



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD



EPIC

Economic Performance Indicators for Cape Town

Quarter 3 (July - September) 2015

Sector focus: Business process management

Making progress possible. Together.

Document navigation shortcuts

- Entries on the Contents pages link to the relevant page.
- The tabs on the right-hand pages link to the first page of the relevant section.
- The document title in the footer of each page links to the first Contents page.

This document is available from the City of Cape Town's Department of Economic Development website at:
<https://www.capetown.gov.za/en/visitcapetown/Pages/EPIC.aspx>.

Foreword



The City administration has a responsibility to be aware of the state of the local, national and world economy. Our city has an open economy that both impacts on and is impacted by national and international economic trends. We are not an island, nor do we desire to be one.

During times when there are prevailing economic headwinds, as there are nowadays, the City administration needs to be especially proactive about enabling the best possible environment for economic growth and job creation. I am confident that we are making progress in this regard. In the third quarter of 2015, Cape Town's economic growth outperformed the rest of the country and unemployment was reduced.

The national economic picture gives one very little confidence – our country's agricultural production is suffering from the effects of drought, while the mining sector is still under pressure after last year's strikes. Manufacturing remains in a steady state of decline. Low levels of consumer confidence and a stagnating services sector fill out the depressing picture. One must wonder where good economic news will come from.

It is clear that South Africa and Cape Town cannot rely on domestic demand, hence we have to look to sources of global demand if we are to secure a growing economy that can meet the aspirations of our citizens. While the Chinese economy is facing headwinds, many of Cape Town's traditional trading partners – the United Kingdom, Europe and North America – are seeing expansion in their economies. These countries also want what we have to offer, in particular services like tourism and business process outsourcing (BPO). The BPO industry is experiencing a particularly exciting period of growth and this issue of *EPIC* highlights some of these developments.

Cape Town, through its focus on good governance and its pragmatic approach to pushing the boundaries of what is possible for a city administration, is well placed to break from the general malaise that is dogging the national economy. We are committed to creating an opportunity city that delivers economic growth and job creation. This edition of *EPIC* contains extensive up-to date data and intelligence on the state of the local economy that can be used by the City's political and administrative leadership to produce and refine the policy actions required to improve the lives of the residents of Cape Town.

I encourage you to engage with and debate the contents of *EPIC* so that we can better understand our joint economic future and be equipped to tackle its challenges and opportunities.

P. de Lille

Patricia de Lille
Executive Mayor

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Introduction

This is the tenth edition of the *EPIC* publication, which presents and analyses economic (and related) trends in Cape Town on a quarterly basis. This edition focuses on the third quarter of 2015, covering the period 1 July to 30 September 2015.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development strategies. In order to know what must be done, it is essential to understand the nature, composition and performance of the local economy. While there is a wealth of economic statistics and information available for Cape Town, it often exists in discrete, isolated parcels customised to serving a specific purpose at a given time. Furthermore, in most cases, relevant economic information is only presented on an annual basis. This period is sometimes simply too long to inform immediate policy decisions or to get a proper grasp of the dynamic nature of economic trends. These factors underpin the need for a consolidated, quarterly economic performance publication for the City of Cape Town.

Aim of publication, and key principles

The **principal aim** is for the publication to become a credible source of relevant and up-to-date economic information for the City, as well as to provide councillors and officials with critical inputs for their decision-making processes. More specifically, the publication:

- aims to synthesise various sources of quarterly economic data currently available within the City into a single printed publication;
- will present the latest statistics and data as well as analysis of key economic trends; and
- will act as a measure of the economy's performance by tracking data over time and at regular intervals.

In order for the publication to effectively serve the purpose of promoting a greater understanding of the latest trends in Cape Town's economy by a multiplicity of stakeholders within the city, three key principles were followed. They can be summed up by the acronym 'AIR':

1. **A**ccessible: Making the publication accessible and understandable to a wide range of stakeholders from various disciplines and backgrounds
2. **I**nsightful: Presenting economic intelligence and analysis rather than bland, raw economic information
3. **R**elevant: Focusing on localised (Cape Town-specific, wherever possible) economic performance trends measured by the latest quarter

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A multiplicity of other data and information sources were used in the publication, including Statistics South Africa, the Reserve Bank, Quantec, IHS Global Insight and the International Monetary Fund. These, along with other sources, are reflected in the list of references at the end of this publication.

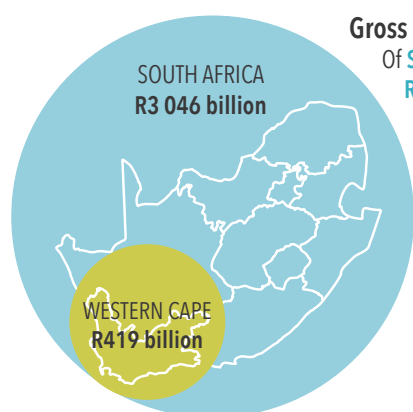
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WESGRO
cape town & western cape
tourism, trade & investment





Gross domestic product (GDP)

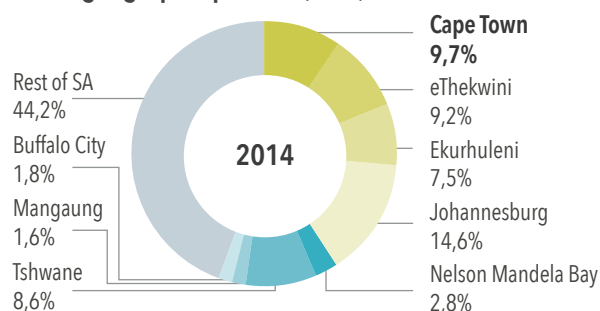
Of **South Africa's**
R3 046 807 million

gross domestic product generated in the third quarter of 2015, the **Western Cape**¹ accounted for **R419 006 million**.

Source: Quantec, December 2015.

13,75%

Gross geographic product (GGP) contributions



Source: Own calculations based on IHS Global Insight ReX regional data 2015.



Western Cape
South Africa

GDP growth

During the third quarter of 2015, the **Western Cape** had a quarter-on-quarter GDP growth of 1,6%, against a national growth of 0,7%.

Source: Quantec, December 2015.



Inflation

During the third quarter of 2015, the **Western Cape** had a higher rate of inflation – 4,9% – than the rest of **South Africa** at 4,6%.

Source: SA Reserve Bank, September 2015.



Passenger vehicle sales

Of the **105 548**

new passenger vehicles sold in **South Africa** during the third quarter of 2015, **12 435** were sold in the **Western Cape**.

Source: NAAMSA, November 2015.

Air passenger movements

Of the **8 671 859**

passenger movements through

South Africa's three

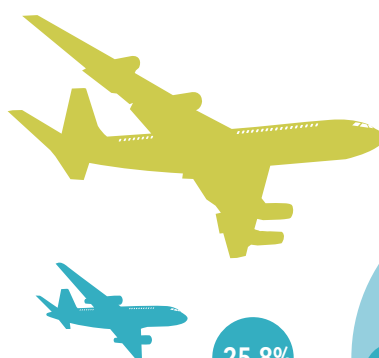
international airports² during

the third quarter of 2015,

2 233 295 were through **Cape**

Town International Airport.

Source: ACSA, November 2015.



25,8%

Cargo tonnage handled at ports

During the third quarter of 2015, **56 961 621** tons of cargo were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **1 237 238** tonnes.

Source: Transnet, National Ports Authority, November 2015.

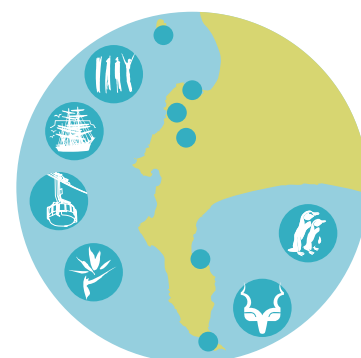


18,6%

Containers handled at ports

During the third quarter of 2015, **1 212 008** containers were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **225 519**.

Source: Transnet, National Ports Authority, November 2015.



Visitor attractions

In the third quarter of 2015, tourists and residents made

5 825 721

visits to Cape Town's six major attractions.

Source: Wesgro, August 2015.

1. GDP figures are not available for Cape Town on a quarterly basis so Western Cape figures are used as a proxy.

2. The combined total for South Africa's three international airports.



Population

South Africa has **54 956 920** people:³
6 200 098 live in the **Western Cape** and, of those,
3 957 798 are resident in **Cape Town**.
 Source: Stats SA, City of Cape Town.



Gini coefficient

In 2014, **South Africa** had a Gini coefficient⁴
 of **0,64**, while **Cape Town** had a slightly
 lower value of **0,62**.
 Source: IHS Global Insight, December 2015.

0,72

Human development index

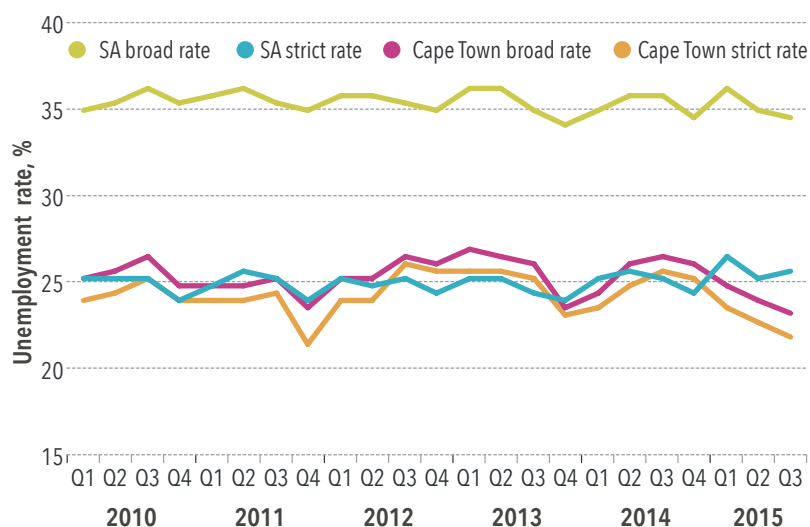
In 2014, **South Africa** had an HDI⁵ of
0,63, while **Cape Town's** was **0,72**.
 Source: IHS Global Insight, December 2015.

Functional literacy

South Africa has a functional
 literacy rate of **83,1%**, while
Cape Town has a rate of **92,4%**.
 Source: IHS Global Insight, December 2015.



Strict vs broad unemployment rates for Cape Town (Q1, 2010 to Q3, 2015)



Source: Stats SA, October 2015.

7,59%

Working-age population

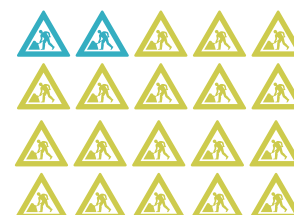
Of the **36 113 613**
 people aged 15–64
 in **South Africa**,
2 743 516 are resident in **Cape Town**.
 Source: Stats SA, Quarterly Labour Force Survey (QLFS), October 2015.

7,59%



Unemployment

Of the **5 418 004** unemployed people in **South Africa**
 in the third quarter of 2015, **411 340** live in **Cape Town**.
 Source: Stats SA, QLFS, October 2015.



8,86%

Labour force

Of **South Africa's 21 246 444** labour force
 participants, **1 882 445** live in **Cape Town**.
 Source: Stats SA, QLFS, October 2015.

Expanded unemployment rate

While **South Africa** had a **34,4%**
 unemployment rate during the third
 quarter of 2015, **Cape Town** had a
 lower rate of **23,2%**.
 Source: Stats SA, QLFS, October 2015.

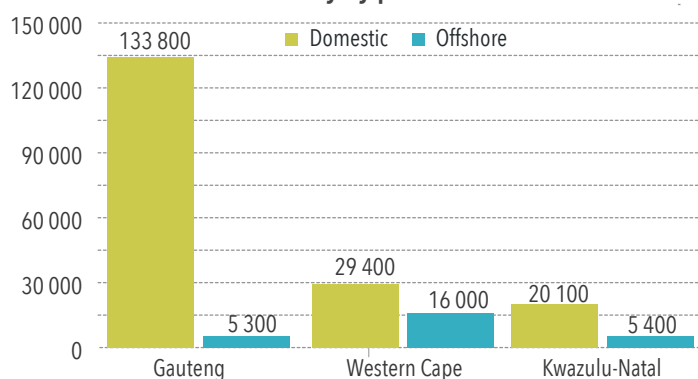
Labour absorption rate

South Africa had a **43,8%** absorption rate –
 the percentage of the working-age population in
 employment – in the third quarter of 2015, while
Cape Town had a higher rate of **53,6%**.
 Source: Stats SA, QLFS, October 2015.

SECTOR FOCUS – BUSINESS PROCESS MANAGEMENT (BPM)

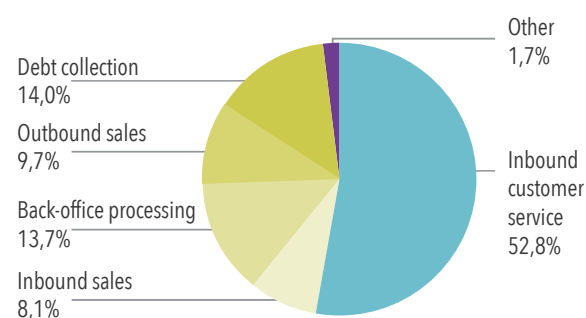
Business process management is a sector that has driven both economic growth and employment within the city in the last ten years. In terms of the latter, the business services sector, in which category BPM sits, has contributed the most jobs of any productive sector to Cape Town's economy in the last decade.

Overview of the BPM industry by province



Source: BPESA BPM key indicator report 2015.

BPM service functions in the Western Cape



3. Mid-year estimates, 2015.

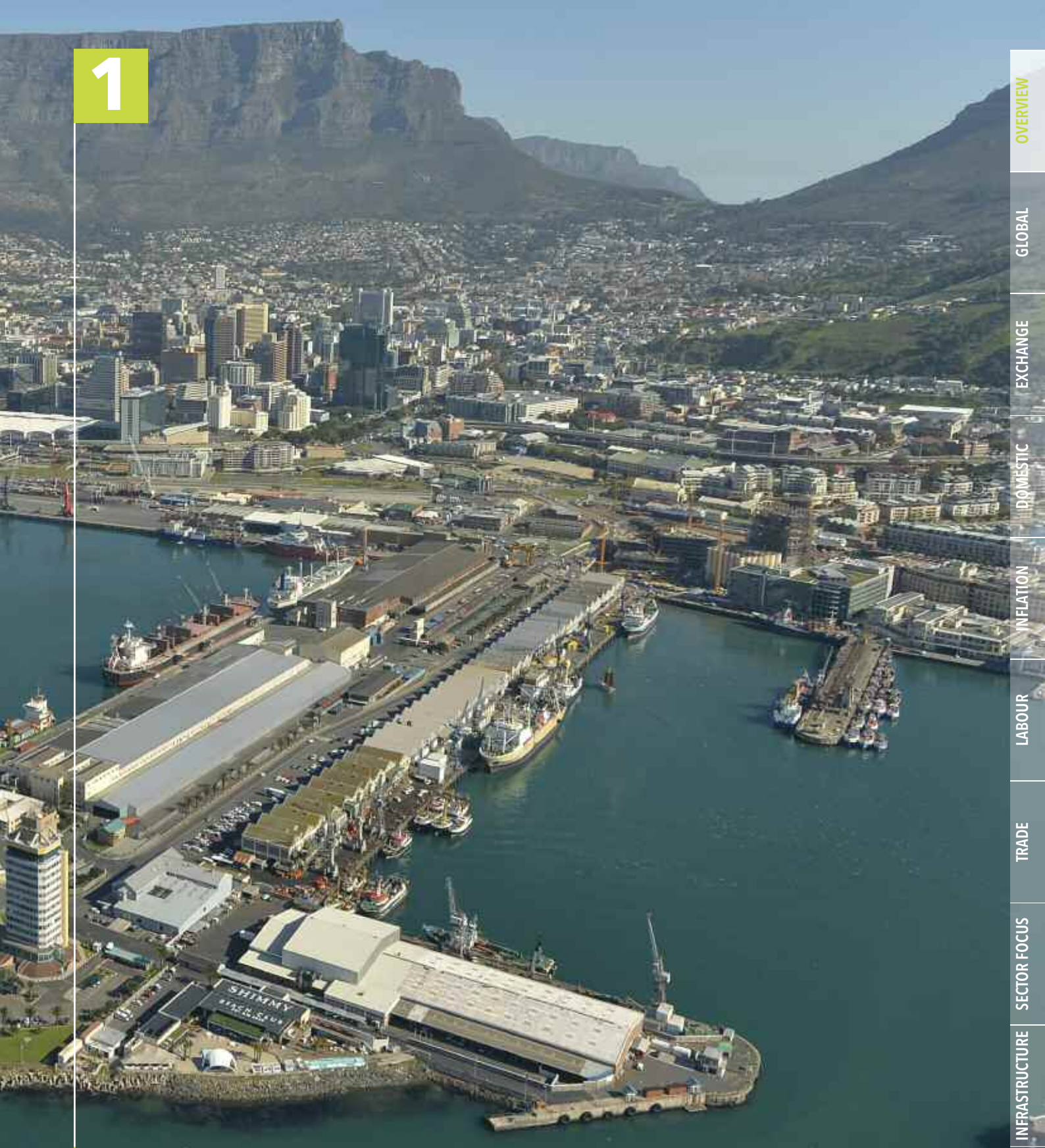
4. The Gini coefficient measures inequality in levels of income.

Lower values represent greater equality. Values are for 2014.

5. The human development index (HDI) is a composite statistic of

life expectancy, education and income indices. Higher values are better. Values are for 2014.





Overview

Cape Town's economy is the second-largest municipal economy in the country and the second-most-important contributor to national employment. The industries in which Cape Town has the most pronounced comparative advantage compared to the country as a whole are fishing, clothing and textiles, wood product manufacturing, electronics, furniture, hospitality, finance and business services.



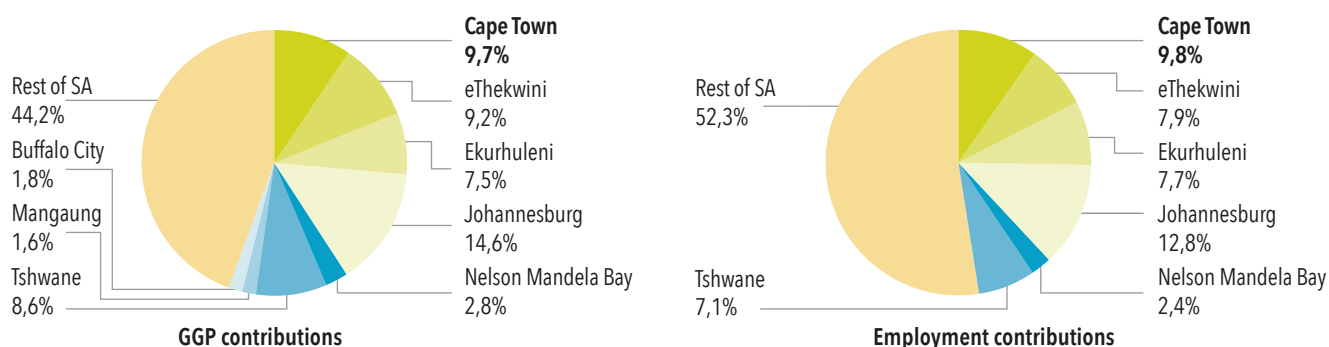
CAPE TOWN'S ECONOMY IN CONTEXT

Cape Town's economy, contributing 9,7% to national gross domestic product in 2014, is the second-largest municipal economy in the country.

As measured by gross geographic product (GGP), Cape Town's economy (contributing 9,7% to national gross domestic product in 2014) is the second-largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 14,6% to national GDP in 2014), while eThekweni (9,2%) and Tshwane (8,6%) closely follow behind Cape Town. Together, these four metropolitan municipalities accounted for 42,2% of the country's economic output in 2014.

Metropolitan areas are also major employers in the national economy, although they tend to be less labour-intensive than non-metro areas, where activities such as agriculture dominate employment. While the four largest municipalities contribute 42,2% of the country's output value, they account for only 37,6% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

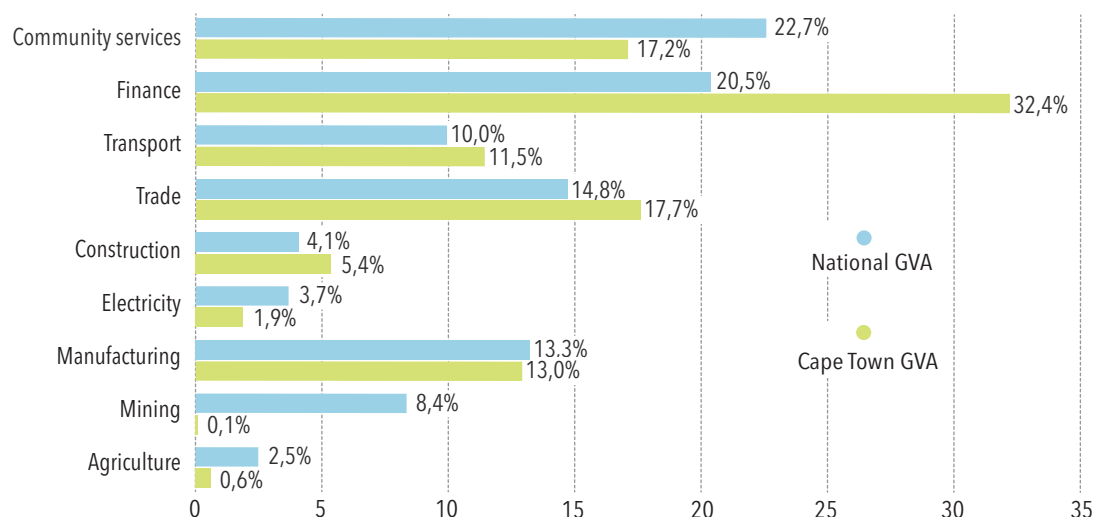
Figure 1: Gross geographic product (GGP) and employment contributions, 2014



Source: Own calculations based on IHS Global Insight ReX regional data 2015, and Stats SA's QLFS data 2015.

THE STRUCTURE OF CAPE TOWN'S ECONOMY

Figure 2 compares the sectoral distribution of gross value added (GVA) for Cape Town's economy to that of the national economy. The distribution differs from the national economy predominantly in terms of the smaller relative size of the primary sector (agriculture and mining) and the greater relative size of the tertiary sector (particularly finance and insurance). Finance and business services constitute the city's largest economic sector by far, contributing 32,4% to Cape Town's GVA, whereas it contributes only 20,5% nationally. At the other end of the scale, mining and quarrying contribute only 0,1% in Cape Town, as compared to 8,4% nationally.

Figure 2: Cape Town's gross value added (GVA) versus national GVA, 2014

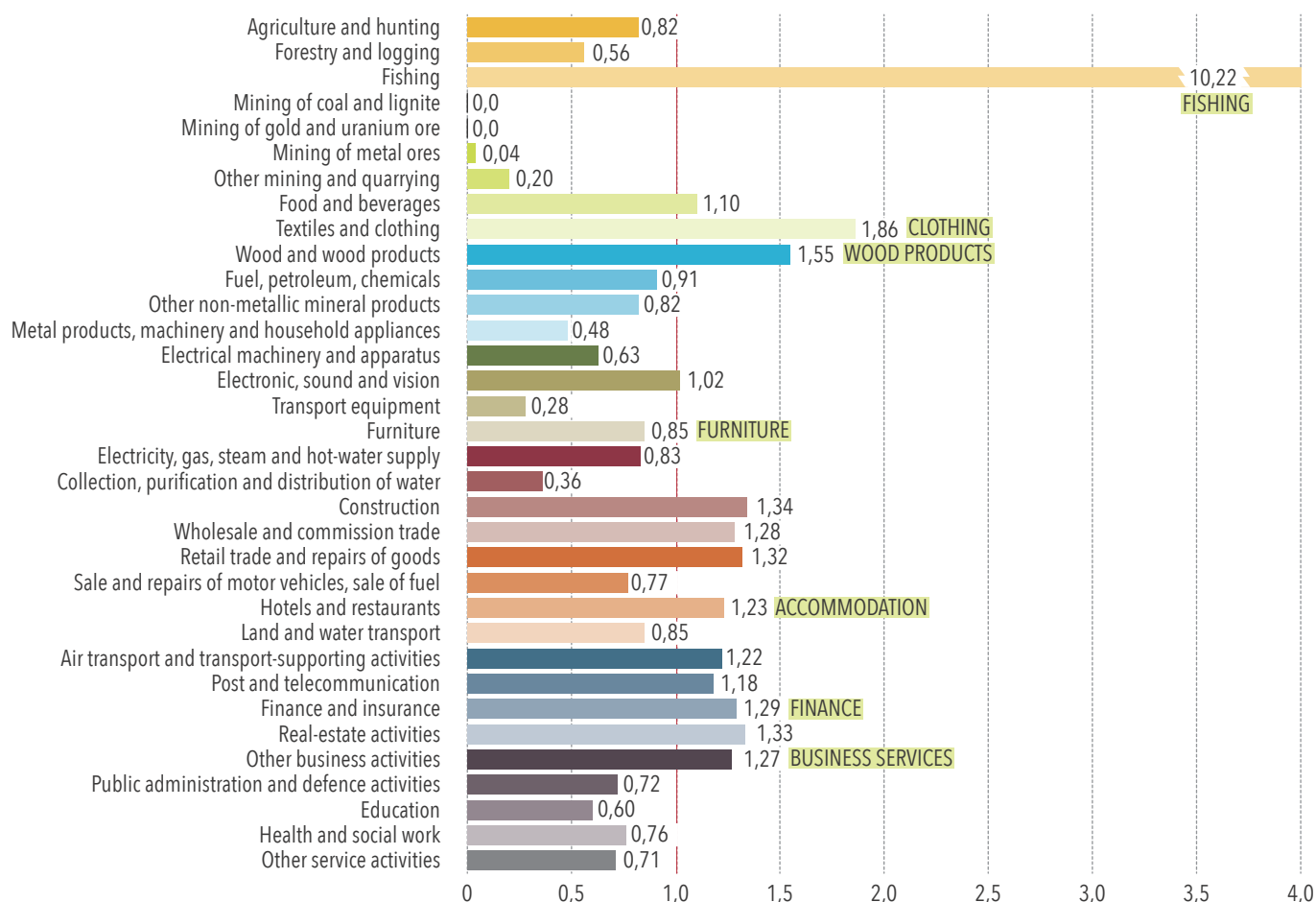
Source: Own calculations based on IHS Global Insight ReX regional data 2015.

