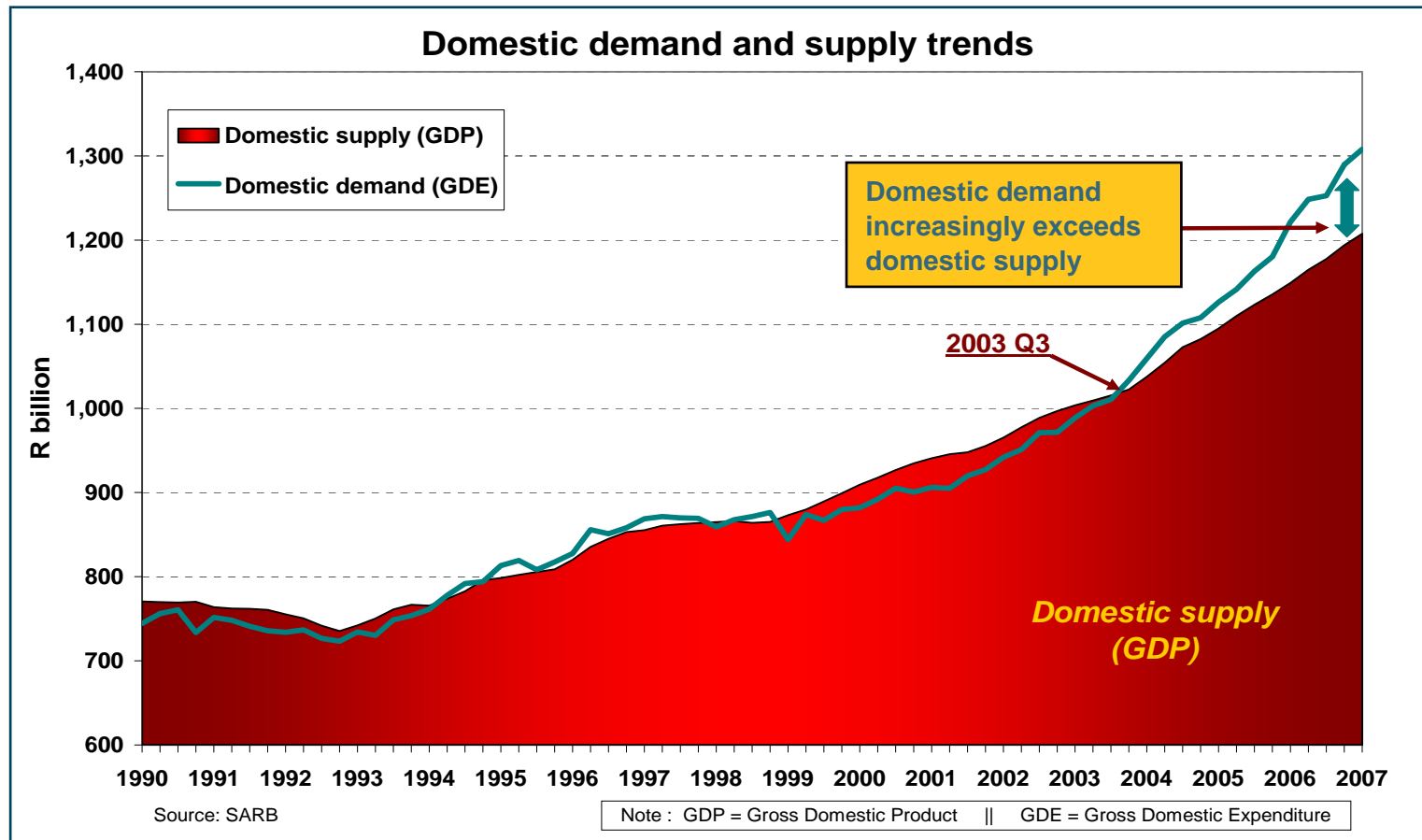
Fixed investment in Manufacturing and Total economy



Source: SARB

- A rapid **increase in fixed investment** activity in the **manufacturing sector** since 2004, with the growth rate averaging just over 12% p.a.
- Most of the investment undertaken in recent years was of a **replacement nature (capital deepening)**, thereby **not adding significantly to the expansion** of the **productive base** of the manufacturing sector.
- However, for the first time since 2003, manufacturers indicated in Q1 of 2007 a substantially improved outlook for **investments in additional production capacity**.
- New investment is being mainly driven by the lucrative **domestic market**.

