

THE STATE OF THE ECONOMY: CITY OF JOHANNESBURG



The City of Johannesburg (CoJ) is one of the key contributors to the Gauteng and South African economies, and its economic growth rate is relatively superior to both the national and provincial levels. But growth projections from 2013 to 2016 are much lower than recorded in the past, says *Selma Karuaihe*, which will impact on the city's ability to meet its own growth targets and the challenge of high youth unemployment.

Using secondary data, the CoJ study reviewed the city's economy at August 2013, with the purpose of guiding its rates and tariff policy interventions. The review covered the following areas: the city's demographic profile, employment conditions, service delivery indicators, the role and state of tourism, and crime.

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Key findings

Economic performance and unemployment

The 2008 financial crisis led to a global decline in economic activities, with South Africa and CoJ both going into a recession with growth rates of -1.3% and -1.5% respectively for 2009. The study findings showed that the CoJ economy was a key contributor to the Gauteng and South African economies, with an average of about 16% and 45% of gross value added (GVA) respectively. GVA is a measure of the value of goods and services produced in an area, industry or sector of an economy.

The CoJ's economic growth rate was relatively superior to both the national and provincial levels in all periods (Table 1). Three distinct growth periods were identified, namely the pre-

commodity boom period (1997–1999); the commodity boom period (2000–2007), and the global economic crisis period (2008–2011). The forecasted growth of around 4% for 2012–2016 is below the national target of 5.4% required to create 11 million jobs by 2030, according to the National Development Plan (NDP) Vision 2030.

Table 1: Shares of gross value added growth rates for South Africa, Gauteng and CoJ

Period	South Africa	Gauteng	CoJ
1997–1999	2.00%	2.30%	4.90%
2000–2007	4.40%	4.90%	4.80%
2008–2011	2.20%	2.50%	2.70%
2012–2016*	3.60%	3.70%	3.80%

Source: Constructed from Global Insight REX Data, April 2013

In terms of other metropolitan municipalities, the CoJ had the highest GVA followed by the City of Cape Town, eThekweni (Durban) and the City of Tshwane (Pretoria) between 1997 and 2012. Future predictions show that only the CoJ and the City of Tshwane are expected to grow more than 4% between 2013 and 2016.

At the regional level¹, Regions A (Midrand/Diepsloot), B (Randburg/Rosebank), C (Roodepoort) and E (Alexandra and Sandton) recorded growth rates of more than 5% between 1997 and 1999, with Region A boasting a high rate of 8.9% for that period.

¹ Region A (Midrand/Diepsloot); Region B (Randburg/Rosebank); Region C (Roodepoort); Region D (Soweto); Region E (Alexandra and Sandton); Region F (inner city/southern Johannesburg); and Region G (deep south/Ennerdale/Orange Farm).

Between 1997 and 1999, Region D (Soweto) recorded a zero growth rate, followed by Region G (deep south/Ennerdale/Orange Farm) at 1.2% and Region F (inner city/southern Jo'burg) at 3.0%. The regional economic performance highlighted spatial disparities, an indication of the city nodal areas that need attention.

Growth projections for the period 2013 to 2016 were much lower than recorded by CoJ regions in the past, which will impact on the city's ability to meet its own growth targets and meet the challenge of high youth unemployment as well as the national targets of creating the required jobs. The findings further showed a lack of diversification of the city's economy, which was concentrated around a few dominant sectors such as finance, manufacturing, trade and services.

The cost of living

In Mercer's 2012 global ranking of the most expensive cities in the world, CoJ was ranked 154 out of a total of 209 cities surveyed, followed by Cape Town at 179. This was relatively better than some other African cities (for example Luanda was ranked second, N'Djamena eighth and Libreville 20th). At 154th on the list, CoJ was one of the least expensive cities in the world, and policy makers would do well to take advantage of that in boosting its economy.

The cost of doing business

The World Bank measures the ease of doing business according to 10 categories². In 2013, South Africa was ranked 39th out of 185 countries – and second to Mauritius in terms of ease of doing business in Africa, followed by Rwanda, Botswana and Kenya at ranks 3, 4 and 10 respectively. In the BRICS countries, South Africa is ranked second after China, followed by Russia, Brazil and India. These findings show that, generally, South Africa presents good opportunities for doing business, which the CoJ should capitalise on.

Demographics

CoJ is the most populated city in the country, which can be attributed to its role as the economic hub of South Africa and the African continent. Within the CoJ regions, Region D (Soweto) had the largest population share (24%) relative to other regions, with a positive growth rate for all metropolitan cities from 1996 to 2011. There were high levels of urbanisation in most metropolitan cities. This, along with rising migration to the city from South Africa and other parts of Africa and the world, influenced levels of income inequality, which also increased over this period. The city recorded a decline in the percentage of people living in poverty from 2009 to 2012, with Region G (deep south/Ennerdale/Orange Farm) carrying the brunt of poverty.

