



CITY OF CAPE TOWN
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EPIC

Economic Performance Indicators for Cape Town

Quarter 1 (January-March) 2016

SECTOR FOCUS: CLOTHING AND TEXTILES

Making progress possible. Together.

Document navigation shortcuts

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<https://www.capetown.gov.za/en/visitcapetown/Pages/EPIC.aspx>.

Foreword



It is 40 years since Robert F Kennedy delivered his famous 'Day of Affirmation' address at the University of Cape Town, widely regarded as his finest speech. As I reflect on the state of the economy, I am reminded of Kennedy's use of the famous proverb, 'May you live in interesting times', when addressing the university audience. 'Like it or not, we live in interesting times,' he said. 'They are times of danger and uncertainty, but they are also more open to the creative energy of men than any other time in history.'

After the uncertainty and volatility that characterised the national economy late last year, the nation had to hold its breath once again in June in anticipation of the outcome of the review of the country's credit ratings. Despite this uncertainty in the national environment, the City of Cape Town has maintained its high credit rating as a consequence of the administration's good budgetary performance, strong liquidity position and moderate debt levels, all of which, according to Moody's, were enhanced by 'prudent financial policies and [our] relatively large and diversified economic base'.

Just when we thought we could see the light at the end of the tunnel as far as challenging economic conditions are concerned, a slim majority of citizens in Great Britain voted in favour of their country leaving the European Union at the end of June, throwing international markets into turmoil. As I write this, the implications of this for the local economy are unclear. My administration is committed to providing the required support and is already working with Wesgro and other partners in government and the private sector to understand the implications of the so-called 'Brexit' for our local economy. We will be considering what plans need to be put in place to take advantage of the opportunities that may arise while mitigating the risks that may emerge.

Despite these being 'interesting times', I have great faith that the people of Cape Town will be able to rise to the challenge of building a stronger and more inclusive economy for all. We have a resilient and diversified economy, and the right talent to navigate us through this period.

The 12th edition of our quarterly report on the state of the Cape Town economy, *EPIC – Economic Performance Indicators for Cape Town*, provides us with up-to-date economic information and analysis. This information can be used to address the challenges and opportunities that we face. I encourage you to engage with its contents and to develop new ways to stimulate growth and create jobs in our local economy.

P. de Lille

Patricia de Lille
Executive Mayor

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Introduction

This is the 12th 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 2016, covering the period 1 January to 31 March 2016.

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

Acknowledgements

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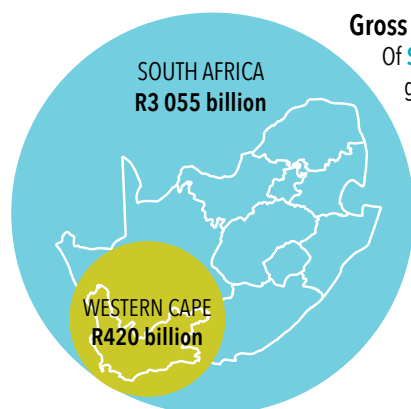
Cape Clothing and Textiles Cluster: Jake Morris

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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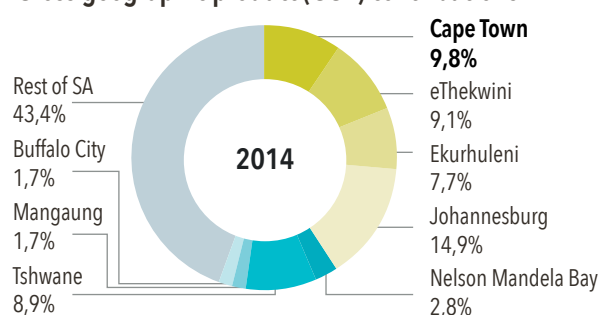
Gross domestic product (GDP)

Of **South Africa's R3 055 192 million** gross domestic product generated in the first quarter of 2016, the **Western Cape¹** accounted for **R420 931 million**.

Source: Quantec, June 2016.

13,77%

Gross geographic product (GGP) contributions



Source: Own calculations based on IHS Global Insight ReX regional data 2016.



Western Cape
South Africa

GDP growth

During the first quarter of 2016, the **Western Cape** had a quarter-on-quarter GDP growth of 0,2%, against a negative national growth of -1,2%.

Source: Quantec, June 2016.



Inflation

During the first quarter of 2016, the **Western Cape** had a higher rate of inflation - **6,4%** - than the rest of **South Africa** at **6,3%**.

Source: Stats SA, Consumer Price Index March 2016.



Passenger vehicle sales

Of the **95 708** new passenger vehicles sold in **South Africa** during the first quarter of 2016, **11 253** were sold in the **Western Cape**.

Source: NAAMSA, March 2016.

Air passenger movements

Of the **8 924 998** passenger movements through **South Africa's three international airports²** during the first quarter of 2016, **2 635 854** were through **Cape Town International Airport**.

Source: ACSA, May 2016.



29,5%

Cargo tonnage handled at ports

During the first quarter of 2016, **53 937 865** tons of cargo were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **1 118 201** tons.

Source: Transnet, National Ports Authority, May 2016.

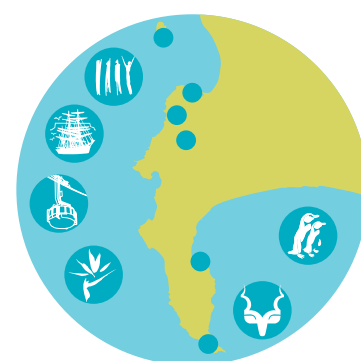


23,4%

Containers handled at ports

During the first quarter of 2016, **1 006 855** containers were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **235 883**.

Source: Transnet, National Ports Authority, May 2016.



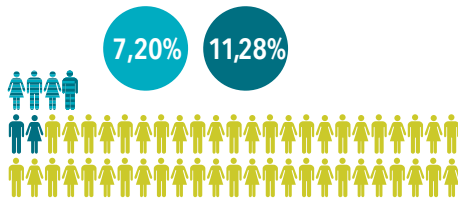
Visitor attractions

In the first quarter of 2016, tourists and residents made **7 955 458** visits to Cape Town's six major attractions.

Source: Wesgro, May 2016.

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, June 2016.

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, June 2016.

Functional literacy

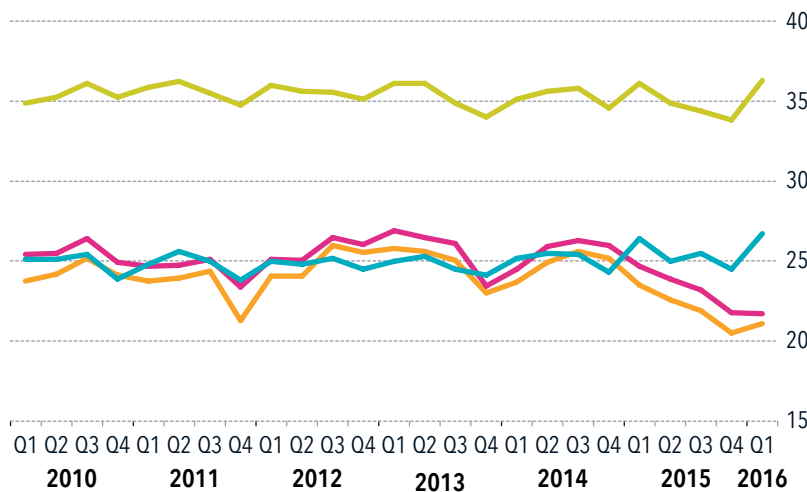
South Africa has a functional
literacy rate of 83,2%, while
Cape Town has a rate of 92,5%.
Source: IHS Global Insight, June 2016.



Strict vs broad unemployment rates for Cape Town (Q1, 2010 to Q1, 2016)

Unemployment rate (%)

■ SA broad rate ■ SA strict rate ■ Cape Town broad rate ■ Cape Town strict rate



Source: Stats SA, March 2016.

7,59%

Working-age population

Of the 36 430 765
people aged 15–64
in South Africa,
2 768 261 are resident in Cape Town.

Source: Stats SA, Quarterly Labour Force Survey (QLFS), May 2016.

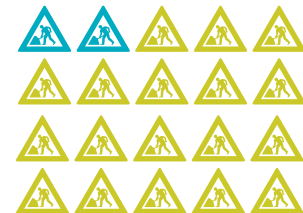
7,07%



Unemployment

Of the 5 713 501 unemployed people in South Africa
in the first quarter of 2016, 404 262 lived in Cape Town.

Source: Stats SA, QLFS, May 2016.



8,97%

Labour force

Of South Africa's 21 376 944 labour force
participants, 1 919 187 live in Cape Town.

Source: Stats SA, QLFS, May 2016.

Expanded unemployment rate

While South Africa had a 36,3%
unemployment rate during the first
quarter of 2016, Cape Town had a
lower rate of 21,7%.

Source: Stats SA, QLFS, May 2016.

Labour absorption rate

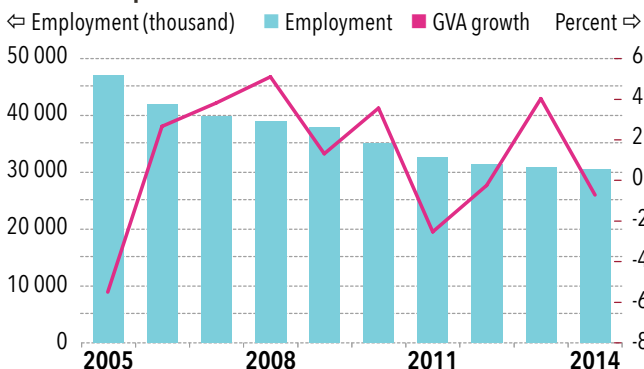
South Africa had a 43,0% absorption rate –
the percentage of the working-age population in
employment – in the first quarter of 2016, while
Cape Town had a rate of 54,7%.

Source: Stats SA, QLFS, May 2016.

SECTOR FOCUS – CLOTHING AND TEXTILES

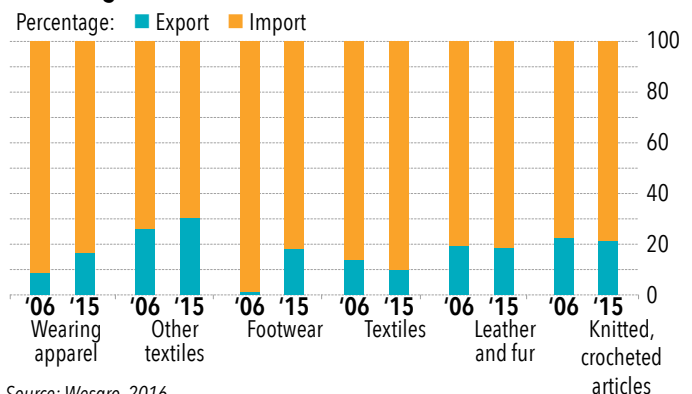
Clothing and textiles is Cape Town's strongest manufacturing comparative advantage industry by some margin, and is repositioning itself to take advantage of global trends like fast fashion that favours the speed at which goods can be brought to market over cheap goods.

Employment and GVA growth of the clothing and textiles sector in Cape Town



Source: City of Cape Town calculations, data derived from IHS Global Insight.

Export and import of clothing and textile products by sub-categories, 2006 and 2015



Source: Wesgro, 2016.

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.



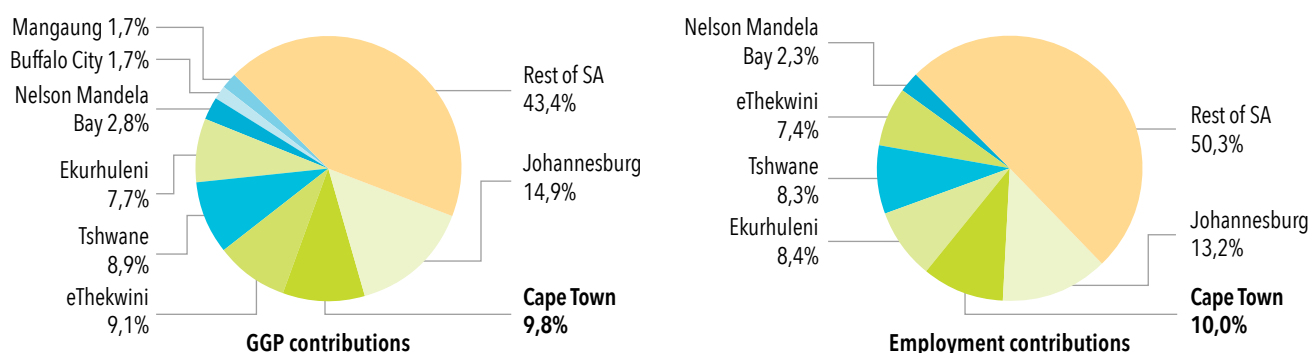
Cape Town is the second-most-important contributor to national employment.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 9,8% 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 14,9% to national GDP in 2014), while eThekweni (9,1%) and Tshwane (8,9%) closely follow behind Cape Town. Together, these four metropolitan municipalities accounted for 42,7% 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 42,7% of the country's output value, they account for only 38,9% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

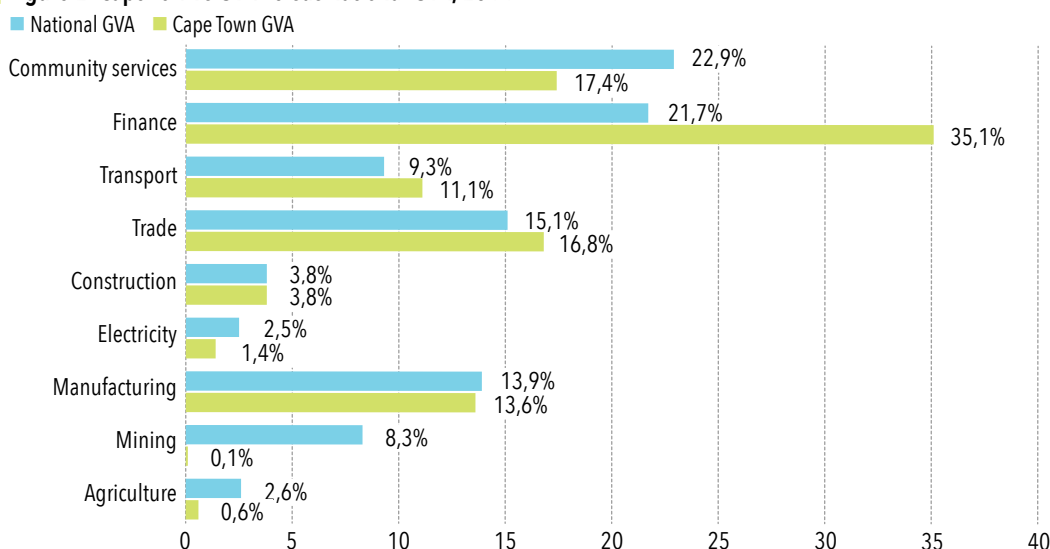
Figure 1: Gross geographic product (GGP) and employment contributions, 2014



Source: Own calculations based on IHS Global Insight ReX regional data 2016 and Stats SA's QLFS data, first quarter, 2016.

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 35,1% to Cape Town's GVA, whereas it contributes only 21,7% nationally. At the other end of the scale, mining and quarrying contribute only 0,1% in Cape Town, as compared to 8,3% nationally.

Figure 2: Cape Town's GVA versus national GVA, 2014

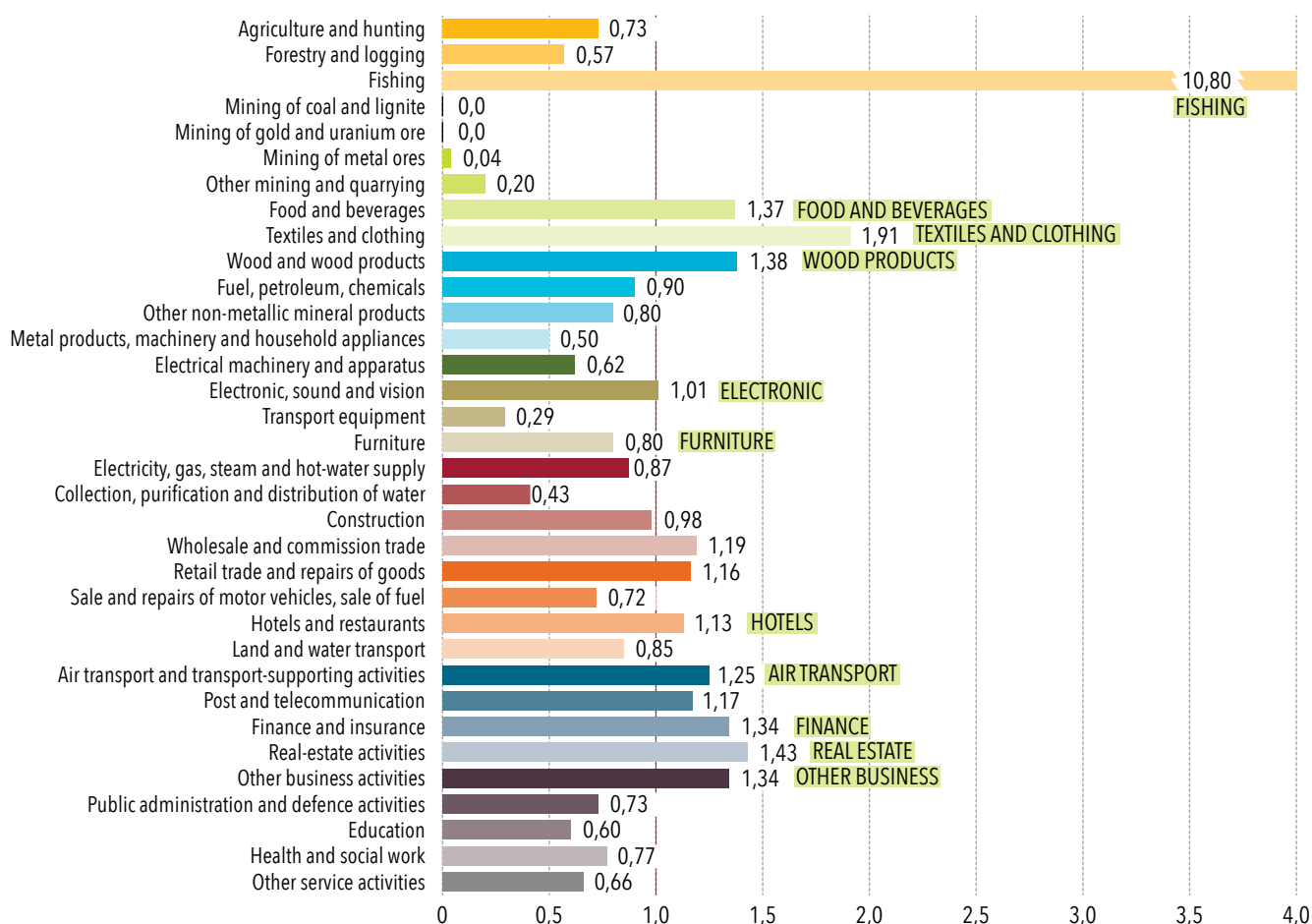
Source: Own calculations based on IHS Global Insight ReX regional data 2016.

The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, textiles and clothing, real estate, wood-product manufacturing, food and beverages, finance, other business activities, air transport activities and hotels and restaurants.

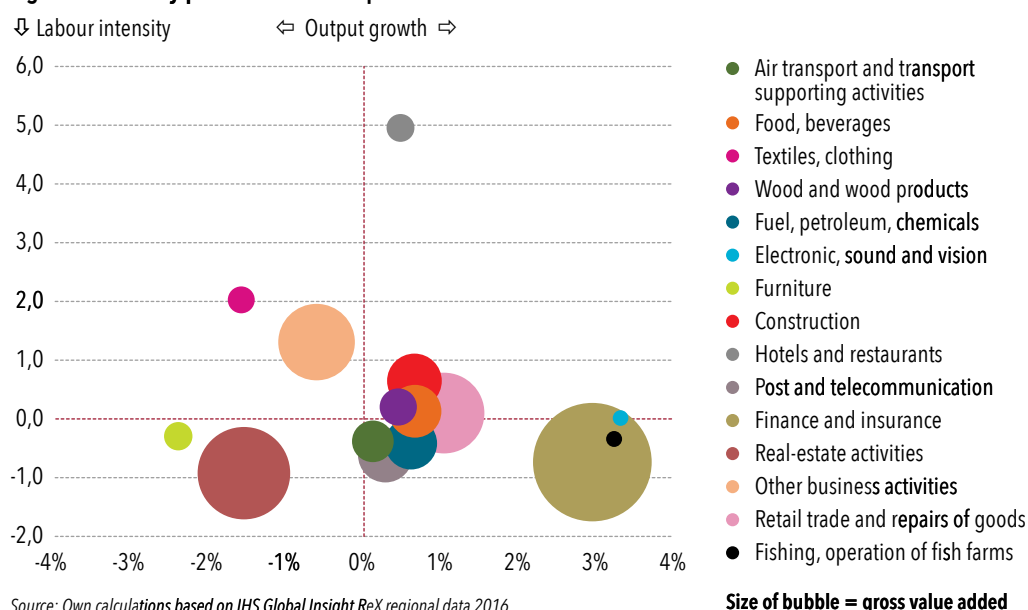
CAPE TOWN'S COMPARATIVE ADVANTAGES

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, textiles and clothing, real estate, wood-product manufacturing, food and beverages, finance, other 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 2016.

Figure 4: Industry performance for Cape Town

The industries that are growing fast, are labour-intensive, and therefore offer good opportunities for employment creation, are construction and hotels and restaurants.

activities, air transport activities and hotels and restaurants. 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 industries contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's industries 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, other business activities, retail trade, and real-estate activities. Of these industries, finance is the only industry also growing rapidly in the city, developing above the average industry growth rate for Cape Town's economy. Unfortunately, a number of Cape Town's growth industries are also below 0 on the y-axis, indicating that they are capital-intensive as opposed to labour-intensive. This is true of finance and insurance; post and telecommunications, and fuel, petroleum and chemicals. The industries that are growing fast, are labour-intensive, and therefore offer good opportunities for employment creation, are construction and hotels and restaurants (a good proxy for tourism). Other business activities, while growing a bit slower than average, is also labour-intensive, with strong potential for job creation.

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

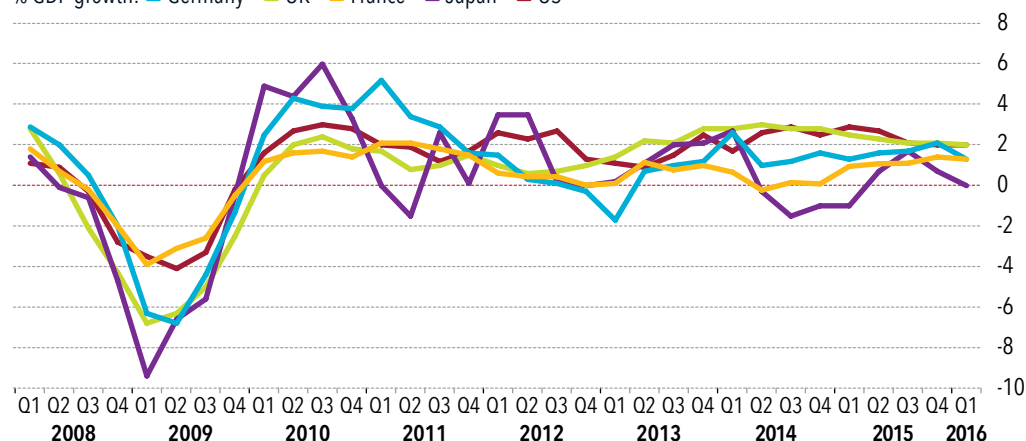
While year-on-year GDP growth remained stable for most developed economies, Germany experienced a notable decline from 2,1% growth in the fourth quarter of 2015 to 1,3% growth in the first quarter of 2016.

Developed economies

The performance of Gross Domestic Product (GDP) year-on-year growth in the first quarter of 2016 varied across developed countries. While year-on-year⁵ GDP growth remained stable for most developed economies, Germany experienced a notable decline from 2,1% growth in the fourth quarter of 2015 to 1,3% growth in the first quarter of 2016. Japan and France also observed declines from 0,7% and 1,4% respectively in the fourth quarter of 2015 to 0,0% and 1,3% respectively in the first quarter of 2016. By contrast the United Kingdom (UK) and the United States (US) both recorded year-on-year growth rates of 2,0% in the first quarter, varying little from the previous quarter (2,0% and 2,1% respectively). In both cases, a steady rise in consumer spending was identified as the principal growth driver with a notable dependence on imports, rather than domestic manufacturing, to meet this rise in demand.

Figure 5: Economic growth trends in developed countries

% GDP growth: Germany UK France Japan US



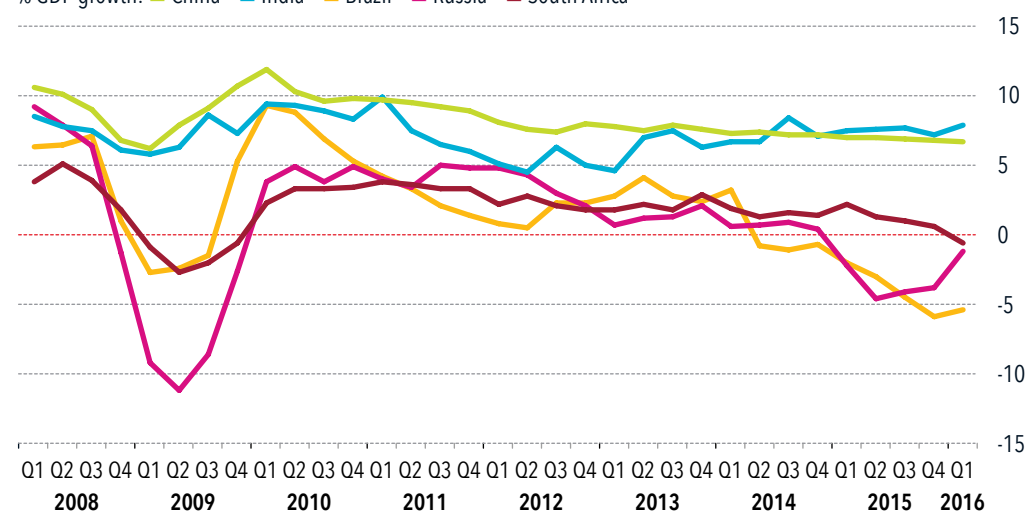
Source: Trading Economics, June 2016.

