



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

EPIC

Economic Performance Indicators for Cape Town

2018: Quarter 1 (January - March)

Introduction

This is the 20th 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 first quarter of 2018, covering the period 1 January to 31 March 2018.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development and related strategies. It is essential to understand the nature, composition and performance of the local economy to monitor its status and know what must be done. 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.

Acknowledgements

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CAPE TOWN OVERVIEW – 2018 Q1



Of South Africa's R3 139 890 million gross domestic product (GDP) generated in the first quarter of 2018, the **Western Cape** accounted for **R433 713 million**. Whilst GDP data is not available at the city-level on a quarterly basis, annually, **Cape Town typically** contributes around **72%** of the provincial GDP.^a

During the first quarter of 2018, the **Western Cape** had a quarter-on-quarter **GDP growth rate** of **-2,8%**, compared to a **national** growth rate of **-2,2%**.^b

In 2017, **South Africa** had a **GDP per capita**, of **R88 262**, while the **Western Cape's** GDP per capita was **R97 983** and **Cape Town's** was **R106 839**.^c



At the end of the first quarter of 2018, **South Africa** had a lower **rate of inflation** of **3,8%**, than the **Western Cape** which had a rate of **4,4%**.^d



South Africa has **56 521 948** people: **6 510 312** (11,4%) live in the **Western Cape** and, of those, **4 174 510** are resident in **Cape Town**.^g



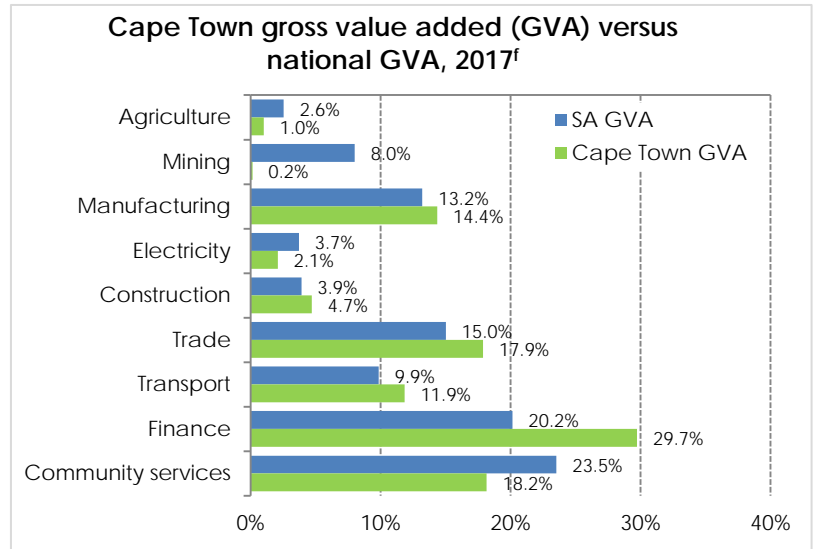
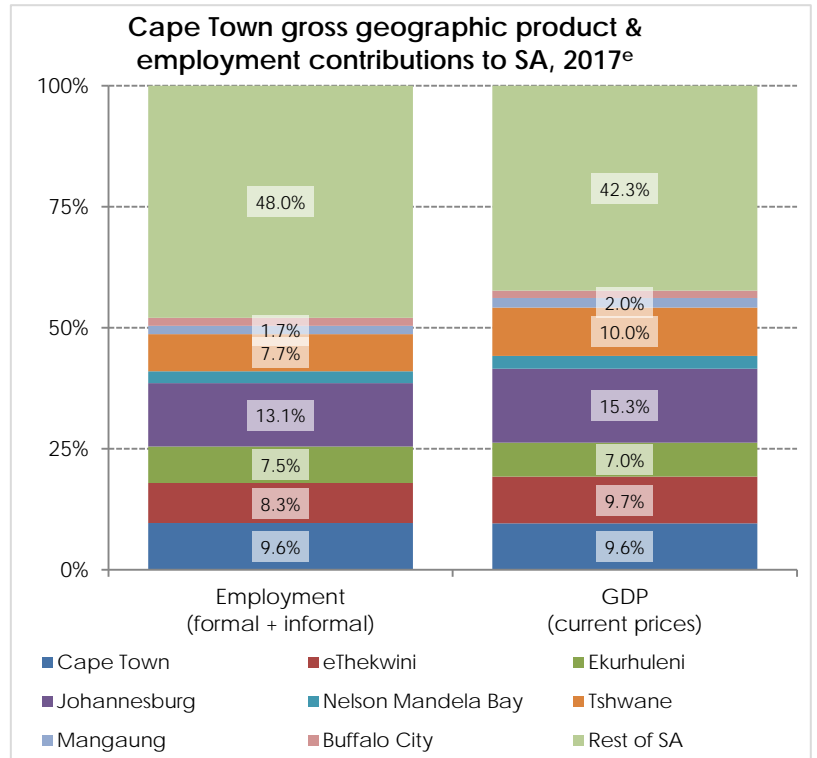
In 2017 **South Africa** had a **Gini coefficient** of **0,63**, while **Cape Town** had a slightly lower value of **0,61**.^h



In the first quarter of 2018, tourists and residents made **7 406 900** visits to **Cape Town's five major attractions**.ⁱ



Of the **9 251 329** passenger movements through **South Africa's three international airports**^j during the first quarter of 2018, **2 816 009** were through **Cape Town International Airport**.^k



a,b. At constant 2010 prices. Source: Quantec, 2018.

c,f. At current prices. Source: IHS Markit, 2018.

d, g. Source: Statistics South Africa (StatsSA), 2018.

e. GGP at current prices. Source: IHS Markit, 2018.

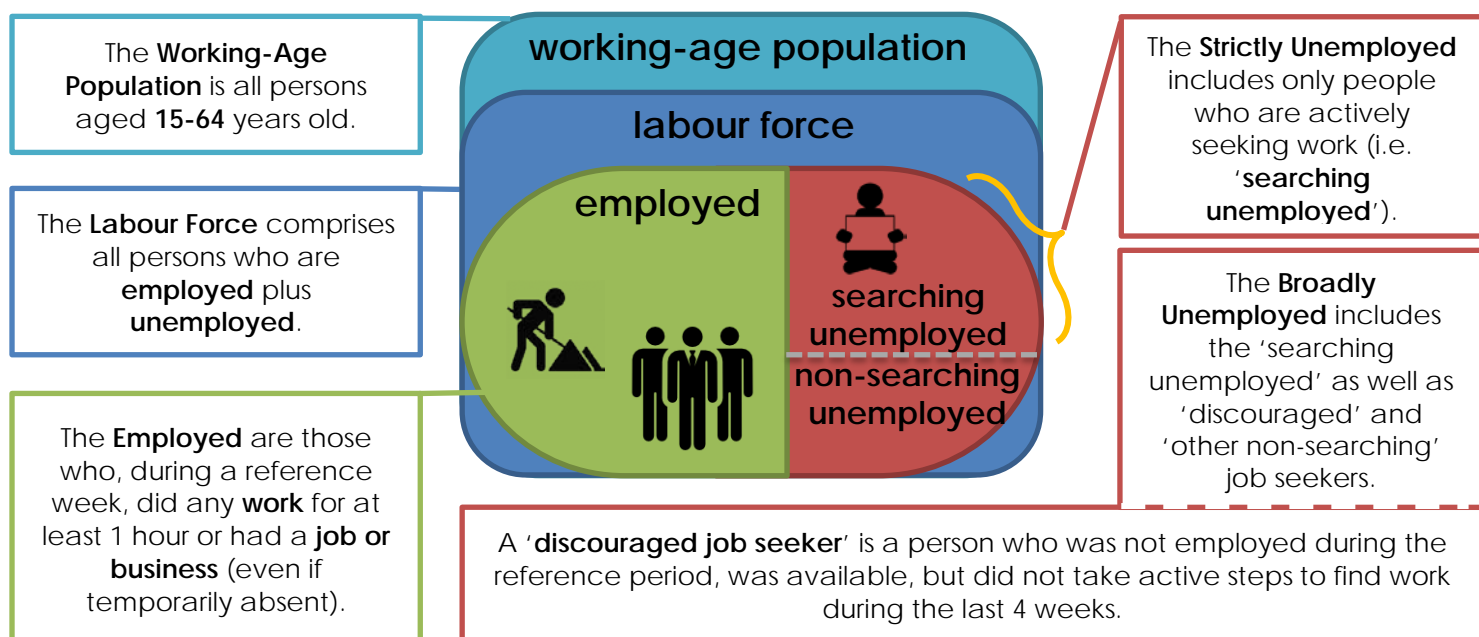
h. Source: IHS Markit, 2018.

i. Source: Cape Town Tourism and Wesgro, 2018.

j. Cape Town, OR Tambo and King Shaka.

k. Source: ACSA, 2018.