The distribution of Cape Town's economy differs from the national economy predominantly in terms of the smaller relative size of the primary sector (agriculture and mining) and the greater relative size of the tertiary sector (particularly finance and insurance).

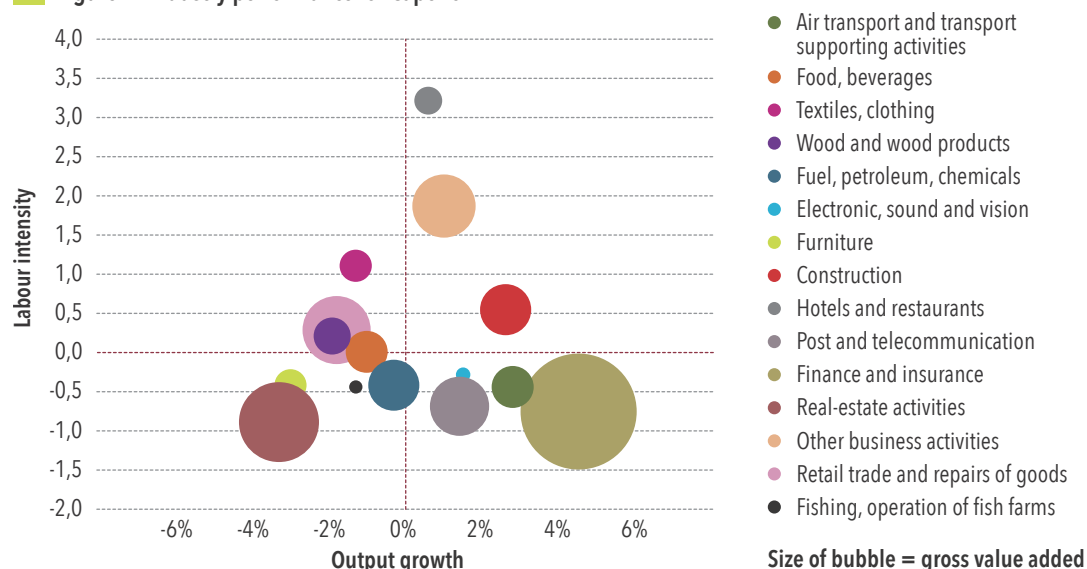
CAPE TOWN'S COMPARATIVE ADVANTAGES

While the previous analysis shows the degree to which Cape Town's economy is structured differently to the national economy, it is not specific in terms of where the city's comparative advantages lie. Using a location quotient analysis, Figure 3 provides an indication of Cape Town's comparative advantages as compared to the rest of the metros. A location quotient value of greater than one indicates that a sector has a comparative advantage.

The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, clothing and textiles, wood-product manufacturing, construction, wholesale, retail, finance, real estate and business

Figure 3: Location quotients for industries in Cape Town (compared to other metros)

Source: Own calculations based on IHS Global Insight ReX regional data 2015

Figure 4: Industry performance for Cape Town

Source: Own calculations based on IHS Global Insight ReX regional data 2014.

The finance, business services, hospitality, and post and telecommunication sectors are growing above the average rate.

services. These industries contribute a greater share of the city's economic output than they do to the combined economic output of all the metros in South Africa. While this analysis provides some idea of specific industries in which Cape Town has a comparative advantage, it is a static and one-dimensional analysis that fails to take into account the dynamic nature of the city's economy and the extent to which individual sectors contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's sectors that have a comparative advantage.

Figure 4 plots the degree of labour intensity on the vertical axis (>0 indicates that a sector is labour-intensive, while <0 indicates a capital-intensive sector). Average economic growth in the sector is plotted on the horizontal axis (>0 implies that the sector is growing at a faster-than-average rate for Cape Town's economy over a 10-year period). The size of the bubble is the relative size of the sector as measured by GVA.

The importance of the tertiary sector is strongly reflected in figure 4, with the four largest bubbles being finance and insurance, business services, retail trade, and real-estate activities. A number of these sectors are also the fastest-growing industries in the city, with finance, business services, hospitality, and post and telecommunication growing above the average rate. Unfortunately, a number of these industries are below 0 on the y-axis, indicating that they are capital-intensive as opposed to labour-intensive. This is true of post and telecommunication as well as finance and insurance. Industries that are growing fast are labour-intensive and therefore offer good opportunities for employment creation. These include construction, business services, and hotels and restaurants (a good proxy for tourism).

Comparative advantages in certain industries are derived from a number of factors that improve the competitiveness of these industries, such as natural, infrastructural, institutional or locational advantages, among others.

Some of Cape Town's comparative-advantage factors are as follows:

- The second-busiest container port in South Africa
- The second-busiest airport in South Africa
- Good public transport linkages in the city
- Strategic positioning on the west coast of Africa
- Servicing a vast agricultural hinterland, acting as a processing, trade and retail hub for agricultural products
- Established business culture and clustering of financial institutions
- Scenic beauty and natural sights that attract international visitors and make Cape Town globally recognisable
- Three major universities within the metro region (among these, the top university in Africa, namely the University of Cape Town) and another highly regarded university (Stellenbosch) just outside the metro boundaries



Global economic developments and outlook

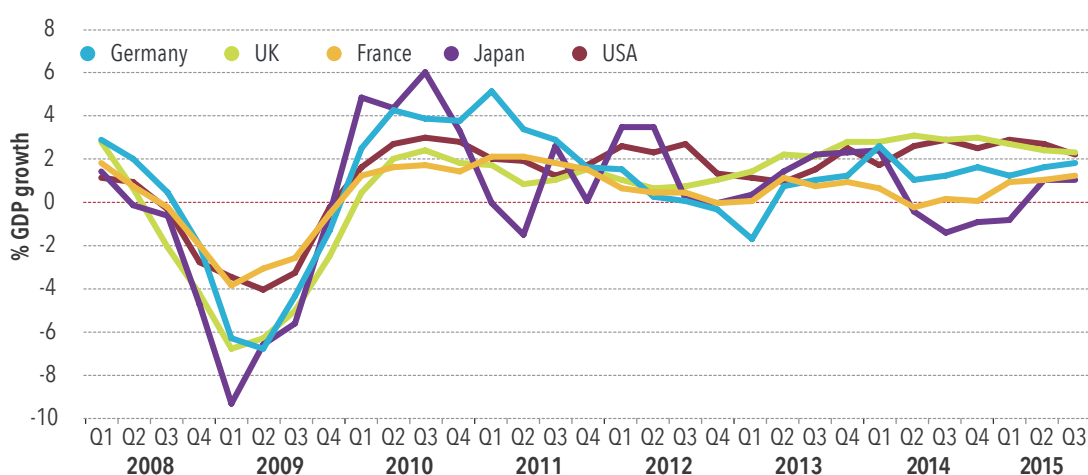
As a mid-sized, middle-income city on the international stage, Cape Town is highly interconnected with the rest of the world and strongly affected by developments in the global economy. In a globalised world, understanding the economic performance of an open, international city requires a sound understanding of the current global economic climate.

RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

The third-quarter GDP growth figures reflect a mixed performance by developed countries. While GDP growth declined in the United States from 2,7% to 2,2% and in the United Kingdom from 2,4% to 2,3%, Germany experienced a slight improvement from 1,6% to 1,8% and the French economy increased from 1,1% to 1,2%. Japan's GDP growth remained at 1,0% for the second consecutive quarter. Despite lower GDP growth figures in the United States than in the previous quarter, at which time the economy was still recovering from the impact of adverse weather effects earlier in the year, the United States quarter-on-quarter growth rate of 2,1% has kept the economy on track to achieve its long-run growth potential rate of 2%. This satisfactory performance has increased the likelihood that the Federal Reserve will finally raise interest rates in December 2015. Despite their slight improvements, Germany and France continue to struggle, predominantly due to weak international trade.

Figure 5: Economic growth trends in developed countries



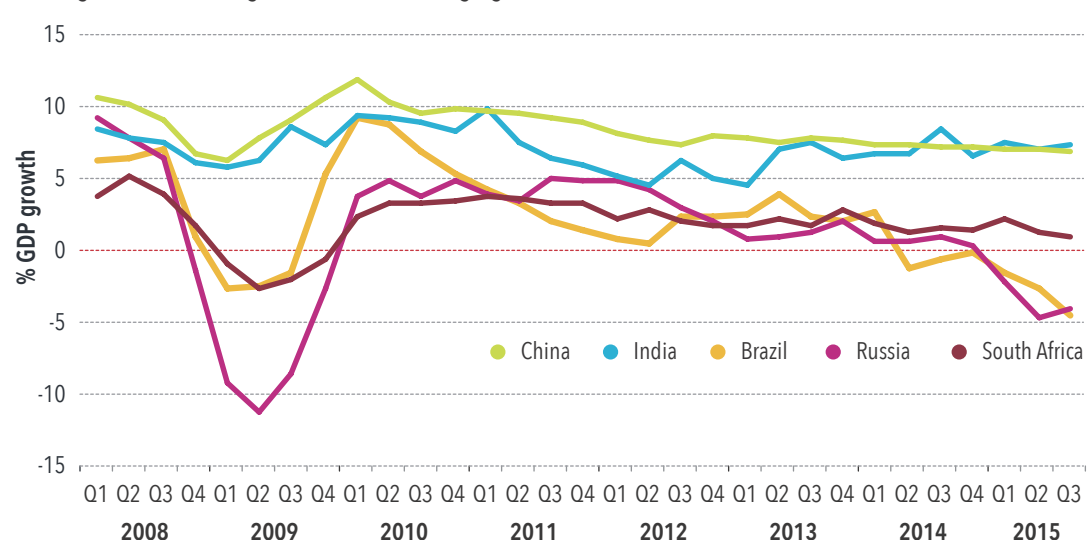
Source: Trading Economics, November 2015.

Three out of the five BRICS countries recorded negative growth trends in the third quarter of 2015, the most noticeable of which was the Brazilian economy which declined by 1,9 percentage points to move even further into a technical recession with a negative growth rate of -4,5% recorded in the third quarter.

Emerging economies

Growth trends in emerging economies present a different picture from those in developed economies, as figure 6 indicates. BRICS countries (Brazil, Russia, India, China and South Africa) have achieved much higher growth rates, with an average rate of 4,4% since the beginning of 2010, compared to 1,6% for developed countries in the same period. While, on average, emerging economies have largely outperformed developed economies in this period, more recent indications are that economic growth in a number of these countries is beginning to slow. Three out of the five BRICS countries recorded negative growth trends⁶ in the third quarter of 2015, the most noticeable of which was the Brazilian economy which declined by 1,9 percentage

Figure 6: Economic growth trends in emerging economies



Source: Trading Economics, November 2015.

6. As opposed to growth rates.

points to move even further into a technical recession with a negative growth rate of -4,5% recorded in the third quarter. Although Russia's year-on-year growth rate increased by 0,5 percentage points, they also remain in a technical recession with an economic contraction of -4,1% in the third quarter of 2015. South Africa's year-on-year growth rate decreased further from 1,2% to 1,0% in the third quarter. The sluggish performance of these countries may in part be a negative consequence of economic recovery in developed economies, but also reflects challenging domestic conditions. Russia's weak economic performance, for example, can be attributed to the low level of oil prices as well as ongoing sanctions imposed on them. In contrast, the Indian economy picked up pace once more, growing by 7,4% in the third quarter, 0,5 percentage points faster than the growth of the Chinese economy during the same period.

Global economic outlook

The International Monetary Fund's (IMF) updated *World Economic Outlook* (2015c), published in October 2015, shows that global growth is projected at 3,1% in 2015. This is a downward revision from the previous forecast and remains lower than that for 2014. Growth is expected to strengthen again in 2016, albeit having been revised down by 0,2 percentage points to 3,6%.

Following an improvement from -0,4% growth in 2013 to 0,9% growth in 2014, the IMF's outlook remains positive for the Eurozone and its forecast for 2015 remains unchanged (1,5%), with only a slight downward revision of 0,1 percentage points for 2016 (1,6%).

The moderation in the rate of growth of the Chinese economy (7,3%) continued for the completed year 2014, with the IMF projecting growth rates of 6,8% and 6,3% for China in 2015 and 2016 respectively. Slowing growth in China is expected to have important regional effects in emerging Asian markets. After low growth rates (by its own standards) in 2013, economic growth in India picked up to 7,3% in 2014, and is expected to remain at this rate for 2015 and increase to 7,5% in 2016 on the back of investment-supportive policies.

The IMF (2015c) has revised sub-Saharan Africa's economic growth projection for 2015 further downward to 3,8% from an earlier projection of 4,4%, and has also revised its 2016 forecast for the region to 4,3% for 2016, down from an earlier 5,1%. This downward revision reflects a continuous deterioration in domestic economic conditions in 2015. The forecasts for South Africa's economic growth have been revised downward to 1,4% for 2015 (from a previous forecast of 2,0%) and 1,3% for 2016 (from 2,1%). The reasons for South Africa's lower growth prospects compared to neighbouring countries are unpacked in more detail in chapter 4. In general, developing countries are expected to continue to lead global economic growth, with a rate of 4,0% (revised from 4,2%) predicted in these countries for 2015. Developed countries, however, are expected to close this gap slightly in 2015, with an expected growth rate of 2,0% (revised from 2,1%).

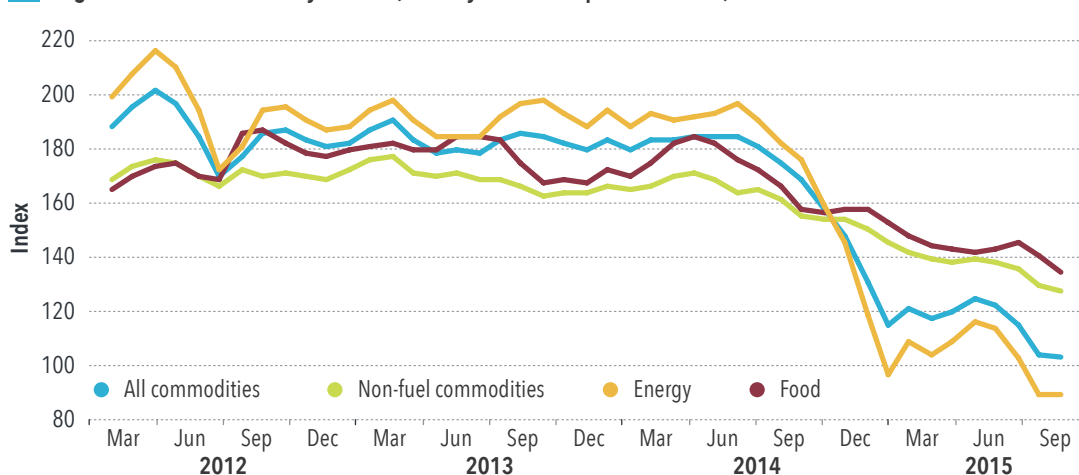
The IMF (2015c) has revised sub-Saharan Africa's economic growth projection for 2015 further downward to 3,8% from an earlier projection of 4,4%, and has also revised its 2016 forecast for the region to 4,3% for 2016, down from an earlier 5,1%.

COMMODITIES

Commodity indices are important indicators for measuring the economic performance of emerging and developing economies. In developing countries such as South Africa, commodities make up a significant proportion of the country's export basket, generating valuable foreign exchange inflows.

The all-commodities index continued its decline in the third quarter of 2015, falling from 122,88 index points at the end of the second quarter to 103,16 index points at the end of the third quarter. The initial decrease in the index from 122,88 index points in June to 114,79 index points in July can be attributed to the sustained price decrease in metals and energy, partly due to the macroeconomic risks emanating from Greece and China. The further drop to 104,24 index points in August was mostly driven by falling prices in energy, especially oil, due to sustained oil production growth and financial market volatility. More stable energy prices in September slowed the slide in the all-commodities index, but the substantial decrease

Figure 7: World commodity indices (January 2012 to September 2015)



Source: IMF, October 2015a.

More stable energy prices in September slowed the slide in the all-commodities index, but the substantial decrease in agricultural prices ensured that the index still closed at its lowest level in many years.



in agricultural prices ensured that the index still closed at its lowest level (103,16) in many years. Indeed, for the first nine months in 2015 commodity prices fell 21 percent, led by a 24 percent drop in crude oil prices, followed by declines in metals and agriculture prices of 19 and 14 percent respectively.

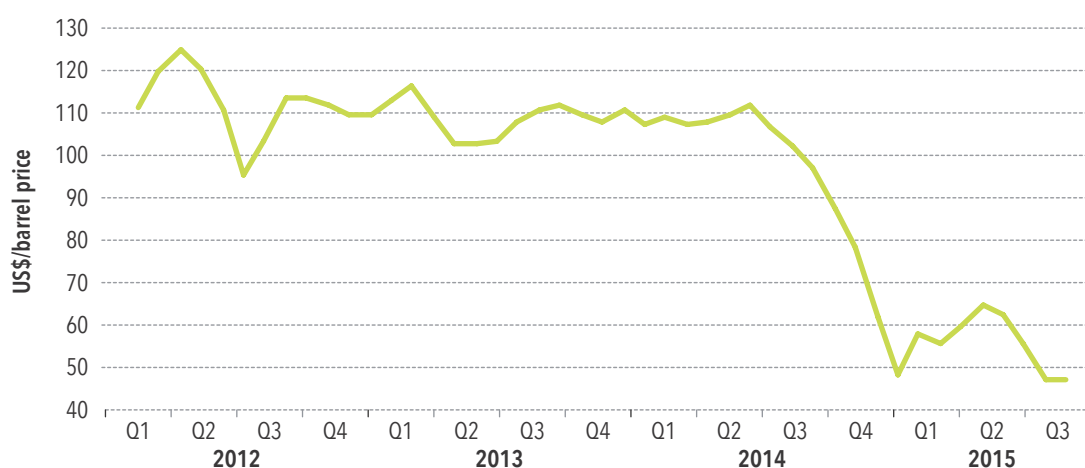
When the fuel price is removed, a slightly different trend to that observed for the all-commodities index emerges. The non-fuel commodities index continued its slower but steady downward trend in the third quarter, falling from 135,35 index points to 127,65 index points between July and September 2015. This can be attributed to the decline in metal and agricultural prices due to weakening demand in China, as well as continued increases in new agricultural supply due to favourable weather conditions.

Brent crude oil

The price of Brent crude oil decreased for the first two months of the third quarter of 2015, while it slightly increased in the last month of the third quarter. The oil price decreased from \$62,35 per barrel at the end of the second quarter to \$46,99 per barrel by the end of August 2015. In September 2015, the price increased to \$47,23.

The decrease in the oil price for the first two months of the third quarter reflects continued market surplus due to strong Organization of the Petroleum Exporting Countries (OPEC) production as well as resilient Russian production. The lifting of sanctions against Iran, which is expected to put more oil on export markets, as well as financial factors such as investors moving out of risky assets, also put downward pressure on oil prices in the third quarter.

Figure 8: Brent crude oil (January 2012 to September 2015)



Source: IMF, October 2015a.

The increase in the oil price in September can be partly attributed to a sharp drop in investment in the oil sector, including the continued decreasing number of operational oil rigs in the United States. Global growth in oil consumption was stronger in September, which also supported oil prices.

Gold and platinum

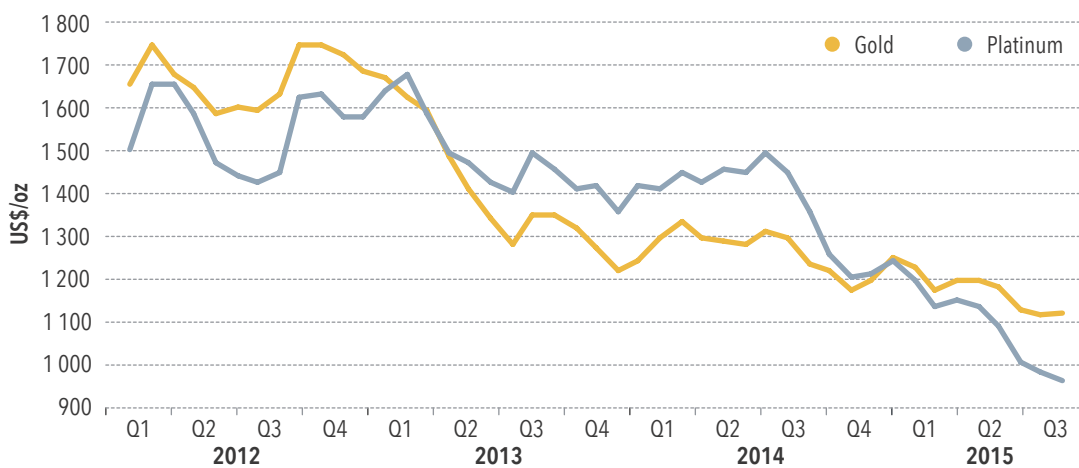
The gold price continued to decrease from the second quarter of 2015 to \$1 117,93/oz by August in the third quarter of 2015. By the end of the third quarter of 2015, the gold price increased slightly to \$1 124,77/oz.

The continued decrease in the gold price during the third quarter of 2015 can be attributed to the strengthening of the US dollar on expectations of an imminent interest rate hike and the negative impact this has on investments in gold. The slight increase in the gold price during September can be linked to the seasonality of equity markets. This is because September has historically been a month of downtime for equity markets, leading the price of gold to increase during this time. This is also compounded by a surge in the demand for jewellery gold in the lead up to major events in October such as Diwali – an important religious festival in India – as well as National Day in China (Commodity Online, 2015b).

The platinum price decreased throughout the third quarter of 2015. From \$1 088,82/oz in June of the second quarter of 2015, the platinum price decreased to \$984,10/oz by September of the third quarter of 2015. The decrease in the platinum price over the last two months of the quarter can be attributed to oversupply and inconsistent auto sales. The recent Volkswagen scandal regarding the pollution emissions from diesel cars could be a factor inhibiting auto sales and thus negatively impacting platinum prices during this time (IMF, 2015b).

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Figure 9: Monthly averaged price of gold and platinum (January 2012 to September 2015)



Source: World Bank, October 2015.

Non-precious metals

The metals index continued its downward trend from June of the second quarter of 2015, to 119,20 index points in August. In September, the index increased slightly to 120,58 index points. The initial decline was largely due to the weak import demand from China, which accounts for nearly half of global metal consumption. The slight increase in September of the third quarter of 2015 was the first price increase in four months and can be attributed to a decrease in China's production of aluminium. Thereafter weak demand, instability in the stock market and increased supply in China pushed the index down again.

Figure 10: Metals index (January 2012 to September 2015)

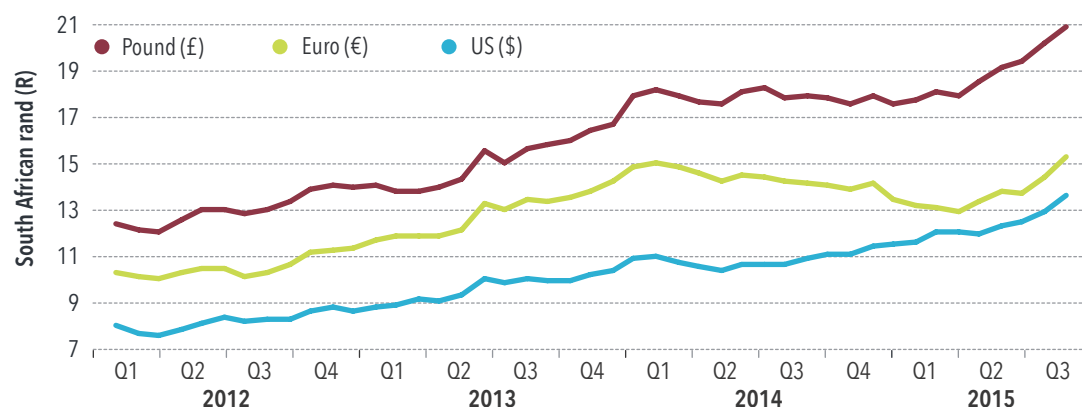


Source: IMF, October 2015a.

1) Majors		Value		1M ATM		Contributor		3M ATM	
2)	EURUSD		12.032	-0.048	11.112	-0.125			
3)	USDJPY		10.285	+0.652	10.140	+0.245			
4)	GBPUSD		8.705	-0.100	9.240	-0.130			
5)	AUDUSD		12.933	-0.712	12.300	-0.607			
6)	USDCHF		12.860	-0.092	12.097	-0.140			
7)	USDCAD		10.980	-0.335	10.200	-0.125			
Americas									
8)	USDMXN		11.613	+0.383	11.602	-0.137			
9)	USDBRL		16.865	+1.135	15.672	-0.622			
10)	USDARS		7.615	-0.380	10.708	-0.125			
Europe									
11)	USDNOK		16.195	+0.070	14.620	-0.085			
12)	USDSEK		15.273	+0.128	13.487	-0.223			
13)	USDSEK		40.960	+0.470	38.940	-0.080			
14)	USDRUB		5.345	-0.205	5.520	-0.167			
				0.335	9.505	-0.205			
					5.535	-0.125			

Exchange rates

To measure the performance of the South African rand, its exchange rate is compared to seven other currencies, namely the United States dollar (\$), the British pound (£), the euro (€), the Brazilian real, the Russian rouble, the Indian rupee and the Chinese yuan.