Emerging economies

Year-on-year GDP growth trends in the BRICS (Brazil, Russia, India, China and South Africa) economies have been diverse with high growth in India and China, yet the continuance of recessionary trends in Russia and Brazil. China and India's economic growth has tended towards 7% and 8% year-on-year GDP growth since 2010. While China's growth slowed to 6,7% in the first quarter of 2016, India experienced an upward trend reaching 7,9% by the first quarter of 2016 from 7,2% in the fourth quarter of 2015, driven by growth in the agricultural, mining and electricity production sectors. The case is quite different for the Russian

Figure 6: Economic growth trends in emerging economies

% GDP growth: China India Brazil Russia South Africa



Source: Trading Economics, June 2016.

5. 'Year-on-year' is used here instead of annual to reflect that the comparison is between the same quarters in two different years (Q1 2016 vs Q1 2015) as opposed to comparisons across different whole completed years (i.e. 2016 vs 2015). Quarter on quarter refers to the comparison between the current quarter and the previous one (Q1 2016 vs Q4 2015).



and Brazilian economies, however, with a drop in crude oil prices having plunged the Russian economy into recession for the last two years. While year-on-year GDP growth remained negative (-1,2%) in the first quarter of 2016, there were indications of a possible stabilisation relative to the fourth quarter of 2015 when the growth rate stood at -3,8%. Brazil has similarly been in recession for the last two years, resulting from domestic political crises and made worse by the Zika virus. The mild reprieve in the rate of contraction in the first quarter of 2016 (-5,4%) relative to the fourth quarter of 2015 (-5,9%), was fuelled by an increase in government spending. The South African economy grew notably slower on a year-on-year basis, recording a rate of -0,6% in the first quarter of 2016. The chapter on domestic economic performance delves deeper into the reasons for this.

Global economic outlook

According to the latest International Monetary Fund's (IMF) *World Economic Outlook (WEO) Report* (2016), published in April 2016, global growth for 2016 is projected to remain close to that of 2015 at 3,2% with a rise to 3,5% anticipated for 2017. While growth amongst advanced economies is anticipated to be in the region of 1,9% and 2% in 2016 and 2017 respectively, emerging market and developing economies are expected to grow in the range of 4,1% and 4,6% in the same period.

Following an improvement from -0,4% growth in 2013 to 0,9% growth in 2014, the IMF reported positive growth of 1,6% in the Eurozone in 2015. The forecast for 2016 growth has, however, been scaled down from the previous forecast by 0,2 percentage points to 1,5%. By 2017, however, the IMF forecast growth will return to its 2015 level of 1,6%.

While the IMF reported growth of 6,9% for China in 2015, its projection for 2016 was scaled up from 6,3% to 6,5% – possibly indicative of the successful rebalancing of the Chinese economy. However, its forecast of 6,2% growth for the economy in 2017 reflects the anticipation of further slowing of the Chinese economy. According to the IMF, while the country is experiencing lower growth rates than that of the past two decades, its economic expansion still remains notably high on a global scale. Growth forecasts for India remain positive, with the economy expected to grow from 7,3% in 2015 to 7,5% in 2016 and 2017 – driven by rising private consumption, facilitated by lower energy prices and higher real incomes.

Sub-Saharan Africa's economic growth projection for 2016 is a modest 3%, down from its 2015 level of 3,4% and 1,3 percentage points lower than previously forecast in the October 2015 issue of the *WEO* report. Growth is, however, anticipated to rise to 4% in 2017 based on an expectation that commodity prices will recover and that policy implementation will be more timely. South Africa's economic growth forecast has been reduced by half to 0,6% in 2016 from its 1,3% level in 2015, which is 0,1 percentage points lower than previously forecast for 2016. Forecasts do, however, expect an improvement in growth in 2017 with a growth projection of 1,2%. Chapter 4 of this publication interrogates the determinants of GDP growth further, although it is worth noting here that the lower growth prediction for 2016 is the result of the rand's depreciation, lower export prices, greater political uncertainty as well as more stringent monetary and fiscal policies.

Overall, global output growth is expected to be driven by growth of 4,1% in emerging market and developing economies and 1,9% in advanced economies in 2016. While emerging market and developing economies will lead global growth, the *WEO* notes that this growth estimate is 2 percentage points lower than the average achieved over the last decade. This is a result of lower commodity prices (particularly oil) but also a slowing of demand for exports from non-commodity-driven emerging and developing economies. In contrast, the anticipated growth in advanced economies is attributed to more favourable energy prices and less stringent monetary policies.

Global output growth is expected to be driven by growth of 4,1% in emerging market and developing economies and 1,9% in advanced economies in 2016.

Crude oil prices were almost 40% lower in January 2016 than they were a year ago, having knock-on effects in the prices of a range of commodities.



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.

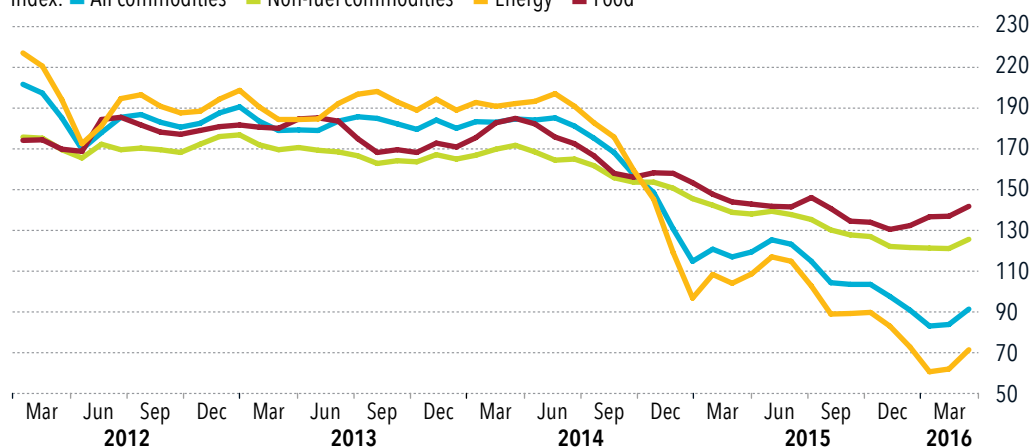
The all-commodities index continued its 2015 decline into the first quarter of 2016, reaching its lowest value since 2004 in January 2016. Although falling metal prices – a result of the slowing Chinese economy – contributed to this decline, the all-commodities index hitting a more than 10-year low was predominantly a reflection of sharply dropping oil prices. Crude oil prices were almost 40% lower in January 2016 than they were a year ago, having knock-on effects in the prices of a range of commodities (IMF, 2016a: 1). Since January, however, commodity prices have shown an upward trend, on the back of a mild recovery in metal prices, persistent food price inflation and an increasing crude oil price. Overall, and notwithstanding the decline at the beginning of the quarter, commodity prices increased by 1,7% in the first quarter of 2016 (IMF, 2016a: 1).

When the fuel price is removed, a steadier trend to that observed for the all-commodities index emerges. Declining metal prices at the beginning of the first quarter were counterbalanced by strong food price growth, while at the end of the quarter the upward trend in the non-fuel commodities index was more muted than that observed for the all-commodities and energy indices that were both heavily influenced by increasing oil prices. Growth in food prices in the first quarter was predominantly driven by wheat and soybean price increases. This is partly attributable to El Nino's impact on agricultural producers.

Despite discussion of an output freeze by major oil producers, continued strong supply by OPEC and 'subdued aggregate demand growth' meant that oil price increases remained relatively modest in the first quarter (IMF, 2016a: :1). Likely future increases in the oil price are expected to be supply driven as the International Energy Agency (IEA) expects demand growth to slow significantly in 2016 as compared to the previous year (IMF, 2016a: 1).

Figure 7: World commodity indices (March 2012 to March 2016)

Index: ■ All commodities ■ Non-fuel commodities ■ Energy ■ Food



Source: IMF, March 2016a.

Exchange rates

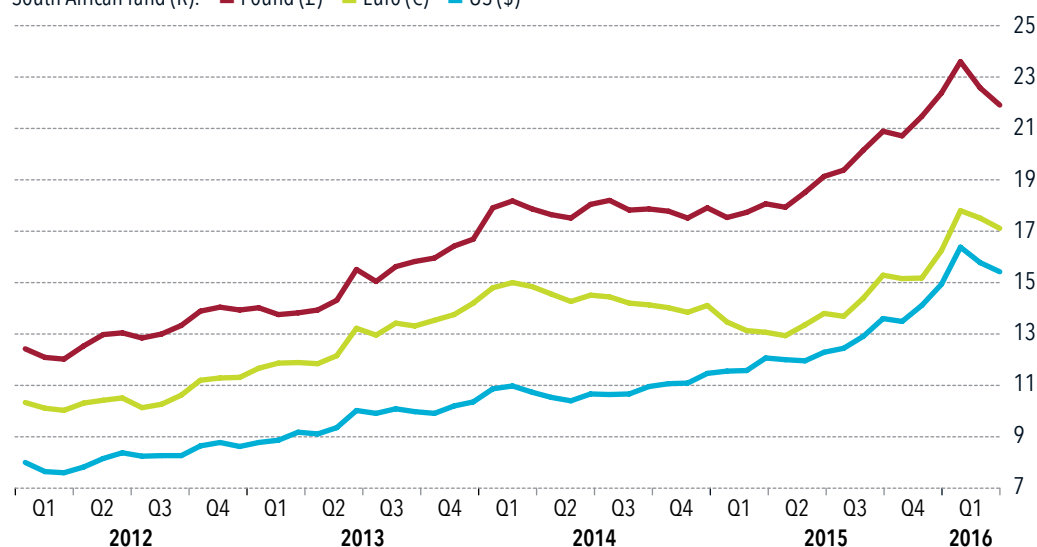
To measure the performance of the South African rand, its exchange rate is compared to seven other currencies, namely the United States dollar (\$), the British pound (£), the euro (€), the Brazilian real (BRL), the Russian rouble (RUB), the Indian rupee (INR) and the Chinese yuan (CNY).

The South African rand depreciated sharply against the developed-economy currencies reaching a record low in January 2016. Following this low, however, the rand appreciated during the remainder of the quarter. Figure 8 illustrates this movement against developed economy currencies during the first quarter, with the rand closing at R15,43 against the dollar; R21,93 against the pound and R17,11 against the euro at the end of March 2016.

Political instability, a prolonged drought, sluggish economic growth for 2015, increasing inflation expectations and a widening of the trade deficit all contributed to the record low experienced at the end of January 2016. The subsequent appreciation of the rand following the low in January was supported by the moderation in the US normalisation path and improved retail sales domestically (up 4,1% year-on-year) in February 2016 (SARB, 2016). The appreciation of the rand against the euro in this period was highly affected by Germany's negative contributions towards the Eurozone's trading data leaving their exchange rate more vulnerable during the same period.

Figure 8: South African nominal exchange rates (January 2012 to March 2016)

South African rand (R): ■ Pound (£) ■ Euro (€) ■ US (\$)



Source: South African Reserve Bank, May 2016.

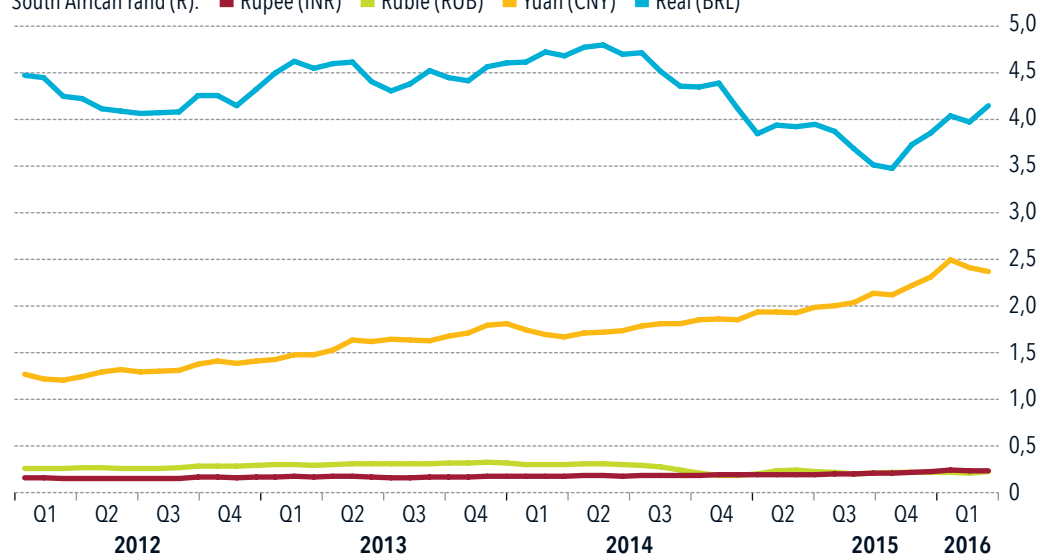
Figure 9 illustrates the South African rand's performance against other emerging markets that form part of the BRICS partnership. As indicated in figure 9, the real and rupee have gained value against the rand while the rouble has remained consistent with its recordings against the rand. On the other hand, the yuan depreciated against the rand.

The yuan followed the same trend as the developed-economy currencies by appreciating sharply at the end of January 2016 and depreciating steadily against the rand at the end of March 2016. China's economy became more susceptible after devaluing its currency while the rise in US interest rates encouraged more capital outflows which created pressure on the domestic interest rates.

Despite a debt status downgrade to junk, an economic recession, the outbreak of the Zika⁶ virus and a high level of political instability, the Brazilian real appreciated against the South African rand in the first quarter. India and Russia's currencies displayed relatively consistent performances against the rand remaining in the R0,2 – R0,25 region. The rouble was, however, under pressure in the first quarter as the country's economic output continued to shrink and oil prices remained persistently low. India, which is considered the 'bright star' amongst the emerging economies, experienced a mild weakening of its currency between January and March as a result of a rise in foreign debt due to disinvestment by institutional investors.

Figure 9: BRICS nominal exchange rates (January 2012 to March 2016)

South African rand (R): ■ Rupee (INR) ■ Ruble (RUB) ■ Yuan (CNY) ■ Real (BRL)



Source: South African Reserve Bank, May 2016.

Despite a debt status downgrade to junk, an economic recession, the outbreak of the Zika virus and a high level of political instability, the Brazilian real appreciated against the South African rand in the first quarter.

6. Zika virus is a member of the Flaviviridae family and is transmitted to humans by mosquitoes. It is related to other pathogenic vector borne flaviviruses including dengue, West-Nile and Japanese encephalitis viruses but produces a comparatively mild disease in humans. Since 2015 it further spread in the Americas. See more at: http://ecdc.europa.eu/en/healthtopics/zika_virus_infection/Pages/index.aspx#sthash.4cbScy9I.dpuf



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

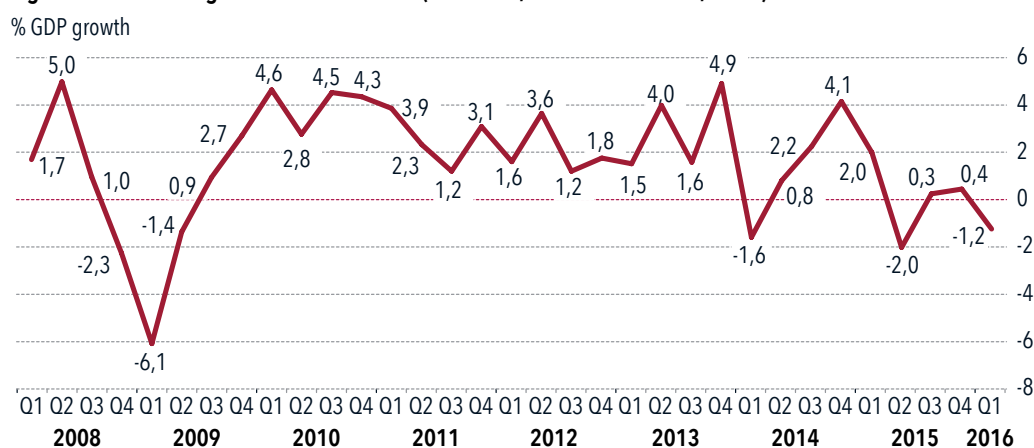
The slower than expected growth in the first quarter pushed year-on-year growth 2,9 percentage points lower than what was recorded for the first quarter of 2015 and the lowest it has been since the recession in 2009.

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

South Africa's economy contracted by 1,2% on a quarter-on-quarter basis in the first quarter of 2016, having deteriorated significantly from the 0,6% growth rate achieved in the fourth quarter of 2015. The growth figure was notably below the 0,1% contraction predicted by Bloomberg's market consensus (Bloomberg, 2016a and 2016b) and lower than the 0,5% contraction predicted by the Bureau for Economic Research (BER). Much of what drove this decline was a large contraction in the mining industry followed by contractions in transport, communications and agriculture. The first quarter's GDP release was a milestone for Statistics South Africa (Stats SA) as the agency published both the production- and expenditure-side GDP data for the first time (the South African Reserve Bank (SARB) had done the latter for the past 70 years).

South Africa's economy also contracted on a year-on-year basis, recording a rate of -0,6% in the first quarter of 2016. The slower than expected growth in the first quarter pushed year-on-year growth 2,9 percentage points lower than what was recorded for the first quarter of 2015 and the lowest it has been since the recession in 2009. The country would need annual average economic growth to exceed 5% every year to achieve the National Development Plan's target of sustainable economic expansion, which supports job creation. Two consecutive years of average year-on-year economic growth of not more than 1,6%, with little improvement forecast for the remainder of 2016, renders this unlikely and points to the need for significant structural interventions to kick-start economic growth.

Figure 10: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 1, 2016)



Source: Stats SA, June 2016.

Sectoral determinants of GDP growth in South Africa

The weak performance of the economy in the first quarter was driven by a substantial contraction in the primary sector. This was driven largely by a decline in mining output as a result of reduced production in the platinum group metals and iron ore (Stats SA, 2016). The mining sector observed a quarter-on-quarter growth rate of -18,1% down from the positive (1,4%) growth it experienced in the fourth quarter of 2015. Despite a 0,2 percentage point improvement in its quarter-on-quarter growth rate, the agriculture sector experienced its fifth consecutive negative quarter-on-quarter growth rate, reflecting the continued impact of drought conditions.

The secondary sector's output contracted by 1,7% in the first quarter, resulting from a decline in the electricity, gas and water industry (-2,8%) due to a drop in the consumption of electricity and in the amount of water distributed because of drought conditions and the related water restrictions. While the manufacturing and construction sectors observed positive quarter-on-quarter growth of 0,6% and 0,5% respectively, this could not moderate the negative growth of the electricity and water sector sufficiently to achieve positive growth in the secondary sector.

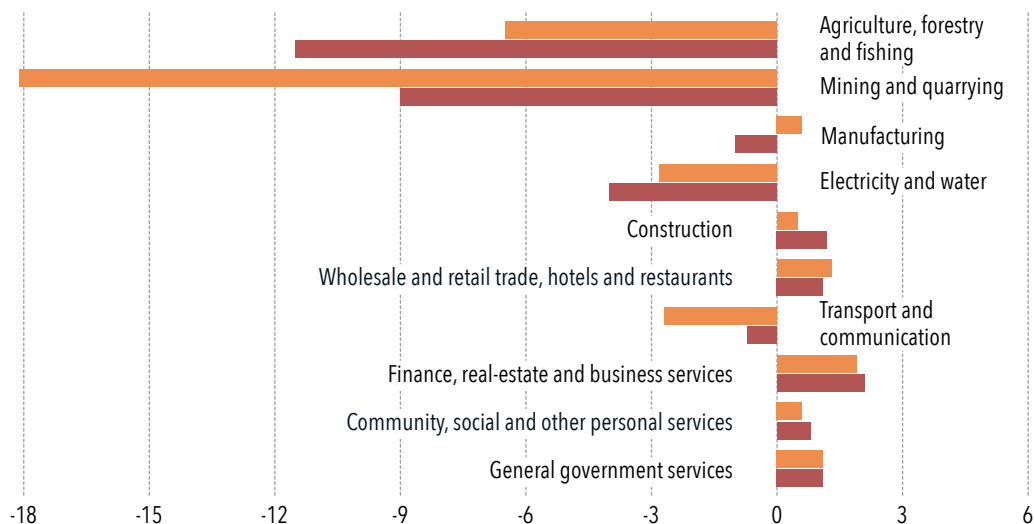
The tertiary sector continued to grow at a quarter-on-quarter rate (2,1%) that was well below its 10-year average rate (2,9%), as low consumer confidence and rising costs constrained spending. Within the sector, finance, real estate and business services grew by 1,9%. Wholesale and retail trade, hotels and restaurants grew by significantly less (1,3%) in the first quarter of 2015 than in the previous quarter (2,6%), due to a decline in motor vehicle sales. Transport and communication contracted by 2,7%, due to lower land transportation (freight and passenger) activity, whereas community, social and other personal services grew by 0,6% and general government services by 1,1% quarter on quarter (Stats SA, 2016).

Figure 11 shows that a number of sectors experienced both quarter-on-quarter and year-on-year declines with agriculture, forestry and fishing, and mining and quarrying undergoing the greatest quarter-on-quarter (6,5% and 18,1%, respectively) and year-on-year (11,5% and 9%, respectively) declines. This was mildly moderated by other sectors of the economy, notably in the finance, real estate and business services sector, which experienced the highest year-on-year (2,1%) and quarter-on-quarter (1,9%) growth rates.

The weak performance of the economy in the first quarter was driven by a substantial contraction in the primary sector. This was driven largely by a decline in mining output as a result of reduced production in the platinum group metals and iron ore.

Figure 11: Sectoral GDP growth rates for South Africa (Quarter 1, 2016)

% GDP growth: ■ Quarter on quarter ■ Year on year



Source: Stats SA, June 2016.

While the manufacturing and construction sectors observed positive quarter-on-quarter growth, this could not moderate the negative growth of the electricity and water sector sufficiently to achieve positive growth in the secondary sector.

Economic growth outlook for South Africa

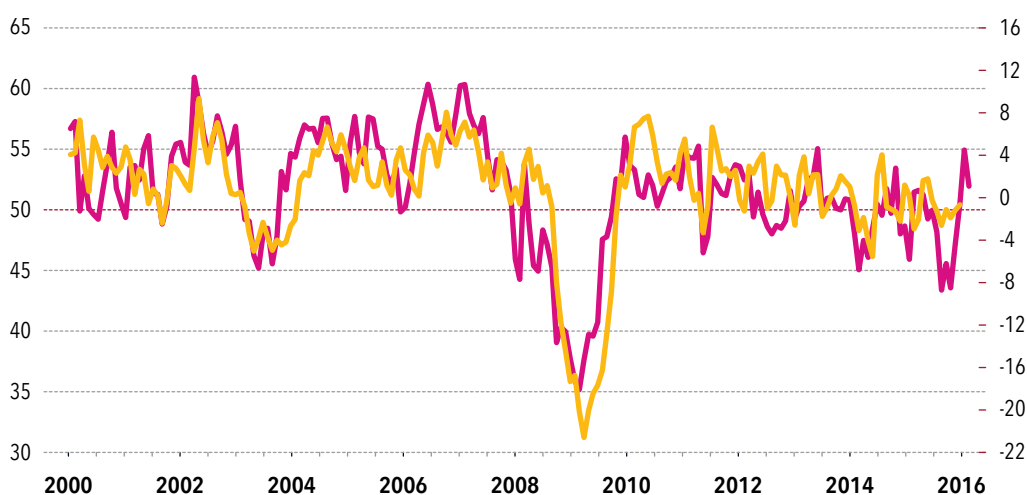
The tertiary sector has been the main source of growth in the South African economy since 2008, and has often counterbalanced the volatility of the mining and manufacturing sectors. However, the dampened performance of the tertiary sector over the last two years has exposed the country to the volatility of the primary and secondary sectors. Some of the factors which undermined growth in the productive sector of the economy and restrained growth in the tertiary sector in 2015 are expected to remain in 2016, leading many analysts to predict that the South African economy is set for a rough ride in the next two years.

It remains to be seen whether the poor performance of the primary sector in the first quarter of 2016 will reverse and avert an economic recession in the country. Should safety stoppages brought on by the implementation of Section 54 regulations by the Department of Mineral Resources (BER, 2016) persist in the mining sector, this may well continue to dampen growth in that sub-sector. Further, in early June 2016, the Minister of Cooperative Governance and Traditional Affairs declared most of the country's provinces as 'drought disaster areas', signalling the likely continuance of the negative economic impact on the agriculture sector.