LABOUR OVERVIEW – 2018 Q1



		Cape Town					South Africa				
		Recorded	Q-on-Q	Y-on-Y		Recorded	Q-on-Q	Y-on-Y			
Number (thousands, '000's)	Working-age population	2 884	↑ 14	↑ 56		37 678	↑ 153	↑ 617			
	Labour Force	2 049	↑ 41	↑ 85		22 358	↑ 307	↓ -68			
	Employed: total	1 589	↑ 18	↑ 78		16 378	↑ 206	↑ 165			
	Employed: Formal sector	1 287	↑ 1	↑ 70		11 355	↑ 111	↑ 18			
	Employed: Informal sector	189	↑ 19	↑ 6		2 901	↑ 93	↑ 220			
	Unemployed	459	↑ 23	↑ 7		5 980	↑ 100	↓ -234			
	Not economically active	836	↓ -27	↓ -30		15 320	↓ -154	↑ 686			
	Discouraged work-seekers	14	↓ -3	↑ 3		2 787	↑ 249	↑ 510			
	Other	821	↓ -24	↓ -32		12 533	↓ -403	↑ 176			
Rate (percentage, %)	Official/strict unemployment	22,4	↑ 0,7	↓ -0,6		26,7	- 0,0	↑ -1,0			
	Broad/expanded Unemployment	23,8	↑ 0,3	↓ -1,3		36,7	↑ 0,4	↑ 0,3			
	Absorption	55,1	↑ 0,4	↑ 1,7		43,5	↑ 0,4	↓ -0,2			
	Labour Force Participation	71,0	↑ 1,1	↑ 1,6		59,3	↑ 0,5	↓ -1,2			
↑ increase ↓ decrease		improvement	deterioration			- No change (due to rounding)					

Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 1, May 2018.

Note:

- A 'quarter-on-quarter' comparison is between the current quarter and the previous quarter (for example: Quarter 1, 2018 versus Quarter 4, 2017).
- A 'year-on-year' comparison is between the same quarters in two consecutive years (for example: Quarter 1, 2018 versus Quarter 1, 2017).

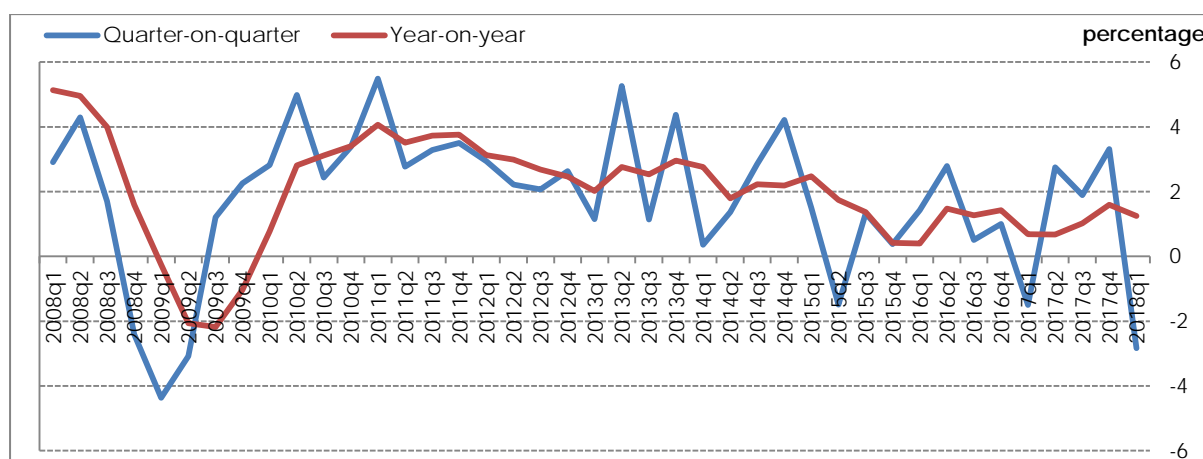
1. Economic Growth

a. Quarter-on-quarter GDP-R growth rate

The Western Cape economy contributes around 14% of national gross domestic product (GDP) (IHS Markit, 2018). The province's economic performance is strongly influenced by national economic conditions and, in line with the downward path of national quarter-on-quarter growth in the first quarter, growth in the Western Cape economy decreased by 6,1 percentage points from the previous quarter¹ to -2,8% in the first quarter of 2018. As with growth at a national level, the weak economic performance in the first quarter was driven by the agricultural sector² which contracted by -41,5% quarter-on-quarter. The agricultural sector's substantial contraction can be attributed to the impact that the drought has had on agricultural production in the province (BER, 2018a), with (major) dams' reaching particularly low storage levels in the first quarter of 2018 (City of Cape Town [CCT], 2018a). As figure 1 shows, on a year-on-year basis, the province's economy grew by 1,3%, although this represented a decline from the previous quarter's year-on-year growth rate of 1,6%.

While GDP-R statistics for Cape Town are not available on a quarterly basis, the performance of the metropolitan municipality's economy can be expected to typically mirror that of the provincial economy. This is because the city contributes around 70% of the provincial economic output (IHS Markit, 2018). On average, in the last 10 years, the variation of the city's GGP growth rate from the provincial rate has been 0,2 percentage points. If this were to hold true for the first quarter of 2018, a plausible range for Cape Town's quarter-on-quarter economic growth is between -3,0% and -2,6%.

Figure 1: Real GGP growth for the Western Cape, Quarter 1, 2008 to Quarter 1, 2018



Source: Quantec, June 2018.

b. Sectoral drivers of economic growth in the Western Cape

The Western Cape economy's weak performance in the first quarter of 2018 is reflected across most of its sectors. The most prominent contributors to the Western Cape's total gross value added (GVA) in the first quarter of 2018 were the finance (30,9%), trade (16,0%) and manufacturing (14,9%) sectors (Quantec, 2018). Of these, only the finance sector contributed

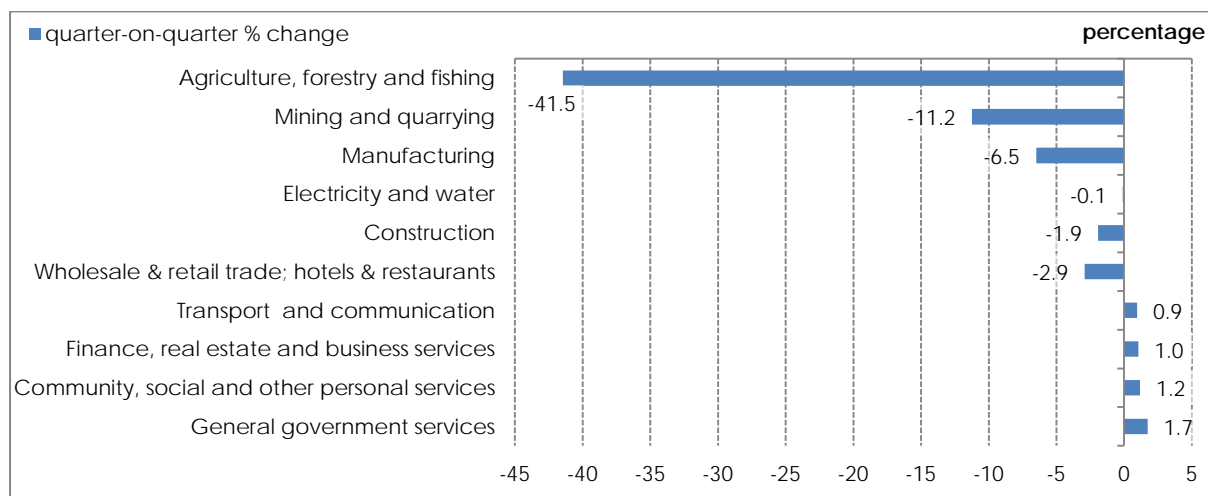
¹ Quarterly GDP growth for the fourth quarter of 2017 has been revised from 3,9% to 3,3% (Quantec, 2018).