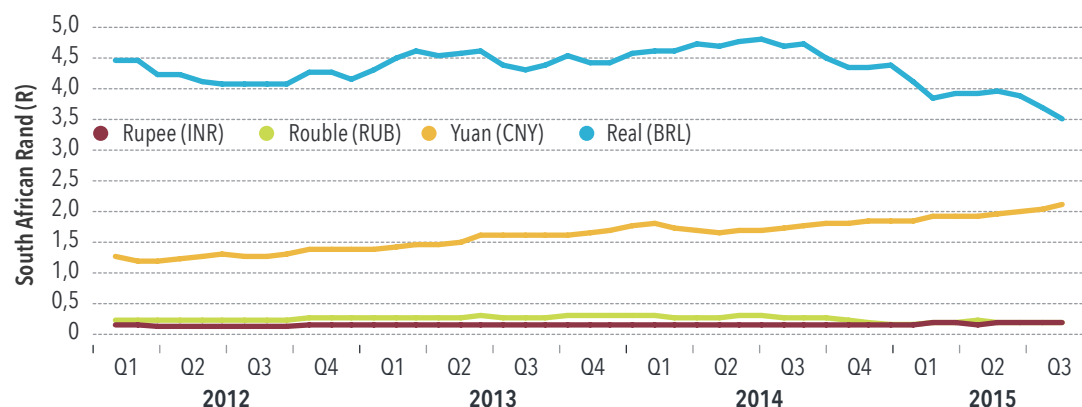
Figure 11: South African nominal exchange rates (January 2012 to September 2015)

Source: South African Reserve Bank, November 2015.

The rand's performance has weakened sharply when compared to the developed-economy currencies. Figure 11 indicates substantial depreciation against all developed economy currencies during the third quarter, with the rand closing at R13,61 against the dollar; R20,90 against the pound and R15,30 against the euro by the end of September. The weakened performance of the rand against the dollar is at least partly due to the uncertainty surrounding the US Federal Reserve's (US Fed) monetary policy and the timing of its widely expected interest rate hike – which was supposed to happen in the third quarter. Ongoing uncertainty is likely to continue to put pressure on emerging currencies against the dollar.

The rand to euro exchange rate deteriorated partly as a consequence of the Volkswagen scandal involving the falsification of emissions data, which led to a decrease in demand for South Africa's platinum exports. The depreciation of the rand against the pound was linked to the strong performance in the United Kingdom's (UK) manufacturing and construction PMIs especially during September 2015. Domestic factors such as poor economic growth have also dampened the rand's overall performance.

Figure 12 illustrates the South African rand's performance against other emerging markets that form part of the BRICS partnership. As indicated in the figure, the Chinese yuan and Indian rupee have gained value against the rand, while the Brazilian real and Russian rouble have depreciated.

Figure 12: BRICS nominal exchange rates (January 2012 to September 2015)

Source: South African Reserve Bank, November 2015.

China has had a big impact on the majority of the world's currencies, especially emerging countries, by devaluing its currency. China's central bank aimed to make its exchange rate more market orientated, cheapening their exports to combat slowing Chinese growth. China is South Africa's main export market and is a large consumer of the mineral commodities produced in South Africa. Ordinarily the devaluation of the yuan would make Chinese import products cheaper on the South African market and increase the price of South African exports to China, however, the rand's depreciation against the dollar during this time meant that overall the rand actually depreciated against the yuan. While the Brazilian real was also affected by the devaluation of the yuan, its weakness can largely be attributed to the country's weak economic growth rate in the last few quarters.

The Indian rupee strengthened against the rand as a result of the Reserve Bank of India decreasing its interest rate by more than expected. Furthermore, the decline in the oil price and the upward movement in India's infrastructure output added to the strengthening of the rupee. The rouble has been volatile since 'black Monday'⁷, which occurred in August 2015, and the decline in oil prices has impacted the currency heavily.

7. When the Shanghai index lost 8,5% of its value.

Ordinarily the devaluation of the yuan would make Chinese import products cheaper on the South African market and increase the price of South African exports to China, however, the rand's depreciation against the dollar during this time meant that overall the rand actually depreciated against the yuan.



Domestic economic performance

Gross domestic product (GDP) growth is one of the most widely used measures of economic performance in a country or region. It provides an indication of the level of value-added production that takes place in an economy during a specific period. Large cities such as Cape Town are typically the loci of economic production, and are often the main drivers of economic growth within a region.

ECONOMIC GROWTH IN SOUTH AFRICA

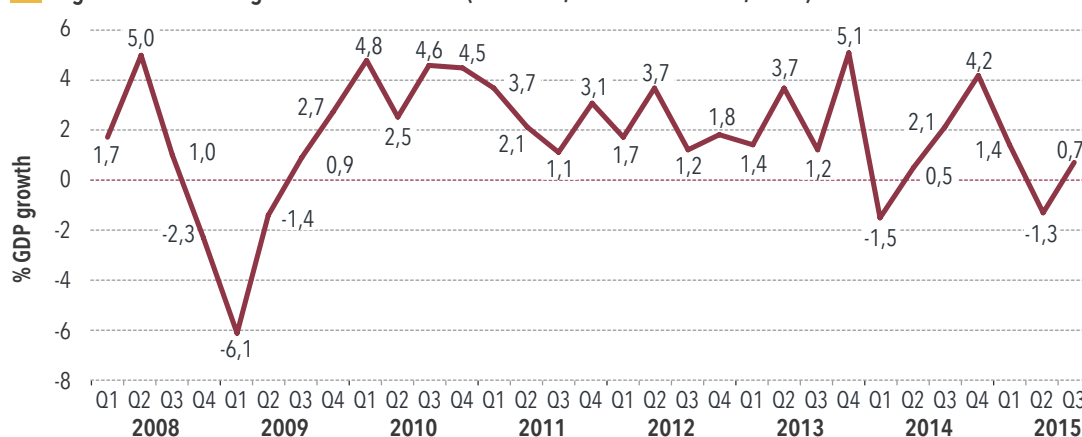
Quarter-on-quarter gross domestic product (GDP) growth rate

South Africa's economy grew by 0,7% on a quarter-on-quarter basis in the third quarter of 2015, narrowly avoiding a technical recession (two quarters of negative economic growth). The slight improvement in the economy in the third quarter was largely in line with market expectations, which had predicted a recovery in the manufacturing sector.

While South Africa's economic growth rate improved on a quarter-on-quarter basis, year-on-year figures, which remove the volatility attached to short-term trends, show a negative trend, with growth declining from 1,6% year on year in the second quarter to 1,2% in the third quarter. This is indicative of the depth of the economic slowdown currently being experienced in the country and points to the likelihood of annual economic growth for 2015 coming in below the 1,5% recorded in 2014. Two consecutive years of economic growth less than 2% casts doubt on the country's ability, in the short term, to achieve the 5% to 7% growth target of the National Development Plan (NDP) and points to the need for significant structural interventions to kick-start economic growth again.

Year-on-year figures show a negative trend, with growth declining from 1,6% year on year in the second quarter to 1,2% in the third quarter. This is indicative of the depth of the economic slowdown currently being experienced in the country.

Figure 13: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 3, 2015)



Source: Stats SA, November 2015.

Sectoral determinants of GDP growth in South Africa

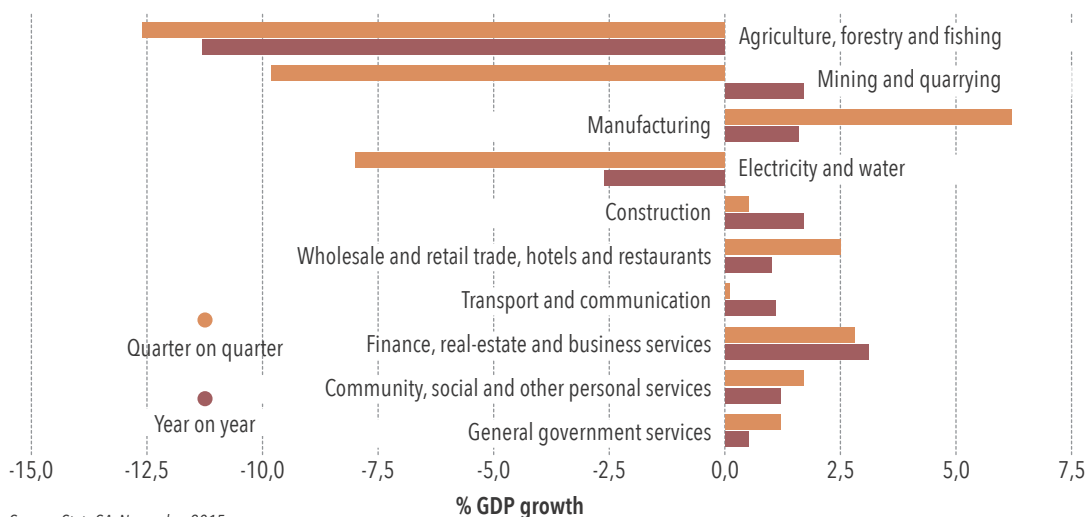
The weak performance of the economy in the third quarter was driven by substantial contractions in primary sector output and sedate growth in the tertiary sector. The primary sector contracted even more sharply than in the previous quarter (-10,4% compared to -9,5%). Within the primary sector, agriculture recorded a third consecutive decline (-19,7%). This was due to decreases in field crop production as a result of the severe drought condition being experienced across the country. The mining sector also contracted sharply (-9,8%) in the third quarter. Lower mining production levels were recorded in coal mining, platinum mining and quarrying and can be partly attributed to the weakening levels of Chinese demand for commodities and the resultant decline in commodity prices.

The secondary sector recovered from its poor performance in the previous quarter to post an overall growth rate of 3,3%. With the sharp contraction in the electricity and water sector (-8,0%) and the low growth of the construction industry (0,5%), the positive performance of the secondary sector can almost entirely be attributed to the strong recovery (6,2%) in manufacturing that contributed 0,8 percentage points to total growth in the economy. Growth in the manufacturing industry was driven by higher production in the petroleum and chemicals, wood and wood products, paper publishing and printing, and food and beverages sub-sectors. These sectors were somewhat insulated from the impacts of slowing Chinese demand for manufactured and commodity exports. The lack of load shedding in the third quarter as compared to its prevalence during the second quarter can also be considered to be a strong factor in the quarter-on-quarter recovery of the sector. A longer term view, however, puts the quarterly growth of the sector into perspective, as the sector only grew by 1,6% year on year in the third quarter.

The tertiary sector continued to grow at a rate (1,9%) that was substantially below its 10-year average rate, as low consumer confidence constrained spending. Within the sector, finance, real estate and business services grew at 2,8%, contributing 0,6 percentage points to overall economic growth. This owed mainly to increased activity in the financial markets and the banking sector. Wholesale and retail trade recorded a much-improved performance, growing by 2,5% as a result of increased turnover in wholesale and retail divisions. General Government and Personal Services grew by 1,2% and 1,7% respectively while transport largely stagnated (0,1%).

Figure 14 shows that the year-on-year growth rates are less variable than their quarterly counterparts. Only two sectors recorded year-on-year and quarter-on-quarter declines, namely electricity and water as well as agriculture. These two sectors have contracted for a number of quarters, increasingly indicating a structural rather than cyclical problem. While

With the sharp contraction in the electricity and water sector (-8,0%) and the low growth of the construction industry (0,5%), the positive performance of the secondary sector can almost entirely be attributed to the strong recovery (6,2%) in manufacturing that contributed 0,8 percentage points to total growth in the economy.

Figure 14: Sectoral GDP growth rates for South Africa (Quarter 3, 2015)

Source: Stats SA, November 2015.

the manufacturing sector recorded the highest quarter-on-quarter growth rate, the finance and business services sector was the strongest performing sector on a year-on-year basis.

Economic growth outlook for South Africa

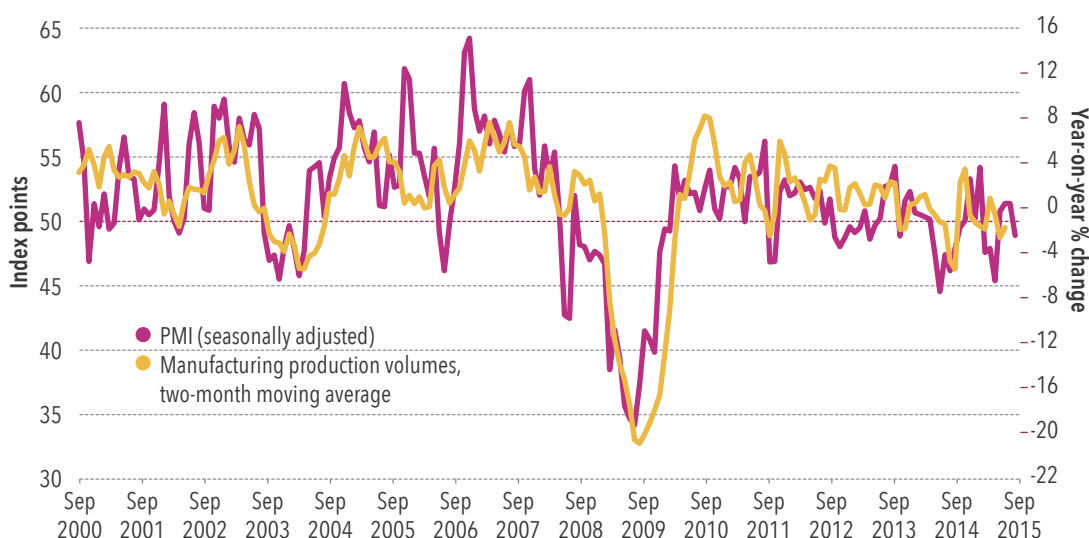
The tertiary sector has been the main source of growth in the South African economy since 2008, and has often counterbalanced the volatility of the mining and manufacturing sectors. However, the dampened performance of the tertiary sector over the last two years has exposed the country to the volatility of the primary and secondary sectors. While the secondary sector posted an improved growth performance in the third quarter, it remains highly sensitive to developments in the global economy and is particularly susceptible to industrial action. The latter factor is also applicable to the mining sector while the agricultural sector is highly vulnerable to exogenous conditions such as weather patterns and global pricing.

As the main drag on economic growth in the third quarter, the performance of the mining and agricultural sectors in the short to medium term will play a strong role in determining whether the country can pull itself up from its low growth trajectory. Unfortunately the ongoing drought and softer Chinese demand lead the Bureau for Economic Research (BER) to caution that there will be no quick turnaround in these sectors and that they will remain a drag on overall economic growth.

Assuming that consumer confidence will remain low and that the tertiary sector will continue to grow sedately, the manufacturing sector's ability to sustain the strong growth rate it recorded in the third quarter for the next few quarters will be critical to increasing overall growth in South Africa. Unfortunately early indications are that the short-term outlook for the manufacturing sector is relatively bleak.

The Barclays Purchasing Managers' Index (PMI),⁸ fell to 43,3 points in November from 48,1 in October and is now at its

The Barclays Purchasing Managers' Index (PMI), fell to 43,3 points in November from 48,1 in October and is now at its lowest level since August 2009.

Figure 15: Purchasing Managers' Index™ for South Africa

Source: Barclays & BER, November 2015. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

8. A PMI value of more than 50 indicates expected future growth in manufacturing, while a value of less than 50 suggests that the sector is expected to contract.



lowest level since August 2009. It is also the first time since 2009 that all the sub-indexes were also below 50. This raises considerable doubt over the ability of the manufacturing sector to sustain the improved performance witnessed in the third quarter. Unlike previous quarters in which supply issues were the major constraint to growth, demand issues are likely to weigh heavily on growth in the manufacturing industry in the fourth quarter. These include the declining demand for manufactured exports (mainly due to the slowdown in China) and the declining demand for intermediate manufacturing inputs due to enduring weakness in the mining and agricultural sectors. From a longer-term perspective, perhaps more worrying was the drop in the six-month expected business conditions index to a seven-year low. This would suggest that, like the agricultural and mining sectors, there is not expected to be a quick turnaround in business conditions for manufacturers.

Considering the aforementioned downside risks to growth in the primary and secondary sectors and that growth in the tertiary sector is also likely to be subdued, the BER (2015a) believes that overall growth in the fourth quarter will be around 1%. This would then mean that annual growth for the South African economy in 2015 would be around 1,3%. At this stage the BER expects more of the same for 2016 and is pencilling in a growth rate of 1,4%.

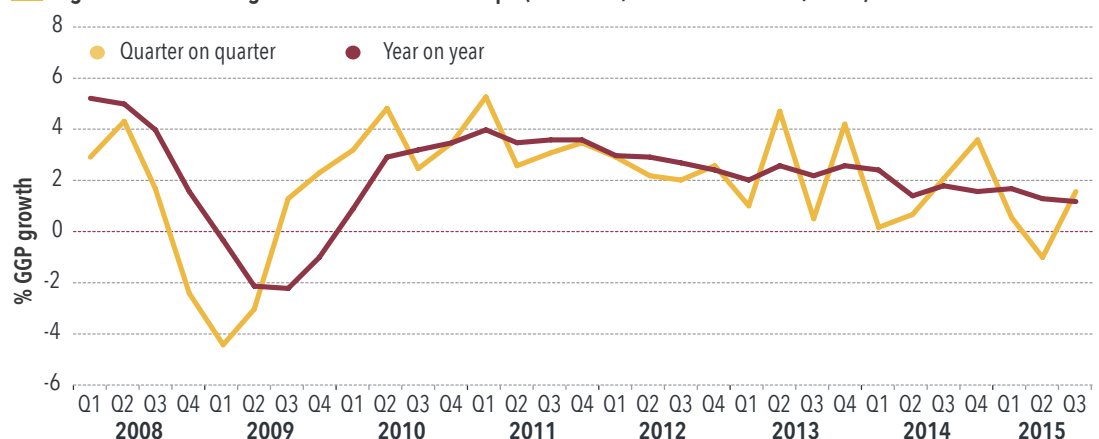
ECONOMIC GROWTH IN THE WESTERN CAPE

The Western Cape's year-on-year economic growth rate decreased to 1,2% in the third quarter from 1,3% in the previous quarter. This was primarily driven by the year-on-year contraction in the agricultural sector.

Quarter-on-quarter gross geographic product (GGP) growth rate

The Western Cape economy contributes around 15% of national GDP, and is strongly influenced by national economic conditions (Quantec 2015). As expected, given the weakness in the mining sector nationally, the Western Cape's economy grew more strongly than the national economy in the third quarter (1,6% compared to 0,7%). This discrepancy in growth rates is due to the differing structure of the national and provincial economy. The Western Cape's limited mining industry activity meant that it was not affected to the same extent as the national economy by the contraction in mining, but it did benefit more than the national economy from the recovery in manufacturing. That being said, however, the decline in

Figure 16: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 3, 2015)



Source: Quantec, November 2015.



agricultural output weighed heavily on the Western Cape economy in the third quarter.

The Western Cape's year-on-year economic growth rate decreased to 1,2% in the third quarter from 1,3% in the previous quarter. This was primarily driven by the year-on-year contraction in the agricultural sector.

While GGP statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to typically mirror that of the provincial economy. This is because the metro contributes about 75% of the provincial economic output (IHS Global Insight, 2015). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate was 0,5 percentage points. If this were to hold in the second quarter of 2015, the city's growth rate would be in the region of 1,1% to 2,1%. However, considering the nature of the drivers of growth in the Western Cape in the third quarter, it is more likely that the city performed markedly better than the province in the third quarter.

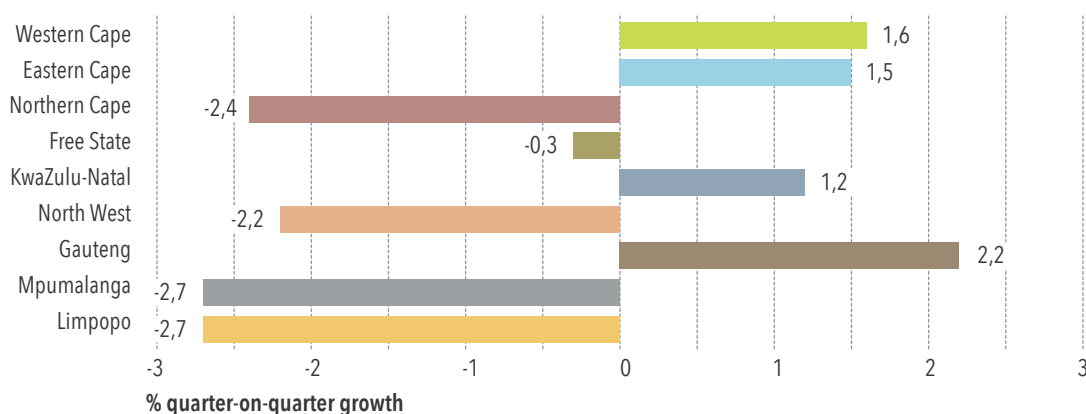
Provincial economic growth comparisons

A comparison of economic growth rates between provinces reveals that four provinces slipped into a technical recession in the third quarter of 2015, namely Northern Cape, North West, Mpumalanga and Limpopo. All four of these provincial economies are dominated by the primary sector, with a varying mix of agriculture and mining. Given the broad-based weaknesses in these sectors it is not surprising that these provinces have posted negative economic growth rates for the second consecutive quarter. The Gauteng economy, with its large manufacturing sector, grew the most (2,2%) in the third quarter, followed by the Western Cape (1,6%) and the Eastern Cape (1,5%).

Cape Town is not significantly affected by declines in the primary sector but the city is strongly affected by the performance of the manufacturing sector, as it is the province's largest manufacturing hub by far. Considering that the largest decline in provincial output came from a sector that is not strongly represented in Cape Town (agriculture), and that the highest increase in production came from two sectors that are strongly represented (manufacturing, and finance and business services), one can expect the city's economy to have outperformed the provincial economy in the third quarter of 2015.

The Gauteng economy, with its large manufacturing sector, grew the most (2,2%) in the third quarter, followed by the Western Cape (1,6%) and the Eastern Cape (1,5%).

Figure 17: Provincial comparisons of real GGP growth rates (Quarter 3, 2015)



Source: Quantec, November 2015.

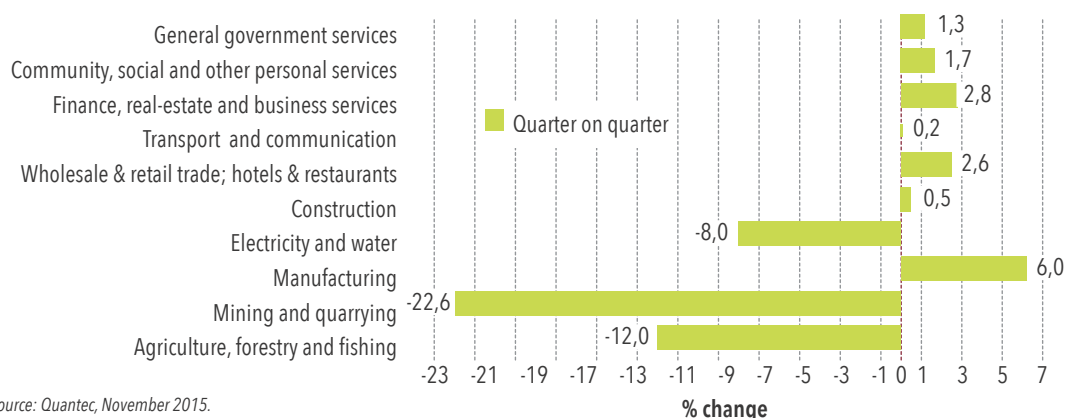
Sectoral drivers of economic growth in the Western Cape

The Western Cape's growth performance by sector largely mirrors the trends in the national economy. In the third quarter of 2015, however, there was a sharp disparity between the growth rate recorded for mining in the Western Cape (-22,6%) and that recorded at a national level (-9,8%). This can be explained by the different types of mining activities conducted, with platinum and gold mining dominating the national industry, and mainly quarrying dominating the industry in the Western Cape. The largest contributor to economic growth in the Western Cape in the third quarter was the manufacturing sector, which recorded a growth rate of 6,0%, 0,2 percentage points lower than the sector's growth rate nationally in the third quarter. The second-largest contributor to provincial economic growth in the second quarter was finance and business services, which grew at the same rate as the national sector (2,8%). The sectors that contracted at a national level also contracted provincially. The agricultural sector recorded the largest contraction for the Western Cape, having declined by 12,0% compared to 12,6% nationally.

Similar sectoral growth rates can be expected for Cape Town, as the city is the major contributor to most economic sectors in the province. In particular, 80% of the Western Cape's finance and business services, 74% of wholesale and retail trade, and 69% of manufacturing can be attributed to the metropolitan area (Quantec, 2015). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the third quarter. However, the greater contribution of these industries to the city's economy means that they would have had a larger effect on the city's economic growth rate.

In contrast to Cape Town's contribution to the tertiary-sector output of the province, its contribution to the province's total primary-sector GGP is only 29%. Thus, it is difficult to make inferences about the performance of the city's primary sector based on primary-sector GGP growth in the Western Cape. However, even if Cape Town's primary sector (agriculture, in particular) did mirror provincial trends, it is unlikely that this would have had a large impact on the overall growth rate, as the primary sector contributes less than 1% to Cape Town's GGP. The performance of the city's economy in the third quarter would have been dependent on whether the city's manufacturing companies could have capitalised on the benefits of being in a large city to grow faster than manufacturing businesses in the rest of the province.

Figure 18: Sectoral real GGP growth rates in the Western Cape (Quarter 3, 2015)



Exported services, such as offshore business process outsourcing and tourism present a significant opportunity for the city as they are not dependent on domestic consumers but can leverage Cape Town's locational competitiveness factors to attract international consumers.