The manufacturing sector is large enough to offset some of the imminent losses in the primary sector, but its immediate prospects look uncertain. While the Barclays Purchasing Managers' Index (PMI)⁷ rose above the 50 point neutral mark in March 2016, reaching a peak of 54,9 index points in April 2016, by May 2016 it had regressed to 51,9 index points. This regress was a function of a notable decline in the new sales orders index (-6,6 index point decline) followed by drops in the

Figure 12: Purchasing managers' index for South Africa

↔ Index points ■ PMI (seasonally adjusted) ■ Manufacturing prod vol (2mma) Year-on-year change (%) ↔



Source: Barclays & BER, June 2016. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

7. 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.



The expectations are that the weaker rand combined with a rise in international oil prices will continue to place pressure on the domestic cost of fuel, placing further strain on the costs faced by manufacturers.

business activity and employment indices. The BER reports that only the suppliers' performance index increased (to 56,2 index points in May 2016 from 51,8 index points in April 2016). While the index which measures purchasing managers' expectations declined marginally, it remained above 50 index points at 54,1 index points, indicating optimism about forthcoming business conditions in six months' time. Further, the fact that the new sales orders index stayed marginally above the inventories index, ensuring that the PMI leading indicator remained higher than 1, suggests a possible increase in output in forthcoming months (BER, 2016).

While there are potential positive prospects ahead, the BER notes that manufacturers are already facing cost challenges as the price index increased to 80,1 index points in May 2016 from 77,7 index points in April 2016. The expectations are that the weaker rand combined with a rise in international oil prices will continue to place pressure on the domestic cost of fuel, placing further strain on the costs faced by manufacturers.

ECONOMIC GROWTH IN THE WESTERN CAPE

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

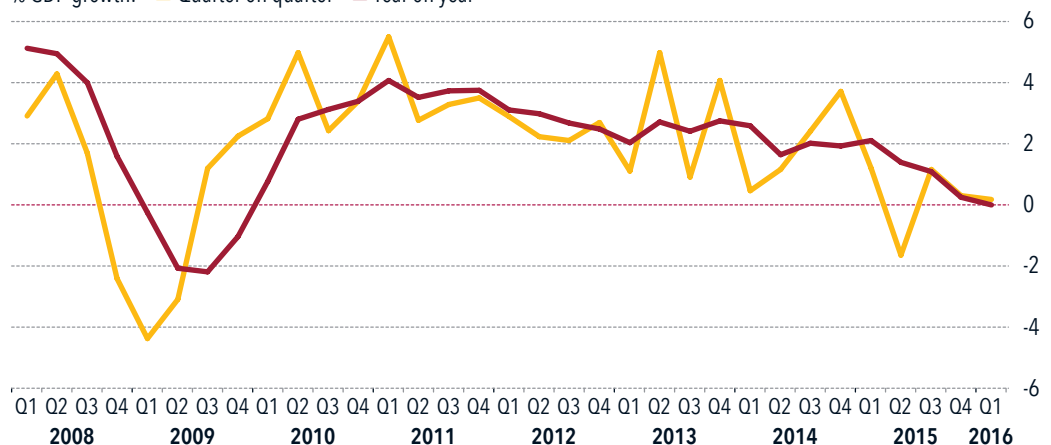
The Western Cape economy contributes around 14% of national GDP, and is strongly influenced by national economic conditions (Quantec, 2015). The impact of the drought and the slowing of manufacturing production, both of which are more strongly represented in the province than at a national level, weighed heavily on the provincial economy, yielding a quarter-on-quarter growth rate of just 0,2% in the first quarter of 2016. On a year-on-year basis the Western Cape economy grew slightly faster than the national economy, but growth declined from the previous quarter to 0,01%.

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 72% of the provincial economic output (IHS Global Insight, 2016). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate has been 0,1 percentage points.

The impact of the drought and the slowing of manufacturing production weighed heavily on the provincial economy, yielding a quarter-on-quarter growth rate of just 0,2% in the first quarter of 2016.

Figure 13: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 1, 2016)

% GDP growth: ■ Quarter on quarter ■ Year on year



Source: Quantec, June 2016.



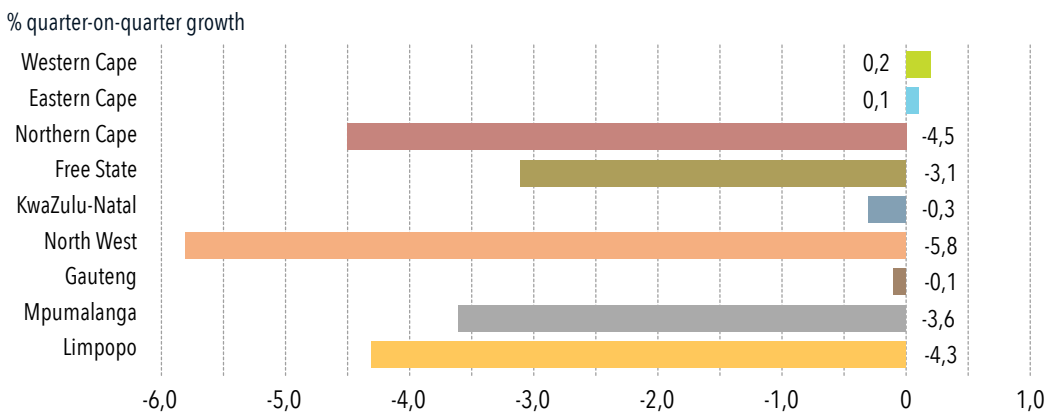
Provincial economic growth comparisons

A comparison of economic growth rates between provinces reveals that all of the provincial economies experienced sluggish, if not, negative growth in the first quarter of 2016. The North West, Northern Cape and Limpopo provinces experienced the largest economic contractions of 5,8%, 4,5% and 4,3% respectively, reflecting the decline in the mining sector which dominates the sectoral composition of these provinces. The only provinces which observed positive growth in the quarter were the Western Cape (0,2%) and Eastern Cape (0,1%).

Cape Town is not significantly affected by declines in the primary sector but the city is strongly affected by the performance of the tertiary sector, which accounts for almost 80% of its GDP. Considering that the largest quarter-on-quarter decline in provincial output came from a sector that is not strongly represented in Cape Town (mining and quarrying), and that the highest quarter-on-quarter increase in production came from two sectors that are strongly represented (wholesale and retail trade (1,5%), and finance and business services (1,9%)), one can expect the city's economy to have outperformed the provincial economy in the first quarter of 2016.

The only provinces which observed positive growth in the first quarter were the Western Cape (0,2%) and Eastern Cape (0,1%).

Figure 14: Provincial comparisons of real GGP growth rates (Quarter 1, 2016)



Sectoral drivers of economic growth in the Western Cape

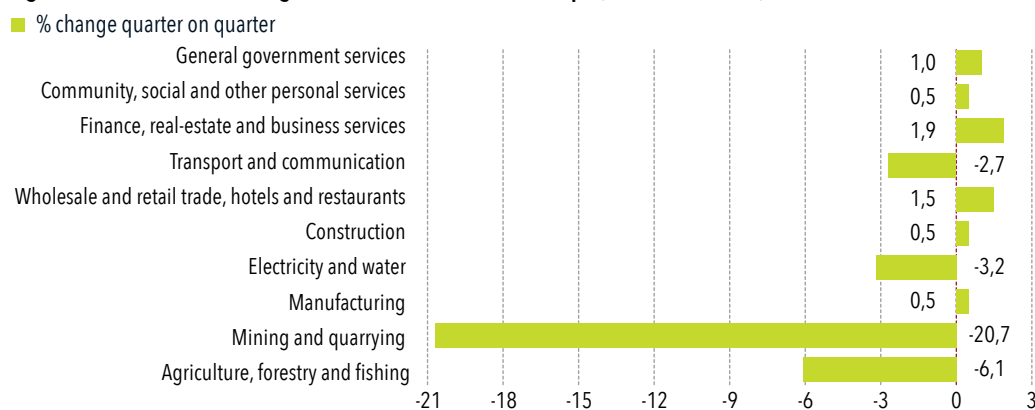
The Western Cape's growth performance by sector closely mirrors the trends in the national economy. Most notably, the largest quarter-on-quarter contractions in the Western Cape were observed for mining and quarrying (-20,7%) and agriculture, forestry and fishing (-6,1%). The largest contributor to economic growth in the Western Cape in the first quarter was the finance, real-estate and business services sector, which recorded a growth rate of 1,9% – 0,2 percentage points higher than the sector's growth rate in the previous quarter. The wholesale and retail trade sector was the second largest contributor to economic growth in the Western Cape in the first quarter with a quarter-on-quarter growth rate of 1,5%.

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, 85% of the Western Cape's finance and business services, 76% of wholesale and retail trade, and 64% of manufacturing can be attributed to the metropolitan area (IHS Global Insight, 2016). 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. However, these sectors' greater contribution to the city's economy means that they would have had a larger effect on the city's economic growth rate.

The largest quarter-on-quarter contractions in the Western Cape were observed for mining and quarrying, and agriculture, forestry and fishing.

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 12% (IHS Global Insight, 2016). 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 first quarter would have been dependent on whether the city's gains in the tourism industry and retail sector more generally, as well as the finance and business services sector could outweigh the losses in the transport and communication sector.

Figure 15: Sectoral real GGP growth rates in the Western Cape (Quarter 1, 2016)



Source: Quantec, June 2016.

Growth outlook for Cape Town and the Western Cape

The main sources of growth for both the Western Cape and Cape Town in the first quarter of 2016 were the wholesale and retail trade, and finance and business services sectors. Although the finance sector recorded a positive growth rate, it was nevertheless below its historical trend and reflective of the enduring weakness of business and investor confidence. However, the fact that the three core global credit rating agencies – Standard & Poor's, Moody's and Fitch – have refrained from giving the country a 'junk' status in the first quarter of 2016, could signal positive movements in investor confidence in the economy. The tourism sector aside, retail spending looks likely to remain highly constrained in the second quarter of 2016 as interest rate hikes, electricity price increases and a weak exchange rate continue to take their toll on consumer confidence. Further, global economic developments – particularly those surrounding the outcomes of Great Britain's decision to leave the European Union as well as the US Federal Reserve Bank's recent decision to maintain its interest rate unchanged (and possibly refrain from implementing hikes in 2016) – will have bearing on economic growth in South Africa. In light of all the country's provinces, excluding Gauteng, being deemed 'drought disaster areas', the outlook for manufacturing industries reliant on agricultural production will likely also remain under pressure during 2016.

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 particular, wine exporters are expected to take advantage of a new free trade agreement with the EU by doubling wine exports. 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 locational competitiveness factors to attract international consumers. Tourism, in particular, having recently shed unnecessary regulatory encumbrances, and having enjoyed a record month in January, has the potential to really drive growth in 2016. 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 and move onto a higher growth path in 2016.

The main sources of growth for both the Western Cape and Cape Town in the first quarter of 2016 were the wholesale and retail trade, and finance and business services sectors.

Both the consumer price index and producer price index inflation rate increased severely in the first quarter of 2016.

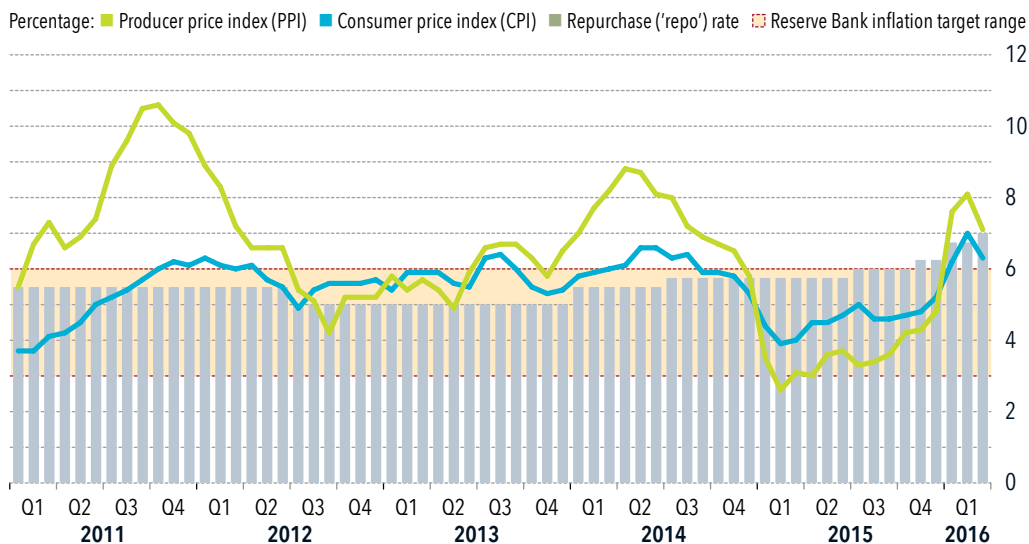
SOUTH AFRICA'S INFLATION OVERVIEW

The headline consumer price index (CPI) inflation rate increased in the first quarter of 2016 compared to the fourth quarter of 2015. Noticeably, January 2016 inflation breached the upper end of the target range and remained above 6% for the remainder of the first quarter as indicated in figure 16. By the end of March 2016, inflation had decreased from a peak recording of 7% in February to 6,3%. The recording for February 2016 is the highest inflation rate recorded in the last five years. This upward movement in inflation reflects the impact of the drought, among other things, on the price of consumer goods.

Similar to the CPI, the headline producer price index (PPI) inflation rate increased severely in the first quarter of 2016. By the end of January 2016, the PPI had risen steeply to 7,6% from a previous recording of 4,8% at the end of December 2015. It further accelerated to 8,1% in February, thereafter decreasing to 7,1% for March. Average PPI inflation during the first quarter of 2016 was more than double that recorded in the first quarter of 2015, although the peak rate of 8,1% in February was lower than the rate recorded for March 2014 (8,2%). While the PPI inflation rate was frequently below 4% in 2015 and consistently below the CPI, it overtook the CPI in January 2016 to open up a gap of 0,8 percentage points by the end of March. The key contributors to the PPI inflation in the first quarter were food products, beverages and tobacco products (7,1%), transport (13,2%) and metals, machinery, equipment and computing equipment (7,8%).

Average PPI inflation during the first quarter of 2016 was more than double that recorded in the first quarter of 2015, although the peak rate of 8,1% in February was lower than the rate recorded for March 2014 (8,2%)

Figure 16: CPI and PPI trends for South Africa (January 2011 to March 2016)



Source: CPI and PPI extracted from Stats SA, 2016, and repurchase rate extracted from SARB, 2016.

Figure 16 also illustrates changes in the repurchase rate (repo rate). As indicated on the graph, the repo rate increased in January and March 2016 by a total of 75 basis points to 7% (SARB, 2016). These increases were driven by inflation breaching the upper end of inflation target and an inflation outlook, which expects the rate to remain outside the target range for 2016 as well as 2017. Upward pressure on the inflation outlook came from the sharp increase in food prices as a result of the drought, the tenuous domestic growth outlook and the vulnerable South African exchange rate. The Monetary Policy Committee remains concerned about any second-round inflationary effects and, thus, increased the repo rate to prevent any negative consequences.

Table 1: Inflation levels by household expenditure groups

Quintiles	Level	Monthly expenditure	Inflation rate as at March 2016
	Average		6,3%
1	Very low	R0 to R1 213/month	7,7%
2	Low	R1 214 to R1 939/month	7,3%
3	Middle	R1 940 to R3 062/month	6,8%
4	High	R3 063 to R6 596/month	6,3%
5	Very high	R6 596 and more	6,1%

Source: Stats SA, May 2016.

The population quintile with the lowest level of monthly expenditure, experienced the highest quarter-on-quarter increase (2 percentage points) in inflation, resulting in an inflation rate of 7,7% at the end of the first quarter.

Table 1 indicates how different expenditure groups are affected by inflation. In the first quarter of 2016, inflation increased above 6% across all quintiles. The first quintile, the population quintile with the lowest level of monthly expenditure, experienced the highest quarter-on-quarter increase (2 percentage points) in inflation, resulting in an inflation rate of 7,7% at the end of the first quarter. In contrast the population quintile with the highest level of monthly expenditure experienced the lowest inflation rate of 6,1%. A reason for this disparity could be that the lowest quintile was severely affected by the increase in food price (such as meat, maize and bread costs) inflation and less affected by the decrease in the petrol price during March 2016.

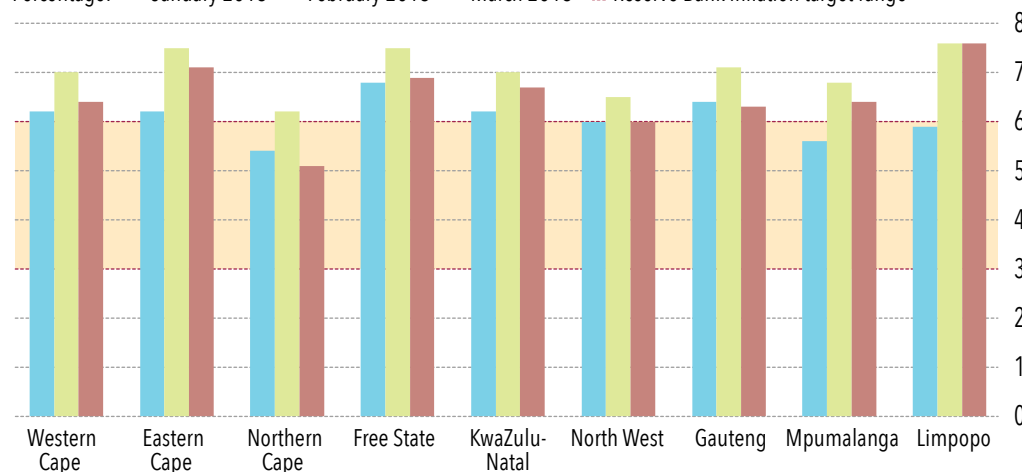
Food price inflation in the Western Cape was 9,1% in March 2016 (having increased from 8,1% in February), while nationally it was higher at 10,9% (having increased from 9,8% in February). Alcohol and tobacco inflation for the Western Cape (6,2%, down from 7,4% in February) was lower than the 6,3% recorded nationally (previously 7,4%).

GEOGRAPHICAL INFLATION

The Western Cape recorded a higher inflation rate (6,4%) than the national inflation rate (6,3%) at the end of the first quarter of 2016. All of the provinces experienced an increase in inflation compared to the end of the fourth quarter of 2015. As illustrated by figure 17, the inflation rate increased strongly in February and decreased slightly in March for all provinces. In March, the Northern Cape recorded the lowest inflation rate at 5,1% and was the only province to record an inflation rate below 6%, followed by North West (6%). The highest inflation rate was recorded by Limpopo at 7,6% with the Eastern Cape (7,1%) having the next highest. Food price inflation in the Western Cape was 9,1% in March 2016 (having increased from 8,1% in February), while nationally it was higher at 10,9% (having increased from 9,8% in February). Alcohol and tobacco inflation for the Western Cape (6,2%, down from 7,4% in February) was lower than the 6,3% recorded nationally (previously 7,4%). Inflation in water costs (10,2% compared to 9,9% nationally), restaurant costs (6,3% compared to 5,9% nationally) as well as electricity costs (11,6% compared to 11,1% nationally) were higher in the Western Cape, although lower inflation rates were recorded in the price of health (6,4% compared to 6,6% nationally) as well as clothing and footwear (4,4% compared to 4,9% nationally).

Figure 17: CPI inflation rate at provincial level (January 2016 to March 2016)

Percentage: ■ January 2016 ■ February 2016 ■ March 2016 ■ Reserve Bank inflation target range



Source: Stats SA, May 2016.

INFLATION OUTLOOK

Overall, for the first quarter of 2016 inflation deteriorated when compared to the fourth quarter of 2015. Inflationary pressure increased substantially over the course of the first quarter with the CPI and PPI inflation rates reaching highs of 7% and 8,1% respectively for February, and the first quarter of 2016 recording the highest average inflation rate since the third quarter of 2014.

The upward pressure on prices during the first quarter was mainly driven by the sharp increase in food price inflation, which rose by nearly 4,5 percentage points at the end of March 2016 when compared to December 2015. Pressure was further enhanced by the weakness of the rand and the weaker global as well as domestic growth outlook. According to the MPC statement for March, inflation expectations have improved slightly with an average of 6,6% and 6,4% expected for 2016 and 2017 respectively, compared to a previous forecast of 6,8% and 7%. Although, the inflation forecasts had marginally improved they still remained above the upper end of the inflation target range.

In May 2016, the MPC decided to keep the repo rate unchanged at 7% as the previous increase contributed to the improvement of long-term inflation expectations. The April recording of CPI inflation saw a decrease to 6,2%. With the existing upward pressure from rising food prices, the volatility of the rand and a negative longer-term inflation outlook remaining above 6%, the MPC is expected to increase the repo rate further during the course of 2016. However, enduringly poor economic growth in the country may result in further delays in the increase in the repo rate.

According to the MPC statement for March, inflation expectations have improved slightly with an average of 6,6% and 6,4% expected for 2016 and 2017 respectively, compared to a previous forecast of 6,8% and 7%.



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

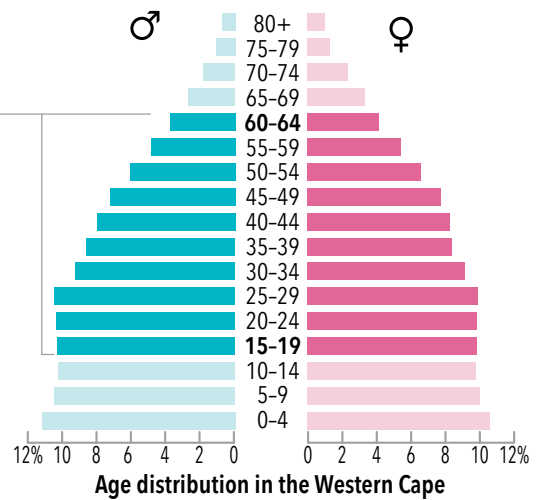
THE WORKING-AGE POPULATION



Cape Town has **2 768 261** 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.



2 768 261
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 **2 768 261** people who make up the **working-age population**, **1 514 924** - 54,7% - are **employed**. This percentage is also known as the labour absorption rate.

1 514 924
employed people

54,7%
labour absorption rate

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

Of the **1 514 924** employed Capetonians, the majority are employed in the formal sector, with 11,26% in the informal sector.



Agriculture
15 700
(1,03%)



Private households
93 645
(6,18%)



Informal sector
170 679
(11,26%)



Formal sector

1 234 900
(81,51%)

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

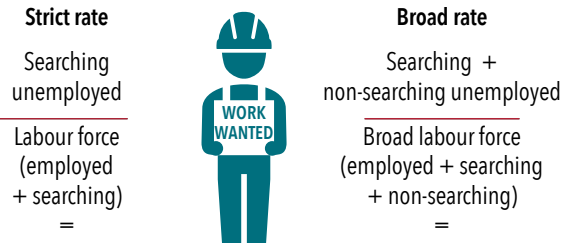
households and worker hostels across the country. The results are then weighted (adjusted) to accommodate factors such as rural and urban variations and to ensure that they are representative of the population as a whole.

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 **404 262 unemployed people** – 21,1% of the strict labour force.



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 **420 842 unemployed people** – 21,7% 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

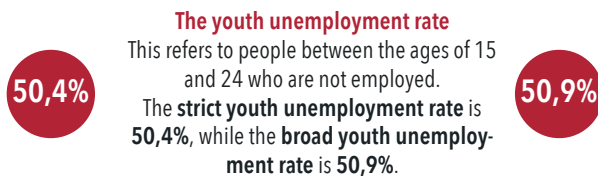
- were available for work, i.e. would have been able to start work or a business in the reference week; or
- had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and were available.

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



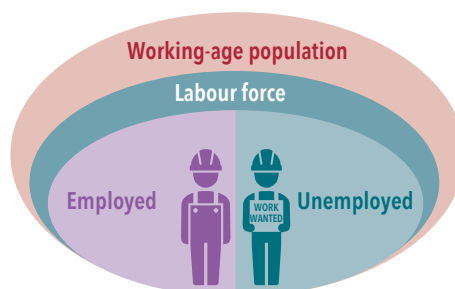
Some unemployed youth are meaningfully engaged in education or training. The **NEET** (not in employment, education or training) indicator captures those youth not actively participating in the economy in any way.

30,1% The youth NEET rate in Cape Town is 30,1%.

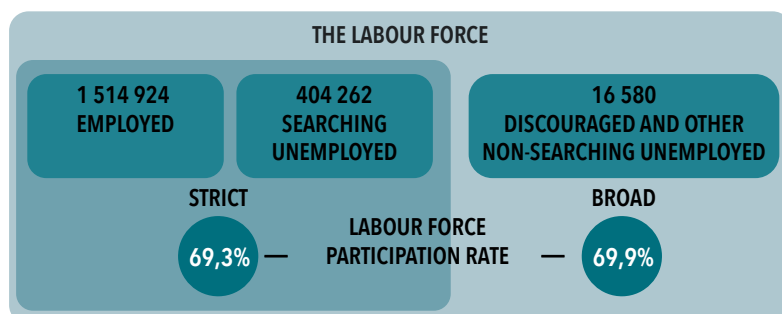
THE LABOUR FORCE

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

Strict labour force = 1 919 187
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 **1 919 187** strong, being made up of **1 514 924 employed people** and **404 262 job seekers**.



Broad labour force = 1 935 766
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 **1 935 766** strong, being made up of **1 514 924 employed people**, **404 262 job seekers**, **4 582 discouraged** and **11 998 other non-searching unemployed**.



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.

The number of employed people in South Africa decreased by 355 000 to 15,66 million from a previous figure of 16,02 million. This is the first decrease in employment since the first quarter of 2014.

