STATE OF THE CAPE TOWN ECONOMY

Quarter 3 (July – September) 2013

ECONOMIC INFORMATION AND RESEARCH UNIT
ECONOMIC DEVELOPMENT DEPARTMENT
ECONOMIC, ENVIRONMENTAL AND SPATIAL PLANNING DIRECTORATE
CITY OF CAPE TOWN

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INTRODUCTION

This publication constitutes the second edition of the Cape Town Economic Quarterly which presents and analyses economic (and related) trends on a quarterly basis. This edition focuses on the 3rd quarter of 2013, covering the period 1st July 2013 to 30th September 2013.

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 time period is sometimes simply too long a period 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 into their decision-making processes.

More specifically:

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

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. **Accessible:** Making the publication accessible and understandable to a wide range of stakeholders from various discipline backgrounds
2. **Insightful:** Presenting economic intelligence and analysis rather than bland raw economic information
3. **Relevant:** Focusing on localised (Cape Town wherever possible) economic performance trends measured by the latest quarter

ACKNOWLEDGMENTS

The Cape Town Economic Quarterly is a collaborative product of the Economic Development Department of the City of Cape Town, together with WESGRO and SAOGA. The publication is authored; consolidated and edited by the Economic Information and Research Unit within the Department of Economic Development.

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A multiplicity of other data and information sources were used in the publication, including StatsSA; the Reserve Bank; Quantec; Global Insight and the IMF. These, along with other sources are reflected in the list of references at the end of this publication.

1. OVERVIEW

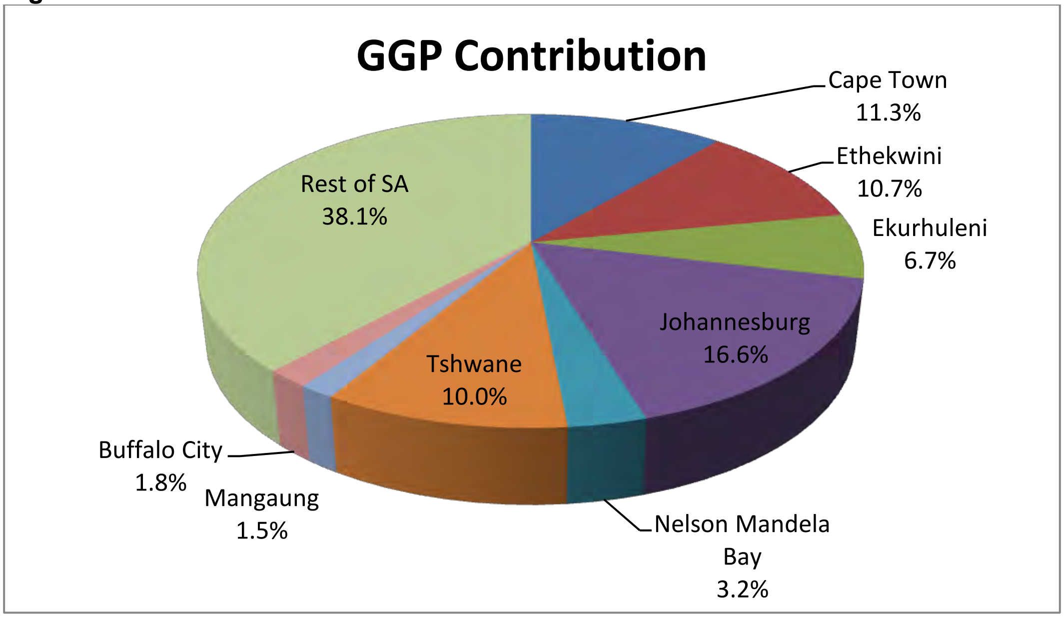
Table 1: Cape Town at a Glance – Quarter 2 2013

Indicator	Data Source & date	Cape Town (Western Cape)[1]	South Africa
GDP (R million) at 2005 constant prices (3rd quarter 2013)	Quantec August 2013	(299,634)	1 994 585
GDP Growth (3rd quarter 2013)	Quantec August 2013	(0.4%)	0.7%
Population (000s)	StatsSA City of Cape Town	3,960	52,982
Working Age Population 15-64 years (000s) (3rd quarter 2013)	StatsSA QLFS August 2013	2,367	33,464
Unemployment (000s) (3rd quarter 2013)	StatsSA QLFS August 2013	411	4,609
Expanded Unemployment Rate (3rd quarter 2013)	StatsSA QLFS August 2013	26.8%	35.6%
Labour Force (000's) (3rd quarter 2013)	StatsSA QLFS August 2013	1,608	18,638
Absorption Rate (employed/population ratio) (3rd quarter 2013)	StatsSA QLFS November 2013	50.4%	41.9%
Gini Coefficient (2011)	Global Insight August 2013	0.59	0.63
Human development Index (HDI)-(2011)	Global Insight August 2013	0.76	0.68
Functional literacy (2011)	Global Insight August 2013	90.9%	80.4%
Inflation (September 2013)	SARB August 2013	(6.0%)	6.0%
Cargo tonnage handled at ports in the 3rd quarter 2013 (000s)	Transnet 2013	941	55,510
Number of containers handled at ports in the 3rd quarter 2013 (000s)	Transnet 2013	237	1,206
Number of visits to Cape Town's major attractions in the 3rd quarter 2013 (000s)	Wesgro 2013	5,574	N/A
Total Air Passenger Movements at Cape Town International in the 3rd quarter 2013 (millions)	ACSA 2013	1.95	7.93[2]

[1] Where figures for Cape Town aren't available, Western Cape figures are presented in brackets
[2] The combined total for South Africa's three international airports

1.1 Cape Town's Economy in Context

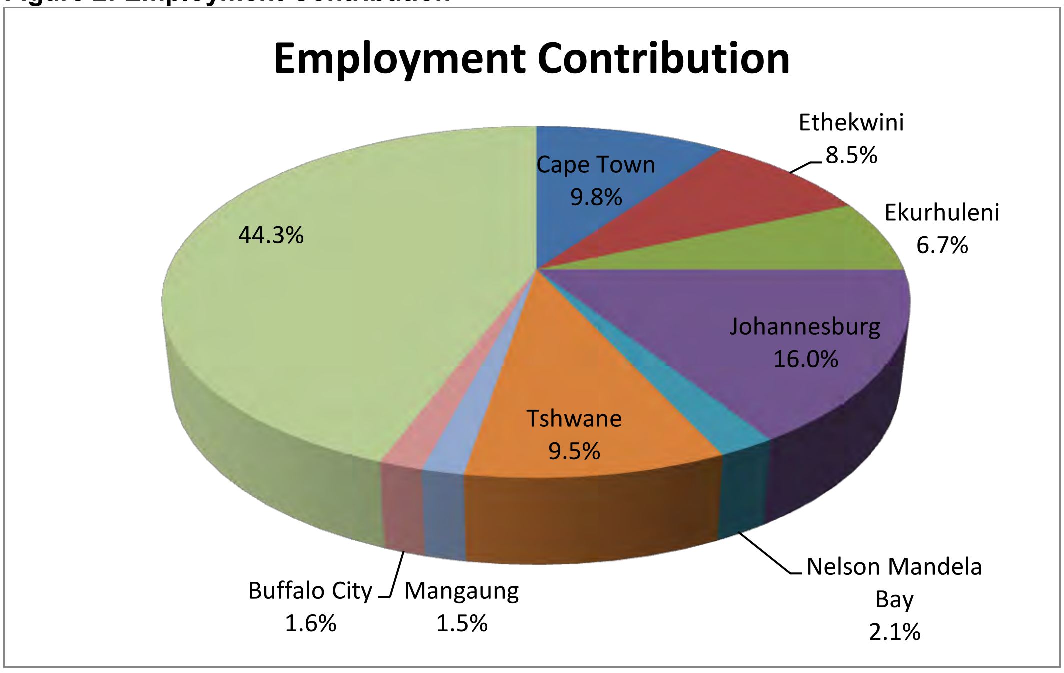
Figure 1: GGP Contribution 2012



Source: Own calculations based on Global Insight Easy Data 2013

As measured by Gross Geographic Product, Cape Town's economy (contributing 11.3% to national Gross Domestic Product in 2012) is the second largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 16.6% to national GDP in 2012), while eThekwini (10.7%) and Tshwane (10%) closely follow behind Cape Town (11.3%). These four metropolitan municipalities, together accounted for almost half (48.6%) of the country's economic output in 2012.

Figure 2: Employment Contribution



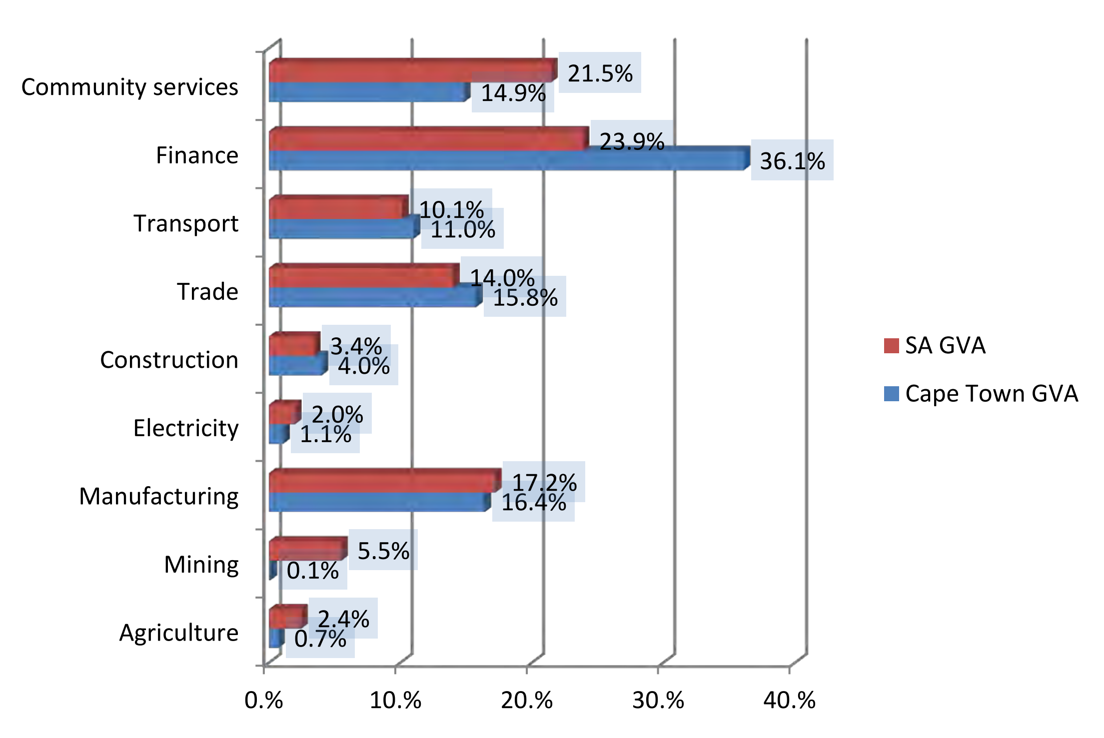
Source: Own calculations based on IHS Global Insight Rex Regional Data 2013

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 48.6% of the country's output value, they only account for 43.8% of the country's total employed population. Cape Town is the second important contributor to national employment country.

1.2 The Structure of Cape Town's Economy

Figure 3 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 insurance is by far the city's largest economic sector, contributing 36.1% to the Cape Town's GVA, whereas it contributes only 23.9% nationally. At the other end of the scale, mining and quarrying contributes only 0.1% in Cape Town as compared to 5.5% nationally.