Growth outlook for Cape Town and the Western Cape

The main sources of growth for both the Western Cape and Cape Town in the third quarter of 2015 were the manufacturing, and finance and business services sectors. Although the finance sector recorded a positive growth rate, it was nevertheless well below its historical trend and reflective of the enduring weakness of consumer confidence. With inflation predicted to be on an increasing trend and interest rates having increased since the third quarter, there does not seem to be too much scope for significant short-term growth in the tertiary sector. Similarly the manufacturing sector's strong performance in the third quarter is also unlikely to be sustained in the city in the fourth quarter due to the negative impacts of contractions in upstream primary-sector industries.

There are, however, opportunities for Cape Town to rise above the general malaise of the South African economy by exploiting the potential of international demand. In this regard Cape Town's manufacturing exporters should be encouraged to take advantage of the current weakness of the rand to expand their export share. In addition, exported services, such as offshore business process outsourcing and tourism present a significant opportunity for the city as they are not dependent on domestic consumers but can leverage Cape Town's locational competitiveness factors to attract international consumers. The ability of the city's economy to realise these opportunities will determine whether the city can pull away from the rest of the country in terms of its economic growth path. Even in a status quo environment, however, the city is likely to perform better than the country as a whole in the next quarter. This is largely due to its insulation from large-scale mining and agricultural shocks.

Inflation

In the third quarter of 2015, the headline inflation rate was higher than in the second quarter, but lower than the same period in 2014.

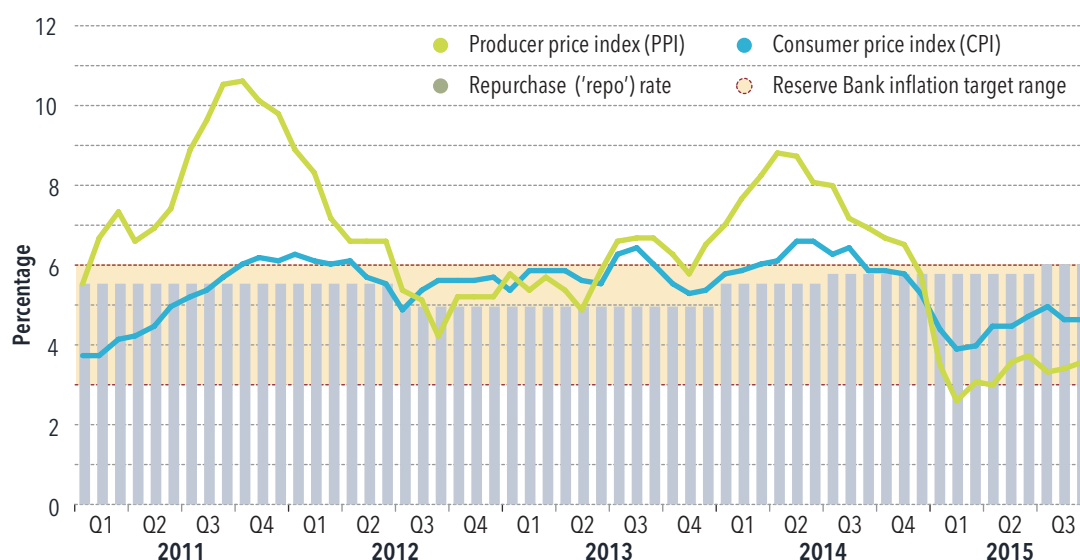
SOUTH AFRICA'S INFLATION OVERVIEW

The increase in the headline consumer price index (CPI) for the third quarter of 2015 was slightly higher than the previous quarter with an average inflation rate of 4,7% over the three-month period compared to an average rate of 4,5% in the second quarter. However, the trend observed in the third quarter was a downward movement of the inflation rate – from 5,0% in July to 4,6% in September. With the exception of July, inflation has remained below 5% for the year to date. The total performance of the third quarter of 2015 was noticeably better than the overall performance of the third quarter of 2014, which ended on an inflation rate of 5,9%.

In the third quarter of 2015, the headline producer price index (PPI) inflation decreased when compared to the second quarter of 2015 and it remained significantly lower than the CPI with recordings below 4%. At the end of September 2015, the PPI was only 0,1 percentage point higher than it was in June but had increased from 3,3% in July and 3,4% in August. This recorded inflation rate for September 2015 is the ninth consecutive month that the PPI has remained under 4%. Key drivers of the increase in the PPI in September 2015 were wood and paper products (7,5%), food products, beverages and tobacco products (6%) as well as machinery, equipment and computing equipment (4,9%).

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Figure 19: CPI and PPI trends for South Africa (January 2011 to September 2015)



Source: CPI and PPI extracted from Stats SA, 2015, and repurchase rate extracted from South African Reserve Bank, 2015.

Figure 19 also illustrates the movement of the repurchase rate (repo rate). As indicated on the graph, the repo rate increased in July 2015 by 25 basis points to 6% (SARB, 2015) and remained as such for the third quarter of 2015. This increase was driven by the inflation outlook for the first two quarters of 2016, which sees inflation breaching the upper end of the target range. Future increases in electricity tariffs, a weak outlook for domestic economic growth and the ongoing volatility of the exchange rate due to a possible rate hike in the US played an important role in the decision to increase the repo rate.

Table 1: Inflation levels by household expenditure groups

Quintiles	Level	Monthly expenditure	Inflation rate as at September 2015
	Average		4,6%
1	Very low	R0 to R1 213/month	5,3%
2	Low	R1 214 to R1 939/month	5,0%
3	Middle	R1 940 to R3 062/month	4,7%
4	High	R3 063 to R6 596/month	4,4%
5	Very high	R6 596 and more	4,6%

Source: Stats SA, November 2015.

Table 1 indicates how different expenditure groups are affected by inflation. In the third quarter of 2015, inflation increased for the lower expenditure quintile, decreased for the high expenditure quintile, and remained the same for the middle quintile. The population quintile with the highest level of monthly expenditure was subject to an inflation rate of 4,6% in September 2015, while the population quintile with the lowest monthly expenditure was subject to an inflation rate of 5,3%. A reason for this disparity could be that the lowest quintile was less affected by the petrol price decrease in August and September 2015 but strongly affected by the increase in food price inflation.

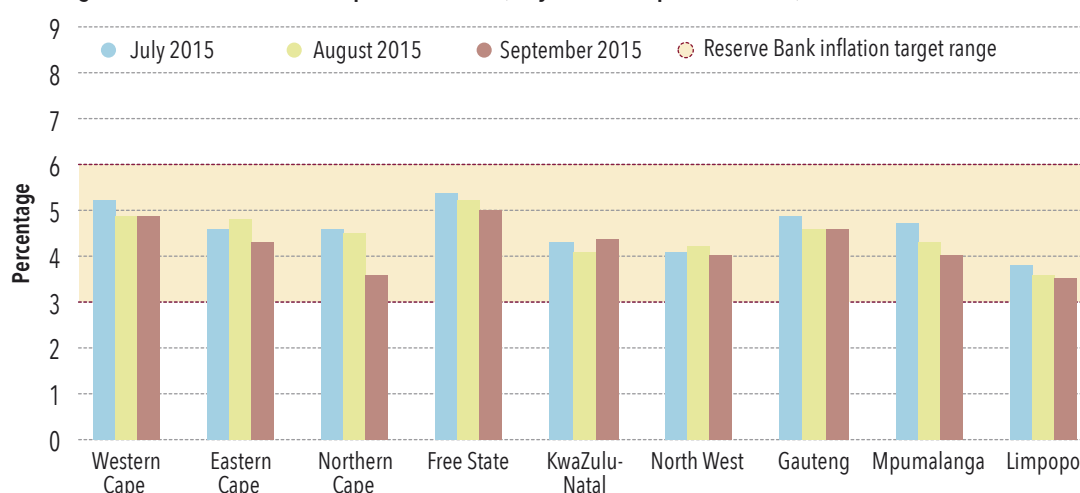
GEOGRAPHICAL INFLATION

The Western Cape recorded a higher inflation rate (4,9%) than the national inflation rate (4,6%) at the end of the third quarter of 2015. The majority of the provinces experienced a decrease in inflation compared to the end of the second quarter of 2015.

As illustrated by figure 20, the inflation rate fluctuated across provinces during the third quarter. The Northern Cape, Free State, Mpumalanga and Limpopo reflected a consistent downward trend, while KwaZulu-Natal was the only province to experience an overall increase in inflation in the third quarter. The Western Cape recorded the highest inflation rate for September 2015, while Limpopo came in lowest at 3,5%. Food price inflation in the Western Cape was 4,8% in September 2015 (having increased from 4,5% in August), while nationally it was lower at 4,3%. Alcohol and tobacco inflation for the Western Cape (7,9%, down from 8,1% in August) was lower than the 8,6% recorded nationally (previously 8,7%). Inflation in transport costs (-1,0% compared to -0,7% nationally) as well as health costs (5,7% compared to 6,5% nationally) were lower in the Western Cape, although higher inflation rates were recorded in the price of housing and utilities (6,9% compared to 5,7% nationally). The inflation rate in clothing and footwear recorded 5,2% for both the Western Cape and South Africa.

Food price inflation in the Western Cape was 4,8% in September 2015 (having increased from 4,5% in August), while nationally it was lower at 4,3%.

Figure 20: CPI inflation rate at provincial level (July 2015 to September 2015)



Source: Stats SA, November 2015.

INFLATION OUTLOOK

At the end of September 2014 the headline CPI moved to below 6% and has remained comfortably between the inflation target range ever since, dropping further to below 5%. For the past nine months CPI has maintained that trend with July 2015 having the highest recording at 5%. The subsequent decreases in August and September would ordinarily indicate a decreasing inflation trend but there still remains upward pressure from various factors.

According to the Monetary Policy Committee (MPC) in their September 2015 statement, the main pressure on the inflation rate remains the depreciation of the rand against the advanced economy currencies. The deterioration of the rand is expected to continue as it will remain sensitive to speculation regarding the implementation of the US monetary policy tightening – which by all accounts looks set to happen in December 2015.

Supply-side risks to the inflation outlook include the impact that the current drought in the country is expected to have on crop yields and food prices and the likelihood of further electricity tariff hikes in 2016. The declining international oil price brought some relief to this looming pressure and allowed the MPC to keep the repo rate unchanged for September 2015.

With the current drought situation, global developments within US and China and uncertainty surrounding electricity price increases the MPC decided to increase the repo rate in November 2015 by 25 basis points to 6,25%. The MPC will closely monitor the above factors and if the upward pressure increases there will be further interest hikes, although the scale of hikes will be sensitive to the weak economic growth currently being experienced by the country.

Supply-side risks to the inflation outlook include the impact that the current drought in the country is expected to have on crop yields and food prices and the likelihood of further electricity tariff hikes in 2016.



Labour market trends

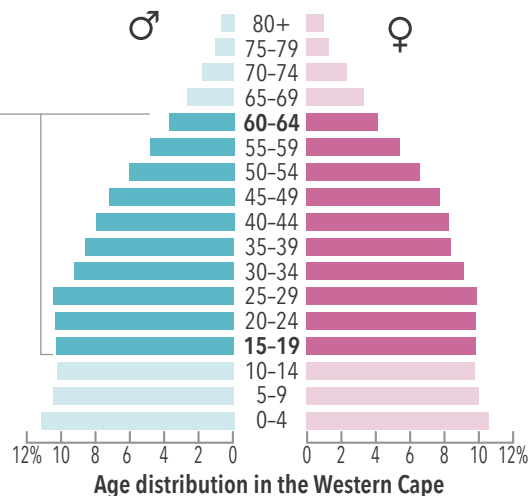
The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic strategies, and are critically important to the country's development.

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET

THE WORKING-AGE POPULATION



Cape Town has **2 743 516** people aged between 15 and 64. This group forms the **working-age population**. This is the value from which employment and unemployment figures are derived.



2 743 516
working-age population

The dependency ratio

This refers to how many people depend on those of working age. In Cape Town **46,2%** of those of non-working age depend on those of working age.

EMPLOYMENT

The definition of **employment** is "those aged 15-64 years who, during the reference week, did any work for **at least one hour**, or had a business or job, but were not at work (temporarily absent)".



Of the **2 743 516** people who make up the **working-age population**, **1 471 106** – 53,6% – are **employed**. This percentage is also known as the labour absorption rate.

1 471 106
employed people

53,6%
labour absorption rate

The **labour absorption rate** (employment-to-population ratio) measures the proportion of the working-age population that is employed.

Of the **1 471 106** employed Capetonians, the majority are employed in the formal sector, with 11,7% in the informal sector.



1 180 567
(80,259%)

The informal sector is defined as "employees working in establishments that employ fewer than five employees, which do not deduct income tax from their salaries/wages; employers, own-account workers and persons helping unpaid in their household, and businesses that are not registered for either income tax or value-added tax".

How these figures are calculated

Statistics South Africa publishes quarterly labour force surveys (QLFS), which provide data on the number of people in the labour market. This includes the number of people who are employed, unemployed and not economically active. The data is broken down by industry,

province, sex, age and sector. It covers both the formal and informal sectors. Respondents are asked about their employment activity in the week prior to the survey, which is known as the 'reference week'. The surveys are conducted in 30 000 private

households and worker hostels across the country. The results are then weighted (adjusted) to accommodate factors such as rural and urban variations and to ensure that they are representative of the population as a whole.

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET

UNEMPLOYMENT

There are two measures of unemployment – strict and broad. The strict measure specified by the International Labour Organisation (ILO) is used in developed countries with mostly formal employment, and is useful for international comparisons. The broad definition is more useful in describing the scale of unemployment in developing economies with large numbers of discouraged job seekers.

Strict unemployment
The 'strict' definition of unemployment includes only people who are actively seeking work. By that definition, Cape Town has **411 340 unemployed people** – 21,9% of the strict labour force.

Strict rate
$$\frac{\text{Searching unemployed}}{\text{Labour force (employed + searching)}} =$$



Broad rate
$$\frac{\text{Searching + non-searching unemployed}}{\text{Broad labour force (employed + searching + non-searching)}} =$$

Broad unemployment
The 'broad' definition of unemployment includes those under the 'strict' definition as well as 'discouraged' and other 'non-searching' job seekers. By that definition, Cape Town has **444 690 unemployed people** – 23,2% of the broad labour force.

Unemployed persons are those aged 15–64 years and **actively searching** for work who:

- were not employed in the reference week; and
- actively looked for work or tried to start a business in the four weeks preceding the survey interview; and

↑ SEARCH CRITERIA

- were available for work, i.e. would have been able to start work or a business in the reference week; or
- had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and were available.

21,9%

23,2%

The youth unemployment rate

This refers to people between the ages of 15 and 24 who are not employed.

The **strict youth unemployment rate** is **46,1%**, while the **broad youth unemployment rate** is **48,0%**.

46,1%

48,0%

Some unemployed youth are meaningfully engaged in education or training. The **NEET** (not in employment, education or training) indicator captures those youth not actively participating in the economy in any way.

26,8%

The youth NEET rate in Cape Town is 26,8%.

A '**discouraged job seeker**' is a person who was not employed during the reference period, wanted to work, was available to work or start a business, but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work.

Other **non-searching work seekers** are the searching unemployed and those who have not fulfilled the search criteria.

- Discouraged work seekers and other non-searching work seekers are accommodated in the broad definition through the removal of the search criteria.

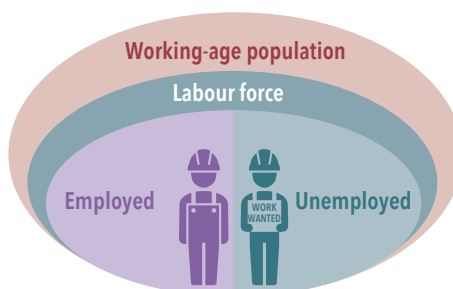
↑ SEARCH CRITERIA

THE LABOUR FORCE

The labour force comprises all persons of working age who are employed, plus all persons of working age who are unemployed.

Strict labour force = 1 882 446

The 'strict' definition of the labour force includes both those in employment and those unemployed people who are actively seeking work. By that measure, the Cape Town labour force is **1 882 446** strong, being made up of **1 471 106 employed people** and **411 340 job seekers**.



Broad labour force = 1 915 796

The 'broad' definition of the labour force includes those under the 'strict' definition, and 'non-searching' job seekers. By this measure, Cape Town's labour force is **1 915 796** strong, being made up of **1 471 106 employed people**, **411 340 job seekers**, **16 647 discouraged** and **16 703 other non-searching unemployed**.

THE LABOUR FORCE

1 471 106
EMPLOYED

411 340
SEARCHING
UNEMPLOYED

33 350
DISCOURAGED AND OTHER
NON-SEARCHING UNEMPLOYED

STRICT

68,6%

LABOUR FORCE
PARTICIPATION RATE

BROAD

69,8%

Labour force
participation rate

$$\frac{\text{Labour force}}{\text{Working-age population}}$$

The **labour force participation rate** is a measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work. It provides an indication of the relative size of the supply of labour available.

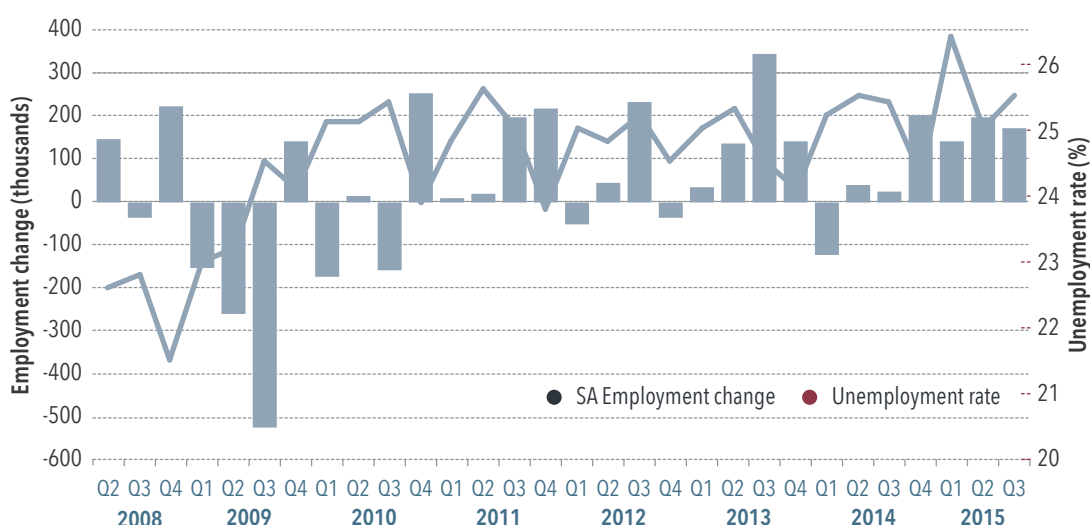
Sources: Stats SA Quarterly Labour Force Survey (QLFS), City of Cape Town.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

At the end of the third quarter of 2015, South Africa's labour force increased by 359 000 individuals compared to the second quarter. The number of employed people increased by 171 000 to 15,82 million in this period. This marks the sixth consecutive quarter with an employment increase and was largely on account of employment growth in trade (81 000), construction (59 000), agriculture (28 000) as well as in the community and social services sector (24 000). While these four industries experienced particularly strong employment growth, others experienced declines. Employment losses were led by transport (-24 000), private households (-11 000) and utilities (-9 000).

Annually, 711 000 more people were employed when compared to the third quarter of 2014, while 978 000 individuals were added to the labour force. Overall, the majority of the industries added to employment growth. The largest contributor to year-on-year employment growth was the agricultural sector (211 000), followed by construction (180 000) and the community and social service sectors (68 000). All three sectors outperformed the others on both a quarterly and year-on-year basis. The financial and other business sector performed poorly on a quarterly basis, however it added to employment (135 000) on a year-on-year basis. The only sector that displayed negative growth on both a quarter-on-quarter and year-on-year basis was transport (-34 000).

Figure 21: Employment trends vs unemployment rate in South Africa (Quarter 2, 2008 to Quarter 3, 2015)



Source: Stats SA, November 2015.

For the third quarter of 2015, unemployment in South Africa increased by 188 000 quarter on quarter to a total of 5,42 million people. This resulted in a 0,5 percentage point increase in the official unemployment rate to 25,5%.

For the third quarter of 2015, unemployment in South Africa increased by 188 000 quarter on quarter to a total of 5,42 million people. This resulted in a 0,5 percentage point increase in the official unemployment rate to 25,5%. Discouraged work seekers, who are only included in the expanded measure of unemployment, decreased by 200 000 to a total of 2,23 million individuals. Figure 21 illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, slower employment growth typically leads to increases in the unemployment rate.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the third quarter of 2015, the working-age population of Cape Town increased by approximately 14 000 individuals compared to the second quarter, but decreased by nearly 134 000 individuals on a year-on-year basis. Cape Town's labour force increased by 41 000 individuals to a total of 1,882 million in the third quarter, and its labour force participation rate increased by 1,2 percentage points to 68,6%. This remains significantly higher than the national rate of 58,8%, pointing to the greater inclusiveness of Cape Town's labour market.

The number of people employed in Cape Town in the third quarter of 2015 increased by 46 000 individuals on a quarterly basis, and decreased by nearly 20 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and reflected an increase in the third quarter (29 000). Employment also increased in the informal sector by 10 000 quarter on quarter, as well as by 12 000 individuals on a year-on-year basis. This has seen the informal sector's share of employment increase to 11,6% from a previous 11,3%. However, the majority of employment gains were experienced in the agricultural and private household sectors.

To measure Cape Town's job-creating performance, a comparison with the other metros in the country is helpful. From a static point of view, Cape Town has the second-most employed people in the country, with 1,47 million people employed in the city compared to Johannesburg's 1,89 million. This is to be expected as Johannesburg has a significantly larger population.

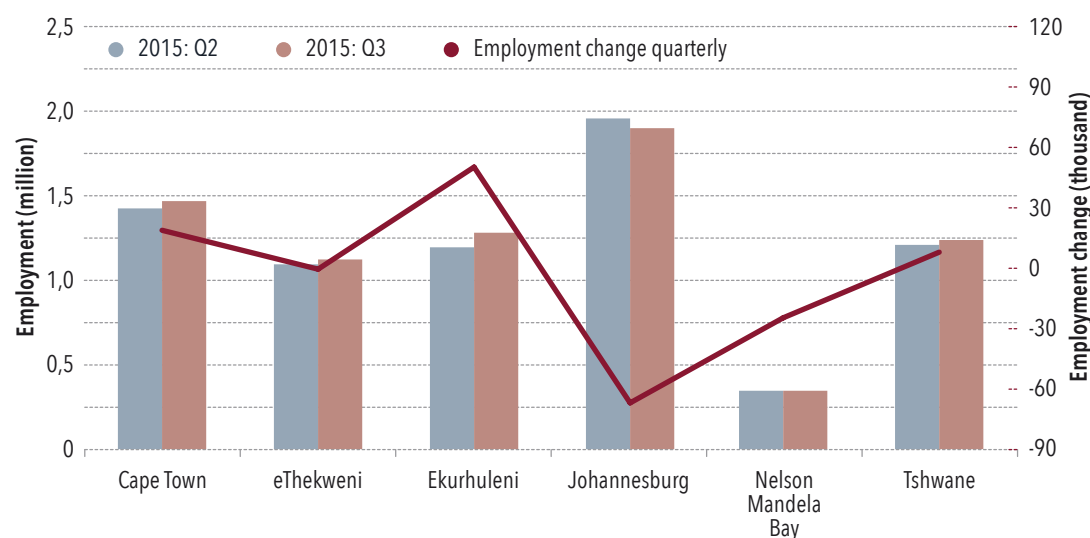
Table 2: Labour market indicators: South Africa and Cape Town*

Indicator	South Africa			Cape Town		
	Q3:2015	Q2:2015	Q3:2014	Q3:2015	Q2:2015	Q3:2014
Working age population (000s)	36 114	35 955	35 489	2 744	2 730	2 878
Labour force	21 246	20 887	20 268	1 882	1 841	2 005
Employed	15 828	15 657	15 117	1 471	1 425	1 491
Employed by the formal sector	10 930	10 835	10 843	1 181	1 152	1 240
Employed by the informal sector	2 721	2 661	2 407	171	161	159
Unemployed	5 418	5 230	5 151	411	416	519
Not economically active	14 867	15 068	15 221	861	889	873
Discouraged work seekers	2 226	2 434	2 514	17	12	6
Other	12 641	12 633	12 707	844	877	867
Unemployment rate (%)	25,5	25,0	25,4	21,9	22,6	25,6
Youth unemployment rate (%) (15-24)	49,9	49,9	53,2	46,1	47,8	52,7
NEET** as % of working-age population	38,7	39,2	39,9	32,3	33,8	35,0
Absorption rate (%)	43,8	43,5	42,6	53,6	52,2	51,8
Labour force participation rate (%)	58,8	58,1	57,1	68,6	67,4	69,7

Source: Stats SA, November 2015. * Figures in tables may not exactly add up due to rounding off. ** Not in employment, education or training.

Turning attention to employment creation in the third quarter, as measured by the difference between the second-quarter and third-quarter employment levels, there was an increase in employment across the majority of the metros. The biggest increase in employment was recorded in Ekurhuleni (84 846), with Cape Town (46 575), Tshwane (33 154) and eThekweni following suit. Johannesburg (-61 082) and Nelson Mandela Bay (-8 111) were the only metros to shed jobs. On a year-on-year basis, Nelson Mandela Bay shed jobs at the fastest rate (-2,5%), while employment in Tshwane grew fastest (13,5%).