Service delivery: household infrastructure

The findings on service delivery showed that despite significant progress made since 1994, challenges related to housing, sanitation and water still needed to be addressed. CoJ has set targets to achieve better service delivery for its residents. These are in line with national service delivery targets.

Overall, areas and regions with high levels of poverty tended to lack access to services, particularly in areas with large informal settlements. Plans put in place by the city to address these challenges included: (a) sustainable and integrated delivery of water, sanitation, energy and waste; (b) ensuring ecomobility through the promotion of mass public transportation, and (c) creating sustainable human settlements through spatial planning, economic and social investment.

Labour dynamics

Overall, CoJ, like the rest of the country, faced challenges of high unemployment and inequality (in some regions) in the face of a slow and volatile global economic environment. The city's unemployment rate has increased in recent years (about 25%), while youth unemployment was estimated to be more than 30%. Nevertheless, employment in the informal sector grew drastically between 1996 and 2011 in all the metropolitan municipalities, with CoJ recording growth of approximately 210% during the same period. The city's highest and fastest growing informal sector was in Region F (inner city).

CoJ households were living beyond their means.



Household income and expenditure

All the CoJ regions recorded increases in personal income between 2008 and 2011. However, the aggregated data may hide inter-regional and intra-regional disparities between high-income earning communities from low-income earning sub-regions. For example, Sandton and Alexandra are in the same region but the disparities in their income levels are not adequately reflected, although from physical observation it is clear that most high-income earners are in Sandton, while most low-income earners are in Alexandra.

All the regions performed relatively well in terms of the buying power index. Despite inter-regional disparities, patterns of household income showed that previously disadvantaged regions such as Soweto fared much better than expected in terms of income by category. This could be attributed to the fact that, at the end of apartheid, disadvantaged communities had access to income opportunities.

Other factors included a reluctance to move to wealthier regions because of prohibitive costs of living and relatively high property rates in previously advantaged regions. However, the number of households decreased with higher levels of income. Expenditure patterns showed low-income households spent a higher percentage of their incomes on basic services such as accommodation, food, transport, fuel and energy, reflecting inter- and intra-regional socioeconomic disparities across regions. In general, findings revealed that CoJ households were living beyond their means, as the amount of total expenditure exceeded their annual incomes.

² They include: starting a business, dealing with construction permits, obtaining electricity, registration of property, obtaining credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.



Tourism in the City of Johannesburg

During the last few decades, tourism has become an important economic and social activity in the national and global economies and its role needs to be supported at all levels of government, including CoJ. Both domestic and international tourism remained important to the CoJ economy in terms of revenue and foreign exchange earnings, and generation of employment and business opportunities. Data showed that tourism spend in CoJ was expected to reach R27 billion in 2012, making Johannesburg the second most visited destination city in Africa, according to the MasterCard Global Destination Cities Index of that year.

³ See Glaeser, E.L., 2005. *The Skilled City*.

Crime

The relationship between crime and economic growth is emerging as an important area of inquiry among academics, policy makers and politicians, stemming from fraudulent borrowing (classified as a financial crime) during the 2008/2009 global financial crisis. This is important for South Africa as it is usually perceived as a high crime country, and more efforts are required both at the city and national levels to fight crime.

Although declining over time (2000–2011), the CoJ recorded the highest number (more than 15 000) of robberies with aggravating circumstances by metro in 2011. Some studies³ have confirmed that high murder areas are often associated with low economic growth. In terms of regional disparities, Region D (Soweto) and Region F (inner city/southern Jo'burg) experienced a high number of murders, relative to other regions, while Region B (Randburg/Rosebank) reported the lowest number of murder crimes between 2000 and 2011. The implication of high crime rates is that resources meant to strengthen economic growth and development are diverted to crime prevention measures and infrastructure. ■

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The full report, The City of Johannesburg (CoJ) Economic

Overview: 2013 A review of the state of the City's economy and other key indicators, by Selma Karuaihe et al is available on <http://bit.ly/13KRrj9>

THE EFFECT OF DISTANCE AND COMMUNICATIONS COSTS ON INTRA-AFRICAN TRADE

Evans Mupela looks at the cross-sectional patterns of export intensity on the continent in relation to distance and costs of information communications technology (ICT)¹, and finds that both play a significant role in the realisation of higher trade intensity among African countries.

Communications costs are an important aspect of the barriers to trade, often referred to as trade costs. These are the costs that must be overcome to actualise trade transactions. In other words, all the costs incurred in getting goods to the final users other than the costs involved in producing the goods themselves.

The higher these costs, the more difficult it is to carry out a trade transaction and the smaller the volume of trade.

Barriers to trade such as transport costs, exchange rates, freight charges and border-related trade barriers have been studied in the past, but less so the impact of the cost of information gathering and the transmission of messages. These have often been neglected or have been subsumed under transport costs or border-related trade barriers.

To model these costs separately is important, as the share of services in world trade has increased

¹ Hereafter referred to as communications costs.