Figure 3: Cape Town's GVA versus National GVA 2012



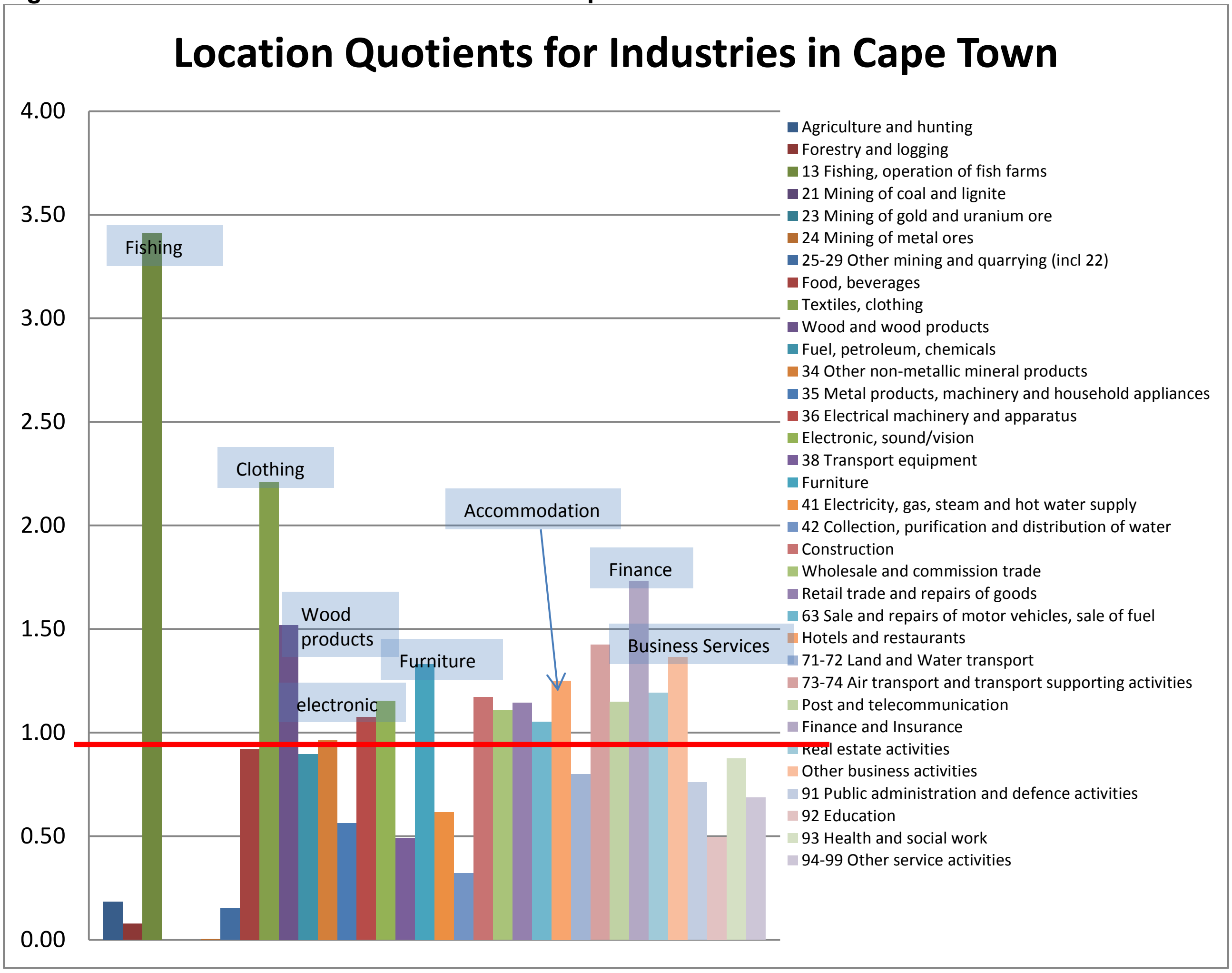
Source: Own calculations based on IHS Global Insight Rex Regional Data 2013

1.3 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 Cape Town's comparative advantages lie. Using a location quotient analysis, Figure 4, provides an indication of Cape Town's comparative advantages as compared to South Africa. A location quotient value of greater than one indicates that a sector has a comparative advantage.

The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole, are fishing; clothing and textiles; wood product manufacturing; electronics; furniture; hospitality; finance; and business services industries. These industries contribute relatively more to the city's economic output than they do at a national level to South Africa's economic output. 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, which fails to take into account the dynamic nature of the city's economy and the extent to which individual sectors contribute to employment creation. In this respect Figure 5 provides a more nuanced, dynamic picture of the performance of some of Cape Town's sector with a comparative advantage.

Figure 4: Location Quotients for Industries in Cape Town

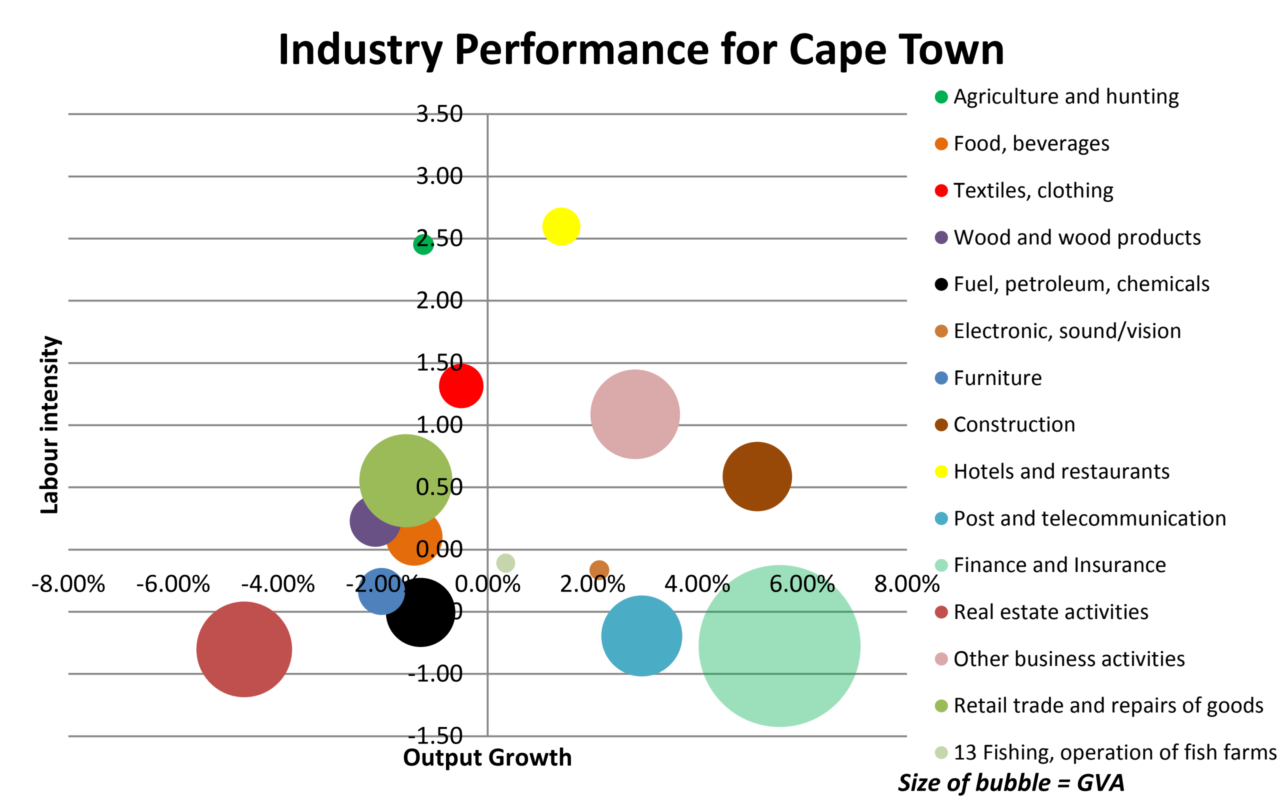


Source: Own calculations based on IHS Global Insight Rex Regional Data 2013

Figure 5 plots the degree of labour intensity on the vertical axis (>0 indicates a sector is labour intensive, while <0 is 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 faster than the average rate for Cape Town's economy over a ten year period). The size of the bubble is the relative size of the sector as measured by Gross Value Added.

The importance of the tertiary sector is strongly reflected in Figure 5, with the four largest bubbles being finance and insurance; business services; retail trade and real estate activities. A number of these tertiary sectors are also the fastest growing industries in the city, with finance; business services; hospitality; and post and telecommunication growing above the average rate. Unfortunately a number of these industries are below 0 on the y-axis, indicating that they are capital as opposed to labour intensive industries. This is true of post and telecommunication as well as finance and insurance. Industries which are growing fast and are labour intensive and therefore offer good opportunities for employment creation are construction; business services and hotels and restaurants (a good proxy for tourism).

Figure 5: Industry Performance for Cape Town



Source: Own calculations based on IHS Global Insight Rex Regional Data 2013

Comparative advantages in certain industries are derived from a number of factors that improve the competitiveness of these industries. These factors can be natural advantages; 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 attractions which attract international visitors and make Cape Town globally recognizable
- Three major universities within the metro region (among these the top university in Africa in the form of the University of Cape Town), and another university (Stellenbosch) just outside the metro boundaries.

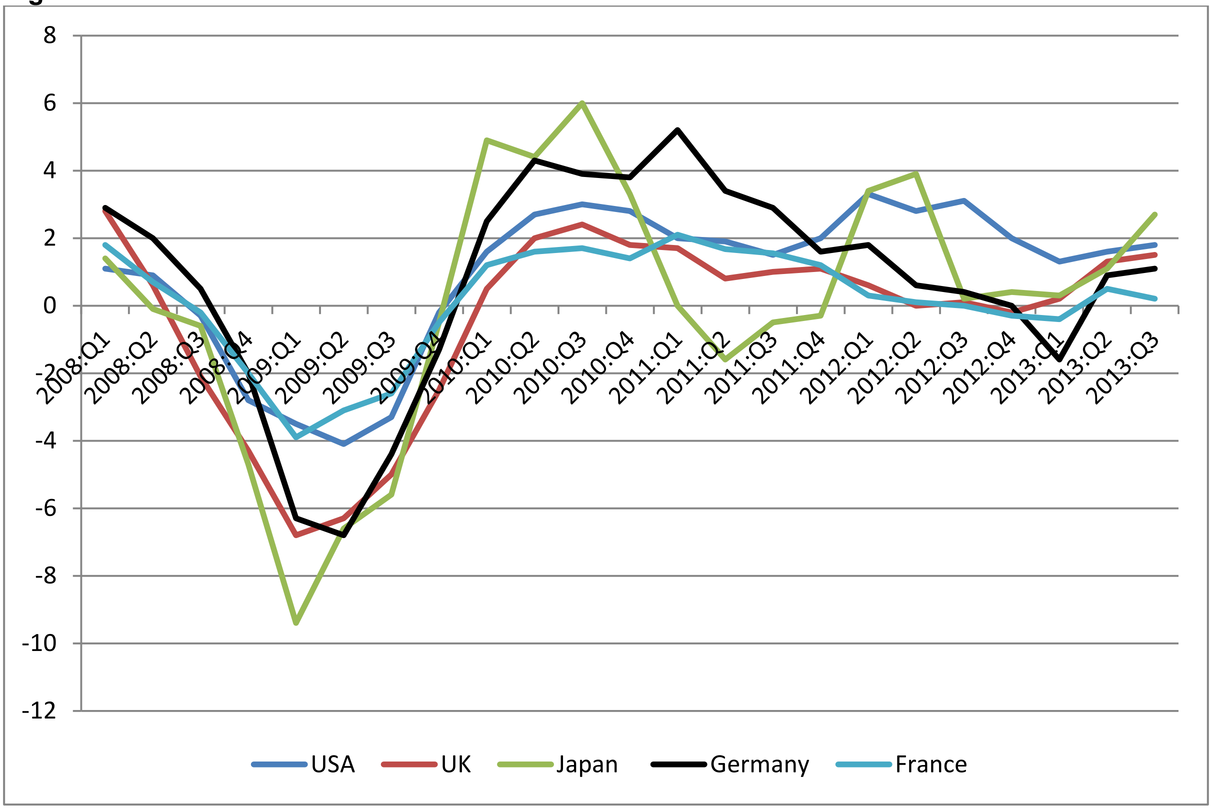
2. GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Recent Global Economic Developments

2.1.1 Industrialized Countries

Economic growth in the industrialised countries remained sluggish during 2012 due to the economic downturn caused by the sovereign debt crisis in the Eurozone. Germany, France and the United Kingdom all experienced low year-on-year growth rates in 2012 after experiencing steady recovery in 2010 and 2011. The upturn in the growth curves of these countries in the 2nd quarter of 2013 provided reason to believe that they were emerging from the worst of the crisis. In the 3rd quarter, however, economic growth in these countries has been less impressive and points to the lingering climate of low investor confidence in the Eurozone economy. Germany (1.1%) and the UK (1.5%) continued to experience higher year-on-year growth rates than in the previous quarter (albeit at a slower pace), while economic growth in France slowed from 0.5% year-on-year in the 2nd quarter to 0.2% in the current quarter. With less exposure to the risks associated with the Eurozone crisis, the US has experienced a more consistent overall growth performance since 2010. The US economy continued its upward trend since the beginning of 2013, posting a 3rd quarter year-on-year growth rate of 1.8%. This was driven by a strong quarter-on-quarter growth rate of 3.6% in the 3rd quarter. The 3rd quarter data, however, did not include the Government shutdown, which occurred on the 1st October, or its implications for the US economy. This will be picked up in the 4th quarter data, and is likely to result in a diminished growth performance by the US economy. Japan's economy continued on its strong upward trajectory, posting a year-on-year growth rate of 2.7% in the 3rd quarter.