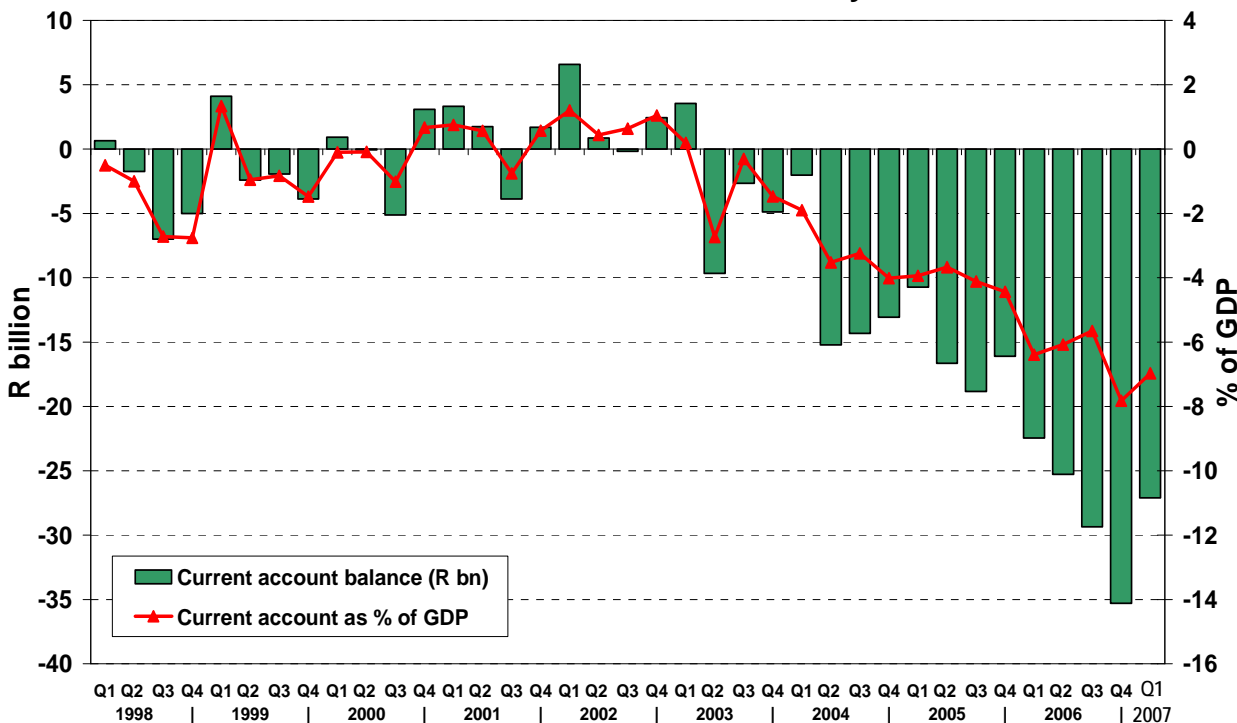
Economic performance



- Robust domestic demand over the past three years resulted in a **widening demand-supply gap** in the SA economy.
- **Capacity constraints** are being **experienced in many sectors** of the economy as business enterprises underestimated, to a certain degree, the sustainability and magnitude of the strong expansion in demand and overall economic activity.