Figure 22: Employment comparison with other metros (Quarter 2, 2015 to Quarter 3, 2015)

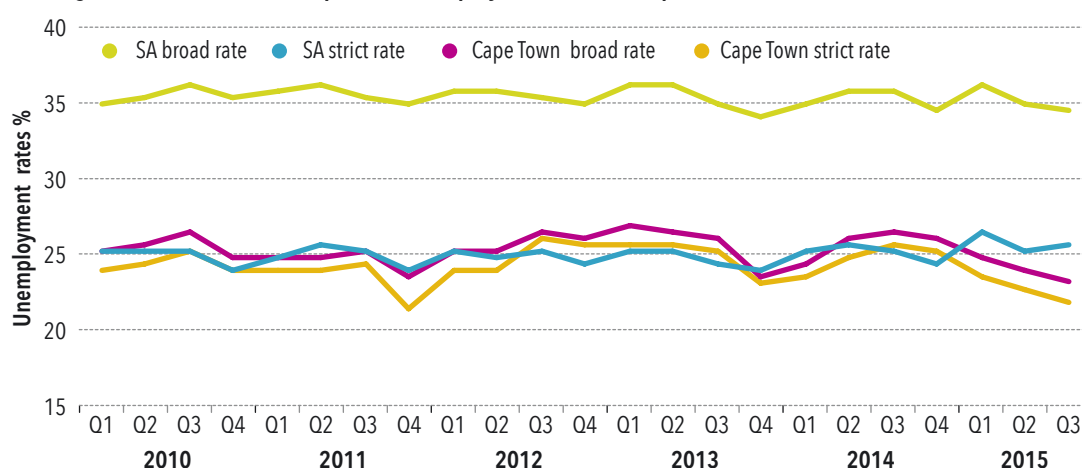


Source: Stats SA, November 2015.

Unemployment in Cape Town

In contrast with the national unemployment trends, Cape Town experienced a decrease (-5 000) in the number of unemployed people in the third quarter compared to the previous quarter. The number of unemployed people in the city also showed a large decrease of approximately 108 000 compared to the corresponding period in the previous year. As a result of decreasing unemployment on a quarterly basis, Cape Town's strict unemployment rate decreased by 0,7 percentage points to 21,9% in the third quarter of 2015. This is the fourth consecutive quarterly decline in Cape Town's unemployment rate and is the city's lowest unemployment rate since the first quarter of 2009. The youth unemployment rate (defined as the strict unemployment rate for individuals aged 15 to 24) in Cape Town was estimated at 46,1% in the third quarter of 2015, having decreased from 47,8% in the previous quarter. While this is below the national rate of 49,9%, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

By excluding discouraged work seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals desiring to work. It is thus revealing to present both the strict and expanded rates

Figure 23: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 3, 2015)


Source: Stats SA, November 2015.

South Africa's expanded unemployment rate in the third quarter of 2015 was 34,4%, compared to Cape Town's expanded rate of 23,2%.

of unemployment. As illustrated by figure 23, the two rates of unemployment for Cape Town have remained relatively close over the last few years, although the city's unemployment rates over the last two quarters have slowly started to deviate from South Africa's strict unemployment rate. On average, the expanded unemployment rate in Cape Town is only 1,02% higher than the city's strict rate. Cape Town's strict unemployment rate decreased in the third quarter of 2015, and was 1,3 percentage points lower than the national rate. However, it is important to consider the expanded definition of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 23). South Africa's expanded unemployment rate in the third quarter of 2015 was 34,4%, compared to Cape Town's expanded rate of 23,2%. On this basis, Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

Table 3: Official vs expanded unemployment rates (Quarter 3, 2014 to Quarter 3, 2015)

Metro	Official			Expanded		
	2015:Q3	2015:Q2	2014:Q3	2015:Q3	2015:Q2	2014:Q3
Cape Town	21,85	22,60	25,63	23,21	23,90	26,27
eThekweni	15,74	16,46	17,50	24,87	26,33	27,01
Ekurhuleni	30,33	29,44	29,69	32,71	34,44	32,78
Johannesburg	29,74	26,20	23,77	30,69	28,69	26,90
Nelson Mandela Bay	34,31	33,20	37,97	34,38	33,20	38,20
Tshwane	24,71	24,64	21,52	28,84	29,57	27,82

Source: Stats SA, November 2015.

The number of discouraged work seekers in Cape Town increased to 16 647 in the third quarter of 2015 from 11 764 in the second quarter.

While comparing Cape Town's unemployment trends with South Africa as a whole is important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics. In the third quarter of 2015, Cape Town, Ekurhuleni and eThekweni experienced quarter-on-quarter decreases in both unemployment rates. Nelson Mandela Bay was the only metro to have experienced slight increases in these rates. From a static point of view, Nelson Mandela Bay had the highest expanded unemployment rate (34,4%) and the highest official/strict unemployment rate (34,3%),⁹ while Cape Town had the lowest expanded unemployment rate (23,21%) and eThekweni the lowest strict rate (15,74%). What is also notable from table 3 is how similar Cape Town's expanded and official unemployment rates are, especially compared to metros such as eThekweni, where the expanded rate is almost 10 percentage points higher than the strict rate.

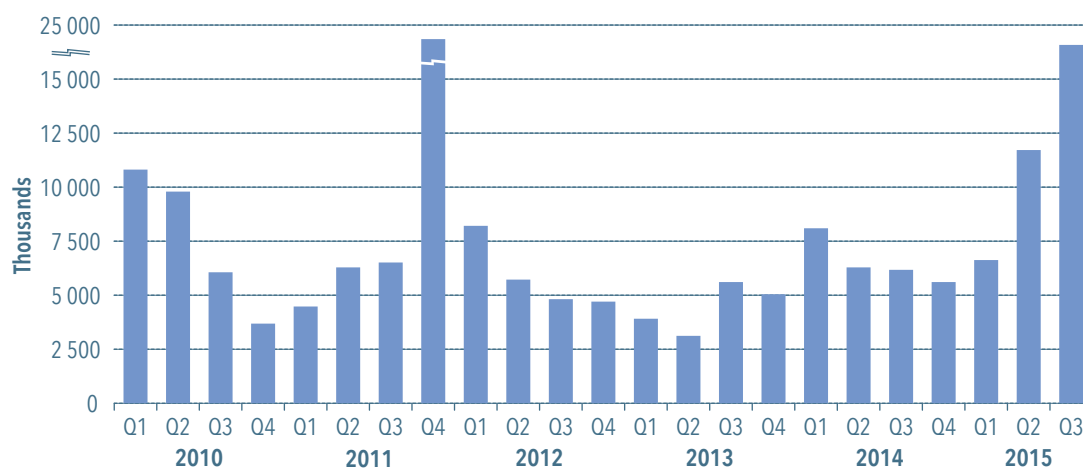
The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work seekers in Cape Town. According to Stats SA (2015), a discouraged work seeker "is a person who was not employed during the reference period, wanted to work, was available to work/start a business but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work". Discouraged work seekers are included in the expanded unemployment figure, which explains why this is slightly higher than the strict unemployment figure. The number of discouraged work seekers in Cape Town increased to 16 647 in the third quarter of 2015 from 11 764 in the second quarter.

Figure 24 shows that the number of discouraged work seekers has (except for the outlier of the fourth quarter of 2011) consistently been below 10 000 individuals. However, for the past two quarters in 2015 the number of discouraged work

9. This would imply that there are no discouraged work seekers, although it more than likely reflects a sampling error.



Figure 24: Discouraged work seekers in Cape Town (Quarter 1, 2010 to Quarter 3, 2015)



Source: Stats SA, November 2015.

For the past two quarters in 2015 the number of discouraged work seekers has breached the 10 000 level, nearly tripling since the third quarter of 2014.

seekers has breached the 10 000 level, nearly tripling since the third quarter of 2014. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,75%) of the country's total number of discouraged work seekers. The reasons for this remain largely unclear and require further research.

Labour force and employment

Two factors determine whether the expanded rate of unemployment increases or decreases. These are a change in the expanded labour force and a change in the level of employment. When the rate of employment growth is exceeded by the rate at which the expanded labour force grows, the expanded unemployment rate increases. However, figure 25 shows that in the third quarter of 2015, employment growth exceeded growth in the broad labour force. This, then, led to a decrease in the expanded unemployment rate for the period under review.

Figure 25: Broad labour force and employment growth rates for Cape Town (Q2, 2008 to Q3, 2015)



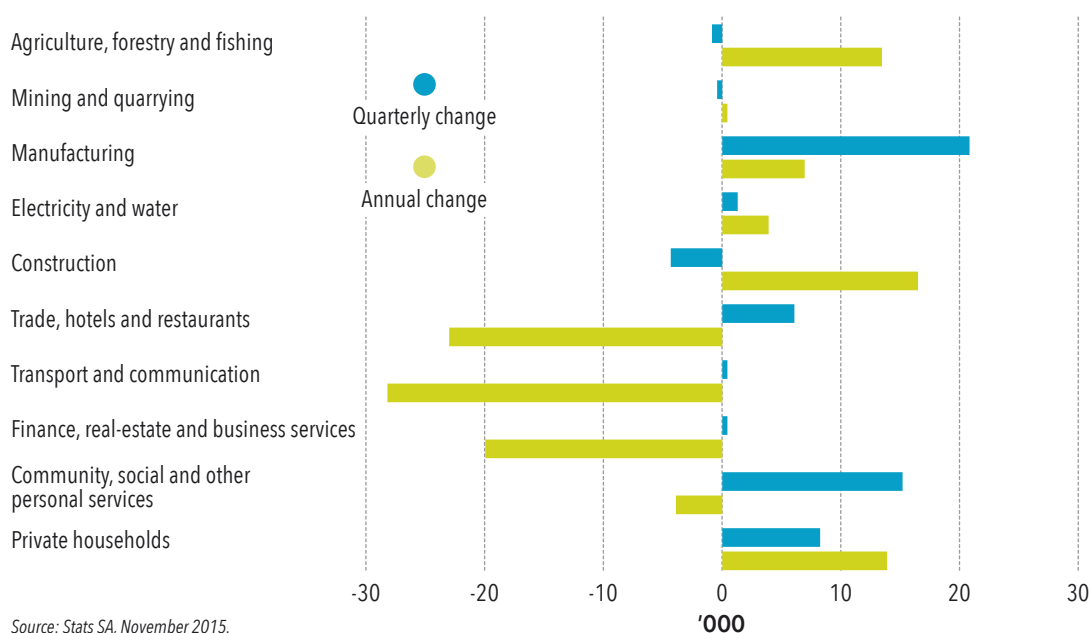
Source: Stats SA, November 2015.

Sector employment trends in Cape Town

Figure 26 displays the level of employment by industry/sector within Cape Town. Overall for the third quarter of 2015, the majority of the sectors added to employment when compared to the second quarter of 2015. The largest contributors to employment were manufacturing as well as community and social services, which increased by 21 016 and 15 293 respectively. The sector that experienced the biggest employment declines were construction (-4 496), while agriculture (-672) and mining (-536) also reflected negative growth.

On a year-on-year basis, six out of the 10 sectors reflected positive changes in employment. The strongest contributing sectors in respect of employment growth were construction, private households and agriculture, which grew employment by 16 451, 14 060 and 13 409 jobs respectively. The sector that experienced the biggest year-on-year job losses in the third quarter of 2015 was transport (-28 360), followed by trade (-22 913) as well as finance and other business services (-20 212).

Figure 26: Quarterly and annual change per sector for Cape Town (Quarter 3, 2015)



Labour market outlook

Cape Town's labour market posted a strong performance in the third quarter of 2015, recording increases in the labour force and in employment in both the formal and informal sectors. Employment growth, much like economic growth was largely driven by manufacturing, however, this could reflect a short-term normalisation following employment losses in the previous quarter. For the fourth consecutive quarter the unemployment rates (narrow and broad) decreased, indicating a possible declining trend. Youth unemployment has also come steadily down (by 8,4 percentage points) from the high of 55,2% recorded in the first quarter of 2014.

While unemployment declined in the third quarter as a result of employment growth, the discouraged work-seeker category increased significantly. This corresponds to a substantial drop in the 'other non-economically active' category and suggests that more people are beginning to actively seek work, but that some are becoming discouraged at not finding jobs.

Given that manufacturing was the largest employment creating sector in the third quarter in Cape Town, the bleak outlook for the sector (as discussed in a previous section) poses serious downside risks to the city's ability to accommodate an ever-increasing labour force (and labour force participation rate) into employment opportunities. Much like GDP growth, employment growth in the short term hinges on the ability of the city to take advantage of labour-intensive export opportunities. Encouragingly, Cape Town continues to attract many investors in the business process outsourcing sector, the most recent being EXL, a leading New York-based business process solutions company which recently established a service delivery centre within the city.

Much like GDP growth, employment growth in the short term hinges on the ability of the city to take advantage of labour-intensive export opportunities.

Trade and investment

Cape Town is an open economy, which embraces trade and investment with the rest of the world. Globally, economies that have typically grown strongly are those that have promoted value-added exports and attracted high levels of foreign direct investment. A key challenge for South Africa and Cape Town is reducing the current trade balance deficit by increasing the country's volume of exports.

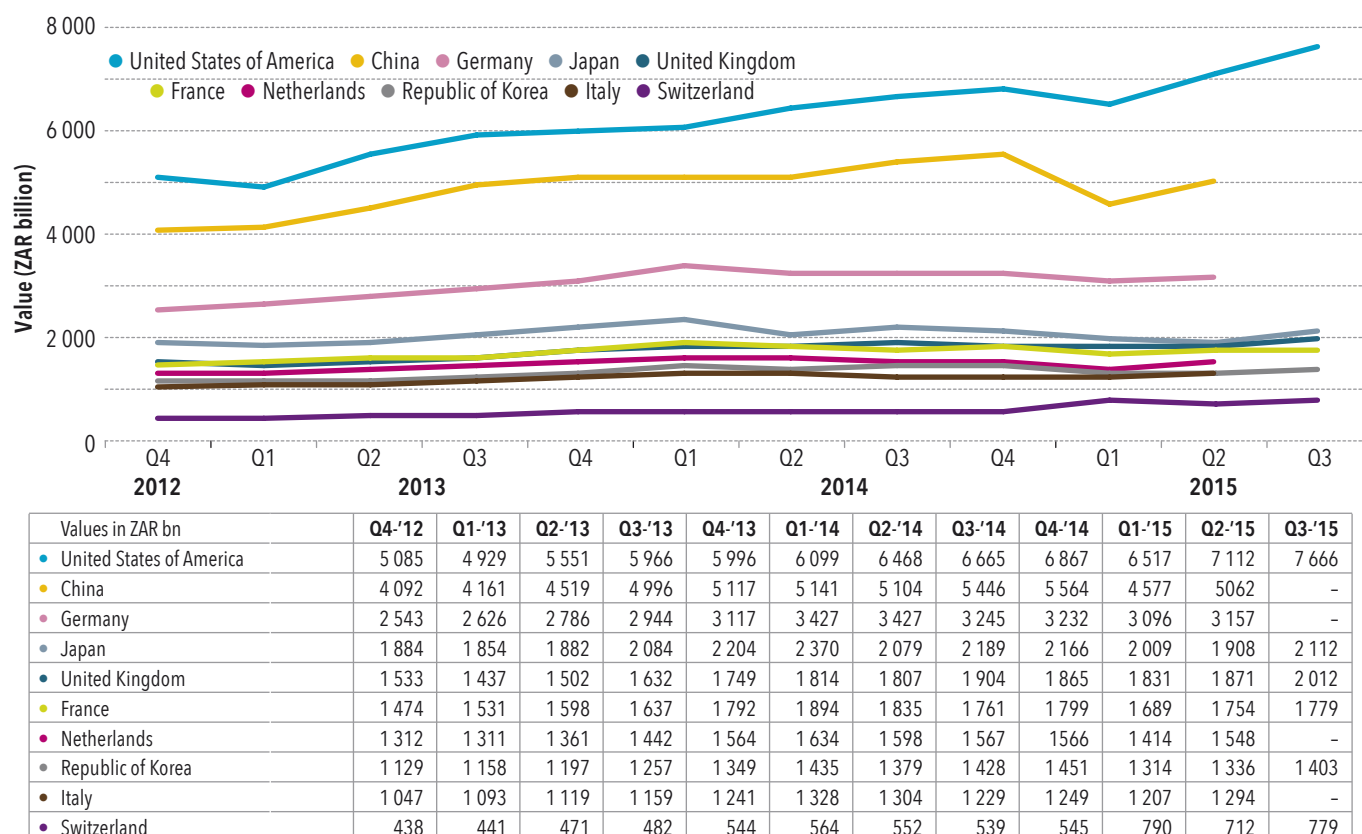
TRADE

A year-on-year assessment of the third quarter imports indicated that the United States (15%), the United Kingdom (5%), France (1%) and Switzerland (44%) demonstrated growth in imports.

Global trade

The world's largest importer of goods remains the United States followed by China (however, China, Germany, the Netherlands and Italy have not yet reported trade data for quarter 3). The July to September period annually experiences an upward trajectory after the recovery in the international trade figures for the second quarter. Consequently, all of the top import markets shown in the figure below experienced positive import growth rates from the second quarter to the third quarter. A year-on-year assessment of the third quarter imports indicated that the United States (15%), the United Kingdom (5%), France (1%) and Switzerland (44%) demonstrated growth in imports. Switzerland's growth was bolstered by growth in the import of gold (26% quarter on quarter) and medicaments (16%). Import growth in the United States was driven by automobiles (9,4% quarter on quarter) and crude petroleum (8,5%).

Figure 27: Global imports of goods (Quarter 4, 2012 to Quarter 3, 2015)



Source: International Trade Centre; November 2015.

South African trade

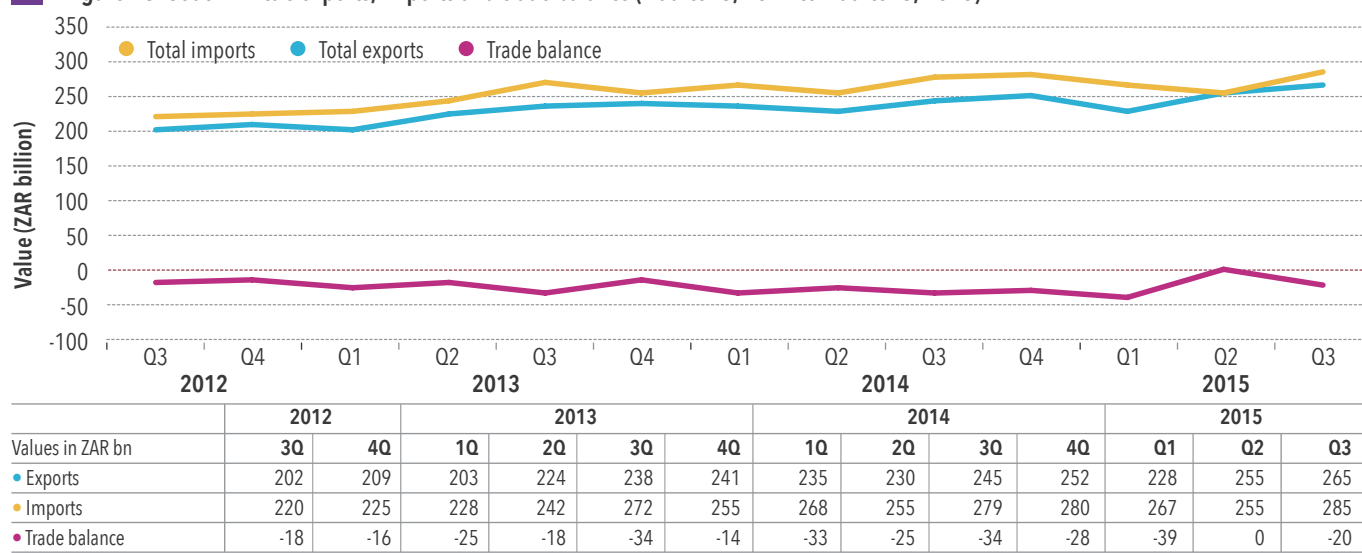
South African trade has experienced strong and consistent growth since the third quarter of 2012, with exports exceeding R200 billion each quarter. In the second quarter of 2015, exports increased by 11,8% after seasonal declines in the first quarter. In the third quarter, both exports and imports increased by 3,9% and 11,9% respectively. The trade balance for South Africa recorded a deficit of R20 billion in the third quarter, declining from the surplus in the second quarter.

China is South Africa's largest export destination, with exports reaching R24 billion in the third quarter of 2015, and growing by 3,9% from the second quarter. South Africa's exports to China are influenced by the Chinese appetite for South African mineral commodities, especially iron ore and concentrates, which continues to drive exports. South Africa's second-largest export market in the third quarter was the United States, followed by Germany, Namibia and Botswana. Exports to the United States are driven by automotive exports, which grew by 14% during the third quarter of 2015.

Exports to the Netherlands experienced the highest quarter-on-quarter growth of the country's top 10 export markets, with 23% growth. This was due to a surge in demand for citrus fruit from the Western Cape, which more than doubled in value quarter on quarter to R1,7 billion. Germany was the second-highest growth market in the third quarter with 20% growth, driven by automobiles and platinum.

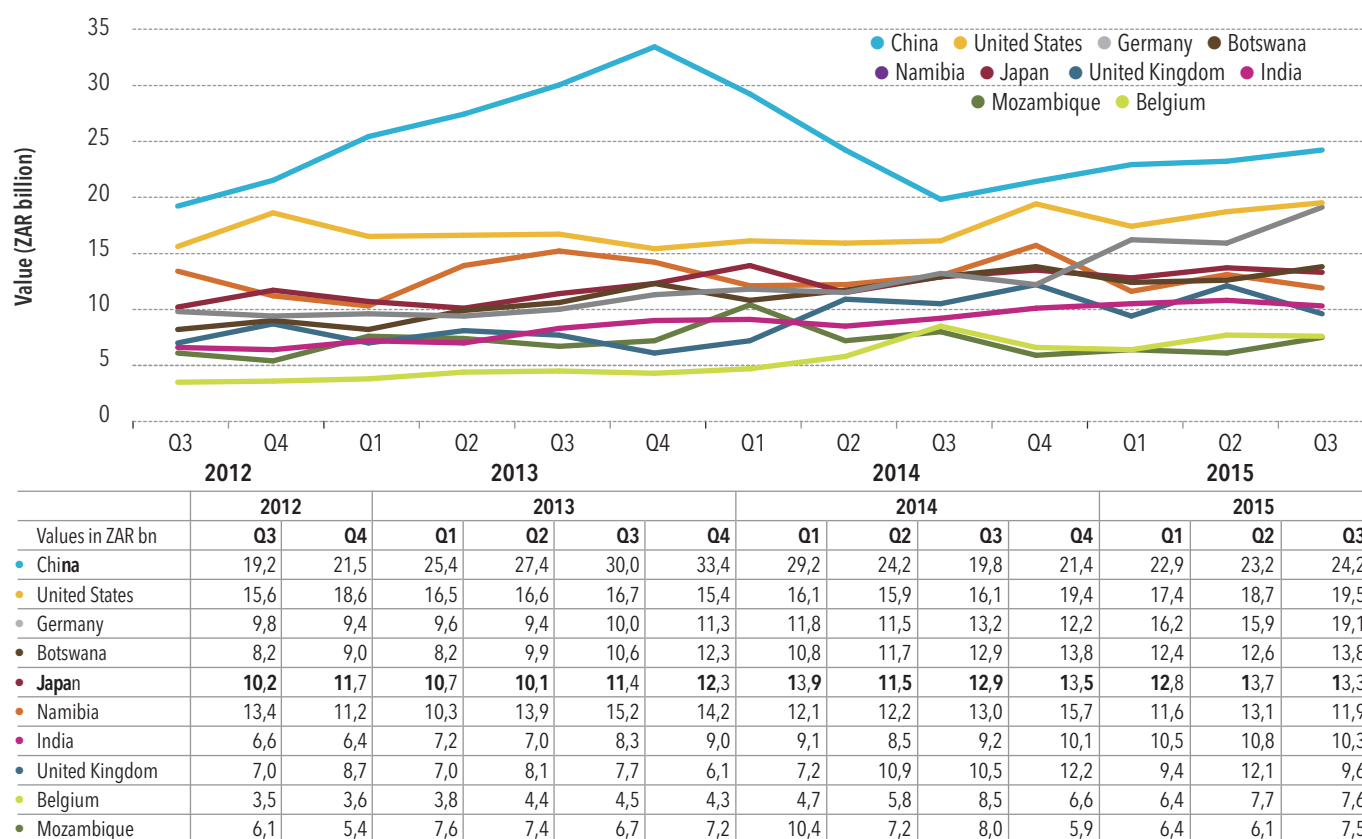
Botswana and Namibia were South Africa's top export markets in Africa with exports to Namibia growing by 10% quarter on quarter. Growth in exports to Africa has resulted in the continent playing a very important part in South Africa's global trade. Increased exports to the rest of the continent will further diversify South Africa's export markets and hedge against external shocks to the economy from the euro area as well as the United States. Zambia, Mozambique and Zimbabwe are

Botswana and Namibia were South Africa's top export markets in Africa with exports to Namibia growing by 10% quarter on quarter.

Figure 28: South Africa's exports, imports and trade balance (Quarter 3, 2012 to Quarter 3, 2015)¹⁰


Source: Quantec, November 2015.

all in the top 15 export destination markets for South Africa.

Figure 29: South Africa's export markets (Quarter 3, 2012 to Quarter 3, 2015)


Source: Quantec, November 2015.

Western Cape trade: SACU

In the absence of quarterly trade data for the Western Cape, this section will focus on selected trade and investment themes as they pertain to the province each quarter. In this edition, the section focuses on the Western Cape and Cape Town's trade with the Southern African Customs Union (SACU). SACU is the world's oldest customs union and dates back to 1889.

10. Please note that the trade figures in this edition may differ from previous editions as the values may have been adjusted for any previous errors as well as additional delayed country information.



The SACU countries, comprising Botswana, Lesotho, Namibia, Swaziland (BLNS) and South Africa, have a Common External Tariff (CET), which means that no customs or import duties or taxes are levied between the member countries of the union.