Figure 6: Economic Growth trends in industrialized countries

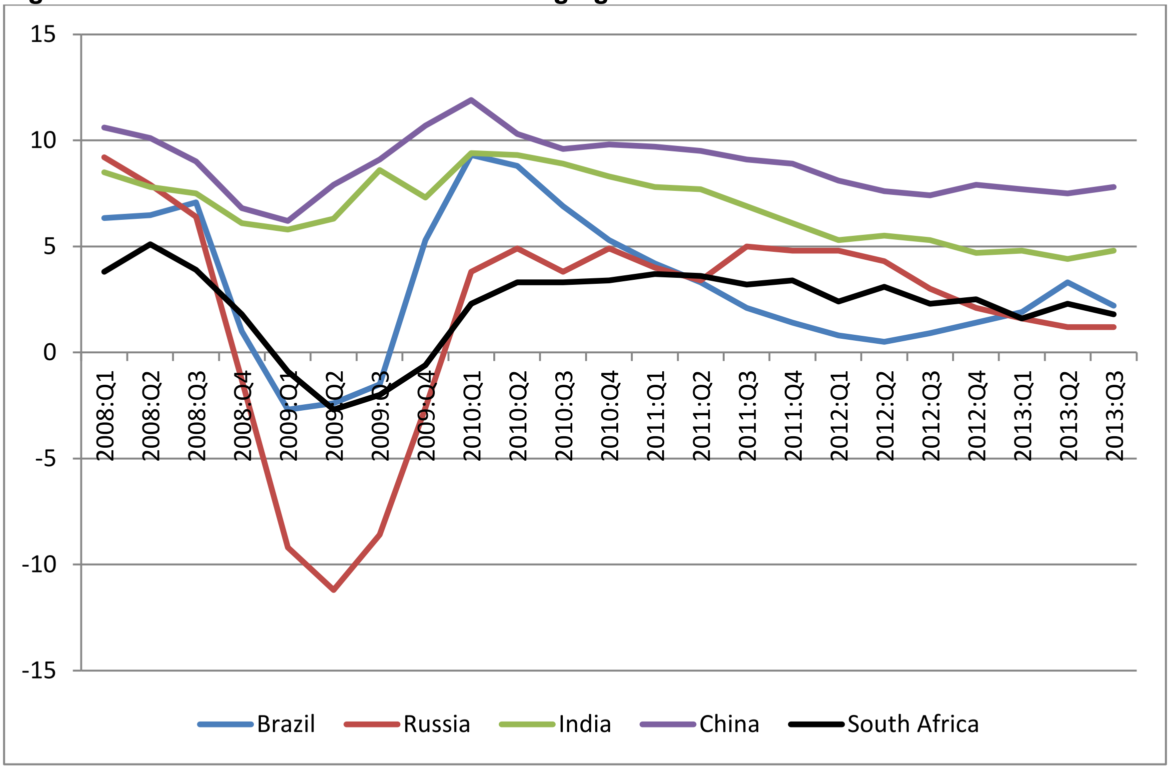


Source: Trading Economics, November 2013

2.1.2 Emerging Economies

Growth trends in emerging economies present a different picture from industrialised economies as Figure 7 indicates. BRICS countries have achieved much higher growth rates, with an average rate of 5.1% since the beginning of 2010, compared with 1.6% for industrialised countries in the same period. The second important trend is the steady slow-down of growth in these countries, since peaking in early 2010. This is especially true of China and India, where economic growth declined from 11.9% and 9.4% respectively in the 1st quarter of 2010, to 7.5% and 4.4% respectively in the 2nd quarter of 2013. The 3rd quarter, however, has seen an upturn in economic growth for both China (7.8%) and India (4.8%), which indicates that these countries may have yet to reach a point of full economic maturity and could continue to post relatively high economic growth rates in the near future. In contrast, Russia and South Africa have experienced a gradual and ongoing decline in economic growth, posting 1.2% and 1.8% year-on-year growth rates respectively in the 3rd quarter of 2013. Brazil has shown the greatest variation in its economic growth performance, with very low growth rates in 2012, but stronger year-on-year growth in 2013, despite the slowing of growth from 3.3% in the 2nd quarter to 2.2% in the 3rd quarter.

Figure 7: Economic Growth Trends in Emerging Economies



Source: Trading Economics, November2013

2.1.3 Global Economic Outlook

The IMF's World Economic Outlook, published in October 2013, predicts that real economic growth for the world is expected to reach 2.9 % for the completed year 2013, rising to 3.6% in 2014.

According to the IMF (2013:8), the Eurozone economies are expected to perform slightly better in 2013 due to less fiscal drag and the easing of lending conditions. However overall GDP growth for the region will remain fairly restrained in 2013, contracting by -0.4% because of continued fiscal adjustment and financial fragmentation. The abatement of certain short term risks due to effective policy action has resulted in the IMF adopting a more positive outlook for the Eurozone in 2014, with a growth rate of 1.0% forecast.

The moderation in the rate of growth of the Chinese economy is expected to continue for the completed year 2013 (7.6%) and for 2014 (7.3%). After low growth rates (by its own standards) in 2012 and 2013, economic growth in India is expected to increase sharply to 5.1% in 2014.

The IMF expects Sub-Saharan Africa to grow strongly during 2013 and 2014, with rates of 5% and 6% respectively forecast. Growth in South Africa, however, is expected to be considerably slower than the rest of the region, with a growth rate of 2% predicted for the completed year 2013 and 2.9% for 2014. The reasons for South Africa's comparatively lower growth prospects will be unpacked in more detail later in this publication. In general, developing countries are expected to continue to lead global economic growth, with a rate of 5.1% predicted in these countries for 2014. Developed countries, however, are expected to close this gap slightly in 2014 with an expected growth rate of 2.0%.

Table 2: World Economic Growth (%) Projections (November 2013)

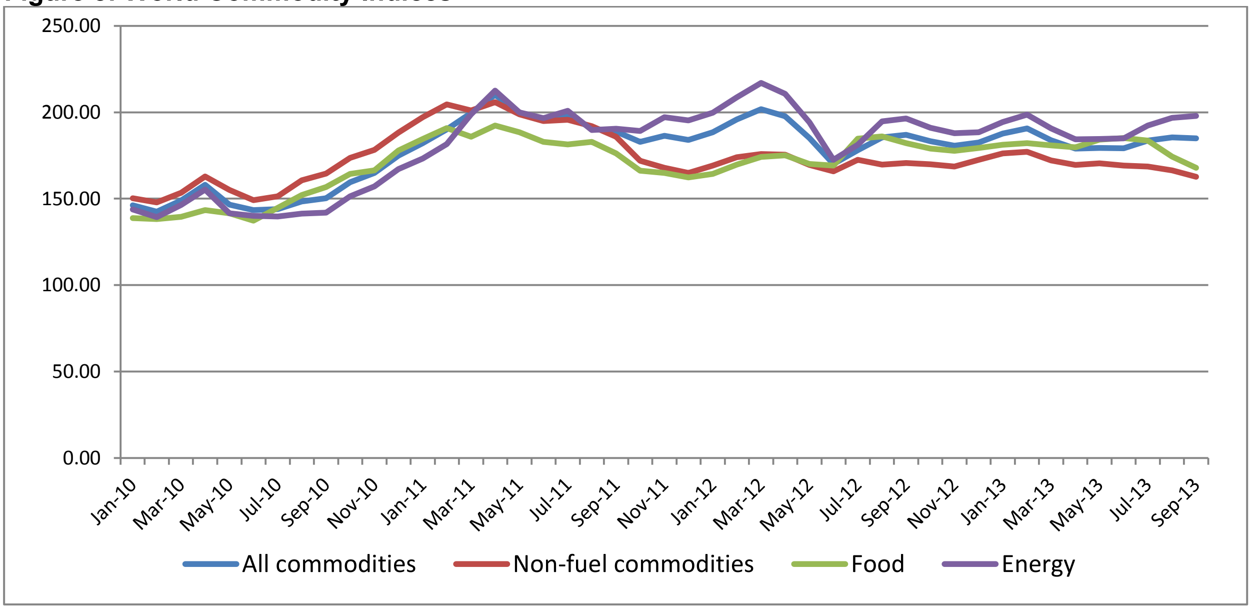
Country Group Name	**Actual**		**Projections**	
	2011	**2012**	**2013**	**2014**
Gross Domestic Product (constant prices)				
Regions				
World	3.9	3.2	2.9	3.6
Advanced economies	1.7	1.5	1.2	2.0
Euro area	1.5	-0.6	-0.4	1.0
Major advanced economies (G7)	1.6	1.7	1.2	2.0
Other advanced economies	3.2	1.9	2.3	3.1
European Union	1.7	-0.3	0.0	1.3
Emerging market and developing economies	6.2	4.9	4.5	5.1
Central and eastern Europe	5.4	1.4	2.3	2.7
Commonwealth of Independent States	4.8	3.4	2.1	3.4
Developing Asia	7.8	6.4	6.3	6.5
ASEAN-5	4.5	6.2	5.0	5.4
Latin America and the Caribbean	4.6	2.9	2.7	3.1
Middle East, North Africa, Afghanistan, and Pakistan	3.9	4.6	2.3	3.6
Middle East and North Africa	3.9	4.6	2.1	3.8
Sub-Saharan Africa	5.5	4.9	5.0	6.0
Country				
Brazil	2.7	0.9	2.5	2.5
Canada	2.5	1.7	1.6	2.2
China	9.3	7.7	7.6	7.3
France	2.0	0.0	0.2	1.0
Germany	3.4	0.9	0.5	1.4
India	6.3	3.2	3.8	5.1
Italy	0.4	-2.4	-1.8	0.7
Japan	-0.6	2.0	2.0	1.2
Mexico	4.0	3.6	1.2	3.0
Russia	4.3	3.4	1.5	3.0
South Africa	3.5	2.5	2.0	2.9
Spain	0.1	-1.6	-1.3	0.2
United Kingdom	1.1	0.2	1.4	1.9
United States	1.8	2.8	1.6	2.6
Trade volume of goods and services				
World	6.1	2.7	2.9	4.9
Volume of imports of goods and services				
Advanced economies	4.7	1.0	1.5	4.0
Emerging market and developing economies	8.8	5.5	5.0	5.9
Volume of exports of goods and services				
Advanced economies	5.7	2.0	2.7	4.7
Emerging market and developing economies	6.8	4.2	3.5	5.8

Source: IMF World Economic Outlook Database October 2013 (November 2013)

2.2 Commodities

Commodity indices are important indicators for measuring the economic performance of emerging and developing economies. In developing countries, like South Africa, commodities make up a significant proportion of the country's export basket, generating valuable foreign exchange inflows. The all-commodity index increased from 179.1 index points at the end of the 2nd quarter to 183.5 points at the start of the 3rd quarter, thereafter declining again to record 182.3 points at the beginning of the fourth quarter. Removing the impact of rising fuel prices from the commodities index reveals a longer term decline, beginning in the February 2013 and persisting to the present. This decline in the non-fuel commodities could be a result of the weaker economic performance of China and India in 2013, both of which are major commodity importers. The reduced demand for commodities, indicated by the decreasing prices is especially detrimental to South Africa's mineral extraction industries as well as its downstream mineral beneficiation industries.

Figure 8: World Commodity Indices

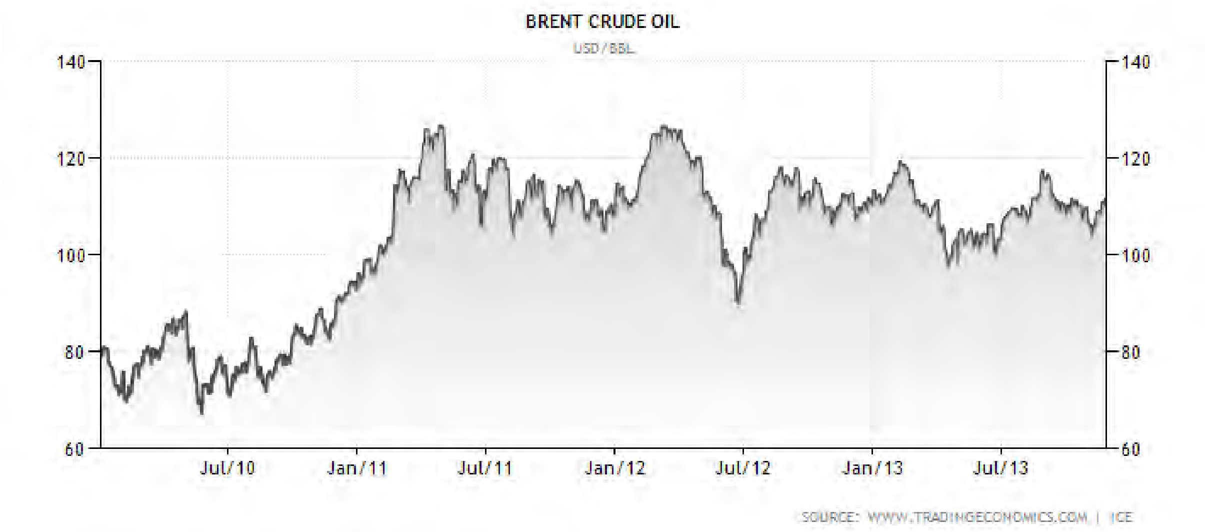


Source: IMF, November 2013

2.2.2 Brent Crude Oil

The supply of Brent crude oil and the volatility surrounding its price fluctuations are greatly affected by geo-political and social factors. Brent crude oil spot prices declined from almost USD120 per barrel in the middle of the 1st quarter of 2013 (February 2013) to a low of USD 102 per barrel at the end of the 2nd quarter of 2013. In the 3rd quarter of 2013, the price of Brent crude Oil rose sharply to just over USD 115 per barrel. The price decrease in the first half of 2013 could be attributable to lower demand from China and India. Subsequent price increases may be as a result of improved economic performance in these countries in the 3rd quarter, as well as an increased escalation in hostilities in the Syrian Civil War (particularly in the month of August), which may have had spill-over effects in the oil-producing Middle East region. Continued oil price increases pose upside risks to Cape Town's trade balance as the city is the main importer of oil for the broader region.