² Quarterly GDP growth for the agricultural sector for the fourth quarter of 2017 has been revised from 32,7% to 13,1% (Quantec, 2018).

positively to the province's quarterly economic growth rate, contributing 0,32 of a percentage point. The agricultural sector, despite constituting a relatively small share of the Western Cape's total GVA (3,9%), was the largest negative contributor to growth in the first quarter, reducing growth by 2,18 percentage points alone. The next largest reduction in economic growth came from the manufacturing sector which reduced growth by -0,99 of a percentage point.

As noted above, in terms of the quarter-on-quarter growth (figure 2), the agricultural sector contracted significantly, following its recovery throughout 2017. Although the mining and quarrying sector observed the second highest contraction in the Western Cape (-11,2%), it only comprises 0,3% of the province's GDP-R. The manufacturing sector, which contributes 14,9% to the Western Cape's GDP-R, recorded the third largest negative growth rate of -6,5% in the first quarter of 2018 - a decline of 10,7 percentage points from the previous quarter. The trade sector also contracted with -2,9% quarter-on-quarter growth; this is partly attributed to its inability to replicate boosted sales activity experienced in the previous quarter related to 'Black Friday' promotions (BER, 2018b). General government services recorded the highest quarter-on-quarter growth amongst the sectors with 1,7%. Whilst the finance and business services grew by 1,0% quarter-on-quarter in the first quarter of 2018, it declined by 1,44 percentage points compared to the previous quarter. These trends in the Western Cape are however in line with national trends for the first quarter of 2018.

Figure 2: Sectoral real GDP-R growth rates in the Western Cape, Quarter 1, 2018



Source: Quantec, June 2018.

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, it comprises 82% of the Western Cape's finance and business services, 77% of its transport, 72% of its wholesale and retail trade, 69% of its manufacturing, and 62% of its construction sectors (IHS Markit, 2018). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the first quarter of 2018.

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 20% (IHS Markit, 2018). 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 of the city, as the primary sector contributes only 1% to Cape Town’s total GGP. Rather, the performance of the city’s economy in the first quarter of 2018 would have been driven by that of the finance, trade, manufacturing and transport sectors that comprise 30%, 18%, 14% and 12% of the city’s economy, respectively.

2. Inflation

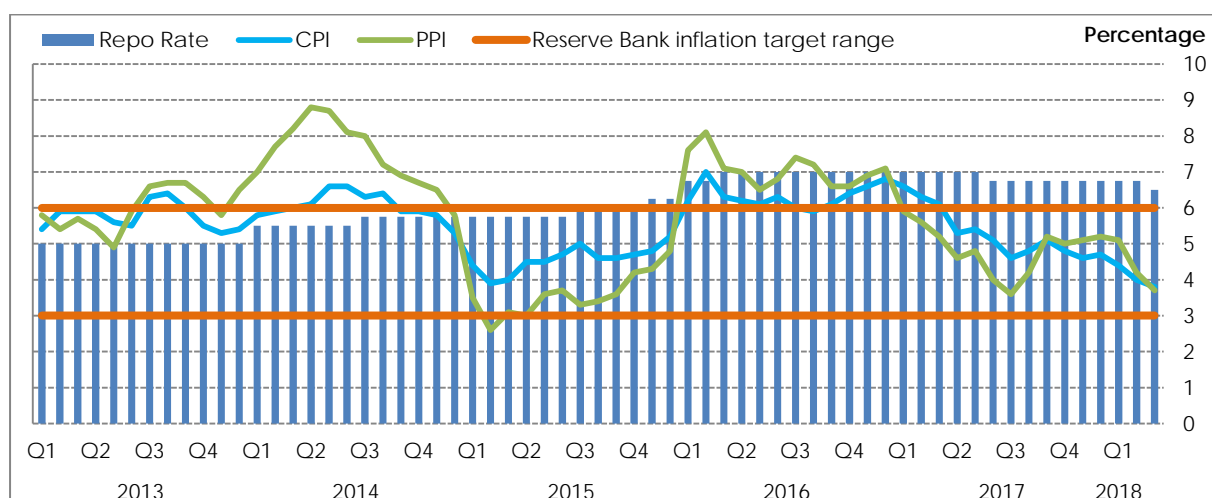
Price fluctuations of goods and services in an economy are measured by the consumer price index (CPI) inflation rate and producer price index (PPI) inflation rate. The CPI measures the change in the cost of living for households and the PPI measures the change in the cost of production.

a. Inflation overview

In the first quarter of 2018, the CPI saw a decline in comparison to the fourth quarter of 2017. As illustrated in figure 3, the CPI recording for January was 4,4%, decreasing to 4,0% in February and further to 3,8% in March 2018. The March recording marks the lowest inflation rate over the preceding five-year period. According to the Monetary Policy Committee (MPC) statement of March 2018 (South African Reserve Bank [SARB], 2018), increased international competition and slower growth in relation to output costs resulted in an improved exchange rate overriding the value added tax (VAT) increase of 15% that was implemented in April 2018 and consequently leading to a lower CPI in the first quarter.

Similar to the movement of CPI, the PPI declined when compared to the end of the fourth quarter of 2017. Since reaching 5,2% in December 2017, the PPI decreased significantly throughout the first quarter of 2018 recording a rate of 5,1% in January, decreasing to 4,2% in February and further to 3,7% in March. The main inflationary contributors to the PPI throughout the first quarter of 2018 (in terms of final manufactured products) were the prices of coke, petroleum, chemical, rubber and plastic products, transport equipment, as well as paper and printed products. Encouragingly, both the CPI and PPI inflation rates were lower in the first quarter of 2018, as compared to the same period of 2017. The two rates also remained well within the inflation target range of 3-6% over the last 12 months (April 2017- March 2018).

Figure 3: CPI and PPI trends for South Africa, January 2013 to March 2018



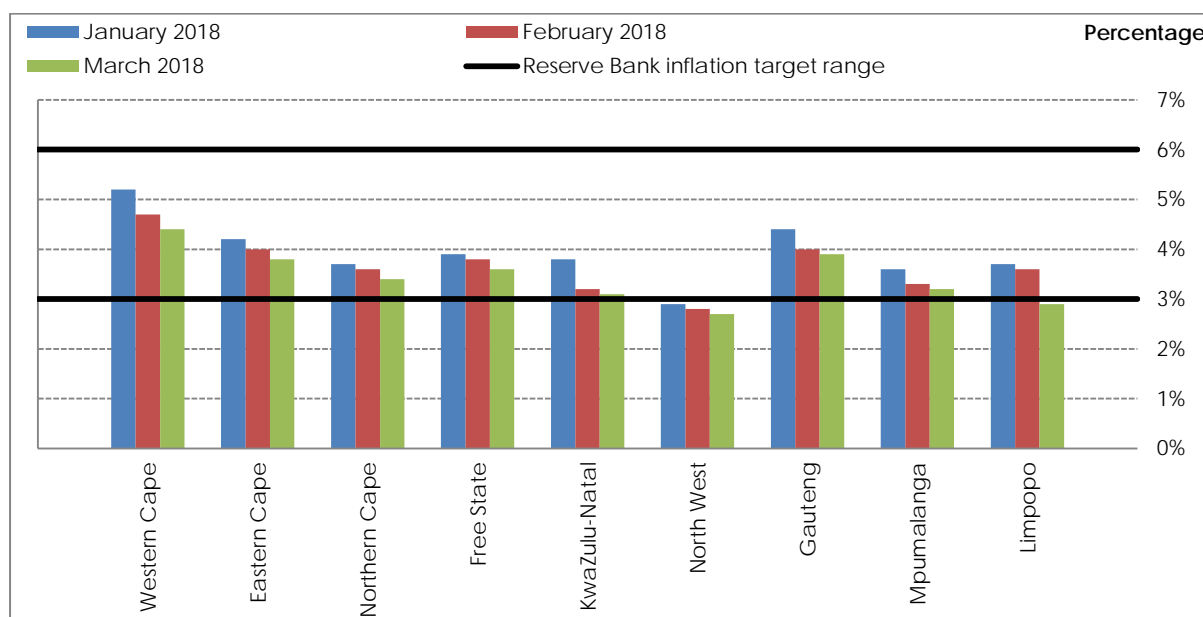
Source: CPI and PPI extracted from Statistics South Africa, 2018, and repurchase rate extracted from SARB, 2018.