Economic performance

Current account of the Balance of Payments

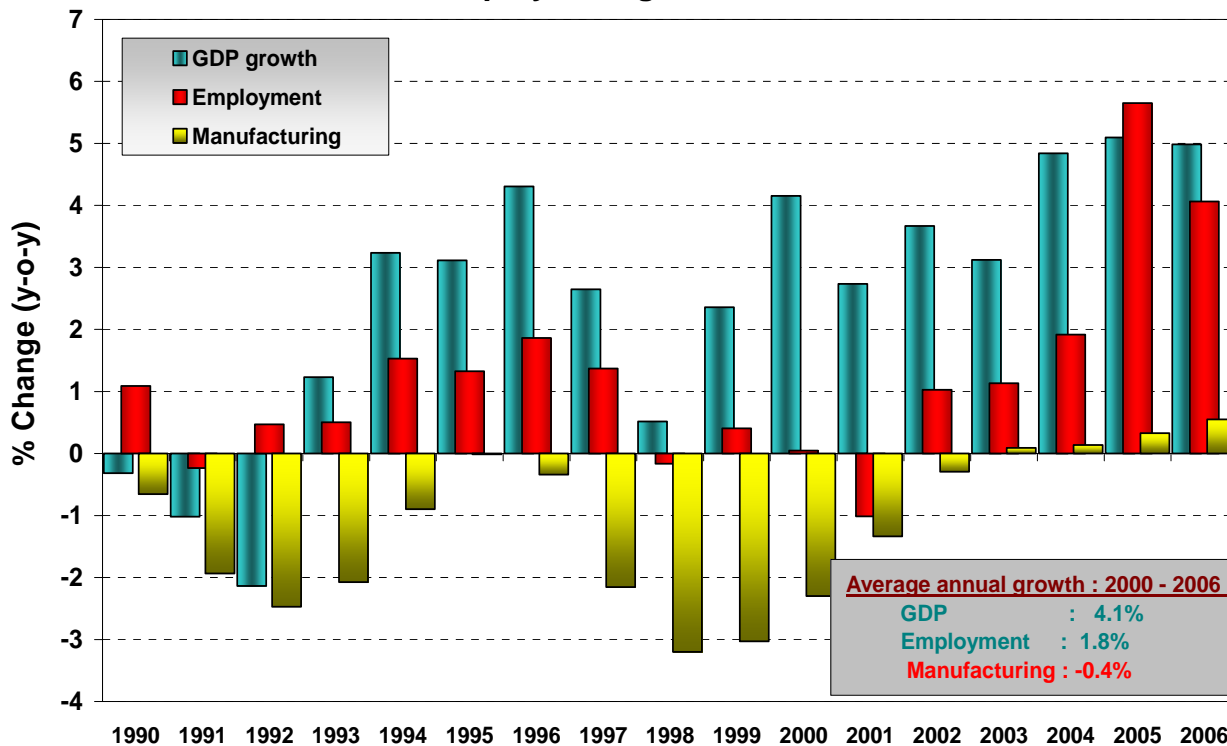


Source: SARB

- Strong domestic demand and subsequent capacity constraints culminated in **increased pressure on the balance of payments**.
- Rapid increase in **fixed investment**, which has a **high import intensity**, culminated in increased demand for imported capital goods (machinery & equipment).
- Strong **consumer demand** in light of favourable economic conditions such as relatively low interest rates and inflation, ease of access to credit, rising disposable incomes, and a fairly strong currency, all contributed to a **substantial rise in demand for imported consumer goods**.
- The **trade deficit** widened from R7.7 bn in 2005 to a substantially larger **R42.5 bn in 2006**.
- The trade deficit, accompanied by a persistently large deficit on the services account (dividend and interest payments to non-residents) resulted in the deficit on the current account of the **balance of payments**, with the **deficit-to-GDP-ratio** measuring **7% in the first quarter of 2007**.

Economic performance

GDP and Employment growth in South Africa



Source: SARB, Stats SA, Quantec

- A substantial **improvement in the labour absorption capacity** could be observed in recent years, thereby illustrating the need for sustained high levels of economic growth to provide jobs for an increasing labour force.
- **Since 2004, roughly 1.4 million new jobs** have been created in both the formal and informal sectors.
- The **majority of jobs** have been created in the **services-oriented sectors** of the economy (trade, financial and business services as well as in construction), which also reported the fastest rate of expansion in value added over the period 2004 to 2006.
- Despite this welcomed improvement on the labour front, **unemployment in South Africa remains at unacceptably high levels**, with the unemployment rate measuring 25.5% in September 2006, or 4.39 million unemployed people.
- **The challenge is to elevate the current high rates of GDP growth** and to broaden the developmental impact thereof.



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