Figure 9: Brent Crude Oil (January 2010 to November 2013)

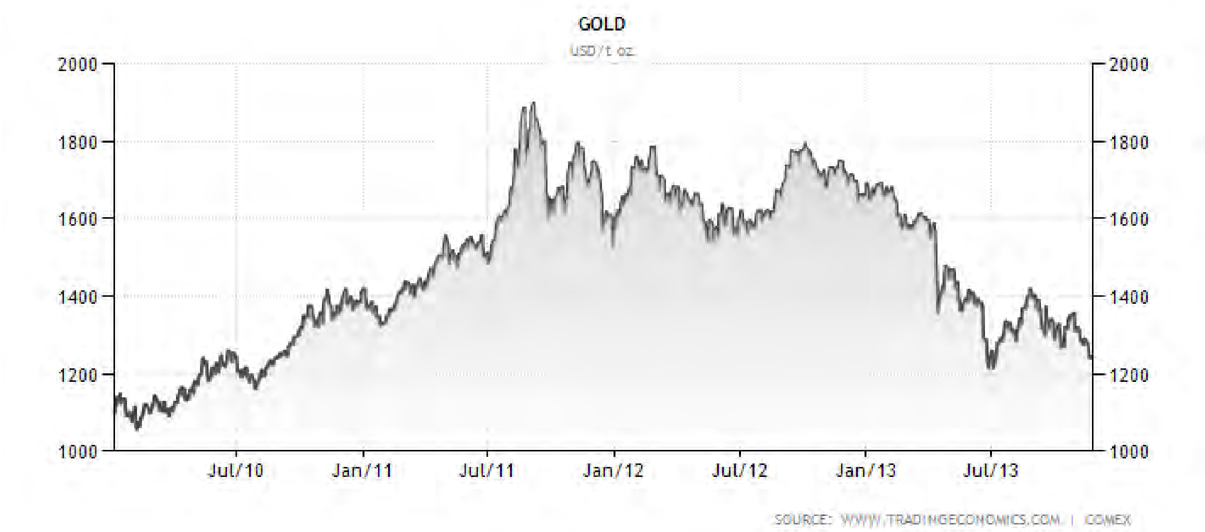


Source: Trading Economics, November 2013

2.2.3 Gold and Platinum

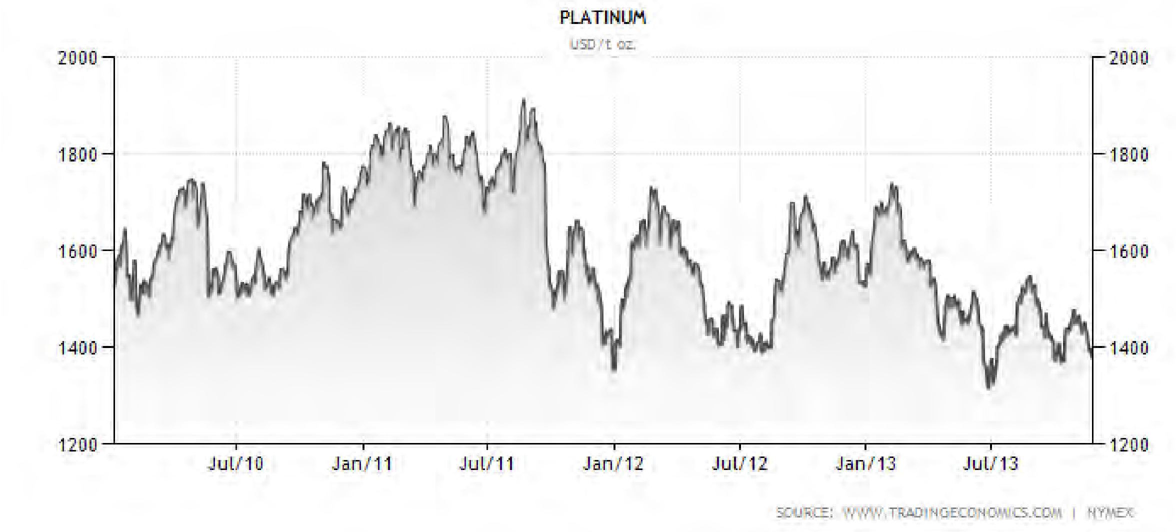
The subdued global economic environment has had an adverse effect on the price of precious metal products in the three quarters of 2013. The gold price reached an all-time high of USD1898.3/oz. in September of 2011. Figure 10, however, indicates that the gold price has declined from USD1693/oz to USD1351.74 at the end of the third quarter (September 2013). Over the last 12 months the gold price has declined by 26.5% (Figure 10). A similar trend is visible in the price of platinum for the period under review, with price fluctuations more volatile and inconsistent compared to gold. This is due to the high concentration of platinum production among a few supply countries – with South Africa contributing 80% of the total production of the precious metal. This makes platinum prices susceptible to production disruptions such as labour unrest. In the 3rd quarter, platinum prices rose from USD1312 to around USD1550 in September. The price subsequently dropped at the beginning of the 4th quarter but is expected to rise as a result of mining strike activity in November. While there is no gold or platinum mining activity in Cape Town, the performance of these commodities impacts on South Africa's exchange rate and thereby indirectly affects Cape Town's consumers and exporters.

Figure 10: Monthly averaged price of Gold (January 2010 to November 2013)



Source: Trading Economics, November 2013

Figure 11: Monthly averaged price of platinum (January 2010 to November 2013)

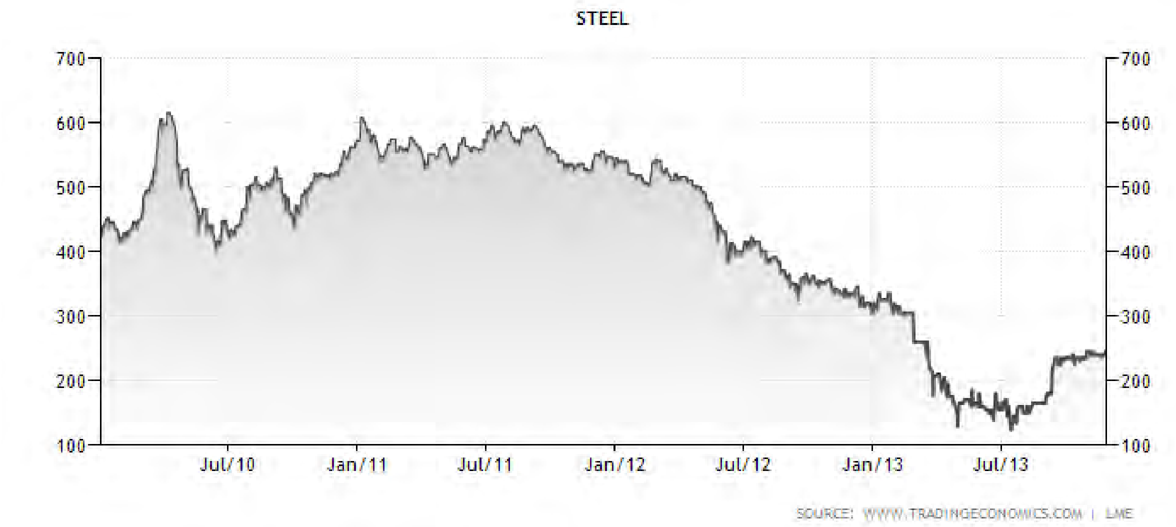


Source: Trading Economics, November 2013

2.2.4 Steel

Historically, from the year 2008 to 2013 steel has averaged USD451.6/MT, reaching an all-time high of USD1265/MT in June of 2008, thereafter dropping precipitously to USD150/MT in June 2013. The price of steel has dropped sharply since the beginning of 2012, contracting by 18.5% in the last 12 months. The 3rd quarter of 2013, however saw a reversal of this trend as steel prices gradually began to climb again after bottoming out in June. By October 2013, the price of steel had reached almost USD250/MT. According to Ernst and Young, Steel consumption is expected to increase by 3.1% in the BRIC nations and the Middle East, with a 0.9% increase in steel consumption in the Eurozone area. The poor performance of steel in the past two years is indicative of the slower growth in developing countries, with the relatively poor economic performance of China and India having a particularly significant impact in this regard.

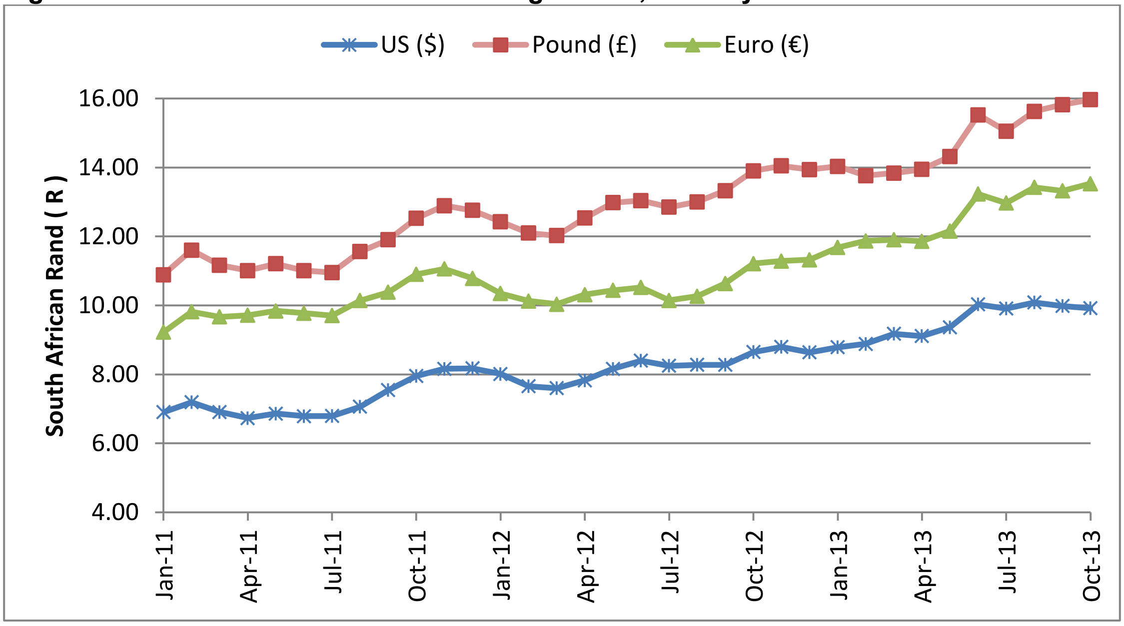
Figure 12: Steel prices (January 2010 to November 2013)



Source: Trading Economics, November 2013

3. EXCHANGE RATES

Figure 13: South African Nominal Exchange Rates, January 2011 - October 2013



Source: South African Reserve Bank, November 2013

To measure the performance of the South African Rand, its exchange rate is compared to three other currencies: the United States Dollar ($), the British Pound (£) and the Euro (€). Figure 13, illustrates the performance of the Rand against these major currencies for the period January 2011 – September 2013. At the end of the 3rd quarter, in September 2013, the Rand had depreciated against the abovementioned currencies with an average exchange rate of R9.99 against the US Dollar, R15.83 against the British Pound and R 13.53 against the Euro. This forms part of a longer term trend which has seen the Rand weaken since July 2011.

For this period, speculation surrounding 'tapering' of quantitative easing by the US Federal Reserve has influenced the performance of global financial markets. The looming threat of tapering resulted in many currencies, including the South African Rand, becoming more volatile. This could explain the fluctuations of the Rand, on a daily basis, between R9.55 and R10.50 against the dollar. By the end of the 3rd quarter of 2013 the Rand had appreciated slightly against the US dollar compared to the end of the 2nd quarter of 2013. A possible explanation for this is the decision of the US Federal Reserve to delay 'tapering' of quantitative easing.

During the 3rd quarter, the overall performance of the Rand was negatively impacted by the increase in the current account deficit, domestic labour disputes and the reversal of international capital flows to emerging market economies.

Currently, the depreciation of the Rand, especially in relation to its European trading partners, is increasing the pressure on domestic inflation, pushing it over the upper level of the inflation target. If the Rand continues to depreciate, it could pose a more sustained, long term risk in terms of keeping inflation within the target range.

At the same time, however, the depreciation of the Rand improves the price competitiveness of South African exports. The latest figures reported by the South African Revenue Services indicate the growth of South African exports. For September 2013 exports increased to R 75,855 million compared to June 2013 with R 68,211 million (Trading Economics, 2013). The expected outlook for the Rand is that it will remain sensitive to global activities, especially the prospect of fiscal tapering by the US Federal Reserve sometime next year. A continued current account deficit will also place downward pressure on the value of the Rand, especially if foreign direct investment slows as a result of fiscal tapering.