Figure 3 illustrates changes in the repurchase rate (repo rate). As indicated in the graph, the repo rate was reduced in March 2018. According to the MPC statement of the same month, the decision to reduce the repo rate by 25 basis points to 6,50% was informed by inflation remaining below the 6% inflation target range and an improved inflation outlook. The MPC plans to continuously monitor inflation expectations as a result of the 1% VAT increase that took place in April 2018. Furthermore, monitoring global monetary developments and credit ratings would be the MPC’s first priority in future decision-making processes (SARB, 2018).

b. Geographical inflation

The Western Cape recorded a lower inflation rate of 4,4% at the end of the first quarter, in March 2018, in comparison to the end of fourth quarter of 2017. Although remaining within the inflation target range at the end of the quarter, the provincial inflation rate remained higher than the national rate (3,7%). Figure 4 illustrates inflation rates recorded in the first quarter of 2018 across all nine provinces in the country. In comparison to the end of the fourth quarter of 2017, most provinces recorded a decline in inflation rates by the end of the first quarter of 2018. The Western Cape recorded the highest inflation rate throughout the first quarter, followed by Gauteng and the Eastern Cape, whilst the North West recorded the lowest inflation rate.

Figure 4: CPI inflation rate at a provincial level, January to March 2018



Source: Statistics South Africa, May 2018.

Food price inflation in the Western Cape was 4,9% in March 2018 (decreasing from 5,3% in February 2018), whilst nationally it was 2,8% in March 2018 (decreasing from 3,3% in February 2018). The specific food products which drove higher food inflation in the Western Cape in March 2018 were milk, eggs and cheese, vegetables as well as sugar, sweets and desserts (Statistics South Africa, 2018). The continued drought in the Western Cape has adversely affected agricultural production but has not yet resulted in a direct impact on food prices in the province, according to the MPC statement of March 2018 (SARB, 2018). Water and other

services'³ price inflation in the Western Cape was 8,5% in March 2018 (decreasing from 8,8% in February 2018), higher than the 6,8% at a national level; potentially indicative of the inflationary impact of water tariff increases in the first quarter (CCT, 2018b). Water tariff increases were implemented in Cape Town as a demand-side management mechanism (CCT, 2018e). Private transport fuel price inflation in the Western Cape was 2,9% in March 2018 (decreasing from 5,3% in February 2018). This was on par with private transport fuel price inflation at the national scale which was also 2,9% (decreasing from 5,1% in February 2018) and underpinned by a domestic petrol price decrease of R1 within this quarter (Automobile Association of South Africa, 2018). Electricity and other fuels price inflation reached 3,1% in the Western Cape and 2,1% nationally in March 2018.

3. Labour Market

The labour market is the point at which economic production meets human development. As such employment creation and unemployment reduction are top priorities for all spheres of government. Labour market performance is tracked through a variety of indicators, many of which are reflected on in this section.

a. Cape Town's labour market performance

In the first quarter of 2018, Cape Town's working age population (2,88 million) and labour force (2 million) increased on both a quarter-on-quarter and year-on-year basis. Similarly, employment (1,58 million) increased by 18 000 individuals on a quarter-on-quarter comparison and by 78 000 individuals year-on-year. This is the sixth consecutive quarter of positive employment growth. Formal and informal sector employment increased on both a quarterly and a year-on-year basis to a total of 1,28 million and 189 000 individuals, respectively. The increases in employment led to a slight increase in the labour absorption rate to 55,1% compared to 54,7% in the fourth quarter of 2017. Similarly, the increase in the labour force led to an increase of 1,1 percentage points in the labour force participation rate (71%) compared to the previous quarter (69,9%).

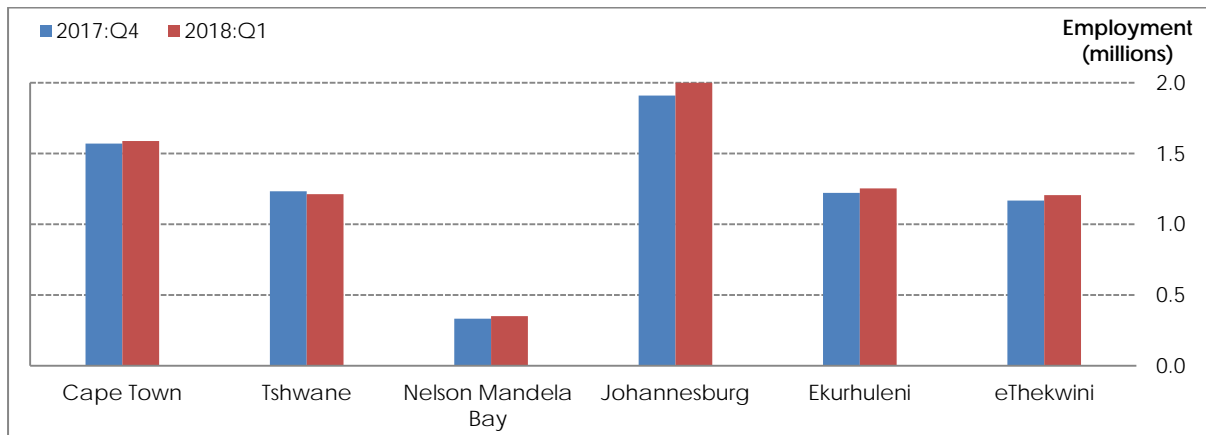
b. Employment comparison of metros

To measure Cape Town's job creation performance, a comparison with other metropolitan municipalities (metros) in the country is helpful. In the first quarter of 2018, Cape Town had the second largest number of people employed in the country, with 1,58 million people employed in the city, second only to Johannesburg where 2 million people were employed. This is to be expected as Johannesburg has a significantly larger population.

Turning attention to employment trends in the first quarter of 2018, Johannesburg, eThekweni and Cape Town experienced positive growth on both a quarterly and year-on-year level. Nelson Mandela Bay and Ekurhuleni experienced increased employment when compared to the previous quarter, however decreased employment when compared to first quarter of 2017. Johannesburg experienced the highest quarter-on-quarter increase in employment (90 546), followed by eThekweni (38 514); whilst Tshwane was the only metro to experience negative growth on both a quarter-on-quarter (-21 892) and year-on-year (-69 014) basis and also shed jobs at the fastest rate (-5,4%), quarter-on-quarter. In contrast, employment grew the fastest in Cape Town (5,12%) when compared to the first quarter of 2017.

³ As defined by Statistics South Africa, this category includes water supply, rates, taxes and levies (Statistics South Africa, 2017).

Figure 5: Employment comparison with other metros, Quarter 4, 2017 versus Quarter 1, 2018



Source: Statistics South Africa, Quarter Labour Force Survey, 2018 Quarter 1, May 2018.

c. Unemployment in Cape Town

Cape Town experienced an increase in the number of unemployed people on both a quarter-on-quarter and year-on-year basis by 22 971 and 7 124 individuals, respectively. This resulted in the strict unemployment rate increasing by 0,7 of a percentage point, on a quarter-on-quarter basis, to 22,4%. The youth unemployment rate in Cape Town, defined as the strict unemployment rate for individuals aged 15 to 24, was estimated at 45,5% in the first quarter of 2018, having decreased from 47,4% in the previous quarter, and having decreased significantly from 49,8% in the first quarter of 2017. While this is below the national rate of 52,4%, it is nonetheless markedly high by developing-country standards and poses a key challenge to economic policymakers in the city.

Whilst traditional comparisons of Cape Town’s unemployment trends with that of South Africa as a whole are important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics (see table 1). EThekweni, Ekurhuleni and Nelson Mandela Bay were the only metros to experience decreases in both strict and expanded unemployment rates in the first quarter of 2018. Cape Town was the only metro to experience an increase in both the strict and expanded unemployment rates. Nelson Mandela Bay had the highest strict unemployment and expanded unemployment rates (36,3% and 36,4%, respectively), while eThekweni had the lowest strict unemployment rate (20,3%) and Cape Town the lowest expanded unemployment rate (23,8%). Notably, table 1 indicates the large differences in the relationship between strict and expanded unemployment rates in each of the six metros, with Nelson Mandela Bay recording a 0,1 percentage points difference between the two rates of unemployment, whereas Tshwane recorded a 7,6 percentage points difference. Cape Town continues to record relatively low differences between the two rates of unemployment, remaining below 2 percentage points for the past four quarters, attributable to the city having the second smallest number of discouraged work-seekers in the metro (after Nelson Mandela Bay metro).