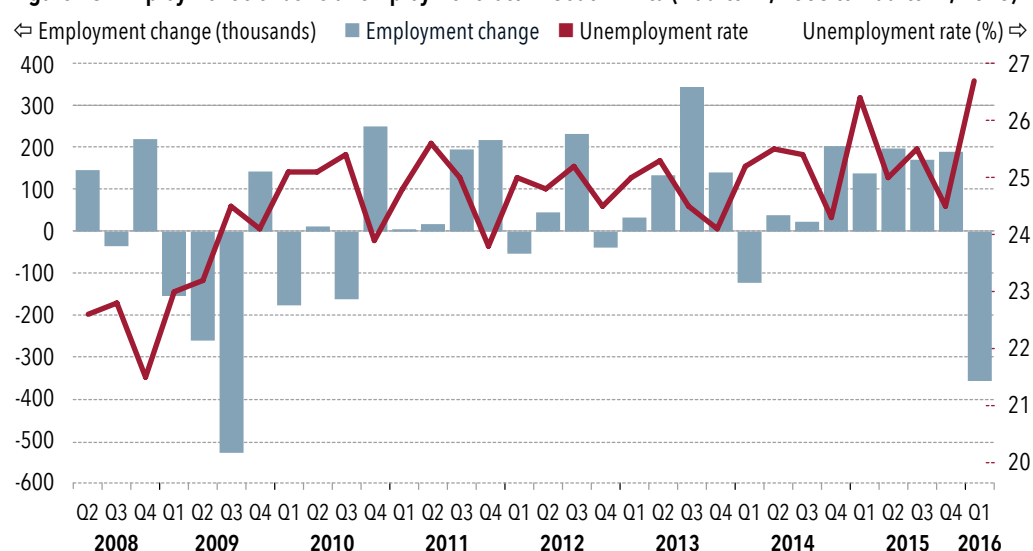


OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

In the first quarter of 2016, South Africa's labour force increased by 166 000 individuals compared to the fourth quarter of 2015. The number of employed people decreased by 355 000 to 15,66 million from a previous figure of 16,02 million. This is the first decrease in employment since the first quarter of 2014. Employment growth was only experienced in the community and social services (51 000) and agriculture (16 000) sectors. The trade (-119 000) and manufacturing (-100 000) sectors recorded the highest employment losses, followed by construction (-77 000) as well as finance and other business services (-55 000).

In contrast to the quarter-on-quarter trends, on a year-on-year basis 204 000 more people were employed when compared to the first quarter of 2015, while 383 000 individuals were added to the labour force. Similar to its quarterly performance, community and social services (225 000) was the largest contributor to year-on-year employment growth, followed by trade (115 000) and construction (40 000). Community and social services added to employment on both a quarterly and year-on-year basis. Manufacturing (-141 000), private households (-37 000) and utilities (-32 000) sectors displayed negative growth on both a quarter-on-quarter and year-on-year basis and were the largest contributors of job losses during the first quarter.

Figure 18: Employment trends vs unemployment rate in South Africa (Quarter 2, 2008 to Quarter 1, 2016)



Source: Stats SA, May 2016.

In the first quarter of 2016, unemployment in South Africa increased by 521 000 quarter on quarter to a total of 5,71 million people. This resulted in the official unemployment rate increasing to 26,7% from a previous unemployment rate of 24,5%. Discouraged work-seekers, who are only included in the expanded measure of unemployment, increased by 171 000 to a total of 2,45 million individuals. The above figure illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, negative employment growth typically leads to an increase in the unemployment rate.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the first quarter of 2016, the working-age population of Cape Town increased by approximately 10 000 individuals compared to the fourth quarter of 2015, and by nearly 52 000 individuals on a year-on-year basis. Cape Town's labour force increased by 18 000 individuals to a total of 1,92 million in the first quarter, and its labour force participation rate increased by 0,4 percentage points to 69,3%. This remains significantly higher than the national rate of 58,7%, pointing to the greater inclusiveness of Cape Town's labour market.

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

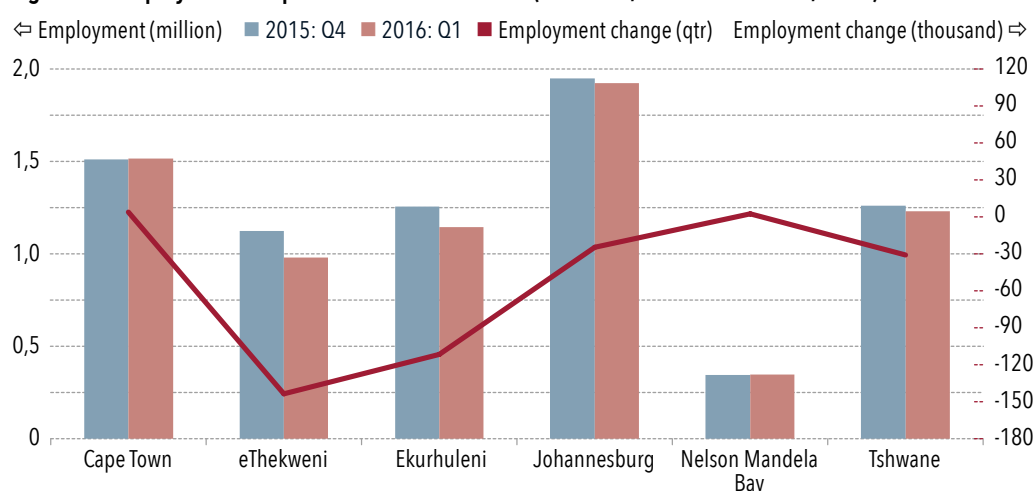
Indicator	South Africa			Cape Town		
	Q1:2016	Q4:2015	Q1:2015	Q1:2016	Q4:2015	Q1:2015
Working-age population (000s)	36 431	36 272	35 799	2 768	2 758	2 716
Labour force	21 377	21 211	20 994	1 919	1 901	1 859
Employed	15 663	16 018	15 459	1 515	1 511	1 423
Employed by the formal sector	10 963	11 180	10 796	1 235	1 231	1 176
Employed by the informal sector	2 573	2 684	2 483	171	175	135
Unemployed	5 714	5 193	5 535	404	390	436
Not economically active	15 054	15 061	14 809	849	856	857
Discouraged work-seekers	2 279	2 279	2 397	5	9	6
Other	12 782	12 782	12 408	844	847	850
Unemployment rate (%)	26,7	24,5	26,4	21,1	20,5	23,5
Youth unemployment rate (%) (15-24)	54,5	50,4	50,3	50,4	45,1	48
NEET** as % of working-age population	40,4	38,2	40,4	32,7	31,9	34,4
Absorption rate (%)	43	44,2	43,2	54,7	54,8	52,4
Labour force participation rate (%)	58,7	58,5	58,6	69,3	68,9	68,4

Source: Stats SA, May 2016. * Figures in tables may not exactly add up due to rounding off. ** Not in employment, education or training.

The number of people employed in Cape Town in the first quarter of 2016 increased by 4 000 individuals on a quarterly basis and by almost 92 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and reflected an increase of 4 000 in the first quarter. By contrast, employment decreased in the informal sector by 4 000 quarter on quarter but increased by 44 000 individuals on a year-on-year basis. The share of total employment contributed by the formal and informal sector is relatively unchanged, with the informal sector's contribution decreasing marginally to 11,2% from a previous 11,6%. Private households accounted for the majority of employment growth in the city in the first quarter.

To measure Cape Town's job creation 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 1,51 million people employed compared to Johannesburg's 1,92 million. This is to be expected as Johannesburg has a significantly larger population.

Figure 19: Employment comparison with other metros (Quarter 4, 2015 to Quarter 1, 2016)



Source: Stats SA, May 2016.

The number of people employed in Cape Town in the first quarter of 2016 increased by 4 000 individuals on a quarterly basis and by almost 92 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and reflected an increase of 4 000 in the first quarter.

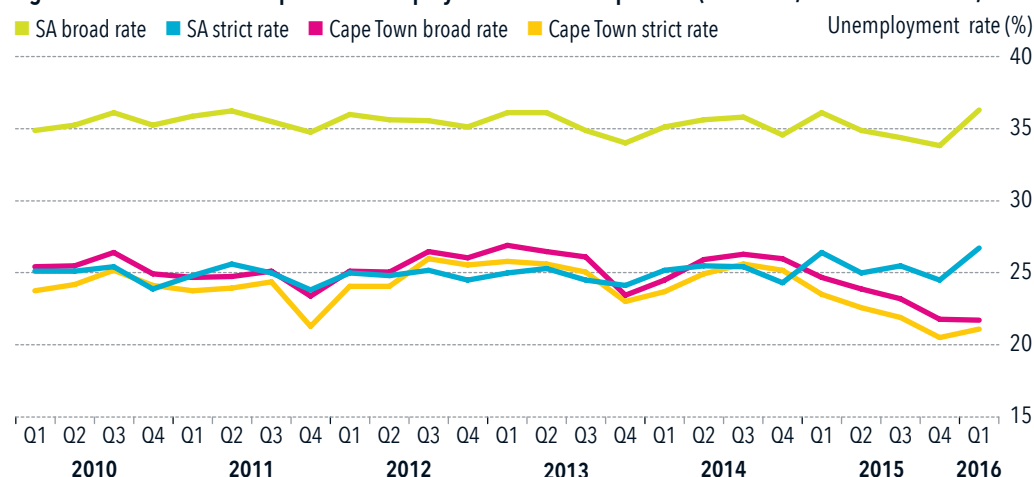
The only metros to have experienced an increase in employment were Cape Town (3 883) and Nelson Mandela Bay (2 536). The biggest decrease in employment was recorded in eKurhuleni (-111 476), with Johannesburg (-24 777) and Tshwane (-30 857) following suit.

Turning attention to employment creation in the first quarter, as measured by the difference between the fourth-quarter and first-quarter employment levels, there was a decrease in employment across the majority of the metros. The only metros to have experienced an increase were Cape Town (3 883) and Nelson Mandela Bay (2 536). The biggest decrease in employment was recorded in eKurhuleni (-111 476), with Johannesburg (-24 777) and Tshwane (-30 857) following suit. On a year-on-year basis, eThekweni shed jobs at the fastest rate (-11,2%), while employment in Cape Town grew fastest (6,4%).

Unemployment in Cape Town

Similar to the national unemployment trends, Cape Town experienced an increase (14 000) in the number of unemployed people in the first quarter compared to the previous quarter. Although, the unemployed (404 262) increased it still constitutes the second-lowest recording over a five-year period. The number of unemployed people in the city showed a decrease of approximately 32 000 compared to the corresponding period in the previous year. As a result of increasing unemployment on a quarterly basis, Cape Town's strict unemployment rate increased by 0,6 percentage points to 21,1% in the first quarter of 2016. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 50,4% in the first quarter of 2016, having increased from 45,1% in the previous quarter. While this is below the national rate of 54,5%, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

Figure 20: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 1, 2016)



Source: Stats SA, May 2016.

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 wishing to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by figure 20, over the last few years the two rates of unemployment for Cape Town have remained relatively close and were nearly identical at the end of the first quarter of 2016, although the city's unemployment rates over the last three quarters have started to deviate from South Africa's strict unemployment rate. On average, the expanded unemployment rate in Cape Town is only 0,97% higher than the city's strict rate. Although Cape Town's strict unemployment rate increased in the first quarter of 2016, it was 5,6 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 20). South Africa's expanded unemployment rate in the first quarter of 2016 was 36,3%, compared to Cape Town's expanded rate of 21,7%. On this basis, Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

While comparing Cape Town's unemployment trends with South Africa as a whole is important, it is perhaps more revealing

From a static point of view, Ekurhuleni had the highest expanded unemployment rate (37,4%) and the highest official/strict unemployment rate (34,4%), while Cape Town had the lowest expanded unemployment rate (21,7%) and eThekweni the lowest strict rate (18,80%)

Table 3: Official vs expanded unemployment rates (Quarter 4, 2015 to Quarter 1, 2016)

Metro	Official			Expanded		
	2016:Q1	2015:Q4	2015:Q1	2016:Q1	2015:Q4	2015:Q1
Cape Town	21,10	20,52	23,48	21,70	21,81	24,68
eThekweni	18,80	15,91	19,62	27,20	24,34	28,49
Ekurhuleni	34,40	30,80	30,63	37,40	33,02	35,33
Johannesburg	29,80	27,90	26,66	31,10	29,16	29,69
Nelson Mandela Bay	33,20	30,65	33,08	33,20	30,65	33,15
Tshwane	26,00	23,42	27,63	29,60	27,45	33,02

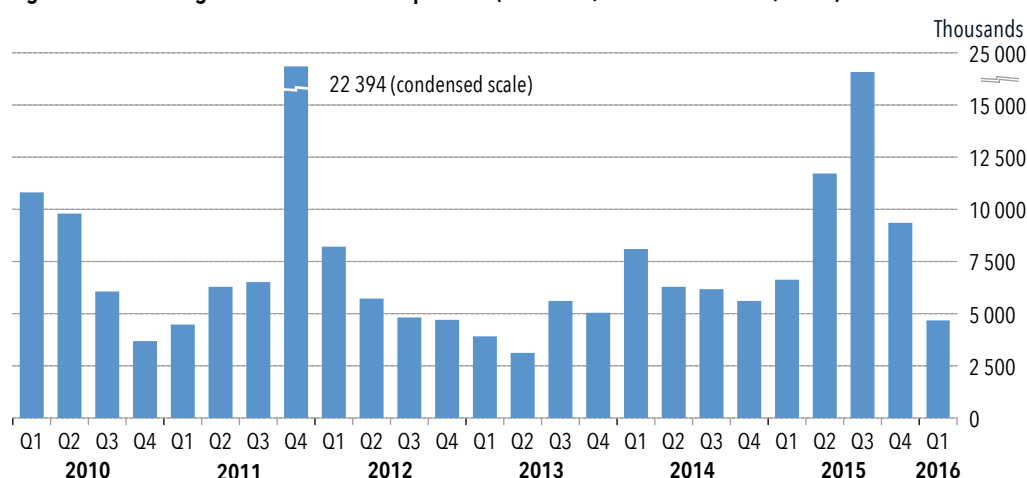
Source: Stats SA, May 2016.

to compare these trends to other metros that have similar labour market dynamics. In the first quarter of 2016, all the metros experienced an increase in their strict unemployment rates when compared to the previous quarter. Similarly, the majority of the metros experienced an increase in the expanded unemployment rate but Cape Town was the only metro to experience a decrease in this rate for the first quarter. From a static point of view, Ekurhuleni had the highest expanded unemployment rate (37,4%) and the highest official/strict unemployment rate (34,4%), while Cape Town had the lowest expanded unemployment rate (21,7%) and eThekweni the lowest strict rate (18,8%). 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 (2016), 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 decreased to 4 582 in the first quarter of 2016 from 9 406 in the fourth quarter of 2015.

The number of discouraged work-seekers in Cape Town decreased to 4 582 in the first quarter of 2016 from 9 406 in the fourth quarter of 2015.

Figure 21: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 1, 2016)

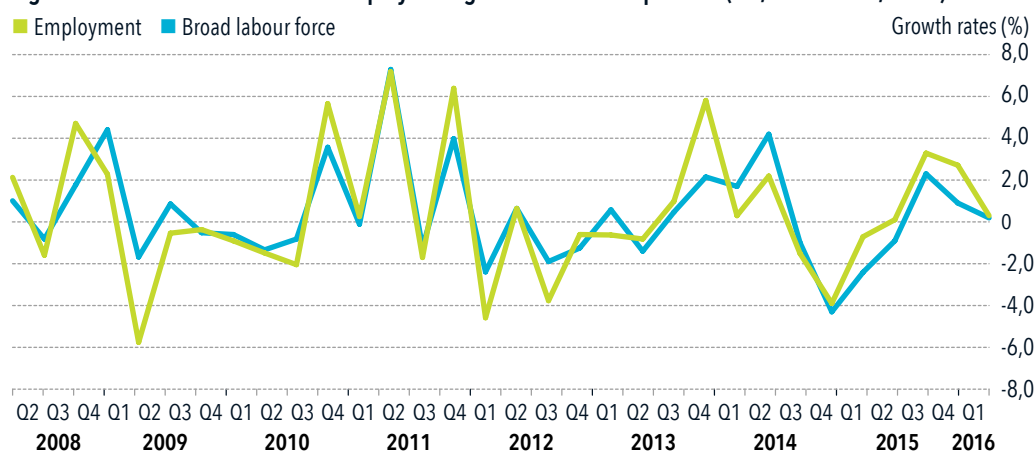


Apart from an outlier in the fourth quarter of 2011, figure 21 shows that the number of discouraged work-seekers has largely been below 10 000 individuals. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,41%) of the country's total 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: 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

Figure 22: Broad labour force and employment growth rates for Cape Town (Q2, 2008 to Q1, 2016)



Source: Stats SA, May 2016.

expanded labour force grows, the expanded unemployment rate increases. However, figure 22 shows that in the first quarter of 2016, the growth in employment slightly exceeded the growth in the broad labour force. This resulted in a marginal decrease in the expanded unemployment rate for the period under review.

Sector employment trends in Cape Town

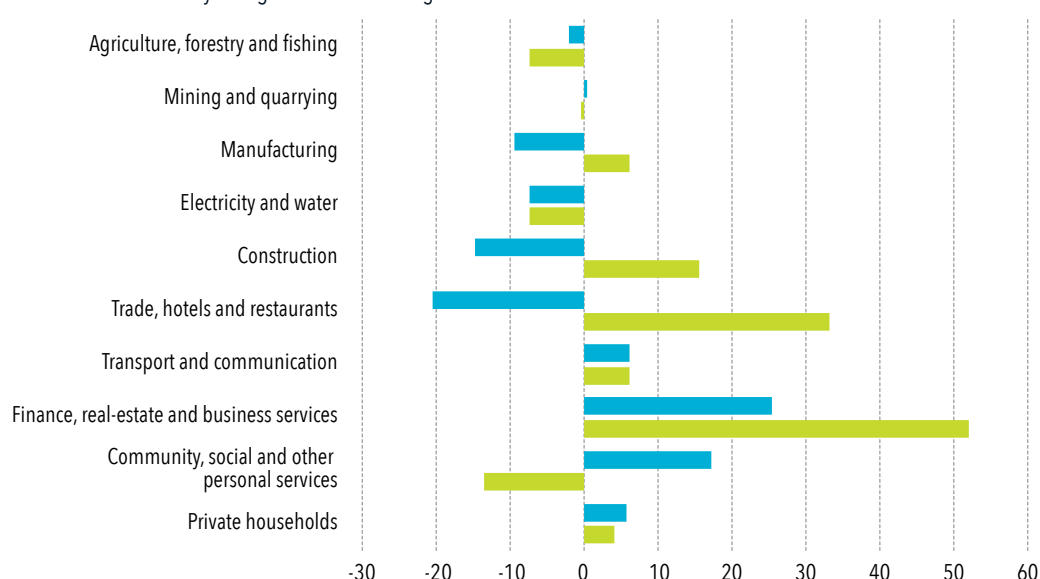
Figure 23 displays the level of employment by sector within Cape Town. Overall, the performance was equally spread with five sectors adding to employment while five sectors displayed a negative contribution when compared to the fourth quarter of 2015. The finance sector (25 519) had the highest positive contribution towards employment, followed by community and social services (17 392) as well as transport (6 163). The trade (-20 399), construction (-14 486) and manufacturing (-9 163) sectors all experienced employment losses.

On a year-on-year basis, the finance sector remained the largest contributor to employment (52 266). Although, the trade (33 454), construction (15 716) and manufacturing (6 405) sectors performed poorly on a quarter-on-quarter basis, they added positively to employment growth on a year-on-year basis. Employment in the community and social services sector declined by 13 228 on a year-on-year basis while agriculture and utilities recorded job losses on both a year-on-year and quarter-on-quarter basis.

On a year-on-year basis, the finance sector remained the largest contributor to employment (52 266). Although, the trade (33 454), construction (15 716) and manufacturing (6 405) sectors performed poorly on a quarter-on-quarter basis, they added positively to employment growth on a year-on-year basis.

Figure 23: Quarterly and annual change per sector for Cape Town (Quarter 1, 2016)

Thousands: ■ Quarterly change ■ Annual change



Source: Stats SA, May 2016.

Labour market outlook

Overall, for the first quarter of 2016 the labour market fared poorly across the country. While unemployment increased in Cape Town, the labour market in the city performed better than the other South African metros, growing employment at a time when most of the metros experienced employment losses. Although this growth in employment struggled to produce sufficient jobs to accommodate increases in the labour force during the first quarter, the decrease in the city's non-searching unemployed (including the discouraged worker category), meant that the city's expanded unemployment rate declined slightly in the first quarter (the only metro to have recorded a decrease).

Strong domestic headwinds, including the ongoing drought, poor consumer confidence levels and an uncertain global environment, particularly in the EU, will continue to put pressure on labour market figures during the rest of 2016. However, signs of resurgent manufacturing activity in the city, especially in clothing and textiles and agro-processing, may boost jobs in the forthcoming quarters. Tourism, a highly labour-intensive sector, is also set to grow strongly over the rest of the year and should counter-balance possible job losses in the tertiary sector on account of weak consumer spending levels. On the whole, Cape Town's labour market has been remarkably resilient in the face of severe economic challenges affecting the country in the last year, and can be expected to remain as such in the short to medium term.

Signs of resurgent manufacturing activity in the city, especially in clothing and textiles and agro-processing, may boost jobs in the forthcoming quarters. Tourism, a highly labour-intensive sector, is also set to grow strongly over the rest of the year.

Trade and investment

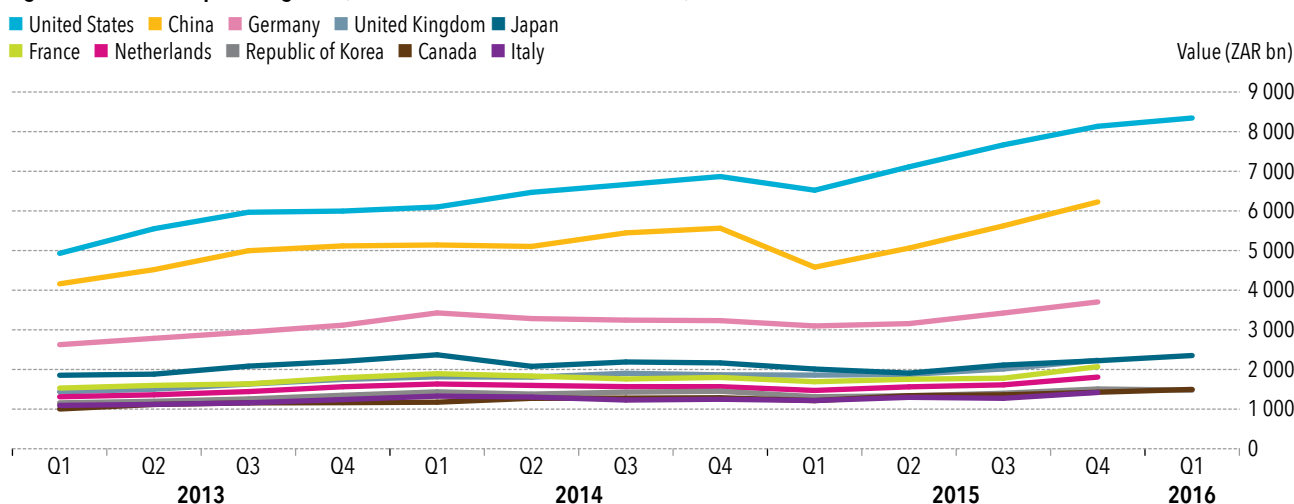
Cape Town is an open economy, which embraces trade and investment. Globally, economies that have typically grown strongly are those that have promoted value-added exports and attracted high levels of foreign direct investment. A key challenge for South Africa and Cape Town is reducing the trade balance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

TRADE

Global trade

Based on the most recently available trade estimates, the world's largest importer of goods remains the United States⁸. Overall annual global imports decreased by 13% from 2014 to 2015 in dollar terms⁹. The graph below picks up exchange rate fluctuations as it includes the effects of the devaluation of the rand. For this reason a more accurate view is given by reporting growth on a dollar basis. A year-on-year assessment of imports in the first quarter of 2016 indicates that the US (-5,0% growth in dollar terms), Japan (-13%), the Republic of Korea (-16,3%), and Canada (-8,5%) all demonstrated a decline in imports. Therefore all the top 10 countries that recorded imports for the first quarter experienced declines in dollar terms.

Figure 24: Global imports of goods (Quarter 1, 2013 to Quarter 1, 2016)



Values in ZAR bn	Q1-'13	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16
United States	4 929	5 551	5 966	5 996	6 099	6 468	6 665	6 867	6 522	7 112	7 666	8 135	8 344
China	4 161	4 519	4 996	5 117	5 141	5 104	5 446	5 564	4 581	5 062	5 623	6 227	
Germany	2 626	2 786	2 944	3 117	3 427	3 284	3 245	3 232	3 098	3 157	3 424	3 704	
United Kingdom	1 437	1 502	1 632	1 749	1 814	1 807	1 904	1 865	1 858	1 875	2 013	2 233	
Japan	1 854	1 882	2 084	2 204	2 370	2 079	2 189	2 166	2 011	1 908	2 112	2 221	2 352
France	1 531	1 598	1 637	1 792	1 894	1 835	1 761	1 799	1 691	1 754	1 780	2 071	
Netherlands	1 311	1 361	1 442	1 564	1 634	1 598	1 567	1 566	1 471	1 562	1 612	1 808	
Korea, Republic of	1 158	1 197	1 257	1 349	1 435	1 379	1 428	1 451	1 312	1 336	1 400	1 508	1 479
Canada	1 003	1 118	1 157	1 163	1 175	1 272	1 277	1 287	1 215	1 339	1 360	1 426	1 497
Italy	1 093	1 119	1 159	1 241	1 328	1 304	1 229	1 249	1 216	1 297	1 273	1 420	

Source: International Trade Centre; May 2016.