4. DOMESTIC ECONOMIC PERFORMANCE

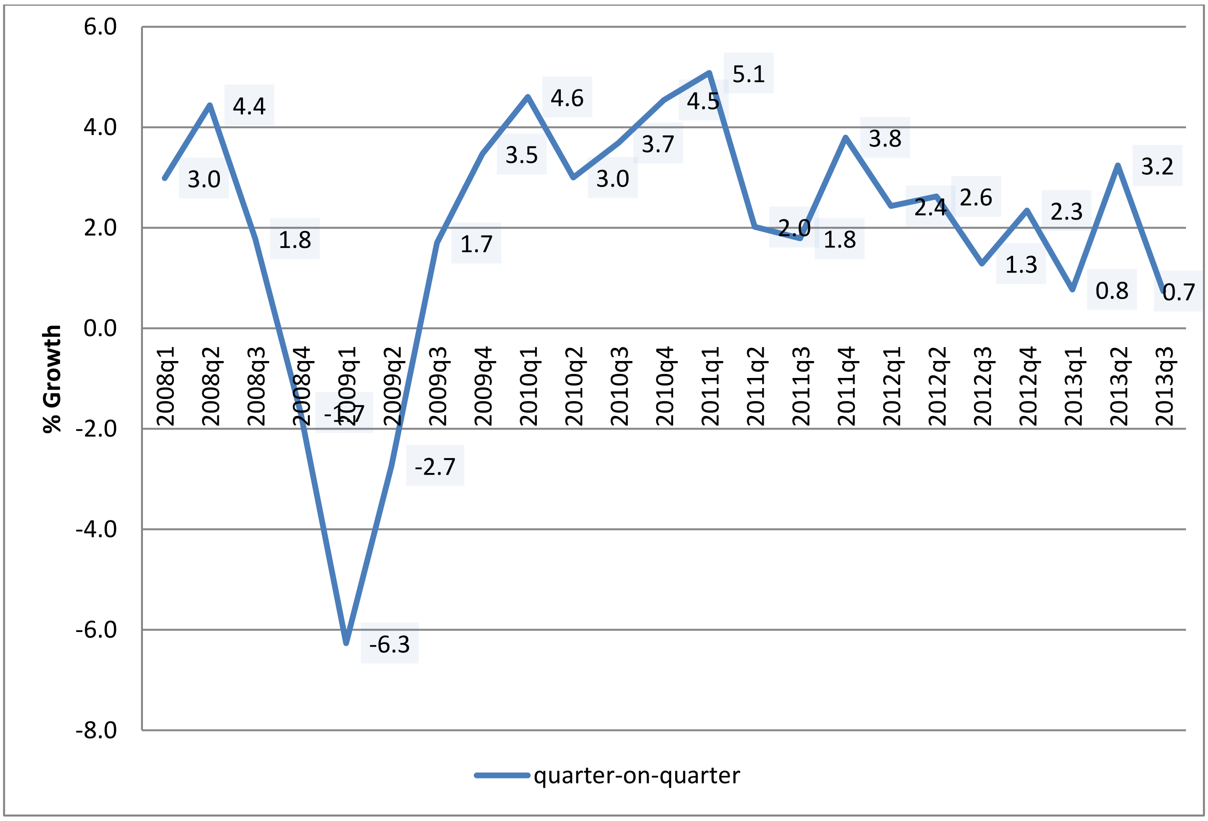
4.1 Economic Growth in South Africa

4.1.1 Quarter-On-Quarter Gross Domestic Product (GDP) Growth Rate

Economic (GDP) growth in South Africa slowed to 0.7% quarter-on-quarter in the 3rd quarter of 2013. This constitutes a 2.5 percentage point decrease from the previous quarter and the lowest quarterly growth rate recorded since the 2nd quarter of 2009 during the heart of the recession. While economists anticipated a significant slowing in the quarterly growth rate during the 3rd quarter, they underestimated the extent of the slowdown - market consensus before the official StatsSA release was that the economy would grow by 1%. As anticipated in the previous quarter, industrial action had a significant negative impact on economic growth in the 3rd quarter.

Shorn of some of the short-term vicissitudes of quarterly data, South Africa's annual (year-on-year) growth in the 3rd quarter, was a more stable 1.8%, having declined by only 0.1 of a percentage point from the previous quarter. Nevertheless, in the context of an annual GDP growth target of 5-7% in the New Growth Path and National Development Plan, this relatively low annual growth rate undermines South Africa's ability to meaningfully reduce the country's unemployment rate.

Figure 14: Real GDP Growth in South Africa (2008:Q1-2013:Q3)



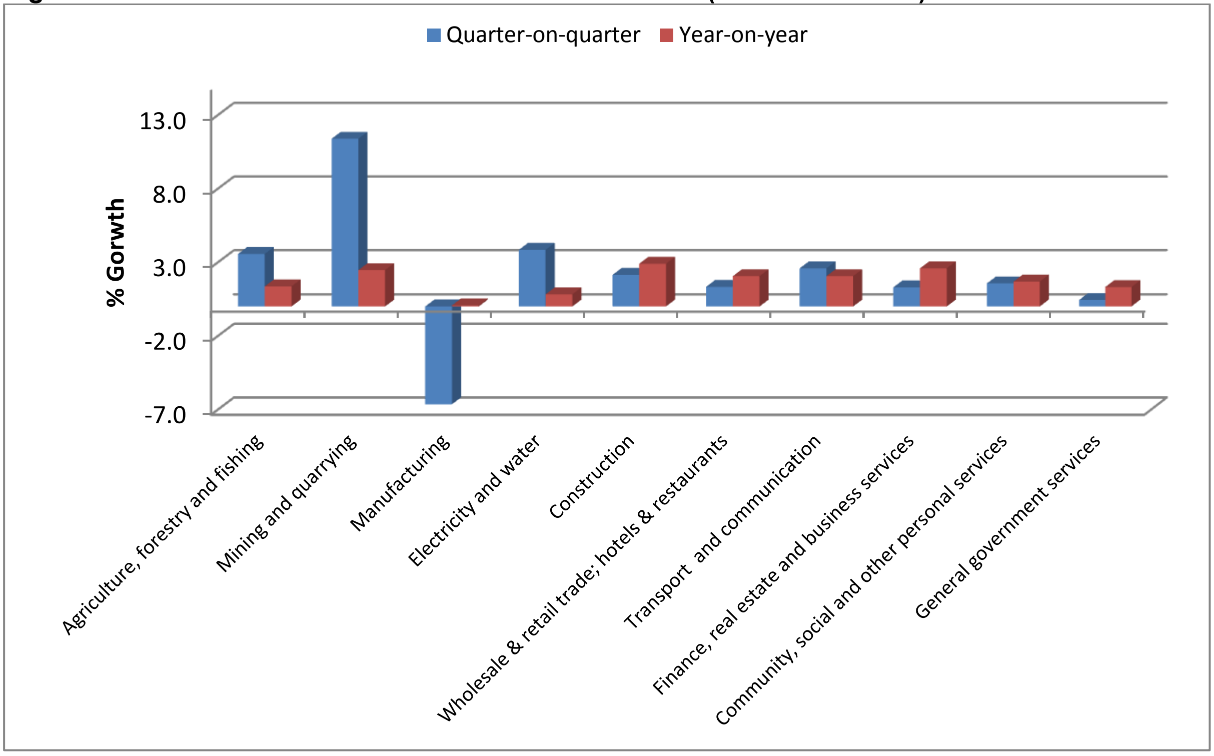
Source: StatsSA, November 2013

4.1.2 Sectoral Determinants of GDP Growth in South Africa

In the 3rd quarter, the primary sector performed strongly, albeit off a lower base than the secondary and tertiary sectors. Agriculture grew at 3.6% quarter-on-quarter while mining and quarrying grew strongly at 11.4%. The mining and quarrying industry was the largest contributor to national economic growth in the 3rd quarter, contributing 0.6 percentage points to the quarterly growth rate. The robust increase in mining and quarrying can be attributed to a recovery in output, particularly in the mining of platinum and diamonds, after the decline in the previous quarter. Extensive strike action in October and November, however, is likely to undermine the sustainability of this growth.

Slow overall GDP growth in the 3rd quarter was largely attributable to the poor performance of the secondary sector, which contracted by 4.5%. In particular, manufacturing value-add declined by 6.6% in the 3rd quarter. While this decline was lower than anticipated by economists, it nevertheless represents an 18.3 percentage point turnaround, from the 2nd quarter in which the manufacturing sector grew by 11.7%. The contraction of the manufacturing sector is largely ascribed to the loss in output from the vehicle manufacturing and component sub-sector, as a result of prolonged strike action. The poor performance of manufacturing has serious implications as this sector is generally seen to be important for large scale job creation in South Africa. The other secondary industries, namely electricity (3.8%) and construction (2.1%), also experienced dampened (though positive) growth rates in the 3rd quarter.

Figure 15: Sectoral GDP Growth Rates for South Africa (3rd Quarter 2013)



Source: StatsSA, November 2013

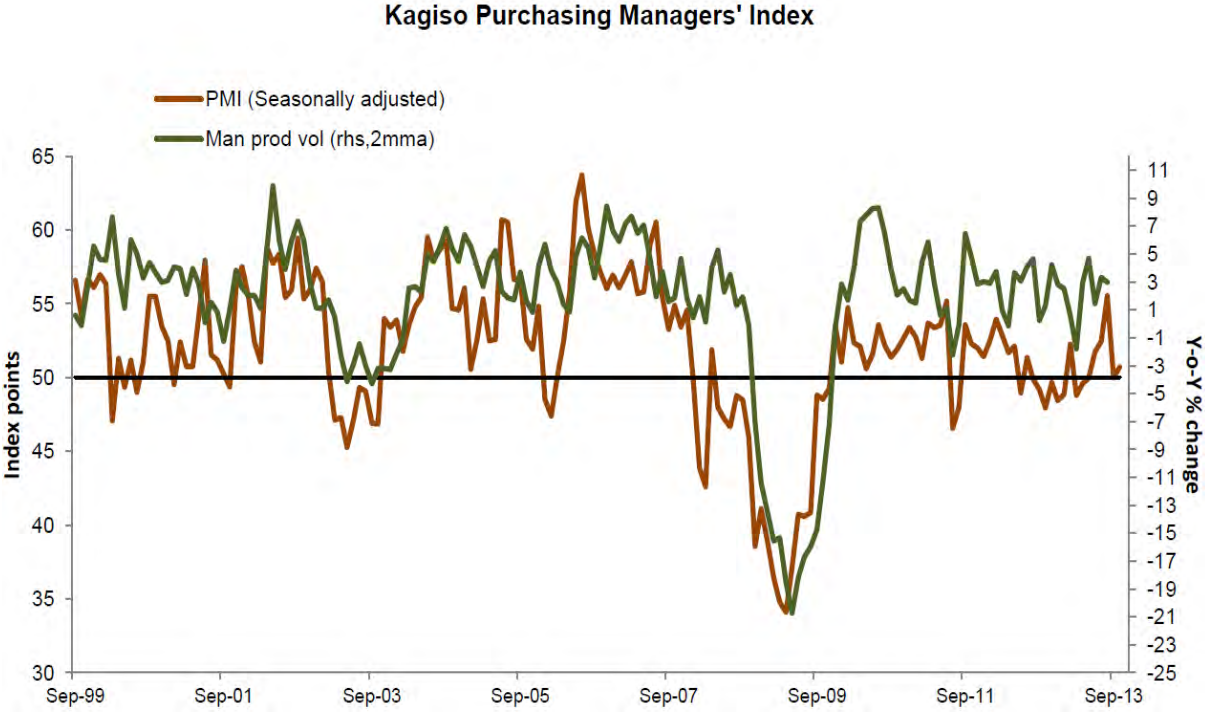
Typically the performance of the tertiary sector moderates the impact on economic growth of short term declines in manufacturing or mining. In the 3rd quarter of 2013, however, growth in the tertiary sector was particularly poor, slowing sharply from 2.2% in the previous quarter to 1.3% in the current quarter. The extent of this came as a surprise to economists and is the main reason for their overestimation of the overall quarterly growth rate. Within the tertiary sector, growth slowed notably in finance and business services (from 3.5% to 1.3%) and wholesale and retail trade (3.1% to 1.3%). The lower growth in the finance and business services industry is attributed to “slower activities in the equity, bond and other financial markets”. (StatsSA, 2013:2) This could have been influenced by the US Federal Reserve talk about fiscal tapering during the 3rd quarter. In terms of wholesale and retail trade, the Bureau of Economic Research, points to the low levels of consumer confidence as evidenced in their consumer confidence index, as the reason for slower growth. According to the FNB/BER index, consumer confidence fell to a decade low in the second half of 2013. These low confidence levels would have resulted in reduced demand for retail goods.

A quick perusal of Figure 15 also shows that the annual growth rates are more moderate than their quarterly counterparts. According to year-on-year growth rates in the 3rd quarter all industries recorded positive growth, but none of the industries grew at more than 3%. The fastest growing industry on an annual basis was the construction industry, which grew at 2.9%.