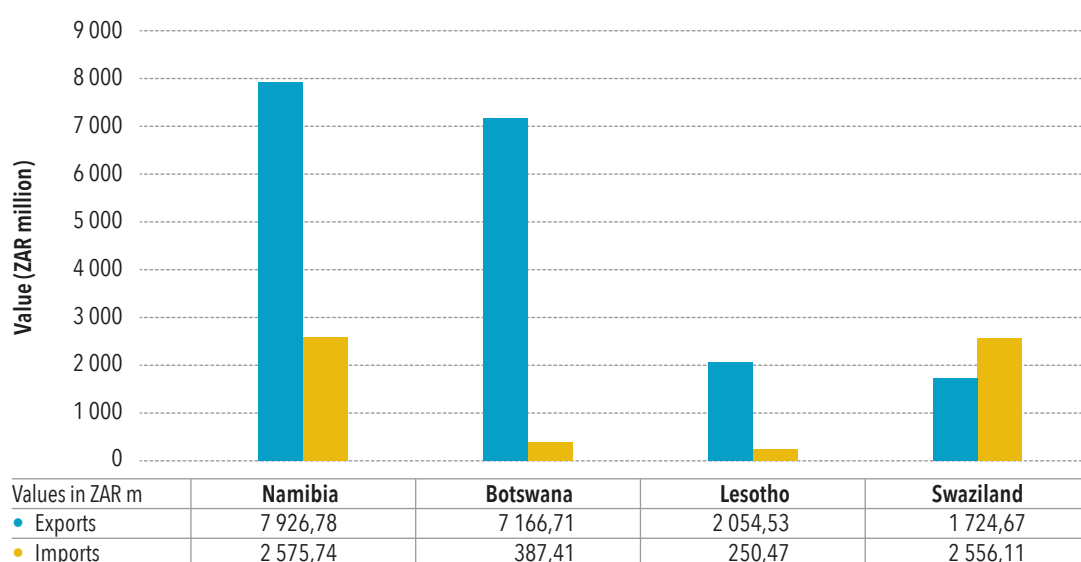
The Western Cape had a trade surplus with all SACU countries apart from Swaziland in 2014. The province exported goods to the value of R22,92 billion in 2014 to all SACU countries with an annual growth rate of 17,43%. Imported goods from SACU were valued at R6,3 billion in 2014 at an annual growth rate of 23,9%. Refined petroleum oil was the leading export product to SACU from the Western Cape in 2014, valued at R7,5 billion, followed by cigars and cigarettes worth R872 million.

Cape Town trade: SACU

The trade data for the Western Cape and Cape Town's trade with SACU has only recently been released by SARS. Previously, SACU markets could not be analysed in terms of the top export markets for Cape Town. In 2014, however, it was revealed that Namibia and Botswana were the top two destination markets for exports from Cape Town. This bears testimony to the importance of these markets for the city. Lesotho is the 10th largest export destination market overall for the city with Swaziland the 14th largest.

Cape Town exported goods to the value of R18,9 billion in 2014 to all SACU countries while imported goods were valued at R5,8 billion. The city has a positive trade balance with the region, with a trade deficit seen only in trade with Swaziland, where exports are the smallest in the region. Namibia is the city's largest export market, with exports valued at R7,9 billion, followed by Botswana with R7,2 billion and Lesotho with R2 billion. The city imports the most from Namibia, R2,3 billion, followed by Swaziland with R2,5 billion and Botswana with R387 million.

Figure 30: Cape Town trade with SACU (2014)



Source: Quantec, 2015.

The table opposite shows the top traded products between Cape Town and SACU in 2014. Refined petroleum oil was the leading export product category to SACU from the Western Cape in 2014, valued at R7,5 billion, with a 44% share of South Africa's exports of oil to the region. This top export was followed by cigars and cigarettes worth R828 million. Namibia was the largest importer of this product in the region, importing R374 million. Other major exports consist of agri-business

Namibia is the city's largest export market, with exports valued at R7,9 billion, followed by Botswana with R7,2 billion and Lesotho with R2 billion. The city imports the most from Namibia, R2,3 billion, followed by Swaziland with R2,5 billion and Botswana with R387 million.

Table 4: Top 10 export and import products for Cape Town and SACU (2014)**Top 10 exports to SACU, from Cape Town, 2014****Top 10 imports to Cape Town from SACU, 2014**

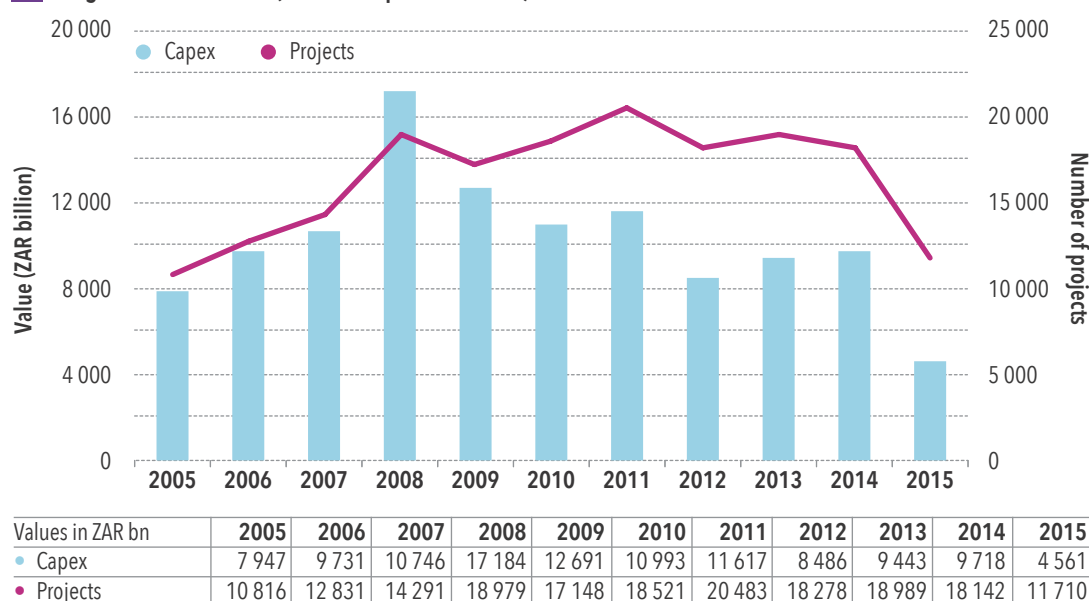
Rank	Product	Value 2014 (ZAR million)	Rank	Product	Value 2014 (ZAR million)
1	Refined petroleum oils and oils	7 514,4	1	Beer made from malt	856,6
2	Cigars, cigarettes and tobacco substitutes	827,7	2	Mixtures of odoriferous substances	853,3
3	Other footwear with outer soles and uppers of rubber or plastics	236,2	3	Binders for foundry moulds or cores, chemical products and preparations of chemicals	529,4
4	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06)	212,5	4	Frozen meat of bovine animals	476,4
5	Men's or boys' suits, ensembles, jackets, blazers, trousers etc.	210,0	5	Frozen fish (excluding fish fillets)	390,8
6	Beauty or make-up preparations	160,7	6	T-shirts, singlets and other vests, knitted or crocheted	330,1
7	Women's or girls' suits, ensembles, jackets, blazers etc.	155,5	7	Fish fillets and other fish meat (whether or not minced)	220,9
8	Petroleum gases and other gaseous hydrocarbons	155,0	8	Women's or girls' suits, ensembles, jackets, blazers etc.	211,3
9	Structures (excluding prefabricated buildings) and parts of structures e.g. bridges	153,7	9	Prepared or preserved fish caviar and caviar substitutes prepared from fish eggs	202,9
10	Other manufactured tobacco and manufactured tobacco substitutes	147,1	10	Other knitted or crocheted fabrics	142,4
TOTAL		18 872,7	TOTAL		5 769,7

Source: Quantec, 2015.

products, energy and clothing/footwear. Total exports to SACU from Cape Town made up 14,3% of South Africa's total exports to the region. The highest valued imports were beer (R856,6 million), odoriferous substances (R853,3 million) and binders for foundry moulds (R529,4 million). Imported products consist mainly of clothing and agri-processed goods.

INVESTMENT**Global foreign direct investment (FDI)**

Global FDI reached R9,7 trillion in 2014 with project numbers declining by 4,5% from 2013 with 847 fewer projects than the previous year. The value of investment in 2014, although increasing from 2013, has not yet reached the levels seen from

Figure 31: Global FDI (2005 to September 2015)¹¹

Source: Financial Times, November 2015.

The value of global foreign direct investment in 2014, although increasing from 2013, has not yet reached the levels seen from 2006 to 2011.

11. Please note that global FDI figures in this edition may differ from previous editions as the values may have been adjusted for any previous errors as well as exchange rate fluctuations.

2006 to 2011. Over the past five years the trend line for projects indicates that the number of investments taking place globally is beginning to decrease, however, capex values over the past few years have indicated that the FDI projects are of a greater value. Both capex and project figures have not recovered to 2011 values.

Between July 2015 and September 2015, a total of 3 608 FDI projects were recorded, representing a total capital investment of R2,172 trillion. That is an average investment of R602,3 million per project. The United States attracted the highest number of projects (1 126) as well as the highest rand value (R439 billion) in this quarter. When using capex as a measure, emerging markets such as India, China, Indonesia and Vietnam ranked third, fourth, fifth and sixth respectively. Egypt was the top-ranking African country (eighth) receiving 12 projects with a capex value of R75,7 billion, followed by Nigeria in 20th place receiving 21 projects with a capex value of R22,6 billion. South Africa was the fourth-highest-ranking African country (38th) in the quarter, receiving R10,9 billion worth of investment.

The top sub-sectors globally for FDI (in terms of projects) in the third quarter of 2015 were software publishers, except video games with a 7,2% share of total projects followed by clothing and clothing accessories (6,7%) and retail banking (3,2%). Despite services dominating in terms of the number of projects attracted globally, energy has received the bulk of capex. Solar electric power has received 6,8% share of capex, followed by oil and gas extraction (6,3%) and petroleum refineries (4,9%).

Cape Town foreign direct investment (FDI)

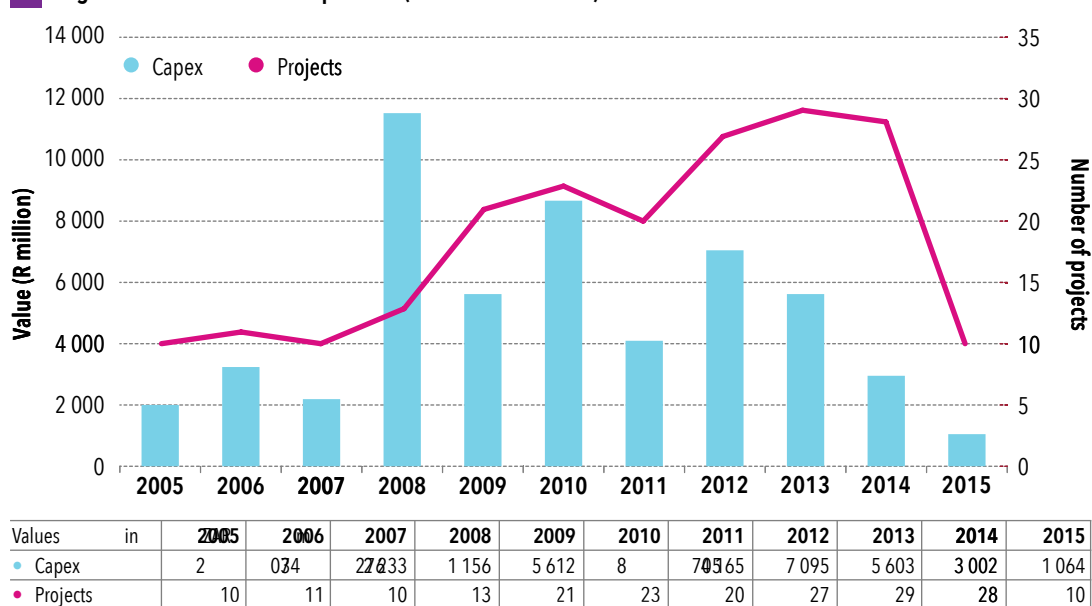
FDI flows into Cape Town in terms of capital investment have not recovered to the pre-crisis levels attained in 2008. The number of FDI projects received into Cape Town increased from six projects in 2004 to record levels in 2013 (29 projects). The growth in project numbers indicates that more companies are investing into Cape Town than previous years, despite lower levels of capital investment.

From April 2015 to June 2015, Cape Town attracted four investment projects worth R441,7 million. The largest investment in this quarter of R260,1 million was carried out by China-based Hisense. The company opened a new headquarters facility in Cape Town. The second largest investment of R79,7 million was by Harvard University. The US-based institute invested in a Centre for African Studies, which is expected to open in 2016.

The investments into Cape Town during this quarter were predominantly in the business services, consumer electronics, software and IT, and electronic components sectors. These investments are estimated to have created around 136 jobs.

From April 2015 to June 2015, Cape Town attracted four investment projects worth R441,7 million. The largest investment in this quarter of R260,1 million was carried out by China-based Hisense. The company opened a new headquarters facility in Cape Town.

Figure 32: FDI flows into Cape Town (2005 to June 2015)



Source: Financial Times, August 2015.

Investment facilitation

Between July and September 2015, Wesgro facilitated three new investment projects and two expansion projects in the City of Cape Town. The new investments were as follows:

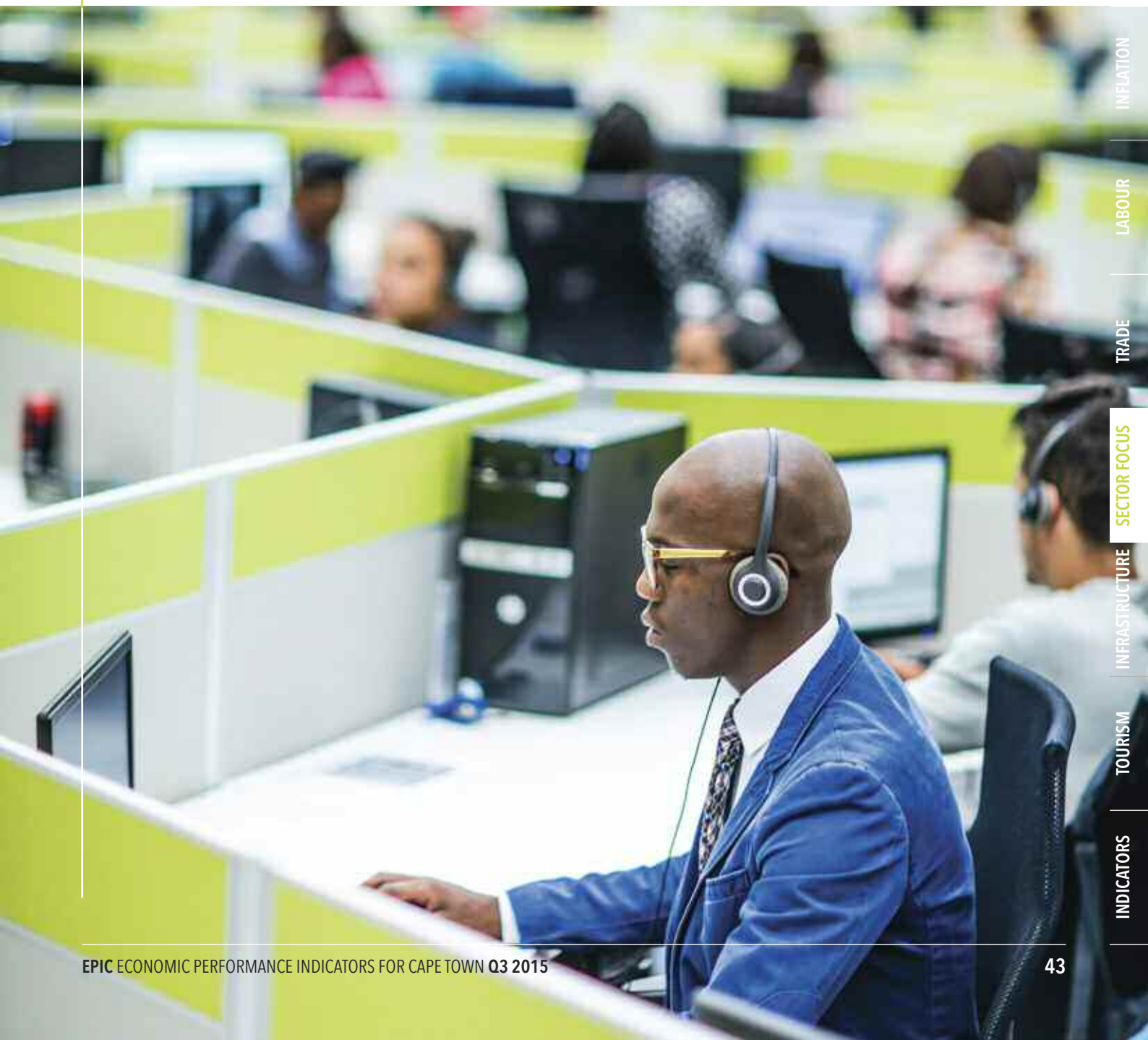
- R1,2 billion renewable energy project creating 50 jobs
- R28,3 million ICT project creating 80 jobs
- R18,5 million manufacturing project creating five jobs.

The expansion projects were as follows:

- R50 million film project creating 150 jobs
- R40 million textiles project creating 220 jobs.

Sector focus: Business process management

Fast-growing sectors that are labour intensive are relatively rare in largely post-industrial economies, and yet are critically important in reducing unemployment in a city. Business process management (BPM) and business process outsourcing (BPO), as it has typically been known, is a sector that has driven both economic growth and employment within the city in the last 10 years. In terms of the latter, the business services sector in which category BPO sits, has contributed the most jobs of any productive sector to Cape Town's economy in the last 10 years. While the industry is relatively mature in Cape Town, there is still significant scope for growth and the current domestic economic conditions, combined with the weakness of the rand, mean that, as an export industry, BPO will continue to be strategically important for Cape Town in the short to medium term.





Historically India has been the leading country in terms of the development of the BPM industry but it is increasingly being challenged by the Philippines, which currently employs 1,2 million people.

OVERVIEW OF THE BUSINESS PROCESS MANAGEMENT/OUTSOURCING SECTOR

Business process outsourcing (BPO) is a global multibillion dollar industry and involves the relocation of business processes to a third-party provider. The industry initially focused on providing basic call centre services but, as it has evolved, it has become increasingly characterised by more sophisticated value-added and high-skilled activities. The term “business process management” (BPM) is increasingly being used to describe the range of activities undertaken by the industry. BPM can take a number of different forms including front-office services that are typically customer focused in the form of voice-based interaction or non-voice web queries. Back-office functions such as human resources, accounting and legal services are also often outsourced. BPM work that is conducted outside a company's home country is called offshoring, while those contracted in a neighbouring (or nearby) country are called nearshoring. Outsourcing key components of their business processes allows firms to focus on their core business, as well as to free up capital that can be used for expansion.

Historically India has been the leading country in terms of the development of the BPM industry but it is increasingly being challenged by the Philippines, which currently employs 1,2 million people and has recently come to the fore as the leading destination for voice-based front-office work. A number of other countries led by South Africa, but also including Poland, Malaysia, Northern Ireland and Morocco, are emerging as attractive locations for BPM operations (Willcocks et al, 2015).

SOUTH AFRICA'S BPM VALUE PROPOSITION

South Africa's value proposition is built around offering a high level of customer service at a cost-competitive rate (BPESA, 2015b). Although the cost of outsourcing to South Africa is not the lowest when compared to India, Kenya or the Philippines, the quality offered by South African BPM firms makes the country an attractive location (Willcocks et al, 2015).

The attractiveness of South Africa as an outsourcing destination is further enhanced by a number of other attributes, including:

- **Large talent pipeline** – South Africa is the third-ranked global location that can support English BPM services, and adds



over 400 000 individuals annually to its labour force across all educational levels. The country is also able to draw on a pool of foreign language speakers, allowing it to offer a multilingual service to the German, French and Italian markets in particular. In addition, South Africa's cultural affinity with the United Kingdom, Australian and United States markets and neutral accent provides further advantages.

- **Deep domain skills** – Due to the diversity of the skills pipeline, South Africa is able to offer services from entry level customer service work to complex back-office processing requiring high skills. This is further supported by a set of world-class data protection laws, products and standards similar to those used in the United Kingdom and Europe. South Africa is ranked first in the world for auditing and reporting standards by the World Economic Forum, and has been influential in the development of the global ISO standard for the BPM industry.
- **A robust enabling environment** – The South African government has recognised the role that the BPM industry can play in growing the national economy and creating jobs, and works closely with the private sector, the industry bodies and investors to enable the development of the industry. BPESA, the industry support organisation, is actively involved in the development of partnerships with strategic international organisations such as the Rockefeller Foundation to promote impact sourcing. The costs and quality of telecommunications infrastructure and services have also improved markedly in the last 15 years with two new undersea cables coming on stream and the cost of broadband falling 85% between 2003 and 2009.
- **Infrastructure** – As an investment destination, South Africa is able to supply world-class engineering services and infrastructure, as well as social services such as health and education. The country is also well connected to key BPM source markets in the United Kingdom, Europe, Australia and the United States with a large number of direct international flights from these locations. South Africa's ability to service the European market is further enhanced by the fact that it operates in similar time zones and is well located to provide 24/7 customer support services to the United States and Australian markets.
(BPESA, 2015b; Nelson Hall, 2015)

The South African government has recognised the role that the BPM industry can play in growing the national economy and creating jobs, and works closely with the private sector, the industry bodies and investors to enable the development of the industry.



BPM IN THE WESTERN CAPE

The BPM industry has a significant presence in all three of South Africa's major centres. Rather than being in competition with each other, the BPM offering in these different centres offer a "complementary service triad" that enhances the overall attractiveness of the South African BPM offering (Willcocks et al, 2015).

The industry in Cape Town is characterised by the presence of a number of large providers, including Serco, WNS, Capita, Teleperformance, EXL, Merchants and Webhelp. The city is home to a number of captive centres and a growing number of offshore outsourcing clients.

The business services sector, which BPM forms a part of along with business consulting services, is one of the biggest contributors to employment in Cape Town and the largest contributor to employment growth over the last ten years. This sector has a location quotient of 1.15 indicating that it is one of the city's comparative advantage sectors. Nationally, BPM contributes approximately R50 billion to gross domestic product. Assuming that the Western Cape's share of this is in a similar proportion to its share of employment, it can be estimated that BPM contributes R10,9 billion to the Western Cape's GGP.

BPM in the Western Cape, apart from a few small call centres in George, is largely located in Cape Town. The industry employs an estimated 45 400 people, with approximately two-thirds (29 400) of these jobs being oriented to the domestic market (BPESA, 2015a). Figure 34 opposite shows how this compares with other regions in South Africa.

The BPM industry in the Western Cape has a particularly high penetration of offshore operations, employing about three times as many people in this component as Gauteng and KwaZulu-Natal. Investment by international outsourcers has constituted a significant share of the growth in the BPM industry in the Western Cape. This is consistent with the view that the offshore market is the one with the greatest potential for growth in Cape Town (Willcocks et al, 2015).

The industry in Cape Town is characterised by the presence of a number of large providers, including Serco, WNS, Capita, Teleperformance, EXL, Merchants and Webhelp. The city is home to a number of captive centres and a growing number of offshore outsourcing clients.

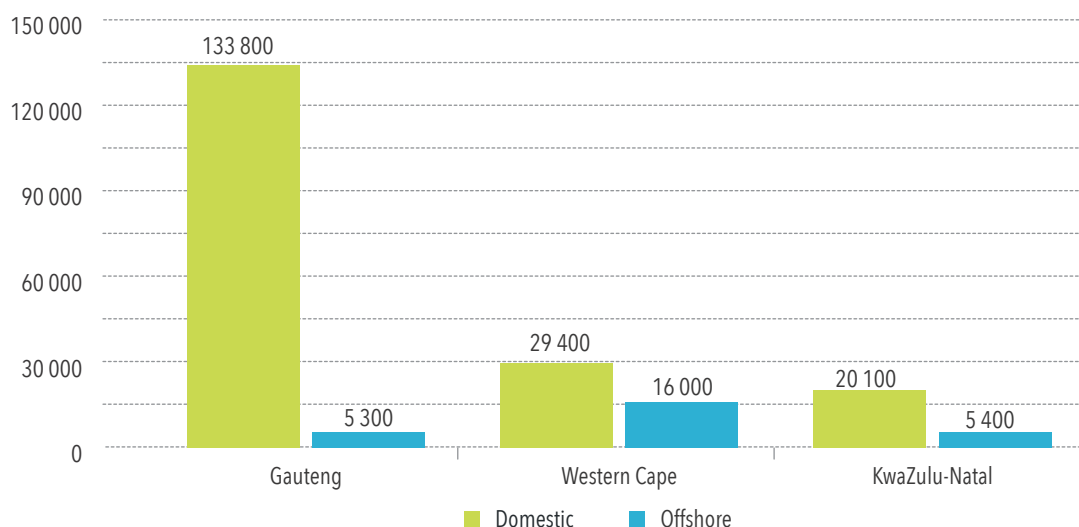
Figure 33: Captive and offshore outsourced clients in Cape Town



Source: Willcocks, et al 2015.



Figure 34: Overview of the BPM industry by province



Source: BPESA BPM key indicator report, 2015.