Table 1: Official (strict) versus expanded (broad) unemployment rates

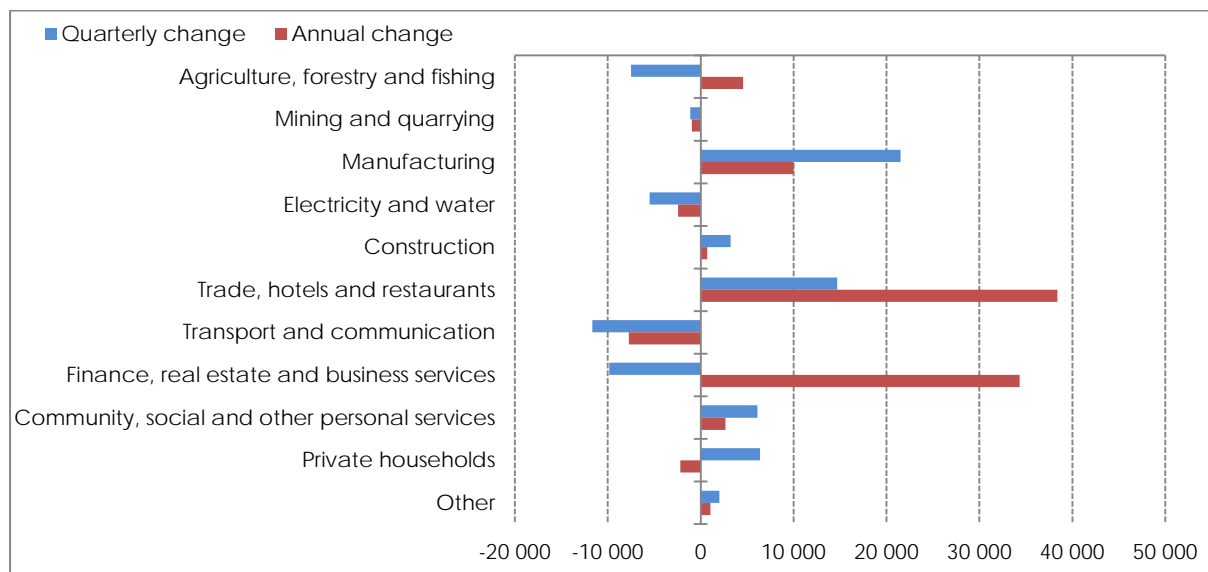
Metro	Official (strict)			Expanded (broad)		
	2018: Q1	2017: Q4	2017: Q1	2018: Q1	2017: Q4	2017: Q1
Cape Town	22,4	21,7	23,0	23,8	23,5	25,1
eThekweni	20,3	21,9	21,8	27,4	28,1	28,7
Ekurhuleni	30,9	33,6	30,8	34,9	36,7	34,0
Johannesburg	28,8	28,2	28,3	31,4	32,3	30,2
Nelson Mandela Bay	36,3	36,9	30,2	36,4	37,0	30,4
Tshwane	26,0	26,9	28,3	33,5	32,0	30,1

Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 1, May 2018.

d. Sector employment trends for Cape Town

Figure 6 presents the change in the level of employment by sector within Cape Town in the first quarter of 2018. Overall, six sectors made a positive contribution to employment when compared to the previous quarter, specifically, manufacturing (21 500), trade, hotels and restaurants (14 673) as well as private households (6 374). Community, social and other personal services as well as construction were more modest contributors to employment. The key job-shedding sectors in Cape Town in the first quarter, as compared to the previous quarter, were transport and communication (-11 655), finance, real estate and business service (-9 853) as well as agriculture, forestry and fishing (-7 488). Further, quarterly employment losses were experienced within the electricity and water, as well as mining and quarrying sectors.

Figure 6: Quarterly and annual change in employment per sector for Cape Town, Quarter 1, 2018



Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Q1, May 2018.

On a year-on-year basis seven sectors added to employment growth whereas four sectors recorded employment losses when compared to the first quarter of 2017. Encouragingly, trade, hotels and restaurants continued its positive performance by adding the most to employment growth (38 384). In contrast to its negative quarter-on-quarter performance, finance, real estate and business services added to employment on a year-on-year basis (34 329). The sectors which mirrored their poor quarterly performance with poor year-on-year performances included transport and communication (-7 756), electricity and water (-2 424)

as well as mining and quarry (-957). In contrast to its positive performance on a quarterly level, private households observed negative employment year-on-year change (- 2 191).

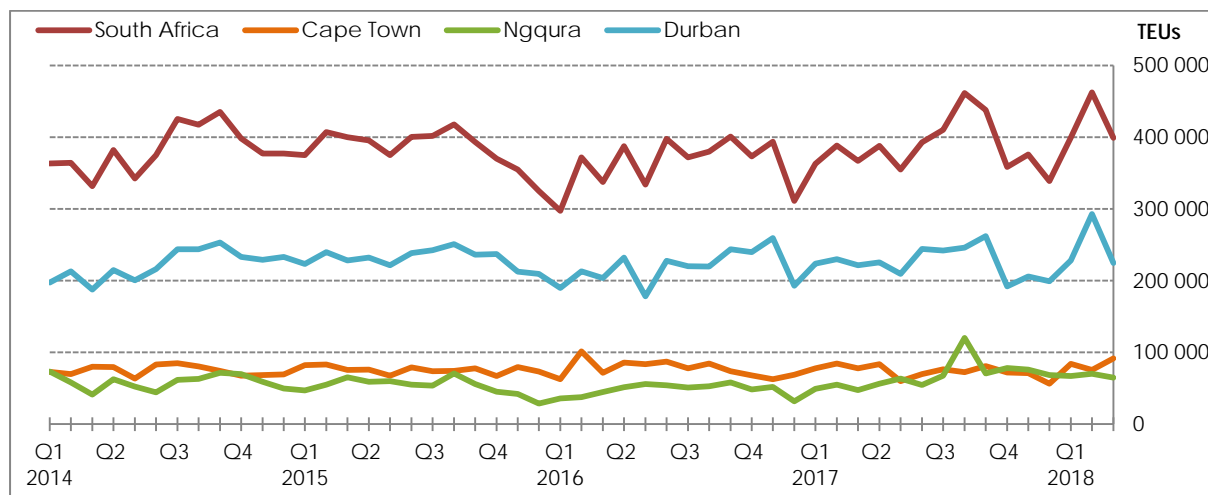
4. Infrastructure

Cape Town is often promoted as the gateway to South Africa, and to Africa more generally. This status is sustained by the city’s well-developed transportation infrastructure, with Cape Town being home to South Africa’s second-busiest airport as well as (historically) its’ second-busiest container port. This section reviews infrastructure developments in relation to Cape Town’s port and airport, as well as in terms of water production and consumption, in light of the drought the Western Cape is facing.

a. Container handling

Container traffic is very seasonal, as figure 7 indicates, thus it is best to compare total containers handled over the period of a year. The number of containers handled at the Port of Cape Town increased from 239 936 in the first quarter of 2017 to 250 874 in the first quarter of 2018 – a 4,56% increase, which follows three consecutive quarters of negative growth on a year-on-year comparison. In the first quarter of 2018, the Port of Durban⁴ was the largest container handling port in the country (comprising 59% of all containers handled in South Africa), followed by the Port of Cape Town (20%) and the Port of Ngqura⁵ (16%). The Port of Cape Town regained its position as the second-largest container handling port in the country following two consecutive quarters of being out-performed by the Port of Ngqura. Capacity constraints experienced at the Port of Cape Town may again impact on this positioning. 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.

Figure 7: Total containers handled (TEUs)⁶, January 2014 to March 2018



Source: Transnet National Ports Authority, May 2018.

⁴ The Port of Durban is located in eThekweni metropolitan municipality.

⁵ The Port of Ngqura is located in Nelson Mandela Bay metropolitan municipality.