4.1.3 Economic Growth Outlook for South Africa

Considering the major decline in manufacturing sector GDP growth in the 3rd quarter, the country's growth outlook hinges quite strongly on the future prospects of this sector and whether manufacturing output can recover in a way that would positively contribute to higher overall economic growth for the national economy. In this respect, the Kagiso Purchasing Manager's Index suggests an improvement in the performance of the manufacturing sector in the fourth quarter, although the recovery is still expected to be on the weak side. The PMI[3] rose by 0.7 points to 50.7 index points in October 2013 but remained well below the average of 52.7 index points recorded during the 3rd quarter of 2013. The increase in the index was largely underpinned by an increase in the business activity index as well as a moderate increase in the new sales order sub-index. (BER, 2013) The slight improvement in the index is as a result of output recovery in the automotive industry after the end of prolonged strike action in August, but is moderated by lingering strikes in other manufacturing industries. While the short-term recovery in manufacturing is expected to be limited, the sub-index measuring expected business condition in 6 months' time rose dramatically by 10.4 points to 62.2 index points in October 2013. This is more likely reflective of expectations of buoyant economic growth for South Africa's key trading partners, rather than increased domestic demand conditions.

Figure 16: Purchasing Manager's Index for South Africa



Source: Kagiso, October 2013

While an expected recovery in the manufacturing sector should contribute to the improvement of the country's economic growth rate, a number of downside risks remain. Chief among these is the likelihood that disruptions in the mining industry, especially in platinum mining, will result in a contraction of mining value-add during the fourth quarter.

[3] A PMI of more than 50 indicates an expected future growth in manufacturing while a PMI of less than 50 suggests that the sector is expected to contract.

Considering that mining was the largest contributor to economic growth in the 3rd quarter and that the manufacturing recovery is expected to be limited, this could suppress the country's economic growth rate in the 4th quarter. However, an improved performance from the tertiary sector, led by wholesale and retail trade over the end of year holiday period is anticipated in the fourth quarter. In this respect, the BER festive season retail survey suggests an acceleration in retail sales volumes in the 4th quarter.

Continued global economic recovery, the deferment of the US Federal Reserve's fiscal tapering to 2014 and low domestic interest rates on the positive side and continuing industrial action and a subdued consumer demand climate on the negative side, informs a moderate growth forecast for the 4th quarter by the BER of 2.5%. Should this be achieved, South Africa's annual economic growth rate will come in at 1.8%. In line with the PMI's findings of increased confidence in business conditions in 6 months, the BER's longer term forecast (2.5%-3%) is significantly higher. This, however, continues to be far too low to achieve the targets that the National Development Plan has set for the country by 2030.

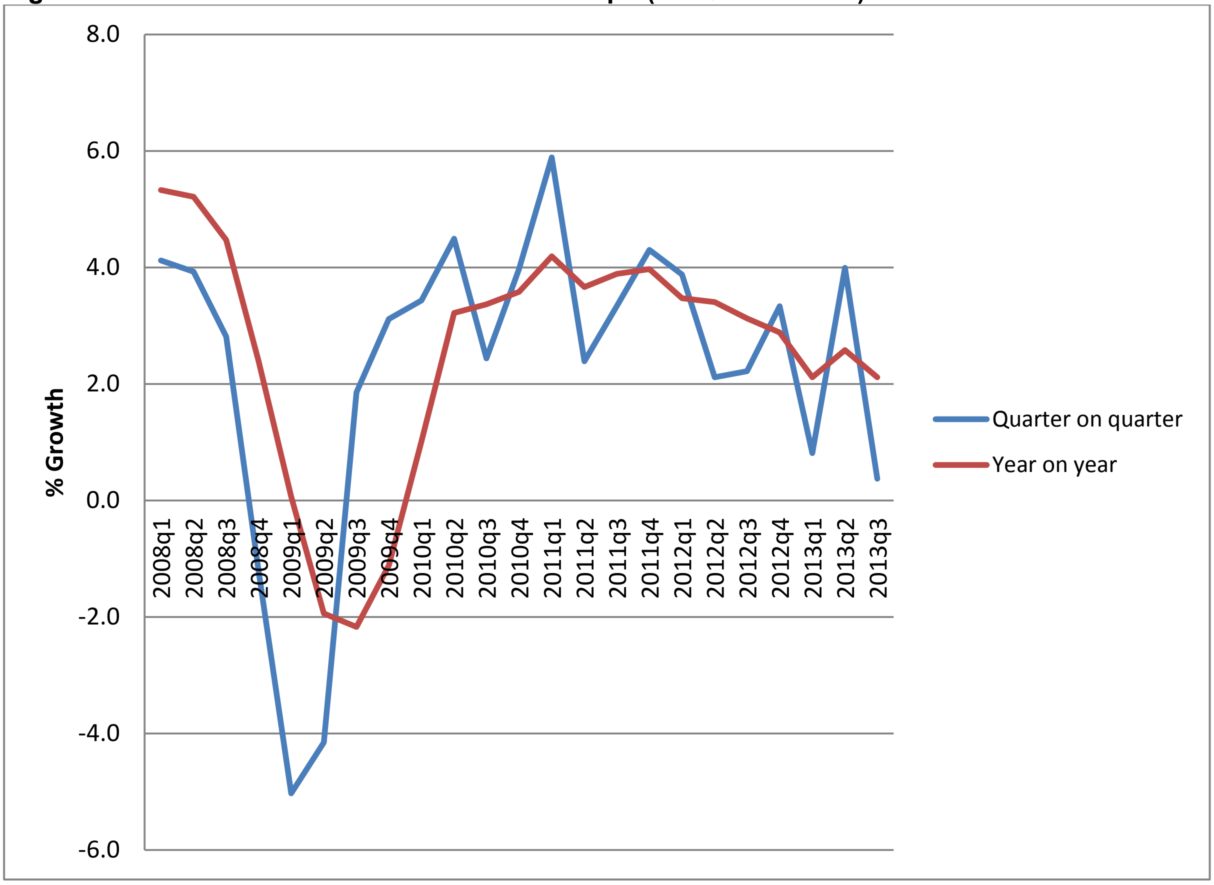
4.2 Economic Growth in the Western Cape

4.2.1 Quarter-on-Quarter Gross Geographic Product (GGP) Growth Rate

The Western Cape economy contributes around 15% to national GDP and is strongly influenced by national economic conditions (Quantec, 2013). In line with the dampened national GDP growth rate in the 3rd quarter, the Western Cape recorded a sharp decrease in its Gross Geographic Product (GGP) growth rate. The provincial economy grew more slowly than the national economy, with a growth rate of 0.4% in the 3rd quarter compared to the national rate of 0.7%. This constitutes the province's largest quarterly decline (3.6 percentage points) in growth rate since the 4th quarter of 2008. The year-on-year growth rate in the 3rd quarter continued its steady downward trend, recording 2.1% as compared to 2.6% in the 2nd quarter. Despite recording a worse quarter-on-quarter performance, the Western Cape (2.1%) continues to grow marginally faster, annually, than the national economy (1.8%).

While GGP statistics for the City of Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to largely mirror that of the provincial economy. This is because the metro contributes over 70% of the province's economic output (Quantec, 2013). On average, in the last 15 years, the variation of the City's GDP growth rate from the provincial rate was 0.5 percentage points. If this were to hold in the 3rd quarter, then the City's growth rate would be in the region of -0.1% to 0.9%.

Figure 17: Real GGP Growth for the Western Cape (3rd Quarter 2013)



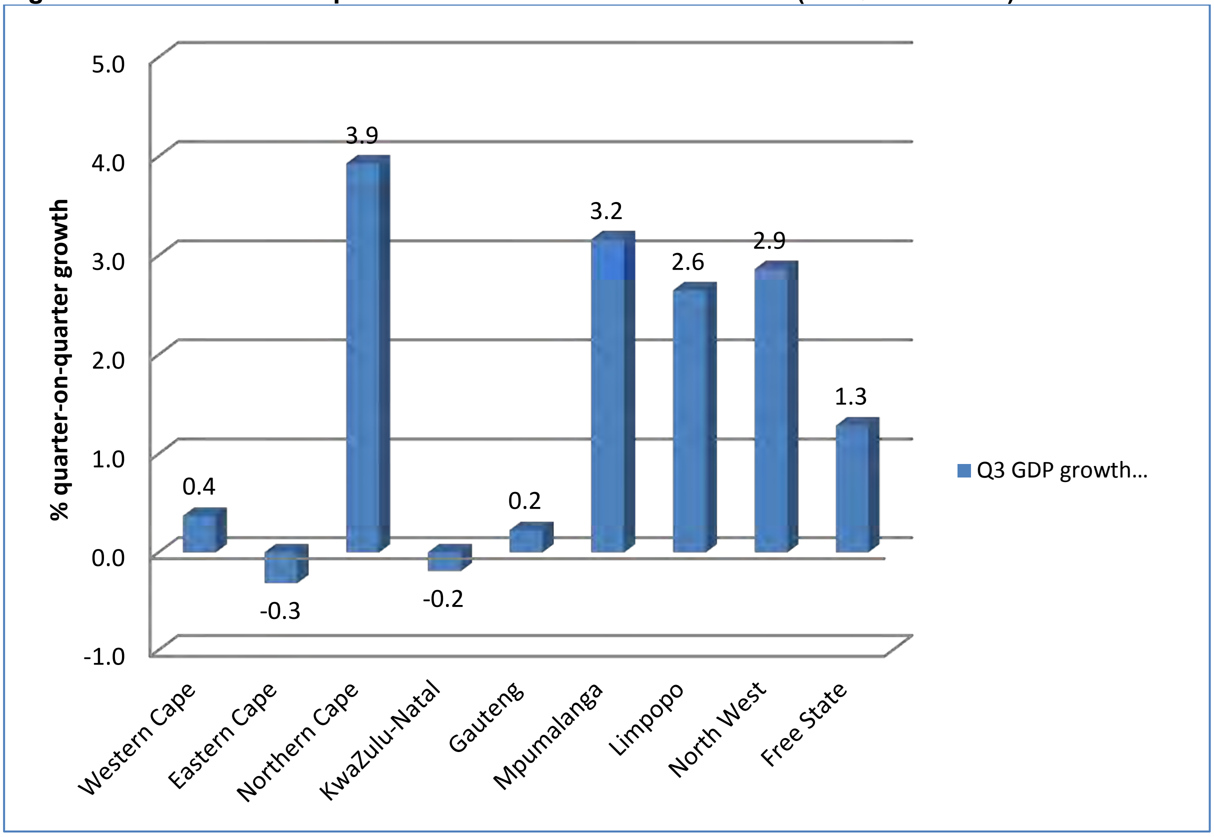
Source: Quantec, November 2013

4.2.2 Provincial Economic Growth Comparisons

The Western Cape economy was the sixth fastest growing provincial economy in the 3rd quarter of 2013. The other two provinces with large manufacturing bases, namely Gauteng and KwaZulu-Natal also experienced low rates of economic growth (0.2% and -0.2% respectively). These two provincial economies as well as the Western Cape were hard hit by the poor performance of the manufacturing sector. This was further exacerbated by the relatively insipid national performance of the finance and business services sector. In contrast provincial economies like the Northern Cape; Mpumalanga; Limpopo and the North West, which are less urbanised and more primary sector-orientated benefitted from strong growth in the agricultural and mining sectors. The poor growth performance of the Eastern Cape reflects the impact of strike activity in the province's large automotive industry.

The correlation between strong growth rates and less urbanised, less industrialised provinces would suggest that Cape Town, with a large finance and business services and relatively large manufacturing sector is likely to have experienced weak economic growth in the 3rd quarter of 2013.