KEY PERFORMANCE TRENDS

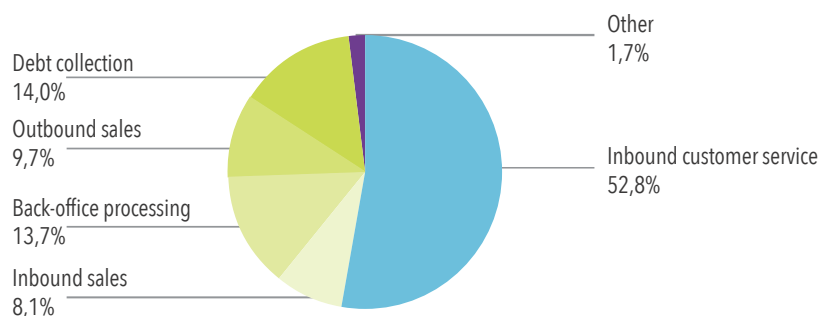
In the first two quarters of 2015 (according to the latest data available from BPESA) a total of 898 jobs were created in the offshore BPM sector. This constitutes 60% of BPESA's annual job creation target of 1 500 new jobs for 2015.

From a sectoral perspective, financial services is the biggest market served in the Western Cape, accounting for 43,8% of all BPM activity (BPESA, 2015a). The fastest-growing market in the Western Cape is the telecoms market, which increased its market share from 12,5% in 2014 to 19,3% in 2015 (BPESA, 2015a). In 2015, the telecoms market comprised 42% of offshore BPM activity in the Western Cape, an increase of 4,7% from 2014 (BPESA, 2015a).

In terms of service functions, the Western Cape BPM industry is dominated by inbound customer service activities as illustrated in Figure 35. The share of this component has shrunk by 10,1% from 2014 as a consequence of an increasingly diversified service function offering with the share of debt collection and inbound sales growing by 4,9% and 2,6% respectively (BPESA, 2015a).

In the first two quarters of 2015 (according to the latest data available from BPESA) a total of 898 jobs were created in the offshore BPM sector.

Figure 35: Service functions performed by the BPM sector in the Western Cape



Source: BPESA BPM key indicator report, 2015



There is a major opportunity for South Africa to diversify from voice to web in line with global technological developments, which is being aggressively pursued by some of the large international players operating in Cape Town.

THE FUTURE OF BPM

As reflected by the growth in investment and jobs in recent years, there is a huge demand for South African services from abroad, with South Africa and the Western Cape seen as a high-quality voice alternative to the likes of India and the Philippines.

Major opportunities identified by BPESA, which forms the basis for their investment promotion work, include:

- the opportunity of moving up the value chain into higher skill and higher value services, exploring areas such as legal process outsourcing, finance and accounting and shared services, building on the base of English voice skills in the contact centre market;
- a major opportunity for South Africa to diversify from voice to web in line with global technological developments, which is being aggressively pursued by some of the large international players operating in Cape Town, and
- developing the African BPM market by using South Africa as a strategic base for companies looking to operate on the continent.

The key constraint to enabling the sector's potential is the relatively small talent pipeline. Funding from both public and private sectors to further ramp up commitment to the various skills development initiatives is required if the growth of the local sector is to keep up with growth in demand.

STRATEGIC INTERVENTIONS AND LATEST DEVELOPMENTS

With skills identified as the key limitation to tapping into expanding global opportunities, a major focus of the sector is the institutionalisation of the skills supply chain. A partnership between various national, regional and local government departments, the Rockefeller Foundation and Microsoft has been established to develop an integrated skills pipeline. This initiative is focusing on:

- enhancement of the existing online skills portal, which offers online learning to individuals and companies;
- rollout of the Team C4 skills game to schools. This is a gamification project that, through an android-based app, helps to identify relevant talent for the industry at scale, and
- introduction of new programmes and qualifications for leadership, middle management and specialist roles in the BPM sector.

Negotiations are also underway with a Cape Town-based FET college to implement a basic training programme for call centre agents by early 2016. This is the first step in the development of a suite of BPM-related courses at a post-school level that will result in a clear career pathway in the industry and an enhancement of the value proposition of the industry overall.

Furthermore, there is a range of initiatives that aim to otherwise support industry development, including knowledge sharing, business-to-business marketing, industry awards, networking events and workplace wellness programmes. Through these industry-wide coordinated efforts, early discussions around the launch of BPM parks in key regions are also underway – where access to fast broadband, shared services, and training services can be clustered.

Infrastructure

Cape Town is home to South Africa's second-busiest airport as well as its second-busiest container-handling seaport, and is connected to the rest of the country by two major highways and an extensive railway network. These crucial transport infrastructure assets enable Cape Town to act as a gateway to South Africa, and to the west coast of Africa more broadly.

Cape Town is often promoted as the gateway to South Africa, and to Africa more generally. This status is in part historically derived from the use of Cape Town as a refreshment station for ships embarking on long voyages to the East, but is currently sustained by the quality of the transport infrastructure that exists within the city, ensuring that it is globally and locally well-connected. Cape Town is home to South Africa's second-busiest airport as well as the second-busiest container port in the country. The city also benefits from two major national highways connecting it to the rest of the country, as well as an extensive rail network. This section provides statistics relating to the performance of these crucial transport infrastructure facilities on a quarterly basis.

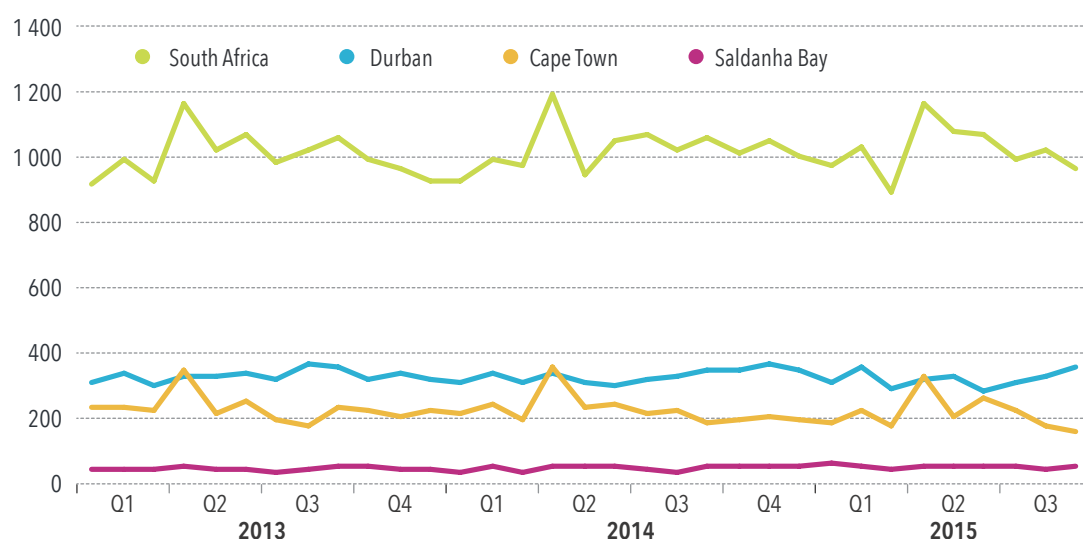
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports decreased by 331 vessels from 3 312 in the second quarter of 2015 to 2 981 in the third quarter of 2015. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the second quarter of 2015 was 555 vessels (accounting for 19% of total vessels). This represented a substantial decrease on the previous quarter's figure of 796 vessels. On a year-on-year basis, vessel arrivals in Cape Town in the third quarter decreased by 78 vessels, while Cape Town's share of national vessel arrivals decreased from 24% to 19%. This is typical for this time of year, as the number of vessels arriving at the Port of Cape Town returns to normal levels following the peak fishing period in the second quarter. The Port of Saldanha, the closest port to the Port of Cape Town, sees far fewer vessel arrivals per month, as it currently focuses on the shipment of bulk cargo, predominantly steel and iron ore, and does not have container-handling facilities, which limits the volume of vessels utilising the port. The average tonnage per vessel handled at Saldanha, however, is substantially higher than at Cape Town. On average, the Port of Durban has more vessel movements than Cape Town, except in the peak fishing month of April.

On a year-on-year basis, vessel arrivals in Cape Town in the third quarter decreased by 78 vessels, while Cape Town's share of national vessel arrivals decreased from 24% to 19%.

Figure 36: Total number of vessels (January 2013 to September 2015)



Source: Transnet National Ports Authority, November 2015.

Cargo (gross tonnage) and container handling

In the third quarter of 2015, South African ports handled 56,9 million tons of cargo compared to 57,9 million in the second quarter and 54,9 million in the corresponding period in 2014. Cape Town experienced a decrease in cargo handling, from 1,40 million tons in the second quarter to 1,24 million tons in the third quarter of 2015. There was also a substantial increase of 82% from the 697 000 tons handled in the corresponding period in 2014. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike Saldanha and Richards Bay). Therefore, it does not have a significant impact on the national cargo-handling performance. The ports of Durban and Saldanha, which are much larger cargo handlers than Cape Town, both experienced a decrease in cargo handled on a quarter-on-quarter basis in the third quarter (-0,02% for the Port of Durban and -13,71% at the Port of Saldanha). Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed a 12,25% increase in cargo handled at the Port of Saldanha and a 14,93% decrease for the Port of Durban.

The Port of Durban is South Africa's main container-handling port and contributed more than half (60%) of the total containers handled in South African ports in the third quarter of 2015. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 19% of all containers handled in South African ports in the third quarter of 2015.



OVERVIEW

GLOBAL

EXCHANGE

DOMESTIC

INFLATION

LABOUR

TRADE

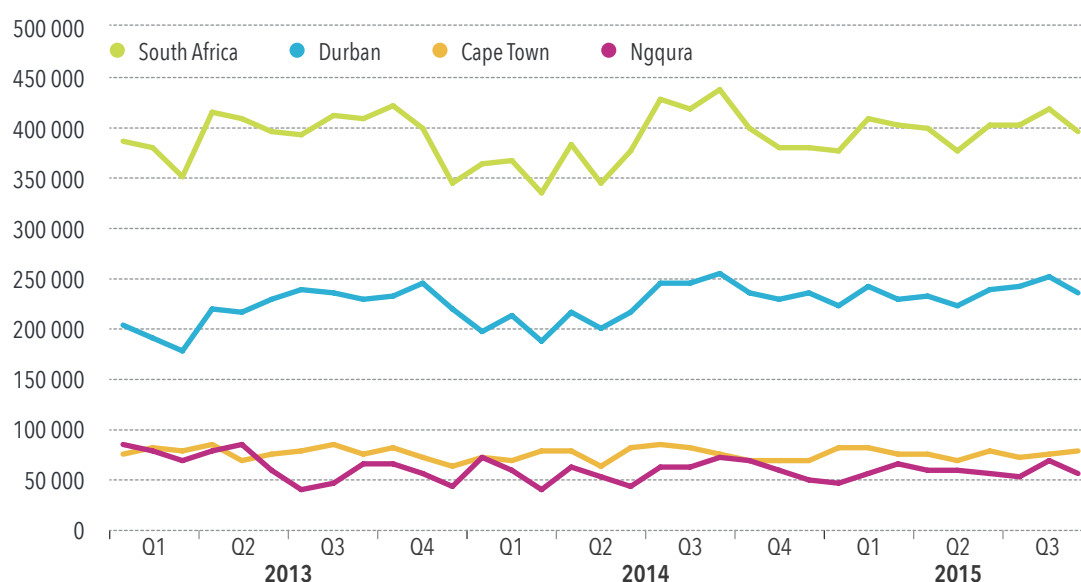
SECTOR FOCUS

INFRASTRUCTURE

TOURISM

INDICATORS

Figure 37: Total containers handled (TEUs¹²) (January 2013 to September 2015)



Source: Transnet National Ports Authority, November 2015.

Container traffic is very seasonal, as figure 37 indicates, so it is more meaningful to compare total containers handled over the period of a year. The number of containers handled at the Port of Cape Town decreased from 239 158 in the third quarter of 2014 to 225 519 in the third quarter of 2015 – a decline of 5,70%. In 2013, the Port of Cape Town appeared to be losing ground to the Port of Ngqura in terms of container handling, as the latter port recorded a large increase in containers handled in that year. This trend was reversed in 2014, when the Port of Ngqura recorded a decrease in containers handled for the year, and was maintained in the first and second quarters of 2015. However, in the third quarter of 2015, Ngqura recorded a decrease in containers handled year on year (195 731 for the third quarter of 2014 compared to 180 120 for the third quarter of 2015). While the Port of Ngqura still lags behind Cape Town in terms of the volume of containers handled, capacity constraints experienced at the Port of Cape Town mean that Ngqura may in future overtake it as the country's second-largest container-handling port. That being said, however, Transnet has approved plans for a multibillion-rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 19% of all containers handled in South African ports in the third quarter of 2015.

12. ATEU (20-foot equivalent unit) is an inexact unit of cargo capacity, based on the volume of a 20-foot-long (6,1 m) container. There is a lack of standardisation with regard to height, ranging between 4 feet 3 inches (1,30 m) and 9 feet 6 inches (2,90 m), with the most common height being 8 feet 6 inches (2,59 m). The 40-foot (12,2 m) or 45-foot (13,7 m) containers – the sizes most frequently used – are both defined as two TEU.

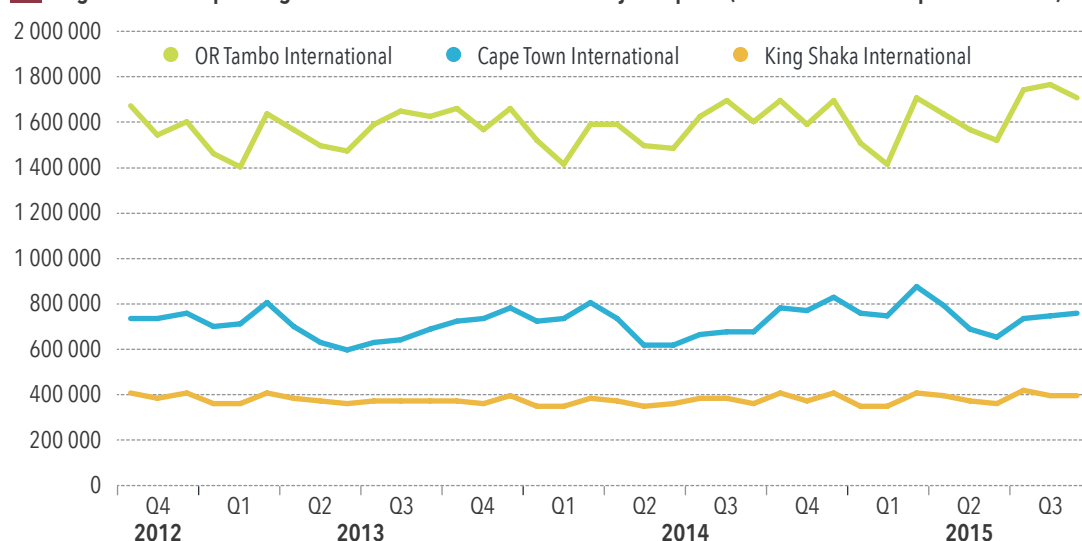
CAPE TOWN AIRPORT STATISTICS
Total passenger movements

Cape Town International Airport is South Africa's second-busiest airport. It recorded 2,23 million total passenger movements in the third quarter of 2015 compared to 5,23 million passenger movements at OR Tambo and 1,21 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the third quarter of 2015 were higher compared to the third quarter of 2014, when 2,02 million passenger movements were recorded. Similarly, OR Tambo International and King Shaka International recorded increases in passenger numbers in the third quarter compared to the same period in the previous year.

A quick glance at figure 38 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with these declining in the second quarter when Cape Town enters its winter months. In contrast, OR Tambo International shows a more erratic distribution with a less-defined seasonal trend. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

Total passenger movements at Cape Town International in the third quarter of 2015 were higher compared to the third quarter of 2014, when 2,02 million passenger movements were recorded. Similarly, OR Tambo International and King Shaka International recorded increases in passenger numbers in the third quarter compared to the same period in the previous year.

Figure 38: Total passenger movements at South Africa's major airports (October 2012 to September 2015)

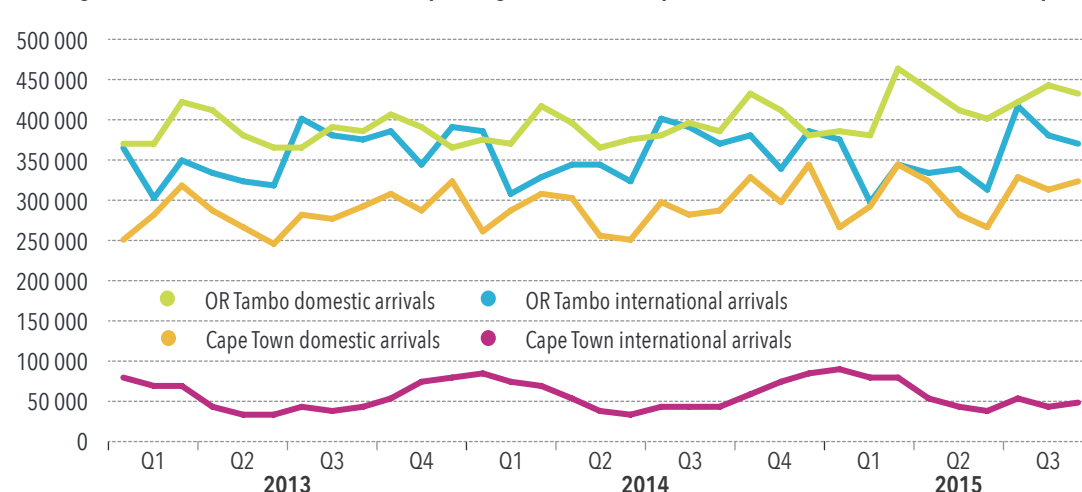


Source: ACSA, November 2015.

International versus domestic arrivals for South Africa's two busiest airports

The direct international proportion of passenger arrivals to Cape Town International for the third quarter of 2015 constituted 13,3% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 47% of its total passenger arrivals. This reflects the fact that Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. While Cape Town International hosts 15 international airlines with 89 international flights a week, the figure for direct international

Figure 39: International and domestic passenger arrivals for Cape Town and OR Tambo international airports



Source: ACSA, November 2015.

arrivals highly underestimates total international tourist arrivals to the city, as many international tourists take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight.

Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with the summer months of December to March being the peak period for travel to the city. Cape Town's domestic arrivals, however, show far more variation, with peaks and troughs dispersed throughout the year (clearly visible in figure 39). The total number of passenger arrivals to Cape Town International in the third quarter of 2015 increased by 10,6% year on year, with international arrivals increasing by 10,9%.

While Cape Town International remains behind OR Tambo International in terms of passenger movements and number of flights available, Cape Town is an increasingly popular tourist destination. In order to respond to increasing tourist visits, the airport needs to expand its capacity. In line with this, ACSA has proposed to realign the runway at Cape Town International to make room for larger aircraft and accommodate greater passenger numbers. The proposal, which includes extending the runway length by 300 metres, would allow between 10 and 14 additional aircraft to land and take off each hour, as well as enable larger aircraft to land at the airport (SRK Consulting, 2014). The project is critical to Cape Town's strategic goals of attracting multinational investment and enhancing its global business and tourist appeal.

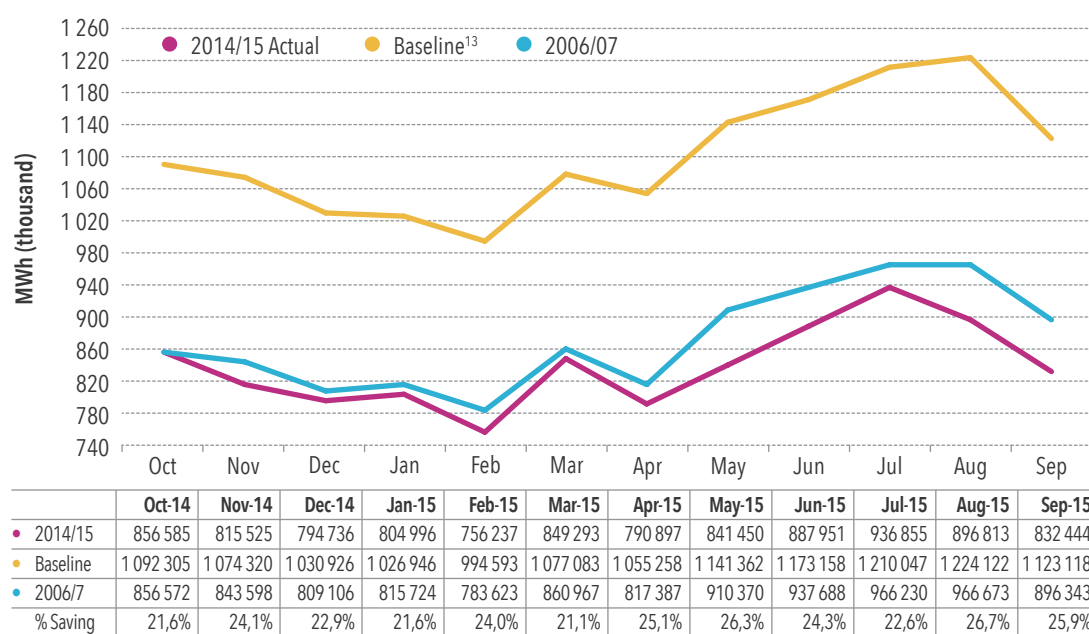
ELECTRICITY

South Africa generates two-thirds of Africa's electricity and is one of the four cheapest electricity producers in the world (Department of Energy, Republic of South Africa, 2015). A review of South Africa's energy mix reveals that the country is largely reliant on coal, with some nuclear, hydro and renewable energy sources also contributing to the national grid. As is the case in most economies, the availability, reliability and affordability of electricity supply are key considerations in the location decisions of major investors.

Energy security has become a pressing economic issue as Eskom battles to match the demand for electricity from businesses and households with the existing sources of supply, which either require significant maintenance and renewal or are still under construction. This has resulted in the implementation of a load-shedding programme and upward pressure on electricity prices as Eskom seeks to provide a reliable and predictable electricity supply. Load shedding is a short-term measure aimed at minimising the social and economic costs of the crisis while longer-term improvements are made to infrastructure, and a less vulnerable energy mix including coal, solar, wind, hydro, gas and renewable energy is developed.

Figure 40 depicts the City's baseline consumption forecast, the actual consumption of electricity over the last year, as well as the period of 2006/7 as the benchmark, being the year when the problems with electricity supply first started to emerge. The difference between the baseline forecast and actual consumption is reflected as the rate of energy savings achieved for the period as a result of energy-saving and energy-efficiency measures. The rate of savings continued to fluctuate in the third quarter of 2015, going from 22,6% in July up to a high of 26,7% in August, and falling slightly again to 25,9% in September.

Figure 40: City of Cape Town electricity consumption (October 2014 to September 2015)



Source: City of Cape Town 2015a.

The rate of electricity savings continued to fluctuate in the third quarter of 2015, going from 22,6% in July up to a high of 26,7% in August, and falling slightly again to 25,9% in September.

13. The baseline is the amount of electricity the City makes provision for based on historical trends.



Tourism developments

In a global climate of relatively subdued economic performance, tourism continues to outshine traditional economic sectors. As an internationally renowned tourist destination boasting iconic and world-class tourist attractions, including one of the New7Wonders of Nature, Cape Town is well placed to take full advantage of the vigorous global growth of the tourism industry.

INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) *World Tourism Barometer* for October 2015, 810 million global tourist arrivals were recorded in the first eight months of 2015. This constituted an increase of 33 million (or 4,3%) in tourist arrivals compared to the same period in 2014. The robust growth of tourist arrivals in a climate of subdued economic growth has "been instrumental in supporting the economic recovery of many countries and in generating new jobs" (UNWTO, 2015).

In terms of regional performance, growth in international arrivals for the period January to August 2015 was led by strong arrivals growth (5%) in Europe, which also remained the world's most popular tourist destination region. Arrivals growth was particularly strong in Central and Eastern Europe (7%) and Northern Europe (6%) following a bumper summer season and a weaker euro. Asia and the Pacific recorded a 4% increase in tourist arrivals with Oceania (7%) and south-east Asia (6%), driven by a strong rebound in Thailand, leading the way.

International arrivals to the Americas grew by 4%, with the highest growth rates being achieved by the Caribbean and Central America (both 7%). The strength of the dollar saw more sedate growth (3%) in arrivals to the United States during this period although it stimulated strong growth (9% year on year) in outbound tourist expenditure from the United States. While currency developments clearly played a role in stimulating and suppressing growth in arrivals in Europe and the United States respectively, domestic conditions have more strongly affected tourist arrivals to Africa, which declined by 5,4%. Arrivals to North Africa (-9,6%) were hindered by concerns over safety following terrorist attacks on North African resorts, while the decline (-2,9%) in tourist arrivals to sub-Saharan Africa is likely to be largely a consequence of poor arrivals to South Africa.

In terms of outbound travel, China continues to lead with double-digit growth. Among the other BRICS countries, double-digit growth in outbound tourism expenditure was recorded in India and South Africa, while it declined in Brazil and Russia which are experiencing technical recessions. South Africa's strong growth in outbound tourist expenditure, at a time when its economy is performing at a less than 1,5% GDP growth rate and its currency has hit record lows, is perhaps indicative of the resilience of the South African traveller.

Tourist arrivals decreased by 11,7% year on year for the period, with arrivals from Africa (South Africa's largest tourist source market) decreasing by 11,9% and the overseas market falling sharply by 11,1%. The sharp decline in growth can be ascribed to the stricter visa requirements implemented by the Department of Home Affairs.

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS IN SOUTH AFRICA

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. In August 2015, 731 248 foreign tourists visited the country. Tourist arrivals decreased by 11,7% year on year for the period, with arrivals from Africa (South Africa's largest tourist source market) decreasing by 11,9% and the overseas market falling sharply by 11,1%. This was not just isolated to August as total tourist arrivals for the year to date dropped by 7,1% compared to 2014. The sharp decline in growth can be ascribed to the stricter visa requirements implemented by the Department of Home Affairs, reduced economic growth in source countries, as well as the xenophobic attacks experienced in South Africa earlier in the year.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market and accounted for 95 406 tourist arrivals in August 2015, despite having fallen by 10,1% year on year. Within the European region, the United Kingdom, Germany and the Netherlands were South Africa's largest source markets. While these countries were the largest source markets in terms of absolute tourist arrivals, all recorded declines in April 2015 (the United Kingdom -3,1%, Germany -14,1%, and the Netherlands -12,5%). The only countries to record positive year-on-year arrivals growth were Denmark (5,9%), Norway (11,9%) and Switzerland (2,3%), albeit off a small base.