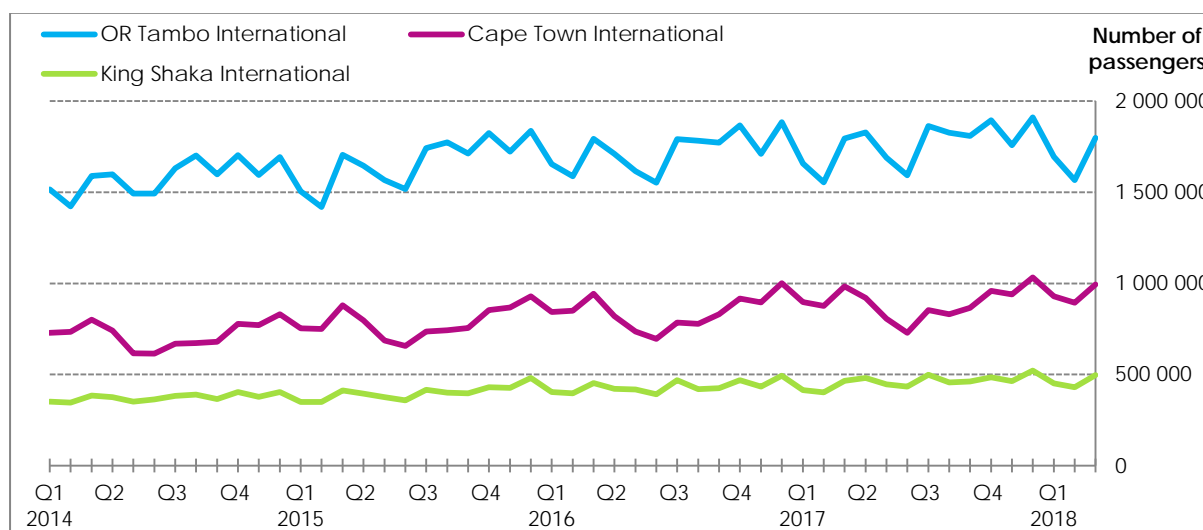
⁶ A TEU (20-foot equivalent units) is an inexact unit of cargo capacity, based on the volume of a 20-foot long (6,1m) container. There is a lack of standardisation with regard to height, ranging between 4 feet 3 inches (1,30m) and 9 feet 6 inches (2,90m), with the most common height being 8 feet 6 inches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

Despite the downturn it observed in the fourth quarter of 2017⁷, the Port of Durban maintained its top position amongst the key container handling ports in South Africa (handling 745 037 TEUs in the first quarter) and recorded an increase in container handling by 70 026 (10%) in the first quarter of 2018, compared to the same period in 2017. Increased container handling by the aforementioned three ports contributed towards total container handling, at a national scale, increasing by 13% year-on-year in the first quarter of 2018.

b. Airport statistics

Cape Town International Airport is South Africa's second-busiest airport, after OR Tambo International Airport in Johannesburg. It recorded 2,82 million total passenger movements in the first quarter of 2018 compared to 5,06 million passenger movements at OR Tambo International and 1,38 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the first quarter of 2018 was 2,15% higher compared to the first quarter of 2017, when 2,76 million passenger movements were recorded. Following its slowing growth trend in the fourth quarter of 2017, OR Tambo International observed a lower year-on-year growth rate (1,03%) in passenger movements. Contrastingly, King Shaka International Airport saw a year-on-year increase of 7,5% in passenger arrivals. However, after surpassing the 500 000 monthly passenger movement mark in December 2017, the airport reverted to below this mark throughout the first quarter of 2018.

Figure 8: Total passenger movements at South Africa's major airports, January 2014 to March 2018



Source: ACSA, May 2018.

Figure 8 indicates the pronounced degree of seasonality in Cape Town's air passenger movements, with these consistently declining in the second quarter when the city enters its winter months and picking up again in the fourth quarter with the onset of summer. In the first quarter of 2018, Cape Town International's total passenger arrivals decreased by 6,35% when compared to the fourth quarter of 2017. However, on a year-on-year basis (which controls for seasonal effects) total passenger arrivals at Cape Town International increased by 2,55%, while international arrivals increased by 9,94%. The relatively slow year-on-year growth of

⁷ As a result of a storm in the KwaZulu-Natal region in October 2017 which resulted in the closure of the port for several weeks.

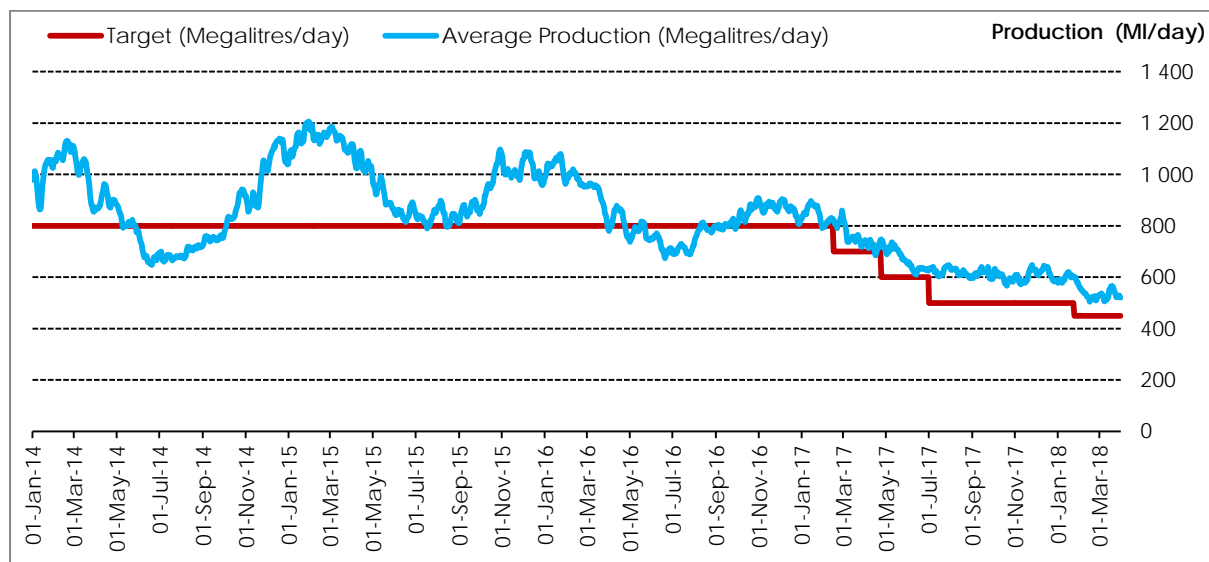
passenger arrivals could, in part, be reflective of the negative perception-related impact that the water crisis has had on the number of tourists visiting Cape Town, especially over the latter part of the first quarter.

c. Water

Cape Town is experiencing its worst drought in recorded history with dam levels in the Western Cape remaining low relative to previous years. The City of Cape Town (CCT/City) is pursuing a range of augmentation options for alternative water supply, including seawater desalination, wastewater reuse and groundwater extraction.

The City has implemented water restrictions and tariff changes to induce a reduction in water demand in line with a total water supply target of a maximum of 450 million litres (MI) per day. On a quarter-on-quarter basis, water production declined by 11% in the first quarter of 2018, relative to the fourth quarter of 2017. However, as figure 9 shows, while water production⁸ in the city has declined in the last year, relative to its historical trend, it is still above the 450 MI per day target.

Figure 9: Daily average water production (7 day average)



Source: City of Cape Town: Department of Water & Sanitation, 2018.

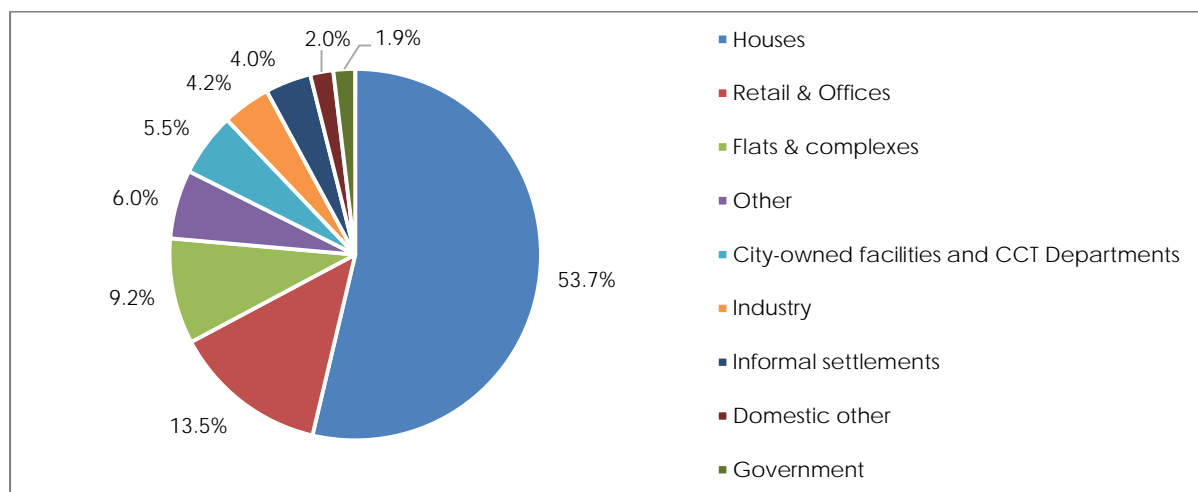
Drinking water consumption⁹ in 2017, as illustrated in figure 10, was largely dominated by domestic¹⁰ and commercial (Retail and Office spaces) categories, which respectively accounted for approximately 68,9% and 13,5% of total water consumption. This was followed by Other customer types (6%), City-owned facilities and City Departments (5,5%), Industry (4,2%) and Government (1,9%).