Figure 18: Provincial Comparisons of Real GGP Growth Rates (3rd Quarter 2013)



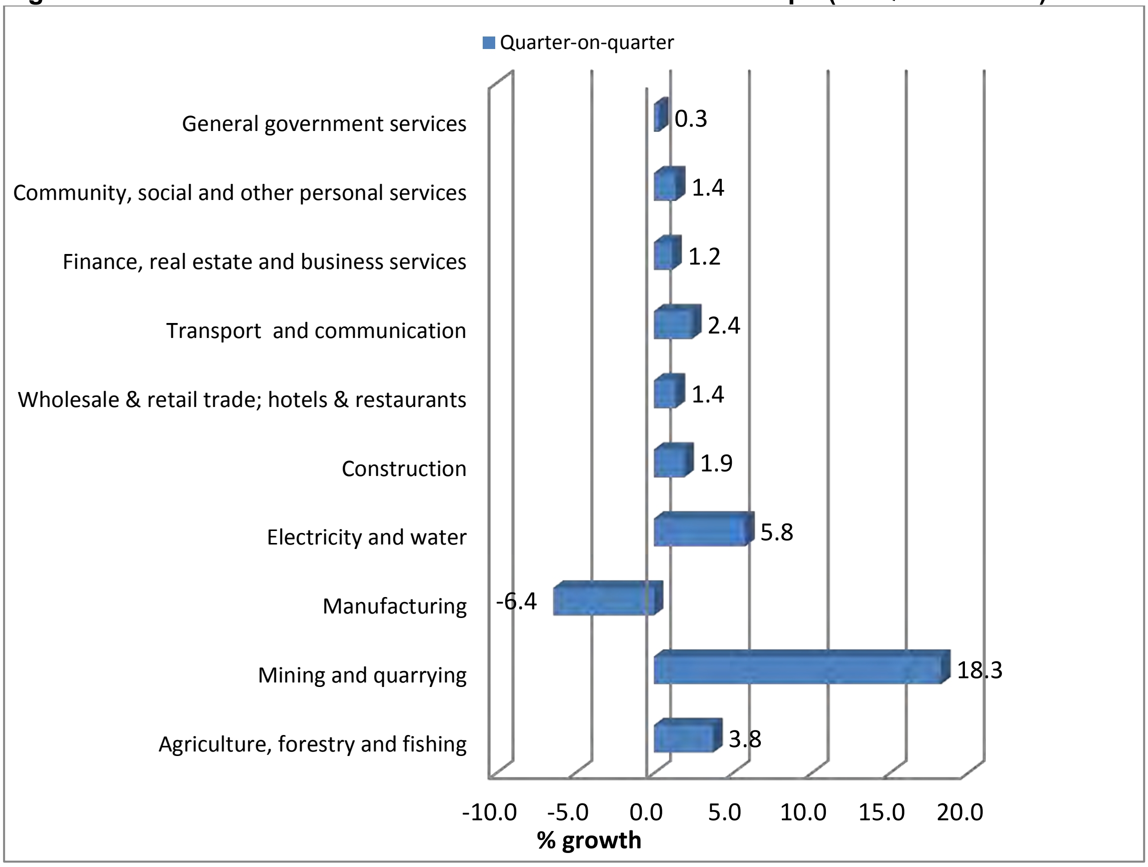
Source: Quantec, November 2013

4.2.3 Sectoral Drivers of Economic Growth in the Western Cape

The Western Cape's growth performance by sector mirrors that of the national economy. As is the case for South Africa as a whole, the main growth sectors in the Western Cape were mining and quarrying (18.3%) and agriculture and forestry (3.8%) as well as electricity (5.8%). The positive impact of the mining sector, despite high growth, is however limited in the Western Cape owing to its small overall contribution to the provincial economy. Growth in the mining sector was therefore not able to insulate the Western Cape economy against manufacturing decline to the same extent as it did in provinces like Mpumalanga or North West. Manufacturing declined at a slightly slower rate (-6.4% compared to -6.6% nationally) in the Western Cape but was still the main contributor to the poor growth performance of the province in the 3rd quarter. Finance and business services, normally a strong comparative advantage of the Western Cape, grew at a slower rate (1.2% compared to 1.3%) than for the national economy, while the wholesale and retail trade sector grew slightly faster (1.4% to 1.3%).

Similar sectoral growth rates can be expected for Cape Town, as the city is the major contributor to most economic sectors in the province. In particular, 80% of the Western Cape's finance and business services; 74% of wholesale and retail trade; and 69% of manufacturing can be attributed to the metropolitan area (Quantec, 2013). Cape Town would thus have largely shared in the poor performance of these sectors, experiencing broadly similar growth rates. In contrast, Cape Town only contributes 29% to the province's total primary sector GGP. It is thus difficult to make inferences about the performance of the city's primary sector based on Western Cape primary sector GGP growth. Even if Cape Town's primary sector did mirror the provincial trends, it's unlikely 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. In short, in the 3rd quarter, Cape Town is too heavily invested in sectors which experienced poor levels of growth, to have recorded much better growth than the Western Cape. As a consequence, Cape Town's economic growth in the 3rd quarter of 2013 may well be lower than the provincial growth rate.

Figure 19: Sectoral Real GGP Growth Rates in the Western Cape (3rd Quarter 2013)



Source: Quantec, November 2013

4.2.4 Growth Outlook for Cape Town and the Western Cape

The improved forecast for the manufacturing sector should provide upward pressure to the province and City's economic growth rates. Similarly, both the province and the city may benefit from the improved growth prospects of their major, developed country trading partners (see Chapters 1 and 7). Cape Town's comparative advantage in tourism, with spill over effects for the retail industry, is also likely to positively influence the economic growth rate in the 4th quarter as the peak holiday season begins. In terms of downside risks, Cape Town in particular should be relatively insulated against an expected contraction in the national mining sector in the 3rd quarter, while the postponement of US fiscal tapering to 2014 should limit foreign disinvestment. The combination of growth-enhancing developments and a moderation of risks, should lead to more robust growth in the Western Cape and Cape Town in the 4th quarter. However, achieving a suitably higher future growth trajectory for Cape Town will depend on the city's ability to increasingly realise the opportunities associated with the industries where it has some comparative advantage industries: tourism; finance and business services; agro-processing; creative industries; oil and gas; and its ability to effectively attract new investment.

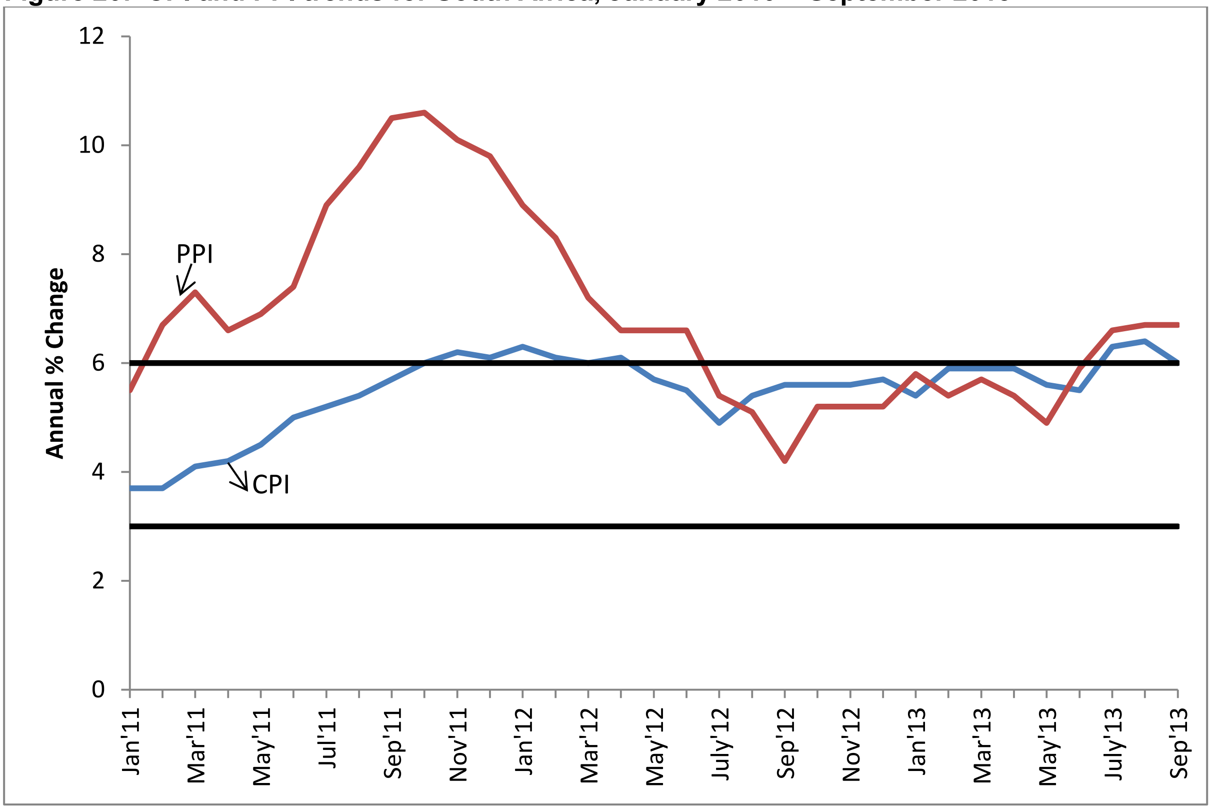
5. INFLATION

5.1 South Africa Inflation Overview

Overall for the 3rd quarter of 2013 the inflation rate increased, when compared to the 2nd quarter of 2013. For the 3rd quarter of 2013 the headline Consumer Price Index (CPI) annual rate for July was 6.3%, a further increase was experienced in August 2013 with a high of 6.4%. The annual rate subsequently decreased to 6.0% in September, 0.4 of a percentage point lower than the previous annual rate.

In recent months, the CPI breached the upper level of the inflation targets, the first time since the period of November 2011 - April 2012. For a period of 14 months the Reserve Bank has managed to maintain the CPI within the target range; however the latest global effects on the South Africa Rand has put pressure on inflation. The underlying factors for increased inflation in this period are the lagged effects of the depreciation of the Rand, as well as the impact of higher unit labour costs. The change in expectations related to petrol prices has also placed upward pressure on CPI.

Figure 20: CPI and PPI trends for South Africa, January 2010 – September 2013



Source: StatsSA, September 2013

The Producer Price Index (PPI) for the 3rd quarter of 2013 continues to move outside the upper level of the inflation targets. There was no change in the PPI inflation rate of 6.7%, between August and September 2013. The key drivers for the PPI's annual growth rate were food products (6.7%), beverages and tobacco products (6.1%), as well as coke, petroleum, rubber and plastic products (7.4%). The majority of the measures of producer price inflation increased in recent months, largely reflecting the inflationary impact of the depreciation in the exchange value of the rand.

Table 3: Inflation by Monthly Expenditure

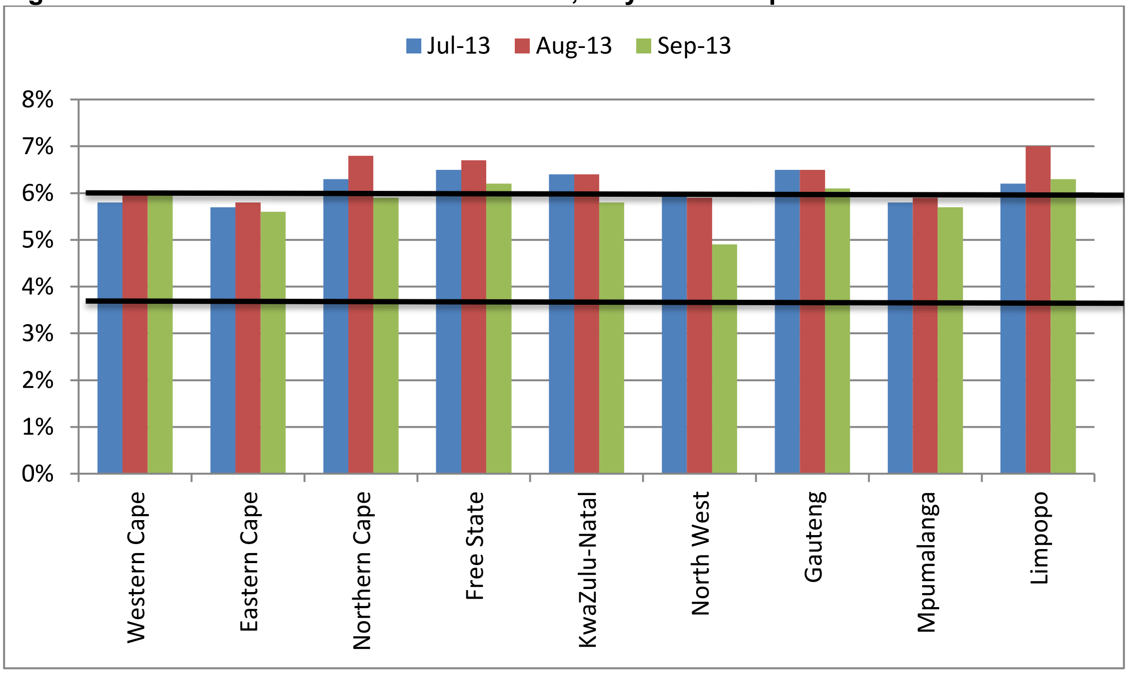
Quintiles	Level	Monthly Expenditure	Inflation Rate at September 2013
	Average		**6.0%**
1	Very Low	R 0 to R1,213/month	6.3%
2	Low	R 1,214 to R 1, 939/month	5.8%
3	Middle	R 1,940 to R 3, 062/month	5.8%
4	High	R 3, 063 to R 6, 596/month	6.1%
5	Very High	R 6, 596 and more	6.2%

Source: StatsSA, September 2013

Table 3 indicates how different expenditure groups are affected by inflation. The population quintile with the lowest level of monthly expenditure was subject to an inflation rate of 6.3% in September 2013, while the population quintile with the highest monthly expenditure was subject to an inflation rate of 6.2%. The reason for the population with the lowest expenditure having the highest inflation rate is mainly due to the consumer basket of the lowest expenditure groups being dominated by spending on food and transport, both of which have been major contributors towards the growth in CPI in the last few years. Overall for the 3rd quarter the population which falls in the two highest expenditure groups experienced the biggest increase compared to the 2nd quarter of 2013.