South African trade

South African exports experienced a quarter-on-quarter decline of 14% in the first quarter of 2016 in dollar terms and a decline of 4% in rand terms due to the further weakening of the rand in this quarter. Year-on-year growth in exports recorded a dollar decline of 21% from the first quarter of 2015 to the first quarter of 2016. The trade balance for South Africa recorded a trade deficit of R26 billion in the first quarter of 2016, declining by R4 billion from the previous quarter.

Germany overtook China as South Africa's largest export destination, with exports reaching R21 billion in the first quarter of 2016. Germany and Belgium were the only two in South Africa's top 10 export markets to experience dollar-based growth from the fourth quarter of 2015 to the first quarter of 2016, growing by 15,24% and 6,32% respectively. Exports to Germany were stimulated by a growth in demand for machinery, motor vehicles and ores.

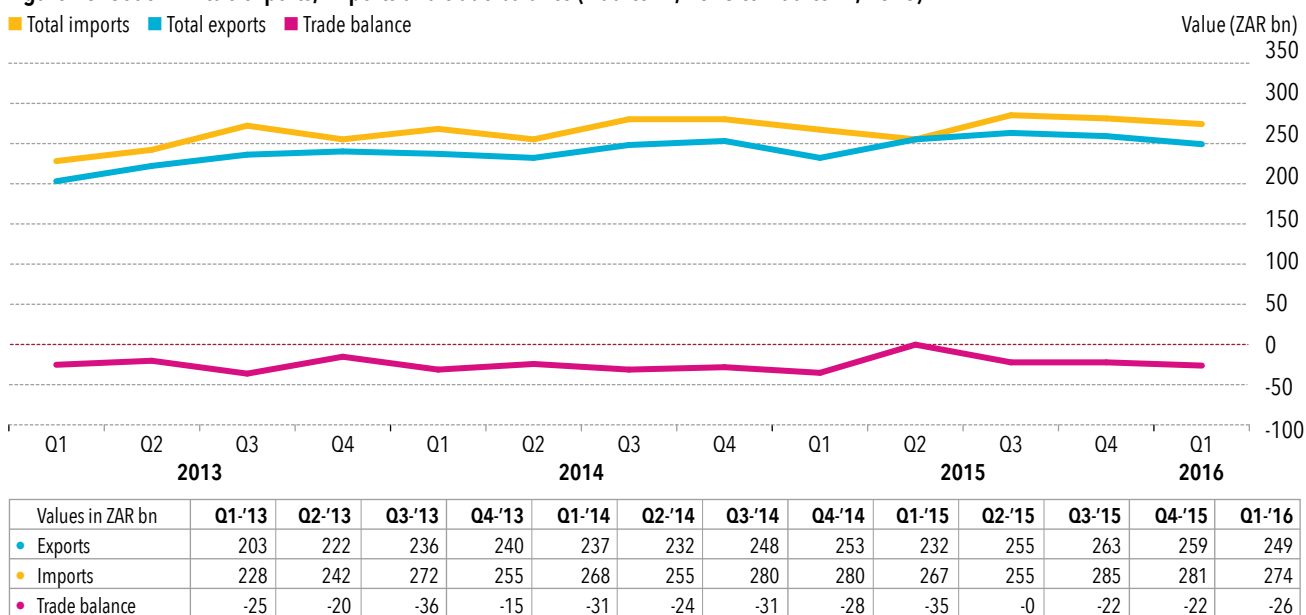
South Africa's second-largest export market was China, influenced by the Chinese appetite for South African mineral commodities, especially iron ore and ferroalloys. South African exports to China declined in the first quarter of 2016 from R21,34 billion in the previous quarter to R19,93 billion due to a dip in demand for iron ore, chromium and wool, however, the demand for ferroalloys increased in the first quarter of 2016. The US was South Africa's third-largest export market, followed by Botswana and Japan. Exports to the US were driven by platinum exports, which grew by 64% in dollar terms from the fourth quarter of 2015 to the first quarter of 2016, however, vehicle sales declined by 30% in dollar terms.

Botswana, Namibia and Zambia were South Africa's top export markets in Africa. Zambia replaced Mozambique in the first

The US was South Africa's third-largest export market, followed by Botswana and Japan. Exports to the US were driven by platinum exports, which grew by 64% in dollar terms from the fourth quarter of 2015 to the first quarter of 2016, however, vehicle sales declined by 30% in dollar terms.

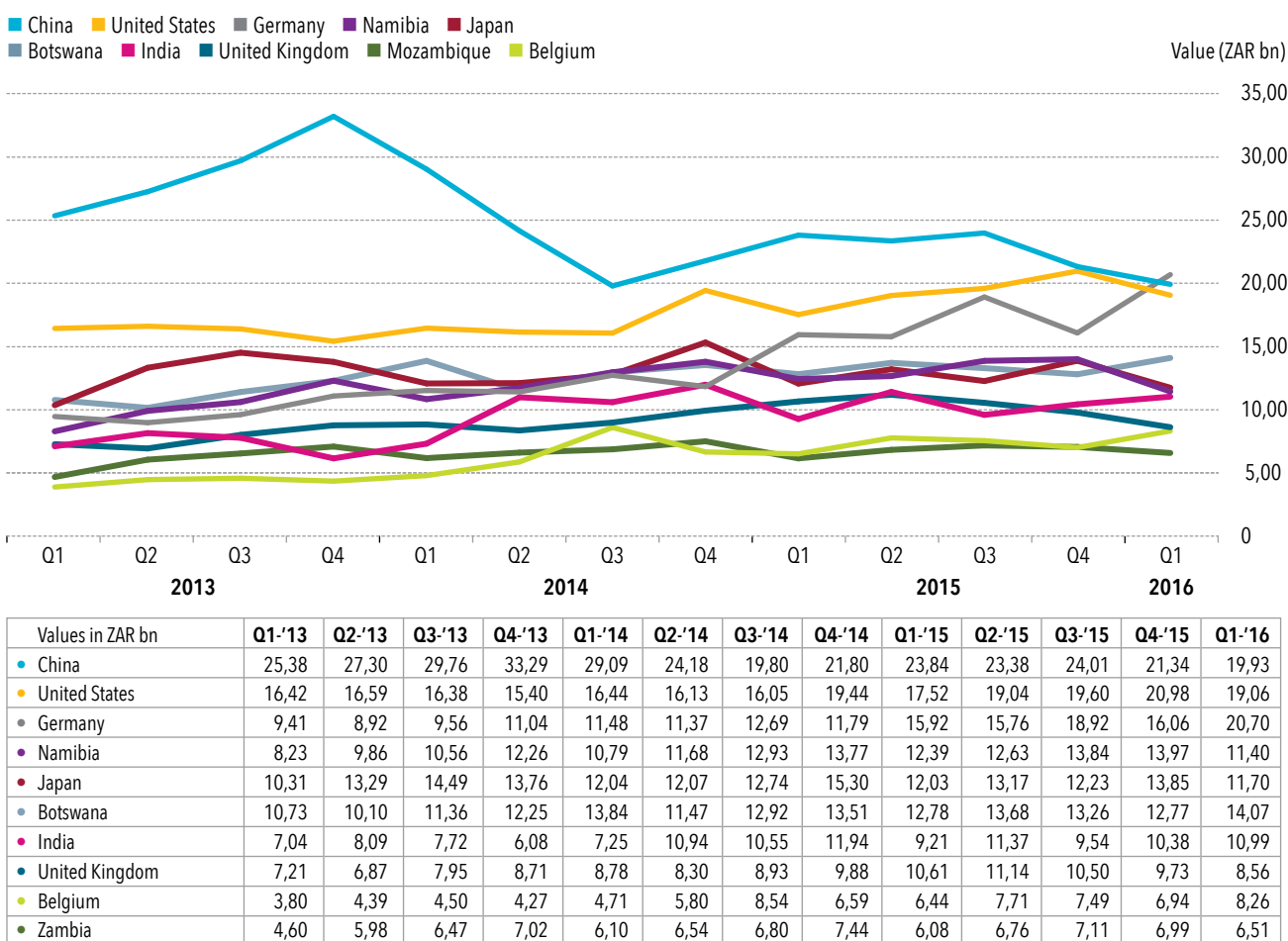
8. Note, however, that trade data for the first quarter of 2016 for China, Germany, Japan, France and the Netherlands have not yet been reported.

9. All growth is calculated based on the US dollar so as to avoid the influence of exchange rate fluctuations.

Figure 25: South Africa's exports, imports and trade balance (Quarter 1, 2013 to Quarter 1, 2016)¹⁰


Source: Quantec, May 2016.

quarter of 2016 due to a surge in the export of electrical energy. South African exports to Africa are second only to exports to Asia, with a much greater propensity for diversification in Africa. In the first quarter of 2016, South African exports to all African sub-regions declined, except for exports to North Africa which grew by 5,2% in dollar terms.

Figure 26: South Africa's export markets (Quarter 1, 2013 to Quarter 1, 2016)


Source: Quantec, May 2016.

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.

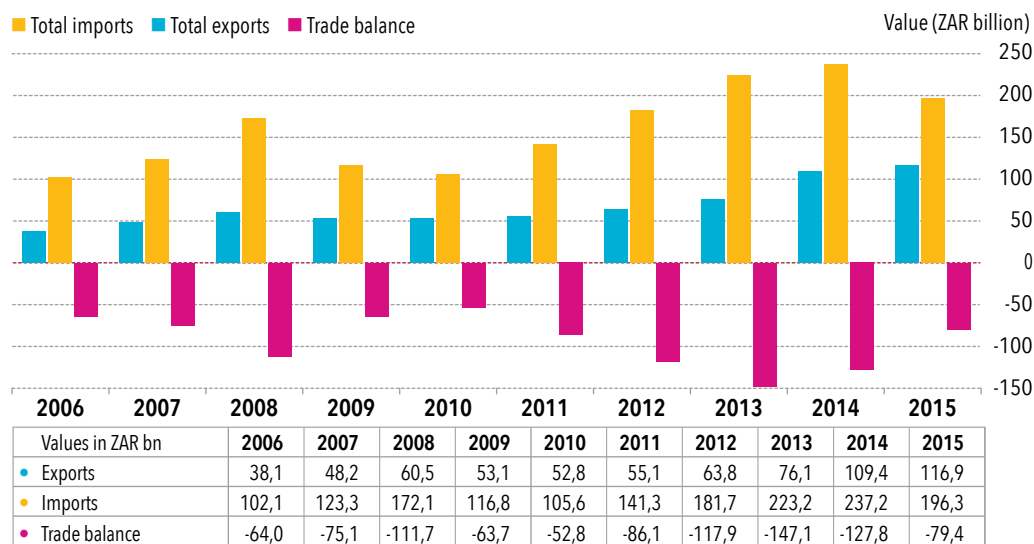
Western Cape trade

The Western Cape has demonstrated strong growth in the value of exports in nominal terms since 2010. 2014 was the first year where trade data for the Southern African Customs Union (SACU) countries were reported, hence the surge in export values from this year onwards. Exports in 2015 grew by 6% in rand terms, however, in dollar terms there was a dip of 9%. This difference was due to a weakening of the rand from R10,84 in 2014 to R12,75 in 2015. Imports dropped substantially in nominal rand terms from R237,2 billion in 2014 to R196,3 billion in 2015, decreasing the trade deficit to R79,4 billion in 2015.

The top export from the Western Cape was petroleum oils and oils obtained from bituminous minerals (refined petroleum

The Western Cape has demonstrated strong growth in the value of exports in nominal terms since 2010.

Figure 27: Western Cape trade¹¹ (2006 to 2015)



Source: Quantec, May 2016.

Table 4: Top 10 export and import products for the Western Cape¹² (2015)

Top 10 exports from the Western Cape, 2015				Top 10 imports to the Western Cape, 2015			
Rank	Product	Value 2015 (ZAR bn)	% growth 2015 (USD)	Product	Value 2015 (ZAR bn)	% growth 2015 (USD)	
1	Refined petroleum oils and oils obtained from bituminous minerals	18,24	-3,21	Crude petroleum oils	48,42	-55,62	
2	Citrus fruit, fresh or dried	8,65	-6,69	Refined petroleum oils	36,69	-30,40	
3	Wine	8,58	-10,91	Electric generating sets and rotary converters	2,62	12,49	
4	Apples, pears and quinces, fresh	6,02	-2,41	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% spirits, liqueurs and other spirituous beverages	2,42	-18,09	
5	Grapes, fresh or dried	5,99	0,48	Diodes, transistors and similar semiconductor devices, photosensitive semiconductor devices, including photovoltaic cells	2,41	16,98	
6	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad or plated	2,97	-35,48	Other footwear with outer soles and uppers of rubber or plastics	1,85	3,29	
7	Fruit juices (including grape must) and vegetable juices	2,16	-11,28	Wheat and meslin	1,78	-1,71	
8	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved	2,07	-0,22	Medicaments consisting of mixed or unmixed products in measured doses	1,69	-6,82	
9	Tobacco	1,84	-5,90	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear)	1,55	7,31	
10	Engine parts	1,63	1,46	Prepared or preserved fish caviar and caviar substitutes prepared from fish eggs	1,53	-3,58	
Total		116,94	-9,08	Total	196,32	-29,59	

Source: Quantec, 2016.

11. This graph includes SACU trade data introduced from 2014.

12. All growth data in this table is measured using US dollars from 2014 to 2015 to avoid exchange rate influences.



preparations), followed by citrus fruit and wine. Agricultural products made up 61% of the top 10 exports in 2015. Grapes and engine parts were the only products to experience dollar-based growth in 2015.

The Western Cape's top imports continue to be crude and refined petroleum oils. Electric generators, spirits and diodes were also top imports into the province. The largest growth was seen for diodes, transistors and other semiconductors (17%) followed by electric generating sets (12,5%).

Cape Town trade

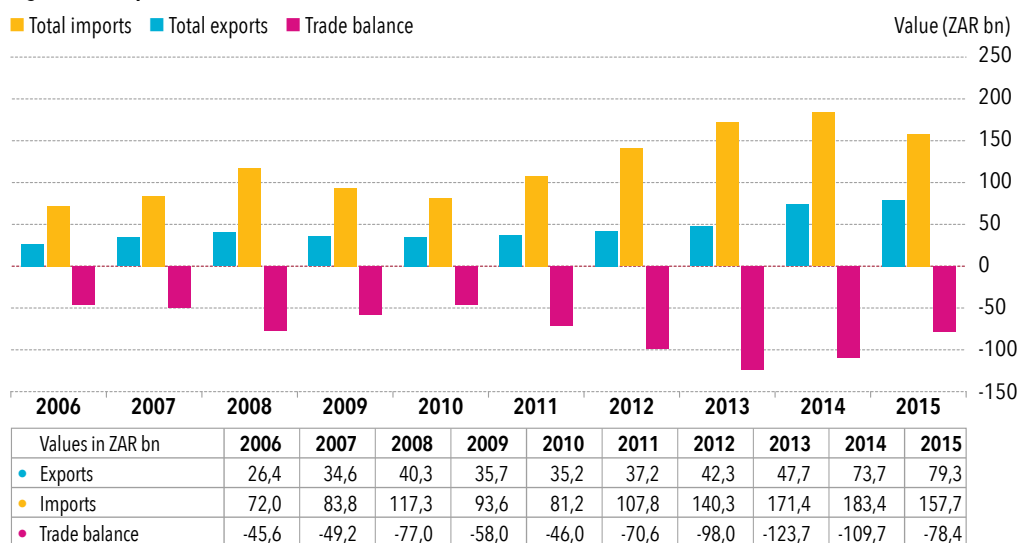
Cape Town's exports have shown growth from 2014 to 2015 in nominal rand terms, growing from R73,7 billion to R79,3 billion. It is encouraging to see that imports have declined by R25,7 billion in 2015, although this was due to a large decline in the import value of crude petroleum. This can be attributed to the lower oil prices experienced globally. The sharp growth in exports compared to imports has resulted in a decrease in the trade deficit to R78 billion in 2015 from R110 billion in 2014.

Cape Town's largest export remains petroleum oils and oils obtained from bituminous minerals (refined petroleum preparations) at R18,24 billion, accounting for 100% of the Western Cape's exports of this product. The value of exported oil did, however, decline by 3% in dollar terms in 2015. Citrus fruit exports reached R4,8 billion and apple/pear exports reached R3,21 billion. Growth in exports was demonstrated by products such as engine parts (1,44%) as well as yachts and other vessels (11,55%) and beauty or make-up products (4,8%).

Cape Town imported R35 billion in crude petroleum oils in 2015, down by 52% in dollar terms on its import value in the preceding year. The top non-petroleum import was electric generators and rotary converters worth R2,61 billion, growing by 11,94% in dollar terms. The highest growth of imports was seen for diodes, transistors and semiconductors which grew by 14,67% in 2015.

Cape Town's largest export remains petroleum oils and oils obtained from bituminous minerals (refined petroleum preparations) at R18,24 billion, accounting for 100% of the Western Cape's exports of this product.

Figure 28: Cape Town trade¹³ (2006 to 2015)



Source: Quantec, 2015.

13. This graph includes SACU trade data introduced as from 2014.

Table 5: Top 10 export and import products for Cape Town¹⁴ (2015)

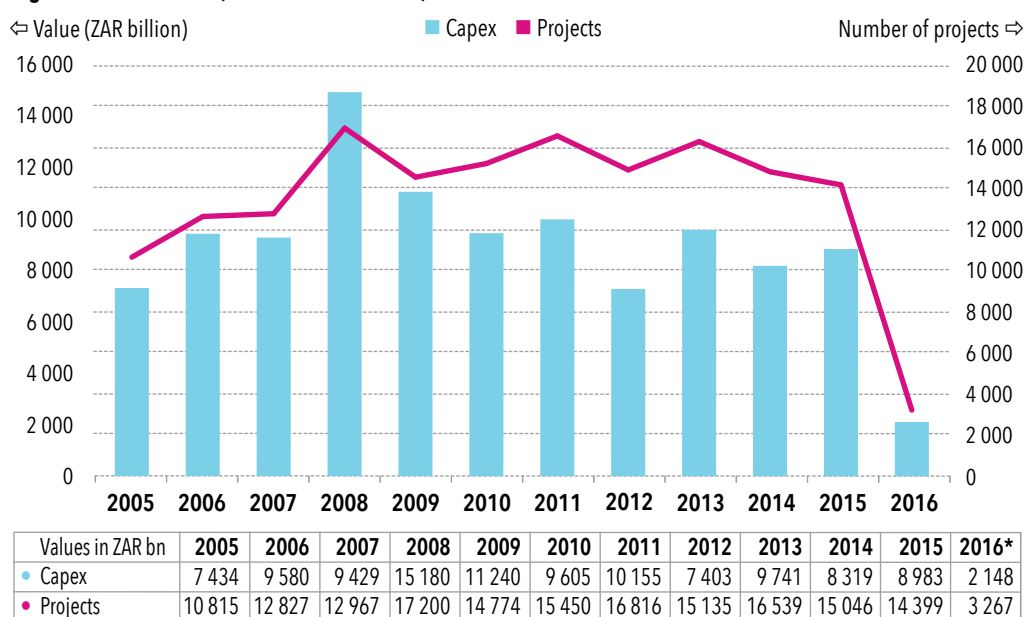
Top 10 exports from Cape Town, 2015				Top 10 imports to Cape Town, 2015			
Rank	Product	Value 2015 (ZAR bn)	% growth 2015 (USD)	Product	Value 2015 (ZAR bn)	% growth 2015 (USD)	
1	Refined petroleum oils and oils obtained from bituminous minerals	18,24	-3,03	Crude petroleum oils	35,32	-52,38	
2	Citrus fruit, fresh or dried	4,81	-5,54	Refined petroleum oils	28,46	-35,54	
3	Apples, pears and quinces, fresh	3,21	-4,00	Electric generating sets and rotary converters	2,61	11,94	
4	Grapes, fresh or dried	2,82	-7,60	Diodes, transistors and similar semiconductor devices, photosensitive semiconductor devices, including photovoltaic cells	2,35	14,67	
5	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes	1,84	-5,90	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% volume spirits, liqueurs and other spirituous beverages	2,17	-17,51	
6	Engine parts	1,63	1,44	Other footwear with outer soles and uppers of rubber or plastics	1,84	3,75	
7	Yachts and other vessels for pleasure or sports rowing boats and canoes	1,34	11,55	Medicaments consisting of mixed or unmixed products in measured doses	1,67	-5,93	
8	Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen	1,24	-19,90	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear)	1,54	7,25	
9	Beauty or make-up preparations and preparations for the care of the skin, including sunscreen or sun tan and manicure or pedicure preparations	1,24	4,80	Prepared or preserved fish caviar and caviar substitutes prepared from fish eggs	1,46	-3,70	
10	Fish, frozen, excluding fish fillets and other fish meat	1,17	-7,18	T-shirts, singlets and other vests, knitted or crocheted	1,40	3,93	
Totals		79,32	-8,52	Totals	157,69	-26,87	

Source: Quantec, 2015.

INVESTMENT

Global foreign direct investment (FDI)

Global FDI grew by 7,98% (by capex) in 2015 to reach R8,98 trillion, with project numbers declining by 4% from 2015 with 647 fewer projects than the previous year. The value of investment in 2015, although increasing from 2014, has not yet

Figure 29: Global FDI (2005 to March 2016)¹⁵


Source: Financial Times, May 2016.

* To March

Over the past three 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.

14. All growth data in this table is measured using US dollars from 2014 to 2015 to avoid exchange rate influences.

15. Global FDI figures in this edition may differ from previous editions as values may have been adjusted for any previous errors as well as exchange rate fluctuations.

reached the levels seen from 2006 to 2011. Over the past three 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 projects have not recovered to 2011 values.

Global FDI reached R2,15 trillion in the first quarter of 2016. If the trend in this quarter is repeated throughout the year, total FDI for 2016 will reach around R8,59 trillion. In terms of projects there were 3 267 projects recorded in the first quarter of 2016, which would amount to 13 068 projects if the trend was to continue until year end.

The US attracted the highest number of projects (362) and India attracted the largest capex value (R180,7 billion) in the first quarter of 2016. This was followed by the UK, Egypt and China in terms of capex value of FDI. When considering the number of projects received, the US is followed by the UK, India and China.

The top sub-sectors globally for FDI (in terms of projects) in the first quarter of 2016 were clothing and clothing accessories with a 7,5% share of total projects followed by software publishing (except video games at 7,1%) and internet publishing and broadcasting at 2,8%. Despite services dominating in terms of the number of projects attracted globally, construction and energy has received the bulk of capex. Commercial and institutional building construction has received a 13,1% share of capex, followed by fossil fuel electric power at 5,7% and industrial building construction at 4,6%.

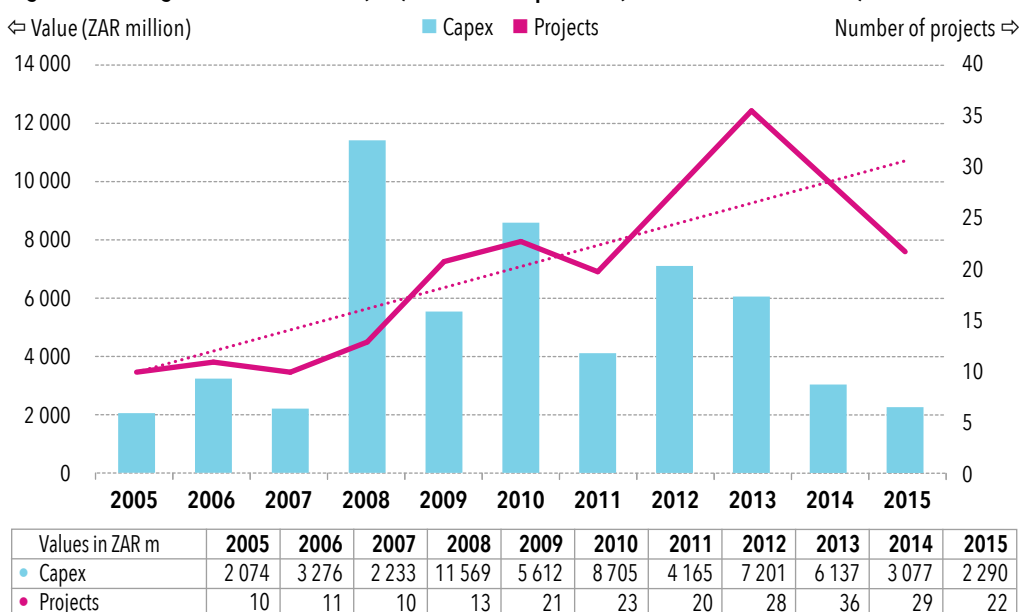
The top sub-sectors globally for FDI (in terms of projects) in the first quarter of 2016 were clothing and clothing accessories with a 7,5% share of total projects followed by software publishing (except video games at 7,1%) and internet publishing and broadcasting at 2,8%.

Cape Town foreign direct investment (FDI)

FDI flows into Cape Town in terms of capital investment have not recovered to the precrisis levels attained in 2008. The number of FDI projects received into Cape Town increased from 10 projects in 2005 to a record 36 projects in 2013. The growth in project numbers indicates that more companies are investing into Cape Town than previous years despite lower levels of capital investment.

From October 2015 to December 2015, Cape Town attracted nine investment projects worth R937 million. Four investments were made by US firms, with ExxonMobil being the largest with an investment of R260 million. Lawrence Kearns, sales director for Europe, Africa and the Middle East, cited domestic market growth potential as the main motive for investment. "South Africa holds great potential and we are committed to long-term development in the market," he said. (*Financial Times*, 2016). The second largest investment of R162 million was by Barclays Bank (UK). The bank has opened a fintech accelerator in Cape Town. The Rise Innovation Hub aims to accelerate local business in delivering breakthrough products to market.