⁸ Readers are cautioned not to interpret this water production indicator as synonymous with water consumption in Cape Town, as it includes losses (for example, due to leaks), as well as treated water provided to external customers like neighbouring municipalities.

⁹ Water consumption data is only updated on an annual basis.

¹⁰ Which comprises the following categories: Houses (53,7%), Flats and complexes (9,2%), Informal Settlements (4%) and Domestic other (2%).

Figure 10: Potable water¹¹ consumption by use category (2017)



Source: City of Cape Town: Department of Water & Sanitation, 2018.

5. Tourism

Cape Town is a well-known tourist destination, both locally and internationally, and the tourism sector is a valuable contributor to the city's economy. The occupancy and revenue figures presented in table 2 are derived from a monthly survey of an average of 91 tourism accommodation establishments in the Cape Town metropolitan area (Cape Town Tourism, 2018a). Occupancy rates at city accommodation establishments decreased by an average of 5,9 percentage points in the first quarter of 2018 compared to the same period in 2017. The month of February recorded the highest occupancy rate (81,1%) in the first quarter of 2018, but recorded a year-on-year decrease of 5,1 percentage points when compared to February 2017. The average room rate marginally increased year-on-year in the first quarter of 2018 by R17, although it was lower in February and March than it had been in these months in the previous year. Contrastingly, the revenue per room decreased by R120 when compared to the first quarter of 2017, predominantly driven by poorer year-on-year performance in March.

Table 2: Income derived from tourist accommodation, Quarter 1, 2017 versus Quarter 1, 2018

Indicator	January		February		March		First-quarter average	
	2018	2017	2018	2017	2018	2017	2018	2017
Occupancy rate	72,3%	77,4%	81,1%	86,2%	72,9%	80,4%	75,4%	81,3%
Average room rate	R 2 340	R 2 172	R 2 364	R 2 389	R 2 040	R 2 132	R2 248	R2 231
Revenue per room	R 1 693	R 1 682	R 1 918	R 2 060	R 1 486	R 1 714	R1 699	R1 819

Source: Derived from Cape Town Tourism data, Selected Accommodation Establishments, May 2018.

Overall, tourist accommodation in Cape Town, on average, continues to perform weaker than the corresponding period last year. This may be reflective of the possible negative impact that water shortages are having on the demand for tourist accommodation in Cape Town, particularly from the domestic market. It is however also an outcome of the increased

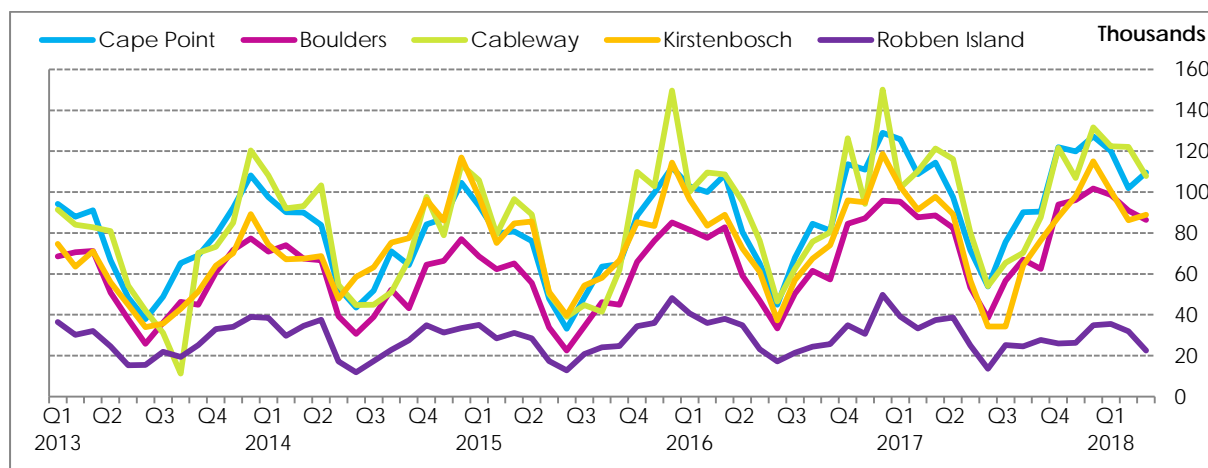
¹¹ Water that is of a safe drinking standard.

supply of tourism beds in the city in 2017, placing further downward pressure on hotel occupancy rates. In terms of an occupancy breakdown by type of accommodation establishment, the highest occupancy rate in the first quarter of 2018 was achieved by Backpacker accommodation (81,1%).

On a year-on-year basis only two of the five major Cape Town tourist attractions¹² recorded increases in the number of visits in the first quarter of 2018. Table Mountain Aerial Cableway observed the largest increase of 18 783 visitors (5,6% growth), followed by Boulders Beach, with an increase of 4 417 visitors (1,6%). Decreases in visitor numbers were observed for Robben Island (-18,1%), Kirstenbosch National Botanical Gardens (-5,5%) and the Table Mountain Park: Cape of Good Hope (-5,0%).

Figure 11 illustrates that Cape Town’s attractions are subject to strong seasonality, with peak visitor activity occurring in the summer period from November to March. The lowest tourist visitor numbers are seen during the period May to July, which are Cape Town’s winter months. Despite the positive performance of some of Cape Town’s top attractions, total visits to the five major attractions declined by 2,2% in the first quarter of 2018 compared to the same period in 2017. This provides further evidence of the degree to which the tourism industry struggled in the first quarter of 2018, as water supply and related concerns intensified.

Figure 11: Total visits to the top 5 tourist destinations of Cape Town, Quarter 1, 2013 to Quarter 1, 2018



Source: Derived from Wesgro and Cape Town Tourism data, May 2018.

6. Additional Indicators

In addition to macroeconomic indicators, administrative data capture specific consumer trends and provide strong indications of the performance of the local economy. In particular, building plan statistics and property development are key indicators of the levels of confidence in the economy, while passenger vehicle sales mirror trends in the business cycle and are regarded as a leading indicator of GDP growth.

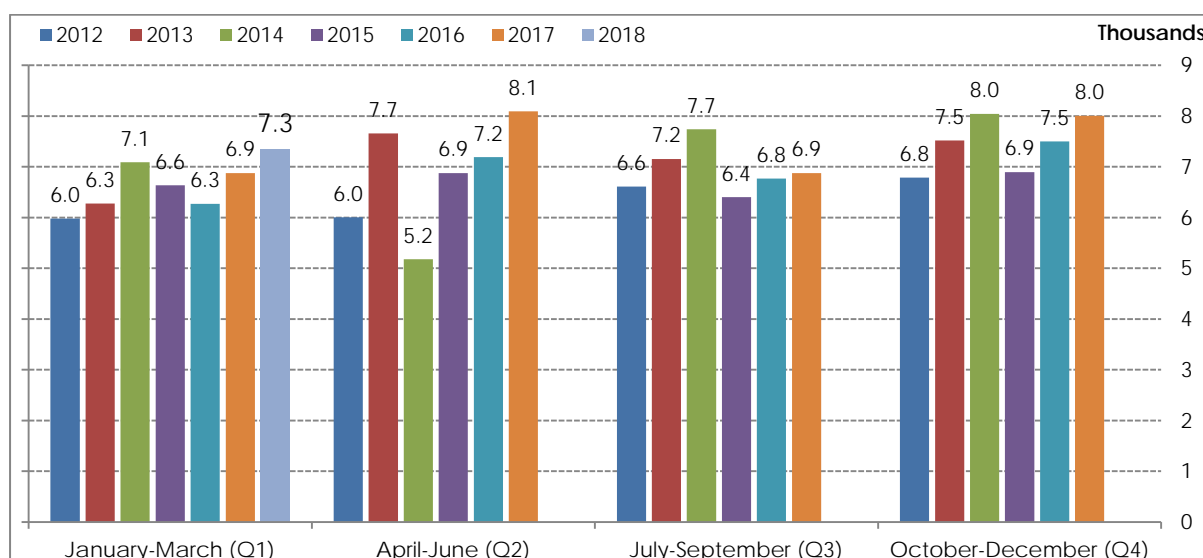
¹² Includes, Cape of Good Hope, Boulders Beach, Table Mountain Aerial Cableway, Kirstenbosch National Botanical Gardens and Robben Island.

a. Building developments

The economic growth data for the first quarter of 2018 highlights that output at a national level in the construction industry contracted by 1,9% quarter-on-quarter, its fifth consecutive contraction. On a year-on-year basis, the sector contracted by 1,3% in the first quarter of 2018 as compared to its year-on-year contraction of 1,1% in the fourth quarter of 2017 (Quantec, 2018). The Western Cape’s construction industry also contracted by 1,9% quarter-on-quarter in the first quarter of 2018, and by 1,3% on a year-on-year basis, putting it on par with the national trend. Furthermore, the First National Bank (FNB)/BER composite Building Confidence Index¹³ (BER, 2018b) remained below 50 points despite gaining 12 index points to register at 43 index points for the first quarter of 2018.