Tourist arrivals from emerging markets followed the broader negative trend in August 2015. Although these countries had been the key contributors to recent arrivals growth in South Africa, with China, India and Brazil leading the way, arrivals from

Table 5: International tourist arrivals in South Africa

Region	August 2015	August 2014	% change	% change Jan-Aug 2014 to Jan-Aug 2015
Europe	95 406	106 158	-10,1%	-5,3%
Russia	611	804	-24,0%	-39,6%
North America	30 280	34 089	-11,2%	-7,9%
Central and South America	3 618	4 863	-25,6%	-30,8%
Brazil	2 018	3 064	-34,1%	-31,2%
Australasia	10 136	11 314	-10,4%	-10,4%
Asia	21 584	24 663	-12,5%	-21,2%
China	7 183	7 408	-3,0%	-26,1%
India	6 126	7 065	-13,3%	-13,5%
Middle East	4 966	5 714	-13,1%	-6,4%
Overseas total	165 990	186 801	-11,1%	-9,0%
Africa	564 272	640 414	-11,90%	-6,6%
Total	731 248	828 531	-11,7%	-7,1%

Source: South African Tourism, August 2015.



all three dropped in August 2015. Despite the drop in arrivals from these emerging economies, South Africa needs to continue improving its efforts to target these countries in the future, as they (Brazil excluded) remain the world's fastest-growing tourist source markets – a trend that is likely to continue as sustained high economic growth rates raise income levels in these countries.

The negative trend in tourist arrivals in South Africa for the year to date is out of sync with international tourist arrivals trends which, as indicated in the previous section, have grown strongly. While sub-Saharan Africa had also recorded a decline in this period, these figures are almost certainly weighed down by South Africa which is by far the top tourist destination in the region. This then points to specific domestic factors negatively impacting on tourist arrivals to South Africa. In this respect the impact that the more onerous visa regulations have had on the tourist industry cannot be underestimated. In fact, such was the impact of these regulations that the Department of Home Affairs announced in late October that some of the more complex aspects of the new regulations, including the requirement to travel with an unabridged birth certificate would be repealed. This was met with broad approval throughout the South African tourism industry.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourism accommodation in Cape Town

Accommodation spend typically constitutes the largest portion of total visitor spend at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in table 6 were derived from a survey of 74 tourism accommodation establishments in the Cape Town metro area.

Occupancy rates at city accommodation establishments decreased by an average of 0,6 percentage points in the third quarter of 2015 compared to the third quarter of 2014. Occupancy rates decreased year on year in the third quarter, with the exception of September, when it increased by 6 percentage points. Despite the average year-on-year drop in occupancy rates for the third quarter, the average room rate increased by R102 and revenue per room increased by R46. Overall, tourist accommodation in Cape Town did reasonably well, despite the decrease in the occupancy rate.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in September were achieved by backpacker establishments (73,2%). All establishment types experienced occupancy increases, with self-catering establishments having the highest occupancy rate increases (9,9%) and bed and breakfast establishments the lowest (1,5%). With these positive occupancy growth rates, backpacker establishments experienced the largest increase in revenue per room (29%). Spatially, the highest occupancy rates in the city in September were experienced in the Northern Suburbs (74,1%).

Despite the average year-on-year drop in occupancy rates for the third quarter, the average room rate increased by R102 and revenue per room increased by R46.

Table 6: Income derived from tourist accommodation – South Africa

Indicator	July		August		September		Third-quarter average	
	2015	2014	2015	2014	2015	2014	2015	2014
Occupancy rate	45,1%	49,8%	50,4%	52,9%	66,0%	60,6%	53,8%	54,4%
Average room rate	R1 204	R1 075	R1 253	R1 141	R1 162	R1 097	R1 206	R1 104
Revenue per room	R543	R536	R631	R603	R767	R665	R647	R601

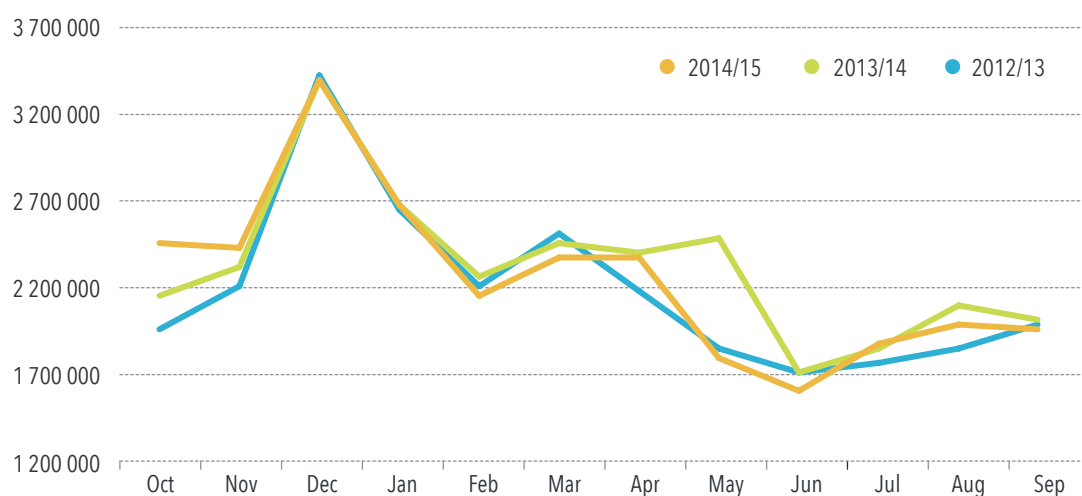
Source: Cape Town Tourism, December 2015.



Performance of Cape Town's top visitor attractions

For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These include the city's most popular tourist attractions for which visitor information is available, and encompass a diverse set of sights and sounds. The six attractions are the world-famous Table Mountain (specifically the Table Mountain Aerial Cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 41 indicates the cumulative number of visits by tourists to these attractions since October 2012. While all of them are open to everyone – resident or non-resident, domestic or international – they attract large proportions of tourists, and are used in this section as a proxy for tourism demand in Cape Town.

Figure 41: Total visits to Cape Town's major (top six) tourist destinations (2012 to 2015)



Source: Derived from Wesgro data, December 2015.

Removing the impact of seasonality by comparing the visitor statistics on an annual basis, shows that the third quarter of 2015 yielded a 2,31% decrease in visits compared to the corresponding period in 2014.

From figure 41, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality. The third quarter of 2015 showed a 1,22% quarter-on-quarter increase in the number of visits to these attractions. This typifies the seasonal nature of tourism activity in Cape Town, as higher tourist volumes are experienced in the summer months of December to March, a decline during winter months and a slight increase during the third quarter as the weather starts improving. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, shows that the third quarter of 2015 yielded a 2,31% decrease in visits compared to the corresponding period in 2014.

It is important to note, however, that the visitor attraction data are strongly skewed by the V&A Waterfront. The V&A contributed more than 88% of the total number of visits to the six attractions analysed for the period under review. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends. When the V&A is removed, the number of visits to the five attractions decreases to 698 479 in the third quarter of 2015, representing a 9,04% year-on-year decline. One of the reasons for this sharp year-on-year decline is that the figures had come off a very strong base, as the third quarter of 2014 was a particularly good one for Cape Town's tourism industry. That being said, however, the weaker performance of Cape Town's tourist attractions cannot be viewed in isolation from the broader negative trend in tourist arrivals at a national level.

Table 7: Ranking of the most-visited tourist attractions in Cape Town

Rank	Q3 2015	Q2 2015	Q3 2014	Year-on-year growth rate %
V&A Waterfront	5 127 242	5 073 436	5 195 904	-1,32%
Table Mountain National Park: Cape of Good Hope	176 752	157 061	187 125	-5,54%
Table Mountain National Park: Boulders Beach	125 224	111 857	134 451	-6,86%
Table Mountain aerial cableway	147 987	178 220	162 870	-9,14%
Kirstenbosch National Botanical Garden	178 988	176 449	215 826	-17,07%
Robben Island	69 528	58 526	67 598	2,86%
Total	5 825 721	5 755 549	5 963 774	-2,31%
Total (excluding V&A Waterfront)	698 479	682 113	767 870	-9,04%

* Most-visited tourist destination in green; second-most-visited tourist destination in blue.

Source: Wesgro, December 2015.

Most-visited tourist attractions

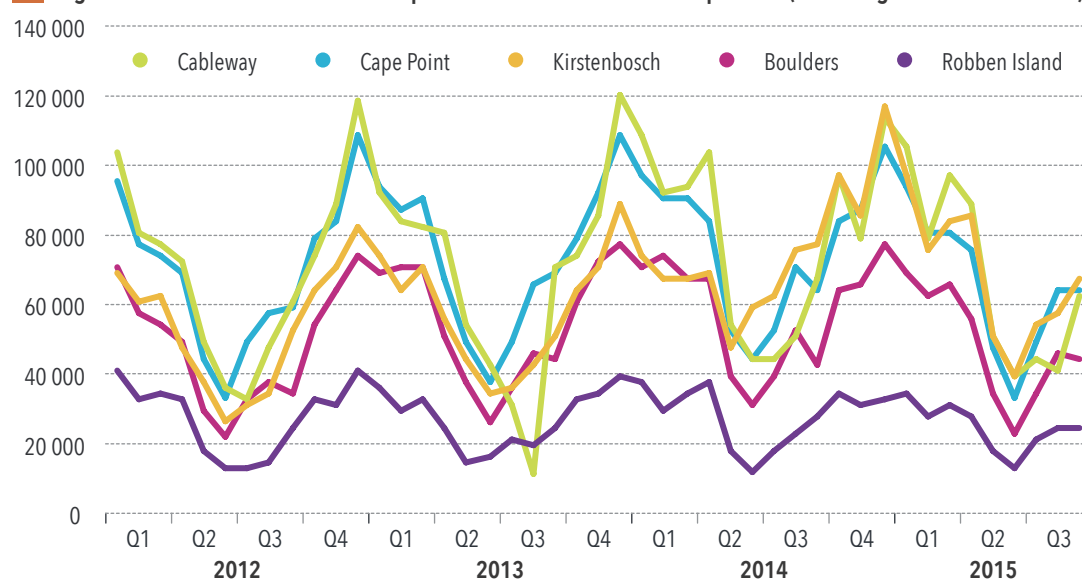
Table 7 indicates that, in terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town. However, for reasons described above, a more accurate reflection of the performance of major tourist attractions in Cape Town can be derived from the performance of the other five attractions. In this respect, the Kirstenbosch National Botanical Garden managed to record the second-highest visitor numbers for the third quarter of 2015, with 178 988 visits, while the Table Mountain National Park Cape of Good Hope section recorded the third-highest number of visits (176 752).

Overall for the third quarter of 2015, all the attractions recorded a positive quarter-on-quarter growth rate except for Table Mountain Aerial Cableway, which declined by 30 233 visits to a total of 147 987 visits in the third quarter after having the highest number of visits in the previous quarter. This could be a result of poor weather conditions between July and September. On a year-on-year basis, Table Mountain Aerial Cableway also reflected negative growth (9,14%). In fact, all the attractions except for Robben Island (which grew by 2,86%) experienced declines in number of visits compared to the previous year. Visits to Kirstenbosch National Botanical Garden declined by 17,07% after a number of strong quarters of growth while visits to Boulders Beach and Cape of Good Hope declined by 6,86% and 5,54% respectively. The positive growth for Robben Island could be indicating the normalisation of operations following the previous years in which their ferries were not fully operational.

At least part of the poor performance of these attractions can be attributed to the broader national decline in tourist arrivals. International tourists are the main visitors to these attractions so a decrease in their numbers is likely to weigh heavily on the number of visits to these attractions. On a quarter-on-quarter basis this effect is not visible, however, when compared to the third quarter of 2014 the impact is clearer as there was a decline of 138 053 visits (V & A Waterfront included).

All attractions are subject to strong seasonality, with peak visitor activity occurring in the period November to March. The lowest visitor numbers are seen during the period May to July, which are the Cape Town winter months. As previously mentioned, the third quarter 2014 had particularly high figures which would inflate the decline in visitors' numbers.

International tourists are the main visitors to these attractions so a decrease in their numbers is likely to weigh heavily on the number of visits to these attractions.

Figure 42: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)

Source: Derived from Wesgro data, December 2015.



Additional indicators

In addition to macroeconomic indicators, which provide overall estimates of economic activity, administrative data capture specific consumer trends and provide strong indications of the performance of a local economy. Building plan developments and passenger vehicle sales are two such sources of data. Building plans submitted and completed are key indicators of the level of economic development in Cape Town, and passenger vehicle sales mirror trends in the business cycle and are regarded as a leading indicator of GDP growth.



BUILDING DEVELOPMENTS

This section focuses on building developments recorded by the City of Cape Town for the third quarter of 2015. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, building plan submissions and building plans completed are key indicators of the level of economic development occurring within the city.

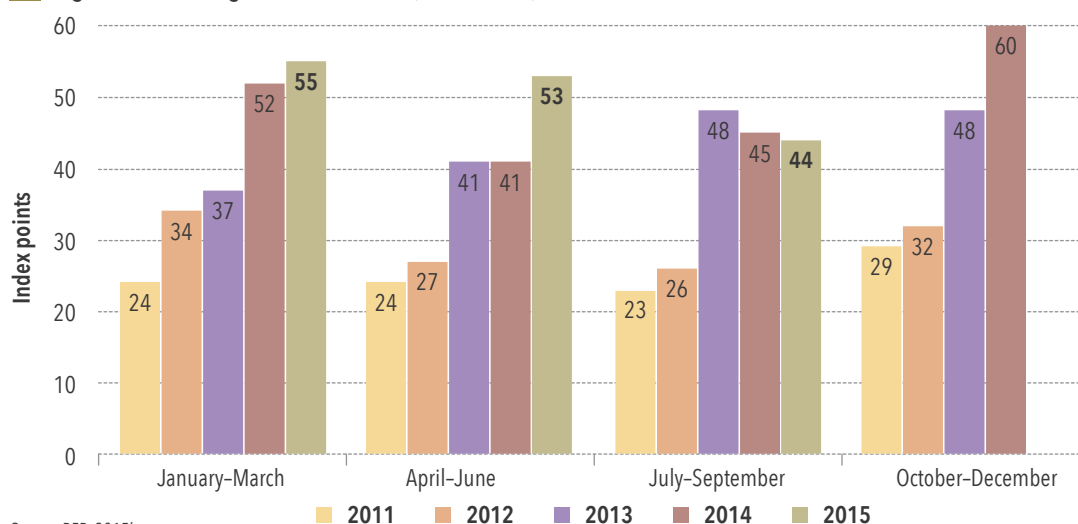
CONSTRUCTION INDUSTRY OVERVIEW

Chapter 4 showed that output in the national construction industry grew by 0,5% quarter on quarter in the third quarter of 2015. The industry recorded a year-on-year growth rate of 1,7%, making it the joint second-fastest-growing industry in South Africa on a year-on-year basis. The Western Cape construction industry performed similarly, recording an expansion of 0,5% on a quarter-on-quarter basis in the third quarter, and 1,8% on a year-on-year basis.

The First National Bank (FNB)/BER (2015b) composite building confidence index reveals the percentage of respondents, namely architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions. The building confidence index fell from 53 points in the second quarter of 2015 to 44 points in the third quarter of 2015. Year on year, confidence declined by 1 index point from the third quarter of 2014.

The construction industry recorded a year-on-year growth rate of 1,7%, making it the joint second-fastest-growing industry in South Africa on a year-on-year basis.

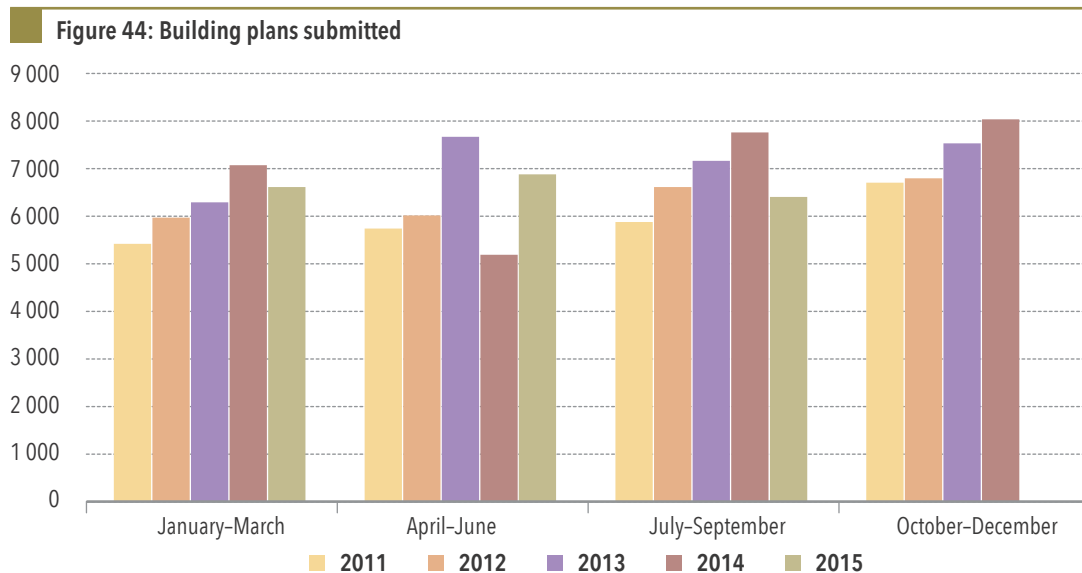
Figure 43: Building confidence index (2011–2015)



Source: BER, 2015b.

BUILDING PLAN APPLICATIONS IN CAPE TOWN

Building plans submitted to the City of Cape Town in the third quarter of 2015 decreased by 6,95% from the previous quarter. However, figure 44 provides an annual comparison of the number of building plans submitted in each of the quarters over the past four years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted in the third quarter of 2015 decreased by 17,3% compared to the corresponding period in 2014 and may be an outcome of the weak growth of the South African economy in 2015 and the (related) reduced confidence by the building sector compared to the same period in 2014.



Source: City of Cape Town, November 2015c.

BUILDING PLANS COMPLETED

While the number of building plans submitted is certainly an indicator of the level of confidence in the construction industry, and points to its future performance, it does not measure the current actual output of the industry. The better indicator of actual growth in the industry is the number of building plans completed. Building plans completed represent actual construction activity, as opposed to building plans submitted, which represent the anticipated level of construction activity in the future. While building plan approvals must have a turnaround time of 30 to 60 days after submission, the completion of building work can take up to five years after approval. The completion of building plans reflects the current economic climate within a region. By measuring the actual work undertaken to complete a building plan, actual economic activity – including employment and remuneration as well as spending on materials – is captured.

Table 8 compares the number of completed building plans in Cape Town in the third quarter of 2015 to the number of

The value of building plans completed in Cape Town in the third quarter amounted to R3,9 billion, which accounted for 26,01% of the total value (R15,1 billion) of building plans completed in South Africa's larger municipalities.

Table 8: Building plans completed in the third quarter of 2015					
Measure	Cape Town		South Africa		
	Number/value	Year-on-year change	Number/value	Year-on-year change	
Building plans completed	5 331	25,55%	N/A	N/A	
Value of building plans completed	R3 940 million	77,13%	15 147 million	11,33%	

Source: City of Cape Town, September 2015c; Stats SA 2015.

completed building plans in South Africa over the same period. The figures for both Cape Town and the country reflect an upward trend.

The value of building plans completed in Cape Town in the third quarter amounted to R3,9 billion, which accounted for 26,01% of the total value (R15,1 billion) of building plans completed in South Africa's larger municipalities. Cape Town had recorded a year-on-year increase of 77,13% while South Africa had recorded a year-on-year increase of 11,33% in the value of building plans completed for the third quarter. In Cape Town, all components of completed building plans have increased in the third quarter; the value of residential building plans completed increased by 53%, non-residential plans substantially increased by 248%, minor works increased by 43%, and additions and alterations increased by 11%.



NEW VEHICLE SALES

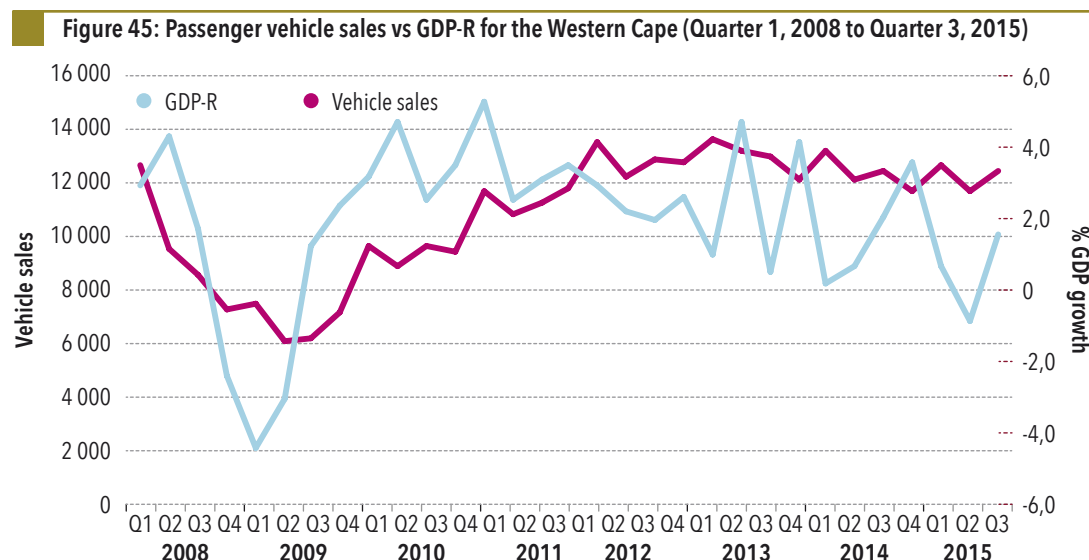
This section tracks new vehicle sales in the province on a quarterly basis. Typically vehicle sales, especially passenger vehicle sales are considered to mirror trends in the business cycle and, in particular, are often regarded as a leading indicator for GDP growth. New vehicle sales are sensitive to changes in economic indicators like the interest rate, inflation, disposable income, and consumer and business confidence levels. As such an analysis of vehicle sales can provide an indication of the current stage or health of the business cycle. If sales decrease consistently, the economy is more than likely in a contraction phase while if sales reflect a sustained growth trend then the economy may be entering an expansion phase.

In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). The total vehicle sales in the Western Cape increased from 16 626 vehicles sold in the second quarter of 2015 to 18 245 in the third quarter. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw an increase of 402 from the 17 843 total vehicle sales in the corresponding period in 2014. Passenger vehicle sales, which are the private consumer segment of the market, saw an increase from 11 754 in the second quarter of 2015 to 12 435 in the third quarter of 2015 for the Western Cape. Year-on-year results saw a decrease of 72 vehicles from the 12 507 passenger vehicles sold in the corresponding period in 2014. Nationally there was a 10,1% decrease in the number of passenger vehicles sold in the third quarter of 2015 compared to the corresponding period in 2014. The increase in vehicle sales in the Western Cape during the third quarter is seemingly at odds with the prevailing macro-economic conditions in the country, which include low levels of consumer confidence and increasing interest rates. This is perhaps indicative of stronger economic growth in the Western Cape and a more upbeat view among consumers and businesses.

Figure 45 plots the total passenger vehicle sales per quarter alongside the regional gross domestic product (GDP-R) for the Western Cape. The South African Reserve Bank (SARB) includes new passenger vehicle sales as one of the variables in its leading indicator for GDP growth, with the assumption that new passenger vehicle sales and GDP growth are positively correlated, and that passenger vehicle sales "lead" GDP growth. This assumption is not unique to the Reserve Bank as passenger vehicle sales have been used as a leading variable in a number of top indicator models.

It is not immediately clear from figure 45 which indicator leads which and it would appear that a more direct relationship has emerged in the last two quarters. This said, the actual nature of this relationship can only be fully appreciated when one isolates the impact that passenger vehicle sales have on GDP through the use of regression analysis. The City of Cape Town is currently working on a composite leading indicator for GDP growth, which will analyse these relationships in more detail.

Year-on-year results saw a decrease of 72 vehicles from the 12 507 passenger vehicles sold in the corresponding period in 2014.



Source: NAAMSA, November 2015.

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LIST OF ABBREVIATIONS

ACSA	Airports Company South Africa	IMF	International Monetary Fund
BER	Bureau of Economic Research	ISO	International Standards Organisation
BPESA	Business Process Enabling South Africa	MPC	Monetary Policy Committee
BLNS	Botswana, Lesotho, Namibia, Swaziland and South Africa	NAAMSA	National Association of Automobile Manufacturers of South Africa
BPO	business process outsourcing	NDP	National Development Plan
BPM	business process management	NPA	National Ports Authority
BRICS	Brazil, Russia, India, China and South Africa	OPEC	Organisation of the Petroleum Exporting Countries
CET	common external tariff	PMI	(Barclays) Purchasing Managers' Index
CPI	consumer price index	PPI	producer price index
FET	further education and training	QLFS	Quarterly Labour Force Survey
FDI	foreign direct investment	SACU	Southern African Customs Union
GDP	gross domestic product	SARB	South African Reserve Bank
GDP-R	regional gross domestic product	Stats SA	Statistics South Africa
GGP	gross geographic product	UK	United Kingdom
GHS	General Household Survey	UNWTO	United Nations World Tourism Organisation
GVA	gross value added	US	United States
HDI	human development index		



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