Figure 30: Foreign direct investment (FDI) flows into Cape Town (2005 to December 2015)



Source: Financial Times, May 2016.

The number of FDI projects received into Cape Town increased from 10 projects in 2005 to a record 36 projects in 2013. The growth in project numbers indicates that more companies are investing into Cape Town than previous years despite lower levels of capital investment.

Investment facilitation

Between January and March 2016, Wesgro facilitated two investment projects, both expansion projects in Cape Town. The investments were as follows:

- R165 million in an ICT project creating 100 jobs;
- R34 million in a film expansion project creating four jobs.

Sector focus:

Clothing and textiles

Clothing and textiles is Cape Town's strongest manufacturing comparative advantage industry by some margin, and is repositioning itself to take advantage of global trends like fast fashion that favours the speed at which goods can be brought to market over cheap goods.







The clothing and textiles industry has traditionally been perceived as a 'stepping stone' to industrialisation in emerging countries, because the industry is highly labour-intensive and lends itself to participation in extensive global value chains.

The clothing and textiles industry has traditionally been perceived as a 'stepping stone' to industrialisation in emerging countries. This is because the industry is highly labour-intensive, with a global workforce of 75 million people in 2014, having grown from 20 million in 2000, and because it lends itself to participation in extensive global value chains (Stozn and Kane, 2016). These characteristics suit the particular competitive advantage of many developing countries, namely an abundance of relatively cheap low-skilled labour. Accordingly South Africa has traditionally had a relatively strong clothing and textiles industry, predominantly centred in KwaZulu-Natal and Cape Town.

With a location quotient of almost two¹⁶ within the city, clothing and textiles is Cape Town's strongest manufacturing comparative advantage industry by some margin. A large part of this advantage, however, is historically derived and fails to reflect the industry's dramatic decline in the city (and in the country) over the past two decades as cheap imports from emerging countries with lower wage structures out-competed locally produced goods. Of late, however, with government support, the clothing and textiles industry in South Africa appears to be turning the corner, repositioning itself to take advantage of global trends like fast fashion that favours the speed at which goods can be brought to market over cheap goods. This has resulted in the halting of job attrition in the industry in the last year. Cape Town, with its strong retailer presence, is perhaps the best placed of South Africa's cities to adapt to these trends and to lead the revival of this important industry.

THE NATURE OF CAPE TOWN'S CLOTHING AND TEXTILES INDUSTRY

Clothing and textiles manufacturing as defined in this chapter encapsulates a range of different manufacturing activities, with varying levels of labour intensity and capital investment. The industry commonly referred to as 'clothing and textiles' typically also includes footwear and leather, and is more accurately labelled 'clothing, textiles, footwear and leather' (or CTFL). This category is an amalgamation of divisions 13 to 15 of the Standard Industrial Classification codes. Certain activities with this classification are capital-intensive (i.e. yarn spinning and dyeing) while other activities like cut, make and trim (CMT) operations are extremely labour-intensive.

The clothing and textiles industry in Cape Town tends to focus more heavily on the production of wearing apparel and on high-fashion items as compared to the industry in KwaZulu-Natal, which has a stronger proportion of textile manufacturing operations and a niche focus on workwear (i.e. overalls) and footwear (CCTC, 2016). Cape Town also has a greater concentration of medium to large firms engaged in higher value-added manufacturing activities (CCTC, 2016). These firms outsource production to numerous smaller, more flexible CMTs. Making use of the City's recent survey of businesses in industrial nodes, the figure below categorises clothing and textile companies in Cape Town by sub-activity.

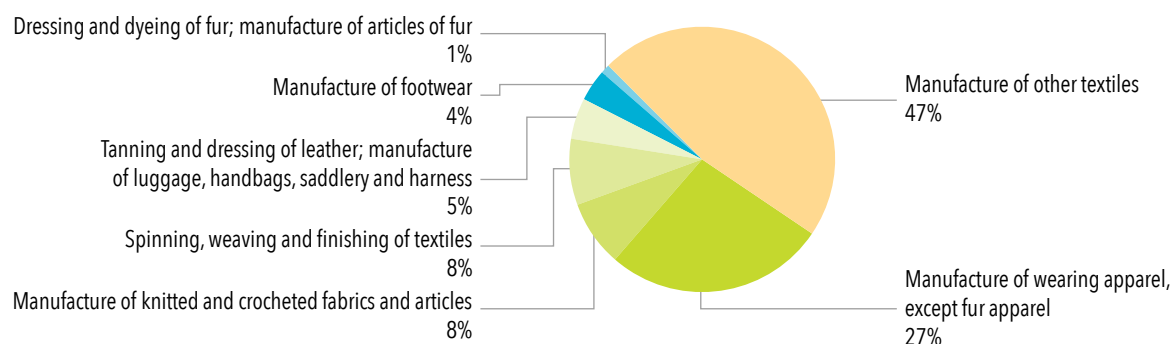
A sample of 214 clothing and textile companies/factories was found in the city's industrial nodes as well as some of its mixed-use nodes. While the 'manufacture of wearing apparel' was well represented (27%), it was the manufacture of 'other textiles' which accounted for the majority of the companies in the industry in Cape Town (47%). This activity relates to the manufacture of finished textile products including made-up textiles, blankets, carpets and rugs, whereas the spinning and weaving of textiles (as a separate category) includes activities further up the value chain (i.e. processing of textile fibres) and is relatively underrepresented (8%) in the count of clothing and textile factories in Cape Town. The

16. This means that the sector contributes almost double as much to the city's economic output as it does to the combined output of all the metros.



data presented in the figure, however, does not take into account employment figures or turnover. Drawing on input from the industry, it is more likely that apparel manufacturers contribute the most to employment due to the labour intensity of their operations.

Figure 31: Distribution of clothing and textile companies/factories by sub-sector, 2016



Source: City of Cape Town, 2016.

SIZE AND HISTORICAL IMPORTANCE OF THE CLOTHING AND TEXTILES INDUSTRY IN CAPE TOWN

The clothing and textiles industry contributed just under 1% of the city's total economic output in 2014 and 0,5% of the growth in economic output between 2005 and 2014. The latter figure speaks to the fact that, like other manufacturing sectors, the industry has become less important as a driver of the city's economy in the past decade as it becomes more tertiary-sector orientated in line with other large cities in emerging countries. These figures, however, belie the importance of the industry in two other important respects, namely, its impact on employment and exports. The clothing and textiles industry continues to be a major employer in the Cape Town economy, employing 30 521 individuals – the second largest employer within the

The clothing and textiles industry continues to be a major employer in the Cape Town economy, employing 30 521 individuals – the second largest employer within the manufacturing sector.

Table 6: Key indicators for the clothing and textiles industry in Cape Town and Durban

Key indicator table	Cape Town	Durban
GVA/share 2014	0,86%	1,19%
Location quotient	1,91	2,64
Growth contribution (2005–2014)	0,51%	0,85%
Employment 2014	30 521	43 144
Labour intensity (ratio of employment share to GVA share)	3,05	3,43
Export value in 2015	3 803 million	N/A

Source: IHS Global Insight, 2016



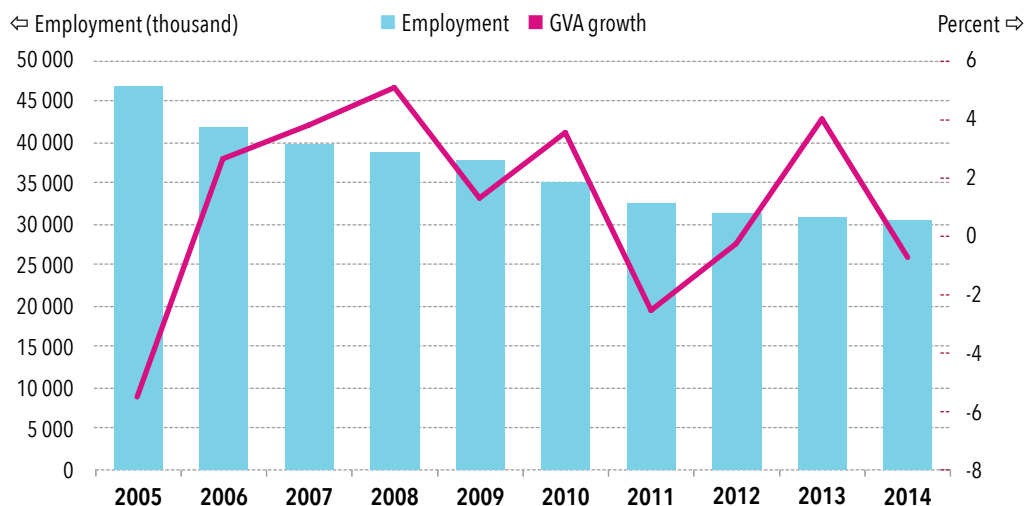
manufacturing sector. It is also the most labour-intensive sector outside tourism and the primary sector, meaning that the job return on investment tends to be higher than in other sectors. From a trade point of view the sector remains one of the city's larger generators of foreign currency receipts, with R3,8 billion worth of exports attributable to the industry in 2014.

Figure 32 depicts the absolute employment levels and the GVA growth rate in the clothing and textiles industry in Cape Town over the past 10 years. It is clear from the figure that output growth (which averaged 1,2% per annum between 2005 and 2014) has been very inconsistent and that the level of employment in the industry has steadily declined. The decline in the industry in the city actually dates back even further to 2001 when China joined the WTO and started flooding world markets with cheap apparel and textile imports. This was further exacerbated in South Africa by 'insufficient investment, the slow adoption of new technologies, low productivity, labour-related challenges, skills shortages, inadequate firm level competitiveness, and limited access to credit'. (IDC, 2016a: 1)

While job losses in the industry have been recorded every year between 2004 and 2014, the rate at which jobs have been shed has slowly been decreasing, from over 10% per year in 2005 and 2006, to just 1,1% in 2014. This would appear to suggest that job losses in the industry have bottomed out and employment levels have now stabilised. The companies that remain in the sector are likely to be those that were sufficiently flexible to adapt to trade liberalisation and the increased competition it entailed. These companies are also the ones that will be responsible for driving new growth in the industry.

While job losses in the industry have been recorded every year between 2004 and 2014, the rate at which jobs have been shed has slowly been decreasing, from over 10% per year in 2005 and 2006, to just 1,1% in 2014.

Figure 32: Employment and GVA growth of the clothing and textiles sector in Cape Town



Source: City of Cape Town calculations, data derived from IHS Global Insight.



TURNING A CORNER? THE RECENT PERFORMANCE OF THE CLOTHING AND TEXTILES INDUSTRY

As noted in the previous section, there is evidence to suggest that employment levels in the clothing and textiles industry in Cape Town are stabilising. That evidence, however, is based on data that only goes up to 2014, which fails then to take into account the most recent changes in the fortunes of the clothing and textiles industry.

Statements from the Department of Trade and Industry (DTI) and the Industrial Development Corporation (IDC), as well as industry cluster associations and trade unions, would suggest that 2015 was a watershed year for the clothing and textiles industry nationally. According to the Southern African Clothing and Textile Workers' Union, employment between January and September 2015 increased by 1,8% year on year and the third quarter's figures represented the second consecutive quarter-on-quarter increase in employment in the industry (Phakathi, 2015). This was at a time when employment in the manufacturing sector as a whole declined. Even more recent data from the IDC (2016b) suggests that this positive trend was sustained in the fourth quarter of 2015, with textiles, wearing apparel and leather products all experiencing year-on-year increases in employment while footwear experienced a mild decrease. This is despite low utilisation of production capacity and a contraction in the volume of output. This may be indicative of employment in the industry being driven by new entrants or expansions of existing operations as opposed to higher output levels at existing, unchanged factories.

The turnaround in the clothing and textiles industry at a national level is such that the IDC reports a positive outlook for clothing and textiles manufacturers for job creation in the next six months, while cautioning that there may be job losses in other manufacturing sectors. Although there exists a relative wealth of recent data on the national industry, data is far scarcer at a city level. To gauge the performance of the clothing and textiles industry in Cape Town, data from the Cape Clothing and Textile Cluster on the performance of their member companies, is presented in Table 7.

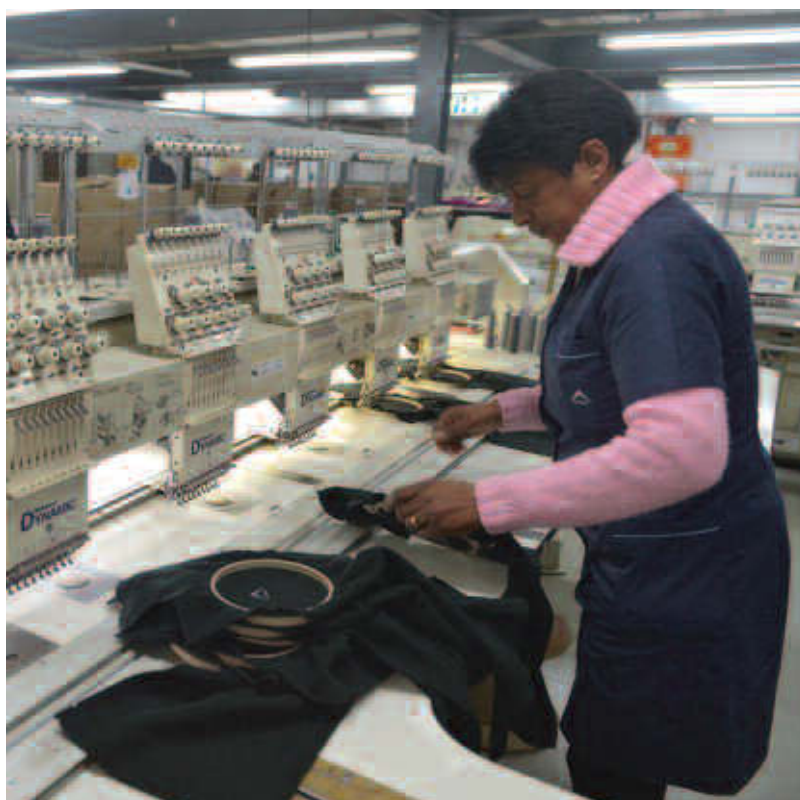
Recent data from the IDC (2016) suggests that the positive trend was sustained in the fourth quarter of 2015, with textiles, wearing apparel and leather products all experiencing year-on-year increases in employment while footwear experienced a mild decrease.

Table 7: Performance improvement of firms participating in CCTC programmes

	Unit	2012	2013	2014	2015	Average percentage improvement 2012 to 2015	Improvement 2014 to 2015
Sales	Indexed CPI adjusted manufacturing sales	100	103	115	131	31%	14%
Employment	Number (average)	292	291	314	321	10%	2%
Quality	Internal rework/repair rate	7,01	6,51	4,67	4,39	37%	6%
Reliability	Customer OTIF as a percentage	87,07	87,02	90,27	93,93	8%	4%
Labour turnover	Labour turnover rate (excluding salaried staff)	11,87	9,75	9,45	8,75	26%	7%

Source: Cape Clothing and Textile Cluster, 2016.

The performance indicators for a sample of large clothing and textile manufacturers in the Western Cape (mainly from Cape Town) shown in the table above corroborate the national view on the recent performance of the clothing and textiles industry,



namely, that the industry has turned the proverbial corner and has gained fresh growth impetus. In contrast with the IDC's statistics, sales from these companies increased in 2015 (14%), while employment followed the same positive trajectory as that reported by the IDC, growing by 2% (CCTC, 2016b). The improvement in the process indicators in the latter part of the table goes a long way toward explaining why companies in the sector have been able to expand sales and employment creation and reflect concerted effort by the private sector and government to upgrade the competitiveness of the industry's manufacturing capacity.

The recent improved performance of Cape Town's clothing and textiles industry draws on many of the same sources as the performance of the industry at a national level, although certain unique characteristics of the industry in the city help to put it at an even stronger advantage.

The clusters that were established as part of the CIP identified the strong global trend toward fast fashion and have been able, through study tours and benchmarking, to reposition companies to adapt their production systems to a quick response model that gives them a competitive advantage over long-haul suppliers.

Broad-based reasons for the improved performance of the clothing and textiles industry

- *The Department of Trade and Industry's Clothing and Textiles Competitiveness Programme (CTCP).* The CTCP was launched in 2009 and consists of two components: the Production Incentive Programme (PIP) and the Competitiveness Improvement Programme (CIP). The DTI launched the CTCP programme in acknowledgement of the 'hard fact that our manufacturing entities were not globally competitive' (DTI, 2015: 83). In this regard the PIP has enabled companies to invest in technological improvements and new capital equipment, while the CIP has helped facilitate the establishment of horizontal and vertical clusters in the industry.
- *Research and development benefits of clustering.* Clustering has enabled a more synchronised response from the industry to the problems facing it, has fostered collaboration across the value chain and has generated well-targeted research aimed at addressing these problems.
- *The adoption of quick response models.* The clusters that were established as part of the CIP identified the strong global trend toward fast fashion and have been able, through study tours and benchmarking, to reposition companies to adapt their production systems to a quick response model that gives them a competitive advantage over long-haul suppliers (CCTC, 2016).
- *A weaker exchange rate.* The weakening of the rand over the past two years has served as a growing disincentive for retailers to source offshore, a factor which is further enhanced by the perceived value of shorter turnaround times by local suppliers.

CAPE TOWN'S TRADE IN CLOTHING AND TEXTILE PRODUCTS

The macroeconomic data that does exist for the clothing and textiles industry in Cape Town in 2015 pertains to the export and import of clothing and textiles. Given that the wide-scale import of Chinese goods is widely credited with sparking the decline in the industry in the early 2000s, it is useful to take an in-depth look at the trends in the import and export of clothing and textile products over the past 10 years.

Figure 33 shows the value of the export and import of clothing and textiles for Cape Town over the period 2006 to 2015.

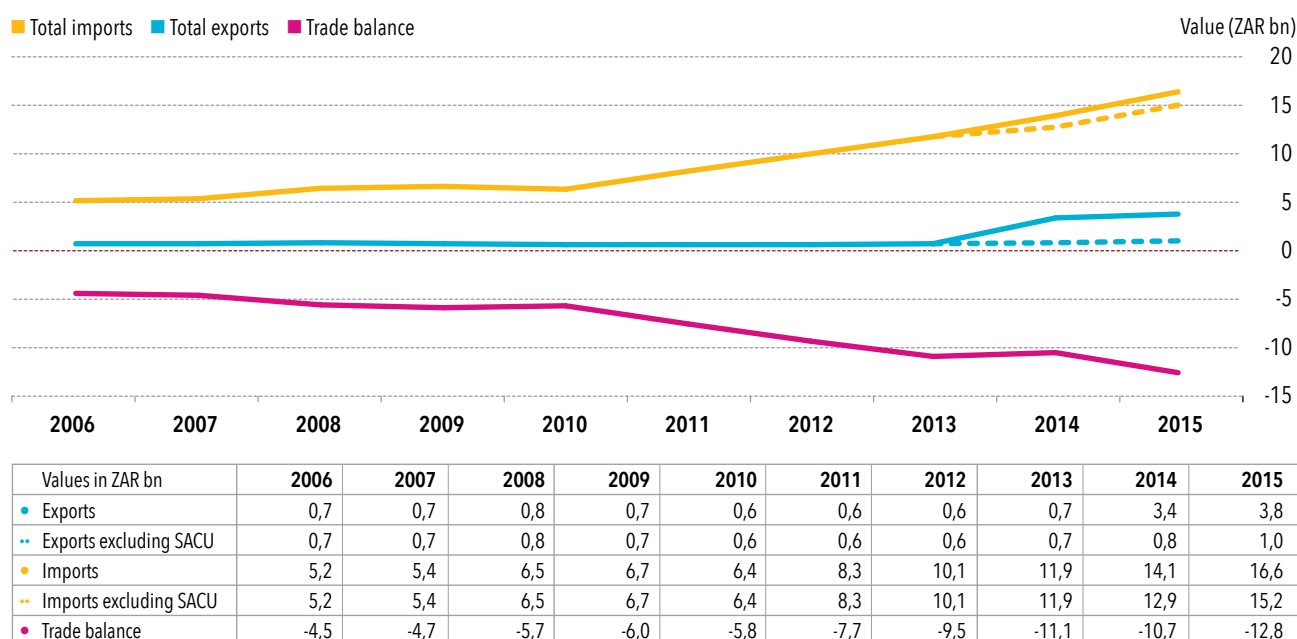


Having declined from 2008 to 2012, exports from Cape Town increased between 2013 and 2015. Total exports grew by 12,6% between 2014 and 2015, driven by strong increases in exports to Namibia (Cape Town's largest export market for clothing and textile products); Botswana and Swaziland (Wesgro, 2016). Exports to the US (under the AGOA agreement) increased by 53,2%, making it the fastest growing of Cape Town's top export markets.

Perhaps contrary to expectations, given the shift to quick response manufacturing, and the weaker rand, the import value of clothing and textile products continued to grow strongly (18,3%) in 2015 (Wesgro, 2016). This may, in part, be a reflection of the increased price of imports as a result of the weakening rand (pushing up import value rather than import volume). However, even taking this into account, it is clear that clothing and textile imports continued to grow in 2015, increasing the trade deficit in the city's trade of these goods. While China still accounts for the majority share of clothing and textile imports for Cape Town, the strongest import growth rates were recorded for countries in the sub-continent (India; Pakistan and Bangladesh) and for Swaziland, Madagascar and Lesotho (Wesgro, 2016).

While China still accounts for the majority share of clothing and textile imports, the strongest import growth rates were recorded for India, Pakistan, Bangladesh, Swaziland, Madagascar and Lesotho.

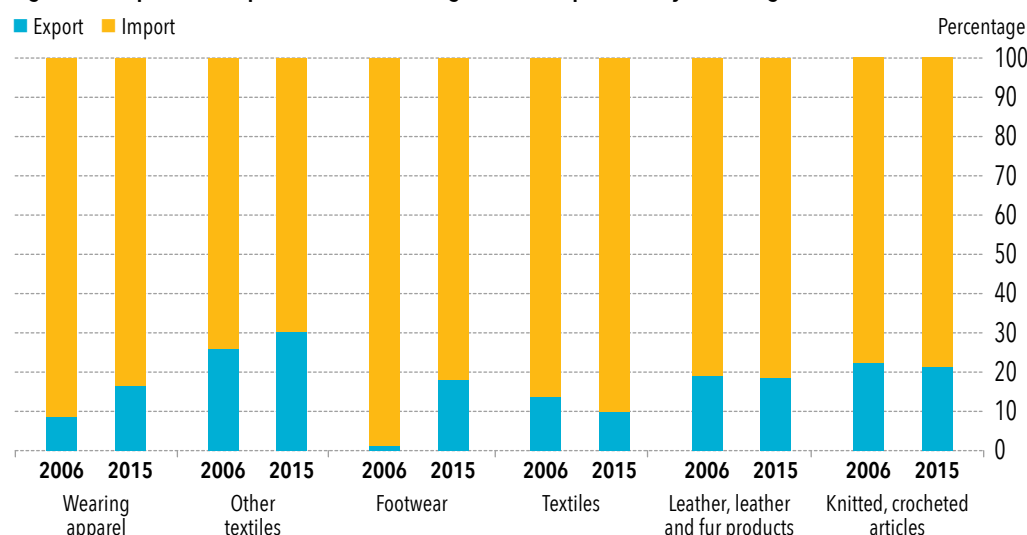
Figure 33: Cape Town clothing and textiles trade (2006 to 2015)



Source: Wesgro, 2016.

Figure 34 shows the import/export split of clothing and textile products in 2006 and 2015. 'Other textiles' had the most equitable split between imports and exports (70/30) in 2015, while the least even split was in 'textiles' (88/11). The low level of exports and correspondingly high level of imports of 'textile' products (including fabrics and yarn) corresponds to the structure of the industry in Cape Town, which tends to be more concentrated at the bottom of the value chain, with a reliance on textile imports for intermediate inputs. The most significant change in the proportion of exports in total goods traded was in footwear products, which increased its export share from around 2% in 2006¹⁷ to 17,7% in 2014 and further to 18,1% in 2015. This finding is seemingly reflective of the DTI's extensive assistance to the footwear manufacturing sub-sector.

Figure 34: Export and import shares of clothing and textile products by sub-categories



Source: Wesgro, 2016.

The expected impact that rising wages in China will have on the price of Chinese goods is leading procurement officers worldwide to seek other source markets, while an increased sense of social responsibility is also making them wary of markets like Bangladesh.

***Quick response** can be defined as 'the reliable and flexible supply of in-demand product to an unpredictable market based on actual point of sale (POS) intelligence, within a maximum timeframe of 42 days from the raising of a monthly purchase order (PO) to the in-store display of the product' (CCTC, 2016).

OPPORTUNITIES AND CONSTRAINTS

Global sales growth for apparel and footwear products is expected to reach \$2 trillion in 2018, driven primarily by womenswear and footwear (Wesgro, 2014b). Unlike some other manufacturing sectors which face a decline in demand for their products, the demand for clothing and textile products will continue to grow, especially as income levels rise in emerging countries. While the growth in demand for the industry's products is likely to remain relatively consistent, the geographic distribution of source markets and the production methods required to meet this demand are expected to undergo significant change.