Building plans submitted to the City in the first quarter of 2018 decreased by 8,4% from the previous quarter. Figure 12 provides an annual comparison of the number of building plans submitted in each of the quarters over the past seven years, thereby controlling for seasonal trends in the building and construction industry. Building plans submitted to the City in the first quarter of 2018 increased by 6,6% compared to the corresponding period in 2017.

Figure 12: Building plans submitted to the CCT, 2012-2018



Source: Transport Development Authority: Business Support Department, CCT, May 2018.

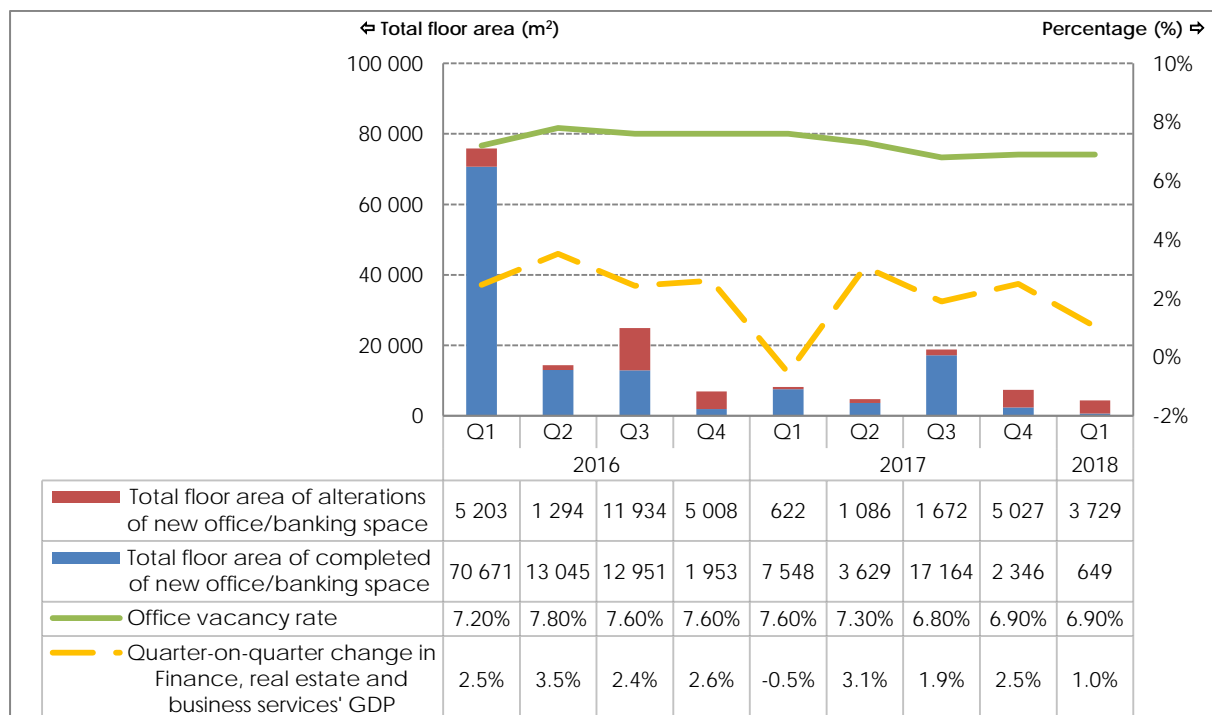
b. Commercial property developments

The performance of the commercial property market can be tracked in a number of ways. An indicative trend analysis is provided in figure 13 by review of the observed variation in the quarterly office vacancy rate, the total floor area of completed office buildings added to the office property stock, the total floor area of completed office building alterations and the quarter-on-quarter percentage change in provincial GVA for the finance and business services sector. The finance, business and real estate service sector is the largest in Cape Town and as such property developments in this sector are a useful measure of economic activity.

¹³ The FNB/BER Building Confidence Index captures the percentage of architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or, wary of the prevailing business conditions.

In the first quarter of 2018, construction of 649 m² of new office or banking space was reported to have been completed as well as 3 729 m² of office or banking space alterations. In terms of new office or banking space completed, this represents a notable decrease in completions of -72,3% when compared to the fourth quarter of 2017 in which construction of 2 346 m² of new office or banking space was completed. This substantial decrease in new office space or bank space completed is also at odds with a historical trend where large increases in completions of new office or banking space tend to take place in the first quarter each year. It should however, be noted that one major development which was originally planned for completion in the first quarter of 2018, the 156 Roggebaai development (16 000 m²) in the Cape Town Central Business District (CBD), has now had its completion date pushed out to the third quarter of 2018 (Jones Lang LaSelle [JLL], 2018a and 2018b). The vacancy rate remained at 6,9% in the first quarter of 2018, although new office developments in Century City and Cape Town CBD are expected to be completed in the second and third quarters of 2018, respectively, and thus expected to increase the stock of office space which would place upward pressure on the vacancy rate in forthcoming quarters (JLL, 2018b).

Figure 13: Office/banking space sector developments, January 2016 to March 2018



Source: Transport Development Authority: Business Support Department, CCT, May 2018; Jones Lang LaSelle, February 2018; and Quantec, June 2018.

As figure 13 shows, Cape Town's office vacancy rate in the first quarter of 2018 remained the same as in the previous quarter, at a rate of 6,9% (South African Property Owners Association [SAPOA], 2018). The finance and business services sector in the Western Cape reported a decrease in GVA growth from 2,5% in the fourth quarter of 2017 to 1,0% in the first quarter of 2018. According to the South African Property Owners Association (2017), a sustained improvement in the office vacancy rate (i.e. return to the natural vacancy rate), depends on the long-term strength of key economic drivers such as economic growth and business confidence.

c. New vehicle sales

Total vehicle sales in the Western Cape increased from 15 911 in the fourth quarter of 2017 to 16 088 in the first quarter of 2018. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time however, saw a slight decline of 0,91% (a decrease in vehicle sales by 147 units) from the 16 235 total vehicle sales observed in the corresponding period in 2017. Passenger vehicle sales, which are the private consumer segment of the market, increased from 10 463 in the fourth quarter of 2017 to 10 923 vehicles sold in the Western Cape in the first quarter of 2018. On a year-on-year comparison, an increase of 1,09% (118 passenger vehicles) was recorded relative to the 10 805 passenger vehicles sold in the first quarter of 2017. At the national level however, passenger vehicle sales decreased by 3,30% year-on-year to a total of 93 667 sales in the first quarter of 2018. The increase in passenger vehicle sales in the Western Cape, at a time when they decreased nationally, may be indicative of marginally higher consumer confidence levels in the province than the country more broadly. Impacting positively on quarter-on-quarter passenger vehicles sales' results, the National Association of Automobile Manufacturers of South Africa (NAAMSA) attributes boosted sales throughout the country in March to consumers attempting to avoid VAT-induced price hikes (Car Magazine, 2018), which came into effect at the start of the second quarter (in April 2018).

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Abbreviations

ACSA: Airports Company South Africa

BER: Bureau for Economic Research

CCT/City: City of Cape Town

CPI: consumer price index

FNB: First National Bank

GDP: gross domestic product

GDP-R: regional gross domestic product

GGP: gross geographic product

GVA: gross value added

MI: million litres

MPC: Monetary Policy Committee

NAAMSA: National Association of Automobile Manufacturers of South Africa

PPI: producer price index

SARB: South African Reserve Bank

V&A: Victoria and Alfred

VAT: value-added tax