Three broad trends that are pertinent to the industry in Cape Town can be highlighted here:

- *The shifting of apparel sourcing away from China, and the increased importance of corporate social responsibility.* The expected impact that rising wages in China will have on the price of Chinese goods is leading procurement officers worldwide to seek other source markets, while an increased sense of social responsibility is also making them wary of markets like Bangladesh (Berg, 2016). Many are seeing potential opportunities in sub-Saharan Africa.
- *The growing value of quick response and lean manufacturing practices.* Increasingly well-informed consumers are driving the retail trend of fast fashion, which in turn is leading retailers to favour near-sourcing options. Companies are responding to this by adopting lean manufacturing practices which support a quick response* production model.
- *Fashion technology – smart fabric.* 'Technologies that can monitor people's vitals and change the way fabrics appear or function are being integrated into more textiles and garments' (Lacuna, 2016). If this trend gains traction it will fundamentally change the way the value chain operates.

Cape Town's comparative advantage in the manufacture of clothing and textiles in the 21st century

The clothing and textiles value chain is widely regarded as being buyer-driven. Buyers, or retailers, constantly evolve their products to respond to customers' changing tastes. With fast fashion placing a premium on manufacturers who can respond quickly, the proximity of major retailers to manufacturing companies creates a distinct competitive advantage. In this respect, the high concentration of retail head offices in Cape Town (including Woolworths, the Foschini Group, Truworths, Pep and Cape Union Mart, among others) means that retailers and manufacturers can coordinate their activities to ensure the quickest possible response to changes in customers' tastes and preferences (CCTC, 2016). The added presence of a burgeoning fashion design industry within the city further enhances this advantage.

Cape Town's clothing and textile industry is also well served by organisations such as the Cape Clothing and Textile Cluster,

17. It must be taken into account that the movement of goods to SACU countries was only classified as international trade from 2014 onward, potentially skewing long-term comparisons.



Clotex, and the Cape Town Fashion Council, which operate at different points in the value chain but share the common vision of seeing the growth of the clothing and textiles industry within the city. The strong coordination/collaboration in the industry's value chain and the presence of large and dynamic manufacturers in the city enable it to more easily adopt quick response models than other regions in the country.

Constraints hindering growth of the industry in Cape Town

Although the clothing and textiles industry in Cape Town would appear, in the last year, to have reversed its decline, there are many factors which still threaten the revival of the industry. Some of these are detailed below:

- 'Blanket government policy in applying 22% fabric duty, including on many fabrics that are not produced locally. This drives up the cost of locally manufactured clothing and thus impairs local competitiveness in relation to both imports and exports' (CCTC, 2016).
- 'Poor enforcement of import duties in relation to both clothing and textiles imports – serious "under-invoicing" problem' (CCTC, 2016).
- 'Unavailability of a comprehensive range of locally manufactured fabric. There is limited manufacture of lightweight wovens and yarn in the local industry' (CCTC).
- 'Insufficient local fabric conversion capabilities, i.e. dyeing, printing and finishing. This is a key component to achieving the supply chain flexibility required to support quick response, as it allows the import of "basic form" fabric where we aren't able to produce ourselves, but without committing to colour, print and feel too far in advance of observing market preferences' (CCTC, 2016).
- Technical skills shortage: most factories employ people straight out of school and train them in-house. Companies have, however, reported finding it difficult to attract good young employees, leading to them having large pools of older workers.
- Competition from neighbouring countries: while the quick response model puts Cape Town at an advantage over Asian countries, low-cost production in neighbouring countries like Lesotho and Swaziland is an increasing threat.

While the quick response model puts Cape Town at an advantage over Asian countries, low-cost production in neighbouring countries like Lesotho and Swaziland is an increasing threat.

STRATEGIC INTERVENTIONS – CAPE CLOTHING AND TEXTILE CLUSTER PROGRAMMES

The Cape Clothing and Textile Cluster (CCTC) is a public-private partnership dedicated to enhancing the competitiveness of the clothing and textile industry in the Western Cape. Its membership currently consists of 45 significant firms across the clothing and textile value chain, including major retailers and both garment and textile manufacturers (CCTC, 2016). The CCTC has sought to improve collective industry performance through two core programmes.

- **The World Class Manufacturing (WCM) programme** focuses on enhancing manufacturing competitiveness through the introduction and embedding of lean principles within the firms' own operations and those of their suppliers. This entails research into lean manufacturing best practices, training of key staff, facilitation of expert consulting support on the factory floor to ensure proper implementation, and performance benchmarking to track progress over time and against local and international competitors.
- **The Quick Response programme** seeks to guide retail towards effective use of the quick response model and prepare manufacturing to respond to the significant growth opportunity that this presents. The programme comprises best practice research, training of key staff and, more recently, an initiative to explore opportunities to export within short QR lead times.

The success of these interventions has been evident in improved sales (see table 7), employment and operational competitiveness figures across the CCTC's member firms. Indeed these interventions have played a critical role in stabilising the industry and preparing it for growth.





Infrastructure

Cape Town is home to South Africa's second-busiest airport as well as its second-busiest container-handling port, 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.

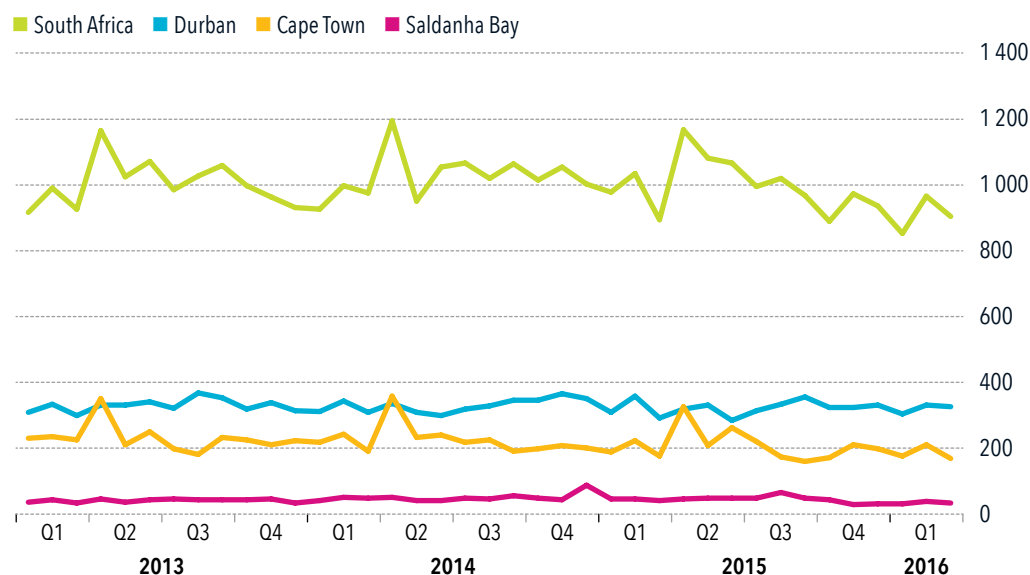
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports decreased by 76 vessels from 2 796 in the fourth quarter of 2015 to 2 720 in the first quarter of 2016. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the first quarter of 2016 was 556 vessels (accounting for 20% of total vessels). This represented a decrease on the previous quarter's figure of 580 vessels. On a year-on-year basis, vessel arrivals in Cape Town in the first quarter decreased by 33 vessels, while Cape Town's share of national vessel arrivals had remained the same at 20% from the previous 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.

The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the first quarter of 2016 was 556 vessels (accounting for 20% of total vessels). This represented a decrease on the previous quarter's figure of 580 vessels.

Figure 35: Total number of vessels (January 2013 to March 2016)

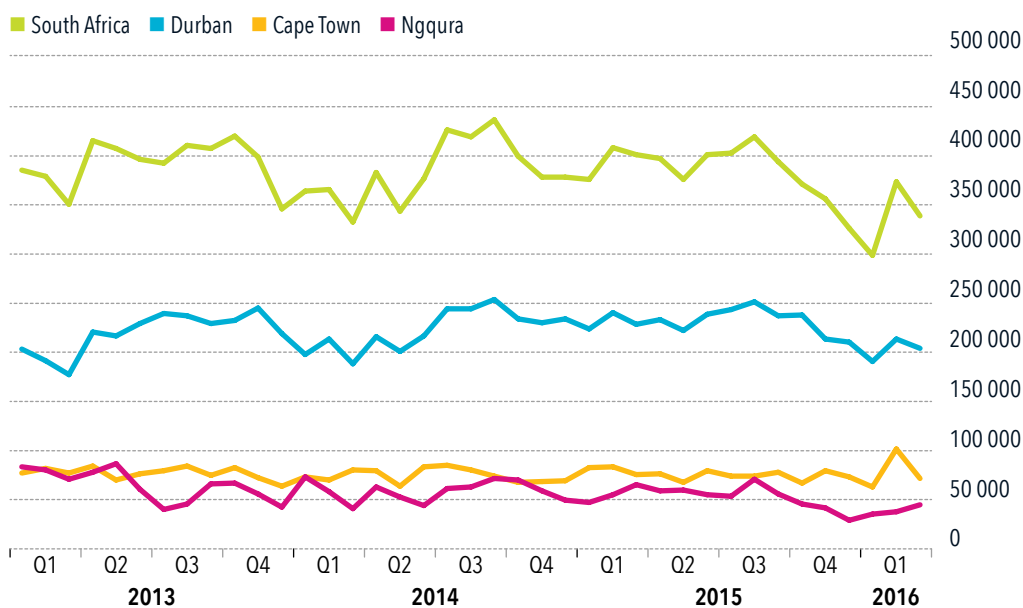


Source: Transnet National Ports Authority, May 2016.

Cargo (gross tonnage) and container handling

In the first quarter of 2016, South African ports handled 53,9 million tons of cargo compared to 57,9 million in the fourth quarter of 2015 and 61,8 million in the corresponding period in 2015. The Port of Cape Town experienced an increase in cargo handling, from 1,04 million tons in the fourth quarter of 2015 to 1,12 million tons in the first quarter of 2016. There was also an increase of 7,6% from the 1,03 million tons handled in the corresponding period in 2015. 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. At the ports of Durban and Saldanha, which are much larger cargo handlers than Cape Town, the Port of Durban experienced a quarter-on-quarter decrease in cargo handled of 5,50%, similarly the Port of Saldanha experienced a decrease of 0,17% in the first quarter. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed a 19,34% decrease in cargo handled at the Port of Saldanha and a 5,75% decrease for the Port of Durban.

The Port of Durban is South Africa's main container-handling port and contributed more than half (58%) of the total containers handled in South African ports in the first quarter of 2016. 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 22% of all containers handled in South African ports in the first quarter of 2016.

Figure 36: Total containers handled (TEUs¹⁸) (January 2013 to March 2016)

Source: Transnet National Ports Authority, May 2016.

The number of containers handled at the Port of Cape Town decreased from 241 039 in the first quarter of 2015 to 235 183 in the first quarter of 2016 – a decline of 2,43%.

Container traffic is very seasonal, as figure 36 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 241 039 in the first quarter of 2015 to 235 183 in the first quarter of 2016 – a decline of 2,43%. 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. Despite performing well in 2014 and in the first half of 2015, the Port of Ngqura recorded a decline in containers handled year on year in the fourth quarter of 2015 and continued this trend in the first quarter of 2016 (166 700 containers handled in the first quarter of 2015 compared to 117 802 in the first quarter of 2016). 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.

CAPE TOWN AIRPORT STATISTICS

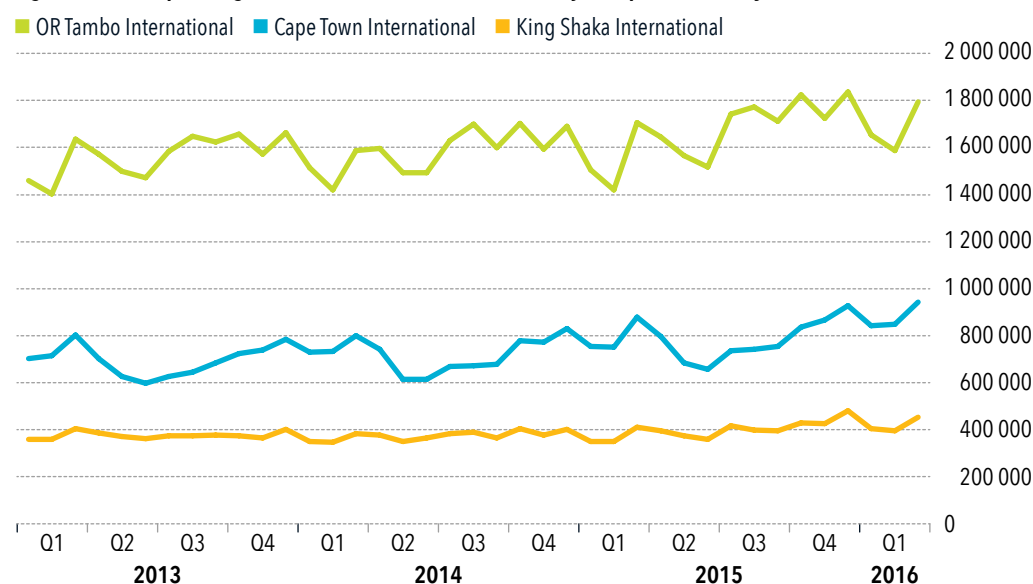
Total passenger movements

Cape Town International Airport is South Africa's second-busiest airport. It recorded 2,65 million total passenger movements in the first quarter of 2016 compared to 5,03 million passenger movements at OR Tambo and 1,25 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the first quarter of 2016 were higher compared to the first quarter of 2015, when 2,38 million passenger movements were recorded. OR Tambo International and King Shaka International also recorded increases in passenger numbers in the first quarter compared to the same period in the previous year.



Cape Town International Airport is South Africa's second-busiest airport. It recorded 2,65 million total passenger movements in the first quarter of 2016 compared to 5,03 million passenger movements at OR Tambo and 1,25 million at King Shaka International airports during the same period.

18. 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.

Figure 37: Total passenger movements at South Africa's major airports (January 2013 to March 2016)


Source: ACSA, May 2016.

A quick glance at figure 37 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with these declining in the second quarter when the city 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.

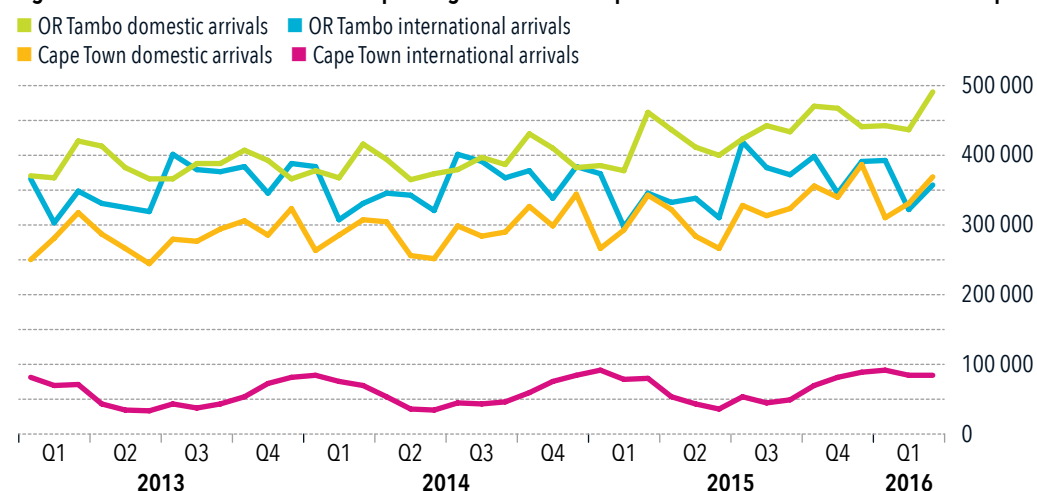
International versus domestic arrivals for South Africa's two busiest airports

The direct international proportion of passenger arrivals to Cape Town International for the first quarter of 2016 constituted 20,4% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 43,9% 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. The figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many 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 38). The total number of passenger arrivals to Cape Town International in the fourth quarter of 2015 increased by 10,7% year on year, with international arrivals increasing by 3,9%.

While some of the growth in international arrivals can simply be attributed to increased occupancy on existing flight routes, the efforts of Cape Town International Airport, Wesgro, provincial government and the City of Cape Town to attract

The efforts of Cape Town International Airport, Wesgro, provincial government and the City of Cape Town to attract more direct international flights also appears to be paying off. This is evident in the growth of the number of international aircraft movements at Cape Town International, which recorded increases of 9,6% quarter on quarter and 5,4% year on year in the first quarter 2016.

Figure 38: International and domestic passenger arrivals for Cape Town and OR Tambo International airports


Source: ACSA, May 2016.

more direct international flights also appears to be paying off. This is evident in the growth of the number of international aircraft movements at Cape Town International, which recorded increases of 9,6% quarter on quarter and 5,4% year on year in the first quarter 2016. These figures capture the new launches of direct flights from Addis Ababa, Gatwick, Istanbul and Zurich at the end of 2015.

Although Cape Town International received the Best Airport in Africa award for 2016 by SkyTrax (SkyTrax World Airports Awards, 2016), if it is to continue being able to accommodate increased tourist numbers it 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.

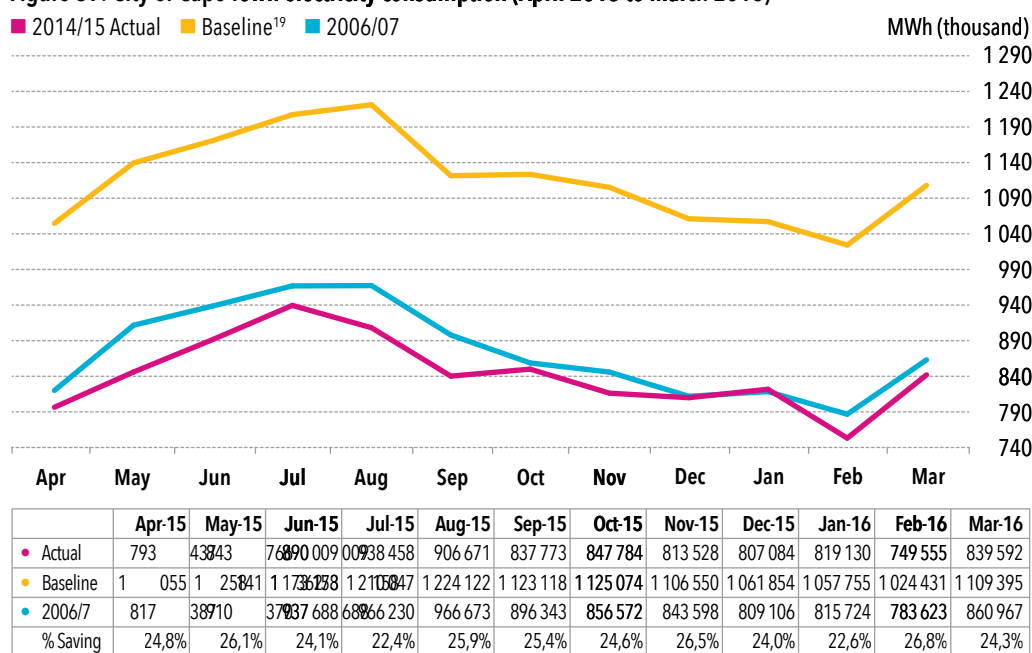
ELECTRICITY

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 country's energy mix. Electricity plays a significant role in the economy therefore the availability, reliability and affordability of electricity supply are key considerations in the location decisions of major investors.

Eskom's primary mandate is to ensure energy security in South Africa. However, in 2015 energy security became a pressing economic issue as Eskom battled to match the demand for electricity from businesses and households with existing sources of supply, which either required significant maintenance and renewal or were still under construction. This resulted in the implementation of a load-shedding programme and upward pressure on electricity prices as Eskom sought to provide a reliable and predictable electricity supply. Eskom does not anticipate load-shedding for the 2016/17 financial year, however, consumers will experience electricity price increases from the second quarter as the National Energy Regulator (NERSA) approved an overall average annual bulk price increase of 9,4% for the 2016/17 financial year (Eskom, 2016). For local authorities, the average percentage increase is 7,86%. According to the City of Cape Town's 2016/17 budget, electricity will increase by an average of 7,78%, however, the city's domestic users will only experience a 6,6% electricity price rise, down from 10,82% in 2015.

Figure 39 illustrates 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 period when the country started experiencing power shortages. 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. In the first quarter of 2016, the rate of savings continued to experience fluctuation from 22,6% in January to 26,8% in February and dropping to 24,3% in March. On the whole, electricity consumption in the first quarter of 2016 was 0,4% lower than during the same period in the previous year.

Figure 39: City of Cape Town electricity consumption (April 2015 to March 2016)



Source: City of Cape Town, 2016a

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

In the first quarter of 2016, the rate of electricity savings continued to experience fluctuation from 22,6% in January to 26,8% in February and dropping to 24,3% in March. On the whole, electricity consumption in the first quarter of 2016 was 0,4% lower than during the same period in the previous year.

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.





China remained the world's leading source of tourist income in 2015, growing tourism receipts at a healthy double-digit rate. The US and the UK both strongly contributed to tourism expenditure in 2015 (with receipts growth of 9% and 8% respectively).

INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) *World Tourism Barometer* for May 2016, a record of 1 184 million global tourist arrivals was reported for 2015. This constituted 51 million new tourist arrivals (an increase of 4,4%) compared to 2014. It was the sixth consecutive year in which tourist arrivals grew by 4% or more, outpacing global economic growth during this time.

In terms of regional performance, growth in international arrivals in 2015 was marginally stronger for advanced country destinations than for emerging ones. This was driven by the continued strong growth of arrivals in Europe (4,7%), constituting 51,3% of global growth. Within Europe, arrivals growth was particularly strong in Central and Eastern Europe (5,8%) and Northern Europe (6,8%). Asia and the Pacific recorded a 5,4% increase, led by Oceania (7,1%) and Southeast Asia (7,2%).

International arrivals to the Americas also grew by 5%, principally driven by the Caribbean and Central America (7,3% and 7,1%), which benefited from strong outbound tourism from the US as a result of a strengthening dollar and improved economy. The Middle East consolidated its improved performance of 2014, posting an arrivals growth rate of 1,6%. In contrast, Africa recorded a 2,9% decline in tourist arrivals, with the beach resort attacks in North Africa weighing heavily on the arrivals growth figure (-7,7%) in that region. Sub-Saharan Africa, however, also recorded a decline in arrivals in 2015, although arrivals had picked up in the fourth quarter. This is likely to be reflective of the poor performance of South Africa's tourism industry in 2015.

China remained the world's leading source of tourist income in 2015, growing tourism receipts at a healthy double-digit rate. The US and the UK both strongly contributed to tourism expenditure in 2015 (with receipts growth of 9% and 8% respectively). In contrast, a weakening currency and struggling economy in both Brazil and Russia resulted in a decline in tourism expenditure by these two countries.

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. As table 8 shows, in February 2016, 803 770 foreign tourists visited the country. Tourist arrivals increased by 18% year on year for the period, with arrivals from other parts of Africa (South Africa's largest tourist source market) increasing by 18%. Arrivals from the overseas market increased by 17,9%, reversing a number of months of decline experienced during 2015. The growth in tourist arrivals can be attributed to the weakened rand and the easing of the onerous regulatory measures relating to visas. Furthermore, concerns around xenophobic attacks in South Africa have reduced since early 2015, which may have contributed to the increased growth in tourist arrivals from the rest of Africa. While zero cases of Ebola infections were recorded in South Africa, and the disease peaked in West Africa in 2014, tourists were still apprehensive about travelling to South Africa in 2015. Since the reduction of Ebola cases in West Africa, tourist arrivals in South Africa have increased as the overseas market has become less concerned about the highly contagious disease.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market and accounted for 161 732 tourist arrivals in February 2016, having grown by 14,2% year on year. Within the European region, the UK, Germany and France were South Africa's largest source markets. Arrivals from Germany (21,9%) and the UK (13,9%), however, grew more strongly than arrivals from France (7,0%). The strong growth in tourists from the UK is largely due to the rand's gradual devaluation against the pound over the past year. The second largest overseas source market for South Africa in February 2016 was the United States, with tourist arrivals from that country increasing by 20,5%.

Tourist arrivals from most emerging markets increased in January 2015 with the exception of Brazil. The recession in the

Tourist arrivals from most emerging markets increased in January 2015 with the exception of Brazil. The recession in the Brazilian economy resulted in a decline in tourist arrivals by 8% year on year.

Table 8: International tourist arrivals in South Africa

Region	February 2016	February 2015	% change	% change Jan-Feb 2015 to Jan-Feb 2016
Europe	161 732	141 580	14,2%	13,6%
Russia	622	597	4,2%	3,9%
North America	28 247	23 817	18,6%	14,9%
Central and South America	4 591	3 828	19,9%	13,5%
Brazil	2 080	2 260	-8,0%	-8,1%
Australasia	7 882	7 247	8,8%	12,6%
Asia	26 873	18 608	44,4%	45,0%
China	12 386	7 758	59,7%	72,3%
India	6 776	4 989	35,8%	22,0%
Middle East	5 382	3 949	36,3%	36,0%
Overseas total	234 707	199 029	17,9%	17,1%
Africa	568 162	481 302	18,0%	16,4%
Total	803 770	681 216	18,0%	16,5%

Source: South African Tourism, May 2016.



Brazilian economy resulted in a decline in tourist arrivals by 8% year on year. In contrast, tourist arrivals from India and China experienced strong growth (35,8% and 59,7% respectively). The growth in Indian tourist arrivals can be linked to the strong performance of the Indian economy, which has now overtaken China as the fastest growing BRICS economy. Despite the slight slowing down of the Chinese economy, growth in Chinese tourist arrivals to South Africa was particularly strong, translating into over 4 000 new arrivals. Chinese tourists were perhaps the most strongly impacted by South Africa's stricter visa regulations and the easing of these regulations certainly seems to have boosted tourist numbers from the country. China's sensitivity to visa regulation complications has led to South Africa implementing new visa regulations specifically for the Chinese market. These include an Accredited Travel Company programme that aids remote applications at visa processing centres, an end to transit visas for Chinese nationals travelling to neighbouring countries, additional visa facilitation centres, and specific visa exemptions (Grant Thornton, 2016). As a result, Chinese tourist arrivals are expected to further increase in the years ahead.

The South African tourism market reached a new record for January in 2016, going over the one million mark for the first time with 1 012 641 tourists arriving in the country. This resurgence in growth of tourist arrivals is encouraging considering the previous year had been particularly bad for the industry. These positive trends continued into February and points to a more optimistic forecast for 2016.

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CAPE TOWN'S TOURISM DEVELOPMENTS

Tourist accommodation in Cape Town

Accommodation spending typically constitutes the largest portion of total visitor spending 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 9 were derived from a survey of approximately 78 tourism accommodation establishments in the Cape Town metro area for the first quarter of 2016.

Table 9: Income derived from tourist accommodation – Cape Town

Indicator	January		February		March		First-quarter average	
	2016	2015	2016	2015	2016	2015	2016	2015
Occupancy rate	74,1%	65,7%	85,2%	77,2%	82,6%	80,9%	80,6%	77,6%
Average room rate	R2 017	R1 823	R1 731	R1 542	R1 449	R1 304	R1 732	R1 556
Revenue per room	R1 496	R1 240	R1 476	R1 295	R1 197	R1 056	R1 390	R1 197

Source: Cape Town Tourism, May 2016.

The highest occupancy rates in February were achieved by hotels (86,9%) – up by 0,6% from February 2015. The Atlantic Seaboard recorded the highest occupancy rate in February (92,8%).

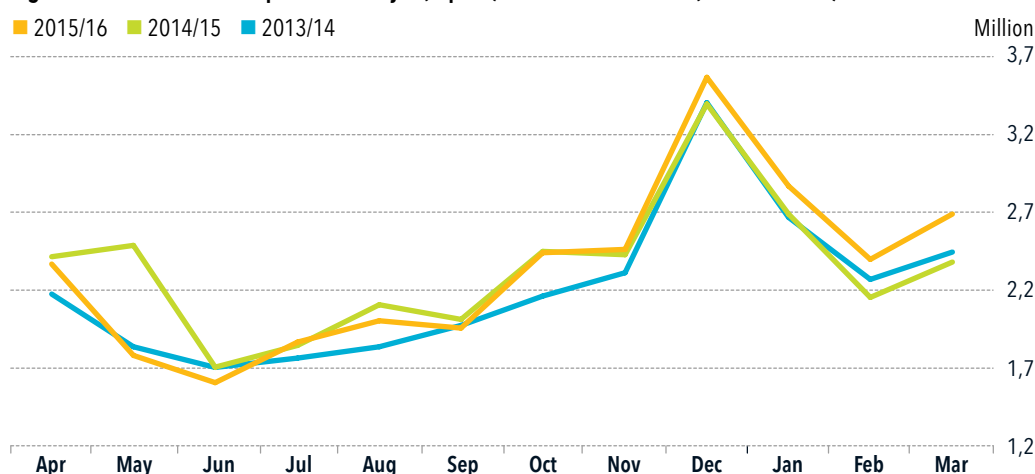
Occupancy rates at accommodation establishments increased by an average of 3,0 percentage points in the first quarter of 2016 compared to the same period in 2015. In the first quarter of 2016, February recorded the highest occupancy rate of 85,2% with a year-on-year increase of 1,3 percentage points. The average room rate and revenue per room increased by R176 and R193, respectively. Overall, tourist accommodation in Cape Town did very well in the first quarter of 2016 compared to the first quarter of 2015 as all three accommodation performance indicators reported positive growth rates.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in February were achieved by hotels (86,9%) – up by 0,6% from February 2015. All establishment types experienced occupancy increases, except for self-catering as well as bed and breakfast establishments which recorded a 7,1% and 0,8% decrease respectively. Guesthouse establishments achieved the highest occupancy rate growth (6,4%) and also experienced the largest increase in revenue per room (19,3%). By geographic location, the Atlantic Seaboard recorded the highest occupancy rate in February (92,8%).

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 Victoria & Alfred (V&A) Waterfront and Robben Island. Figure 40 indicates the cumulative number of visits by tourists to these attractions since April 2013. 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 40: Total visits to Cape Town's major (top six) tourist destinations (2013 to 2016)



Source: Derived from Wesgro data, May 2016.

From figure 40, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality as high tourist volumes are experienced in the warmer season between November and March, declining during winter months and increasing slightly again during the spring months as weather conditions start improving. Although the first quarter of 2016 falls within the summer period, this quarter reported a 2,79% quarter-on-quarter decline in the number of visits to the six attractions. This decrease comes after tourism in Cape Town experienced record-breaking figures in the fourth quarter of 2015. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, the figure shows that the first quarter of 2016 yielded a 10,12% increase in visits compared to the corresponding period in 2015.

It is important to note, however, that the visitor attraction data are strongly skewed by the V&A Waterfront. The V&A contributed approximately 84% of the total number of visits to the six attractions analysed for the period under review. This includes a greater proportion of non-tourist (resident) visitors 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 Waterfront figure is removed, the number of visits to the five attractions decreases to 1 255 318 in the first quarter of 2016, representing a 15,86% year-on-year increase. The highest number of tourist visits to Cape Town's top attractions (excluding the V&A Waterfront) in the first quarter of 2016 were experienced in March (426 963).

The sharp year-on-year increase of tourist visits can be credited to the popularity of events such as the Design Indaba, Cycle Tour, Two Oceans Marathon and the Cape Town Carnival which continue welcoming a growing number of visitors every year. As mentioned in the previous section factors such as the weak rand, the relaxation of the visa regulations and the elimination of the Ebola outbreak in West Africa also contributed to the boost in the tourism sector in the period under review. The addition of direct flights towards the end of 2015 by Qatar Airways (between Cape Town and Doha) and Turkish Airlines (between Cape Town and Istanbul) for the 2015/16 summer has boosted visitor numbers for the first quarter of 2016.

The sharp year-on-year increase of tourist visits can be credited to the popularity of events such as the Design Indaba, Cycle Tour, Two Oceans Marathon and the Cape Town Carnival which continue welcoming a growing number of visitors every year.

A review of the visitor profile of tourists by Cape Town Tourism revealed that out of 221 visitors surveyed at tourist offices in the city, 47% were international, 46% were domestic and the rest were regional visitors. These visitors preferred travelling in pairs (53%), mainly for holiday purposes (94%) and staying eight or more nights (25%). A large proportion of those surveyed are likely to have visited Cape Town's top attractions during the first quarter.

Most-visited tourist attractions

Table 10 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, Table Mountain Aerial Cableway managed to record the second-highest visitor numbers for the first quarter of 2016, with 318 401 visits, while the Cape of Good Hope had the third-highest number of visits (311 368).

Table 10: Ranking of the most-visited tourist attractions in Cape Town

Rank	Q1 2016	Q4 2015	Q1 2015	Year-on-year growth rate %
V&A Waterfront	6 700 140	7 174 918	6 141 114	9,10%
Table Mountain National Park: Cape of Good Hope	311 368	300 259	253 818	22,67%
Table Mountain National Park: Boulders Beach	241 988	227 233	195 748	23,62%
Table Mountain Aerial Cableway	318 401	362 419	281 908	12,95%
Kirstenbosch National Botanical Garden	268 913	283 054	257 460	4,45%
Robben Island	114 648	118 416	94 585	21,21%
Total	7 955 458	8 466 299	7 224 633	10,12%
Total (excluding V&A Waterfront)	1 255 318	1 291 381	1 083 519	15,86%

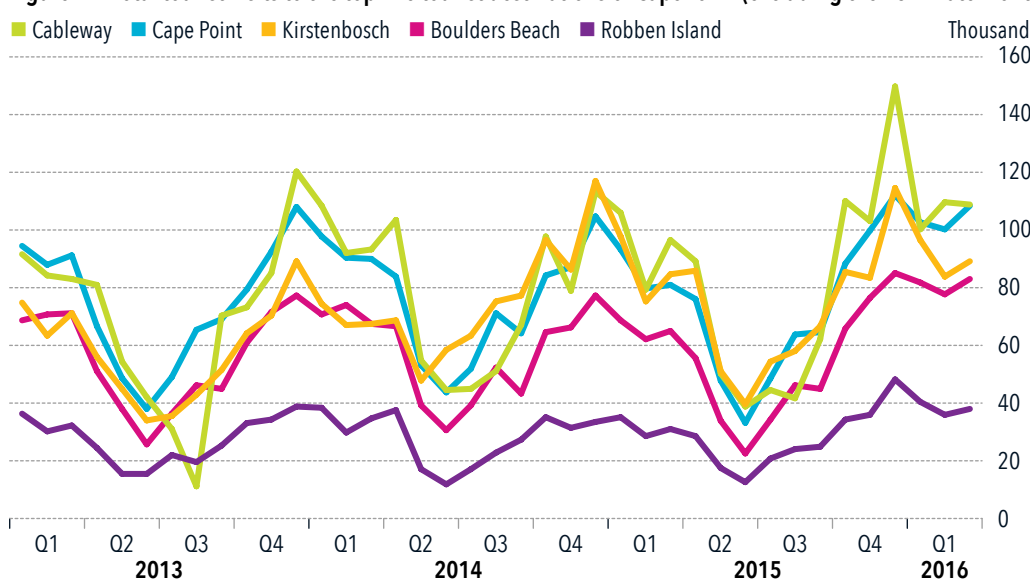
* Most-visited tourist destination in green; second-most-visited tourist destination in blue.

Source: Wesgro, May 2016.

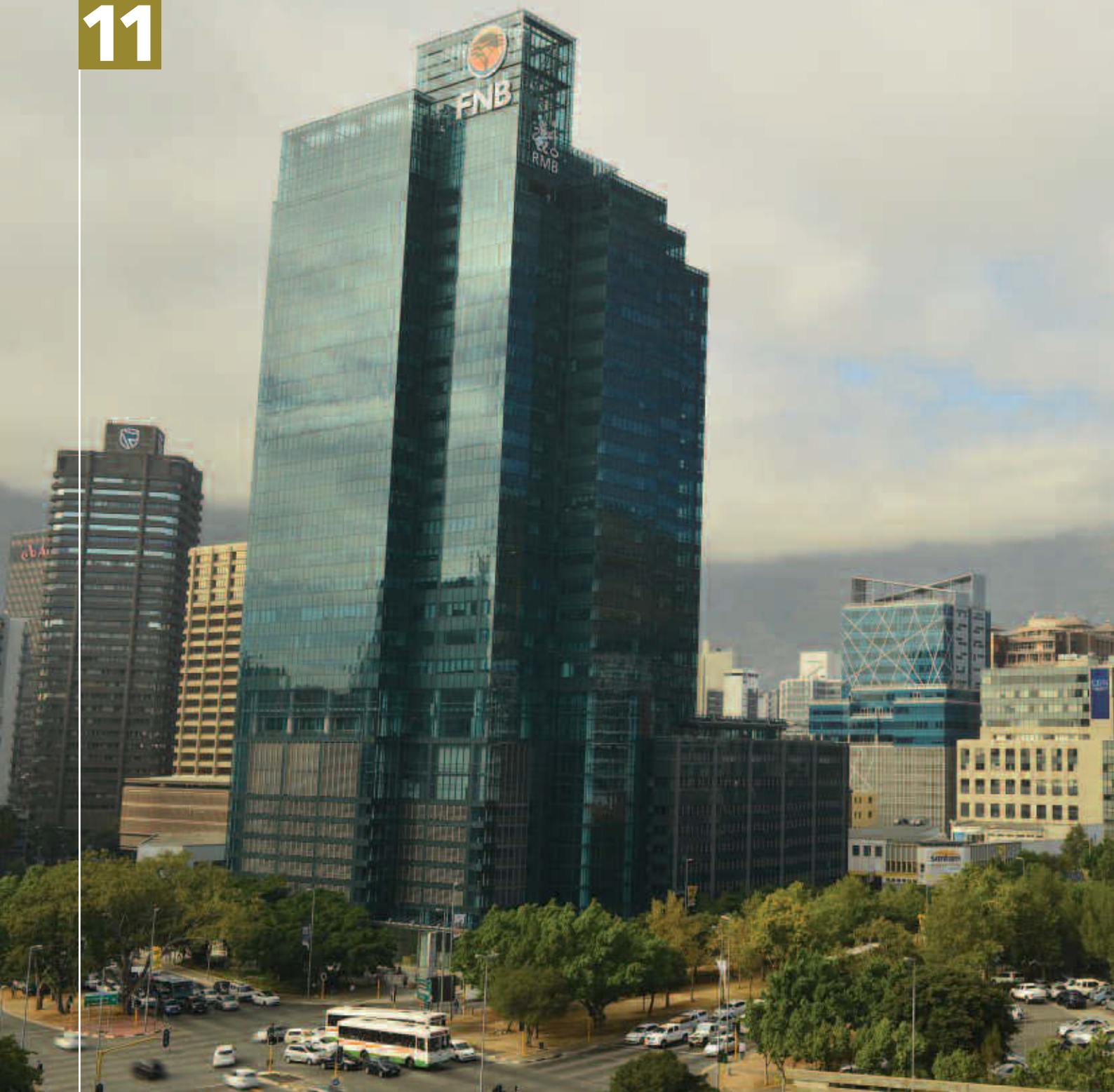
All the attractions reported a quarter-on-quarter growth rate decline except for the Cape of Good Hope and Boulders Beach. The Cape of Good Hope improved by 11 109 to record 311 368 visits, while Boulders Beach increased by 14 755 to 241 988 visits in the first quarter of 2016 after experiencing low numbers of visits in the previous quarter. This could be the result of more favourable weather conditions as the first quarter of 2016 recorded higher temperatures than the last quarter of 2015. All attractions recorded an increase in the year-on-year number of visits, with the Cape of Good Hope and Boulders Beach both experiencing the highest growth figures of 22,67% and 23,62% respectively. Robben Island continued to benefit from an improved ferry service, achieving a year-on-year growth rate of 21,21%.

As figure 41 shows, all attractions are subject to strong seasonality, with peak visitor activity occurring in the warmer season between November and March. The lowest number of tourist visits are seen during the period of May to July, which are the Cape Town winter months. The first quarter of 2016 outperformed the first quarter of 2015, as all attractions reported year-on-year positive growth rates in tourist visits. Overall, the growth in visits to Cape Town's premier tourist attractions is reflective of the strong performance of the tourism industry in South Africa in the first quarter, with arrivals reaching a record level in January.

Figure 41: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



All attractions recorded an increase in the year-on-year number of visits with the Cape of Good Hope and Boulders Beach both experiencing the highest growth figures of 22,67% and 23,62%, respectively. Robben Island continued to benefit from an improved ferry service, achieving a year-on-year growth rate of 21,21%.



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

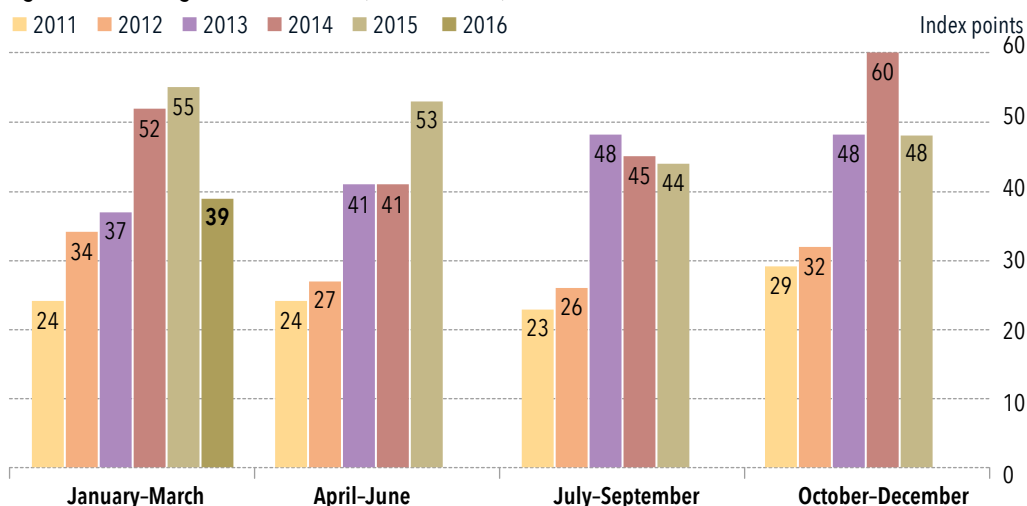
This chapter focuses on building developments recorded by the City of Cape Town for the first quarter of 2016. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, 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 first quarter of 2016. The industry recorded a year-on-year growth rate of 1,2%, making it the second-fastest-growing industry in South Africa on a year-on-year basis. The Western Cape construction industry grew at exactly the same rates as the national industry on both a quarter-on-quarter and year-on-year basis, although it was only the third-fastest-growing industry on a year-on-year basis in the province.

The First National Bank (FNB)/BER (2015b) composite 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. The building confidence index dropped from 48 points in the fourth quarter of 2015 to 39 points in the first quarter of 2016. Confidence declined by 16 index points on a year-on-year basis.

Figure 42: Building confidence index (2011 to 2016)



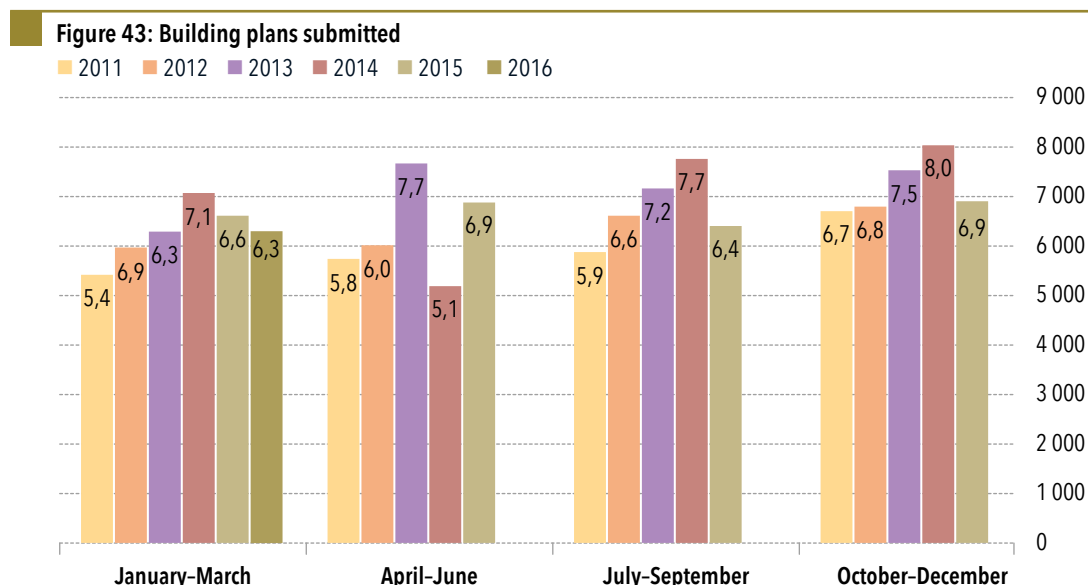
Source: BER, 2016b.

The building confidence index dropped from 48 points in the fourth quarter of 2015 to 39 points in the first quarter of 2016. Confidence declined by 16 index points on a year-on-year basis.

Building plans submitted in the first quarter of 2016 decreased by 5,52% compared to the corresponding period in 2015 and may be an outcome of the weak growth of the South African economy over the past few quarters and the (related) reduced confidence by the building sector compared to the same period in 2015.

BUILDING PLAN APPLICATIONS IN CAPE TOWN

Building plans submitted to the City of Cape Town in the first quarter of 2016 decreased by 9,06% from the previous quarter. However, figure 43 provides an annual comparison of the number of building plans submitted in each of the quarters over the past six years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted in the first quarter of 2016 decreased by 5,52% compared to the corresponding period in 2015 and may be an outcome of the weak growth of the South African economy over the past few quarters and the (related) reduced confidence by the building sector compared to the same period in 2015.



Source: City of Cape Town, June 2016c.

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 11: Building plans completed in the first quarter of 2016

Measure	Cape Town		South Africa	
	Number/value	Year-on-year change	Number/value	Year-on-year change
Building plans completed	3 947	-10,48%	N/A	N/A
Value of building plans completed	R2 716 million	26,39%	R13 020 million	14,80%

Source: City of Cape Town, December 2016c; Stats SA 2016.

The increase in the value of building plans completed in Cape Town was driven by non-residential building plans, which increased by 86%. Residential building plans as well as additions and alterations increased by 17% and 13% respectively, while minor works decreased by 36%.

Table 11 compares the number of completed building plans in Cape Town in the first quarter of 2016 to the number of completed building plans in South Africa over the same period. The figures for both Cape Town and the country reflect a downward trend in the number of completed building plans.

The value of building plans completed in Cape Town in the first quarter amounted to R2,7 billion, which accounted for 20,86% of the total value (R13 billion) of building plans completed in South Africa's larger municipalities. Cape Town recorded a year-on-year increase of 26,39% in the value of building plans completed during the first quarter while South Africa recorded a year-on-year increase of 14,80%. The increase in the value of building plans completed in Cape Town was driven by non-residential building plans, which increased by 86%. Residential building plans as well as additions and alterations increased by 17% and 13% respectively, while minor works decreased by 36%.



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 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 likely to be 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 decreased from 18 053 vehicles sold in the fourth quarter of 2015 to 16 700 in the first quarter of 2016. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw a decrease of 1 895 from the 18 595 total vehicle sales in the corresponding period in 2015. Passenger vehicle sales, which are the private consumer segment of the market, decreased from 12 214 in the fourth quarter of 2015 to 11 253 in the first quarter of 2016 for the Western Cape. Year-on-year results saw a decrease of 1 401 vehicles (-11,07%) from the 12 654 passenger vehicles sold in the corresponding period in 2015.

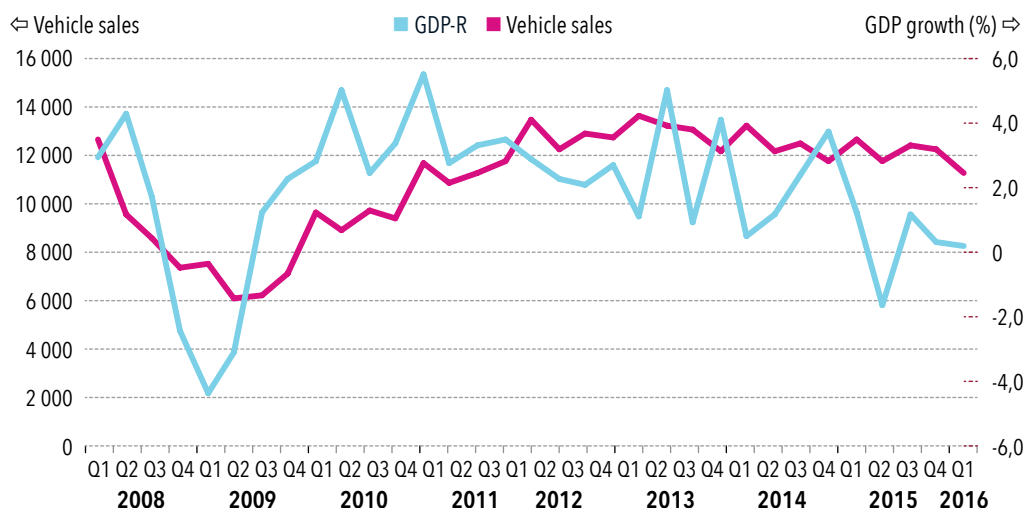
Nationally there was an 8,1 % decrease in the number of passenger vehicles sold in the first quarter of 2016 compared to the corresponding period in 2015. The year-on-year decrease in vehicle sales in the Western Cape during the first quarter is seemingly in line with the prevailing macroeconomic conditions in the country, which include a low GDP growth rate, low levels of consumer confidence and increasing pressure on household budgets as a result of increasing interest rates, mobility costs and fuel costs.

Figure 44 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 leading indicator models.

It is not immediately clear from figure 44 which indicator leads which and it would appear that a more direct relationship has emerged in the last year. 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.

Passenger vehicle sales, which are the private consumer segment of the market, decreased from 12 214 in the fourth quarter of 2015 to 11 253 in the first quarter of 2016 for the Western Cape. Year-on-year results saw a decrease of 1 401 vehicles (-11,07%) from the 12 654 passenger vehicles sold in the corresponding period in 2015.

Figure 44: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 1, 2016)



Source: NAAMSA, Stats SA, June 2016.

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LIST OF ABBREVIATIONS

ACSA:	Airports Company South Africa	NAAMSA:	National Association of Automobile Manufacturers of South Africa
BER:	Bureau for Economic Research	NERSA:	National Energy Regulator of South Africa
BRICS:	Brazil, Russia, India, China and South Africa	NDP:	National Development Plan
CCTC:	Cape Clothing and Textile Cluster	NPA:	National Ports Authority
CMT:	cut, make and trim	PMI:	(Barclays) Purchasing Managers' Index
CPI:	consumer price index	PPI:	producer price index
DTI:	Department of Trade and Industry	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	V&A:	Victoria and Alfred
IDC:	Industrial Development Corporation	WCM:	World Class Manufacturing
IEA:	International Energy Agency	WEO:	World Economic Outlook
IMF:	International Monetary Fund	QR:	Quick Response
MPC:	Monetary Policy Committee		



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