5.2 Geographical Inflation

Figure 21: Inflation Rate on a Provincial level, July 2013 – September 2013



Source: StatsSA, September 2013

At a provincial level, the Western Cape recorded an inflation rate (6%) that was the same as the headline inflation rate for the country in the 3rd quarter of 2013. As illustrated by Figure 21, the majority of provinces experienced an inflation rate well above the 6% during August, but managed to bring it down for September 2013. Limpopo averaged an inflation rate of 7% in August 2013 which declined to 6.3% in September 2013. The Free State and Gauteng also recorded inflation rates in excess of 6% in September 2013.

5.3 Inflation Outlook

Overall, inflationary pressure increased in the 3rd quarter of 2013 when compared to the 2nd quarter of 2013, resulting in the Reserve Bank's inflation target range being breached with inflation peaking at 6.4% in August 2013. However, the latest inflation releases for the 4th quarter have shown that the CPI has moved back within the target range, with an inflation rate of 5.5% recorded in October 2013. Furthermore, average inflation expectations reflected in the Inflation Expectations Survey conducted by BER for the 3rd quarter of 2013 remain unchanged when compared to the 2nd quarter of 2013. Thus, it is clear that despite the upward movement in prices the public regards short-term increases in actual inflation and their impacts as temporary. According to their Quarterly Bulletin, the SARB forecasts that inflation will average an overall 6% for the year 2013, implying that the CPI will move slightly over 6% or stay within the inflation target range for the rest of 2013.

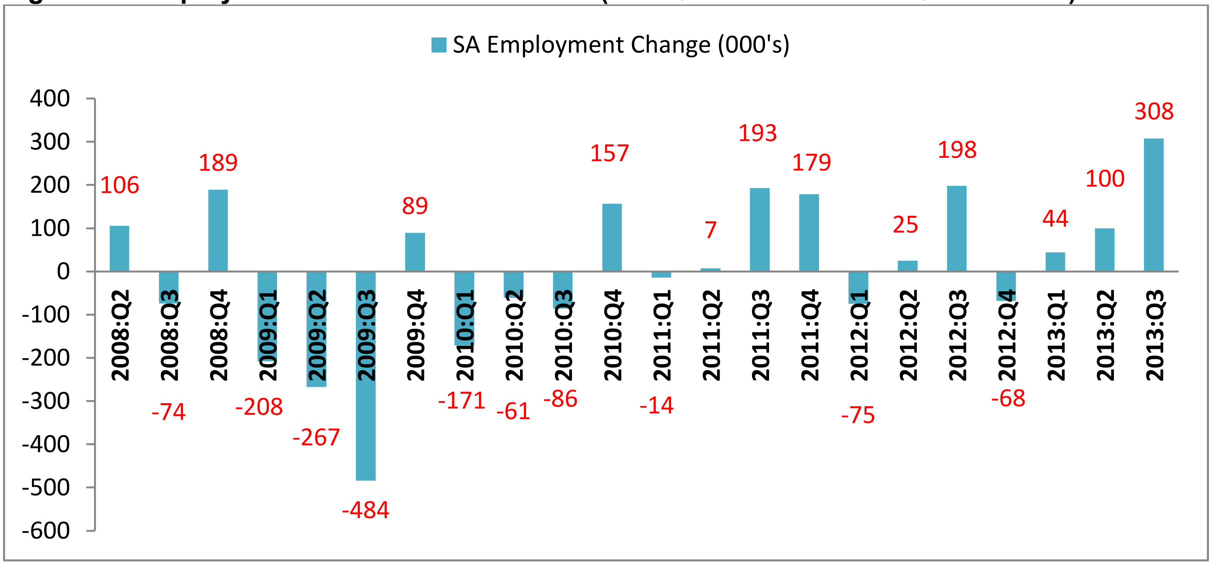
The PPI continued to increase rapidly above the inflation targets largely due to the depreciation of the South African Rand. Currently, the Rand continues to be sensitive as a result of possible 'tapering' from the US Fed. If the Rand continues to depreciate it could further increase the pressure on both the PPI and CPI. Notwithstanding these pressures, the ongoing insipid performance of the economy (0.7% growth in the 3rd quarter), will moderate domestic inflationary pressures and ensure that the interest rate, for the time being, remains unchanged.

6. LABOUR MARKET TRENDS

6.1 Employment Trends in South Africa

South Africa's labour force in the 3rd quarter of 2013 expanded to 18.64 million participants, from 18.44 million in the previous quarter. The number of employed people increased to 14.03 million, representing an increase of 308,000 on the number of people who were employed in the 2nd quarter of 2013. This is the highest increase in nearly 5 years, as well as the third consecutive quarter that employment has increased. Industries that made the highest contribution to the positive growth in employment in the 3rd quarter of 2013 were trade (100,000), community and social services (96,000) and finance and other business services (92,000). Negative growth was experienced within manufacturing (-68,000), agriculture (-6,000), as well as construction (-2,000).

Figure 22: Employment Trends in South Africa (2nd Quarter 2008 – 3rd Quarter 2013)



Source: Stats SA, October 2013

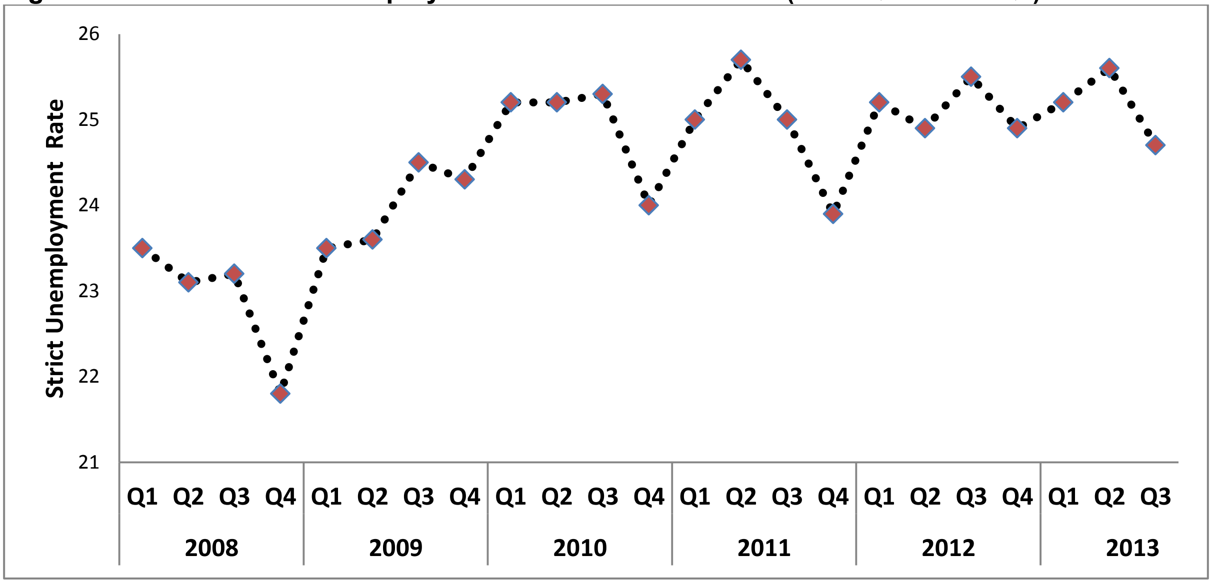
The first three quarters of 2013 saw a cumulative increase in employment of 452,000, as total employment breached the 14 million mark. On an annual basis, employment in South Africa increased by 383,000 jobs. The annualised quarterly growth rate of employment for South Africa, at about 2.2%, is at odds with the low economic growth rate of 0.7% experienced by the country in 3rd quarter. This seeming contradiction could be explained as a lagged effect of the impact of a strong economic growth rate in the previous quarter. However, the previous quarter's strong output growth in manufacturing (11.5%) did not translate into job creation in the sector in the current quarter. This could be because the increased manufacturing output did not constitute an increase in productive capacity (including labour) but simply a utilisation of existing capacity.

On an annual basis, the largest contributor to annual employment growth was the community and other social services sector (120,000), with the second largest contributor being finance and other business services (99,000). Although agriculture played a minimal role in contributing to quarterly employment growth; it contributed 45,000 jobs on an annual basis and was the 3rd largest contributor to employment over this period. Manufacturing's poor quarterly performance also resulted in a decline in employment levels on an annual basis. Overall, there has been a steady upward trend in annual employment growth in recent years. Indeed, in the 3rd quarter of 2013 employment levels finally returned to their 2008 pre-recession peak.

6.2 Unemployment Trends in South Africa

In the 3rd quarter of 2013, unemployment decreased by 114,000 on a quarterly basis to a total of 4.61 million people. Discouraged work-seekers, who are included in the expanded measure of unemployment also decreased by 125,000 individuals to a total of 2.24 million individuals in the 3rd quarter when compared to the 2nd quarter of 2013. This has also resulted in the official unemployment rate decreasing by 0.9 percentage points to 24.7% in the 3rd quarter of 2013.

Figure 23: Official/Strict Unemployment Rate for South Africa (2008:Q1 – 2013:Q3)



Source: Stats SA, October 2013

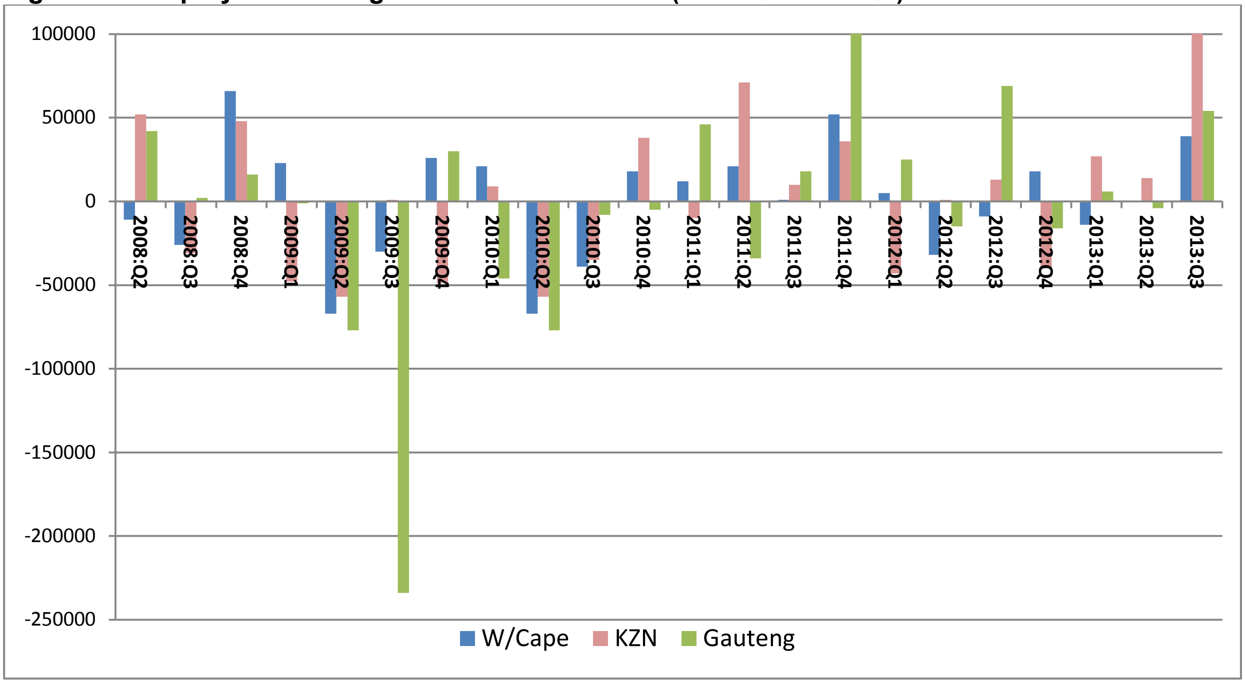
6.3 Overview of the Western Cape's Labour Market

The Western Cape labour market followed a relatively similar pattern to the national labour market in the 3rd quarter of 2013. Consistent with the national labour market, the province experienced an increase (34,000) in the number of labour force participants in the 3rd quarter of 2013 taking the provincial labour force to a total of 2.42 million individuals. The number of employed increased by 39,000 in the 3rd quarter of 2013 on a quarter-on-quarter basis. This increase took the total number of employed individuals to 1.85 million in the 3rd quarter of 2013. In terms of unemployment, the number of unemployed individuals decreased by 5,000 to a total of 566,000 unemployed individuals in the 3rd quarter of 2013. This resulted in a 0.6 percentage point decrease in the official unemployment rate for the Western Cape (23.4%). On an annual basis, the Western Cape's level of employment also increased by 43,000, when compared to the same period in the previous year.

6.3.1 Provincial Employment Comparisons

To measure the Western Cape's performance in creating opportunities for employment, it is helpful to compare it to two other large provincial economies namely; Gauteng and KwaZulu-Natal.

Figure 24: Employment change on a Provincial level (2008:Q2-2013:Q3)



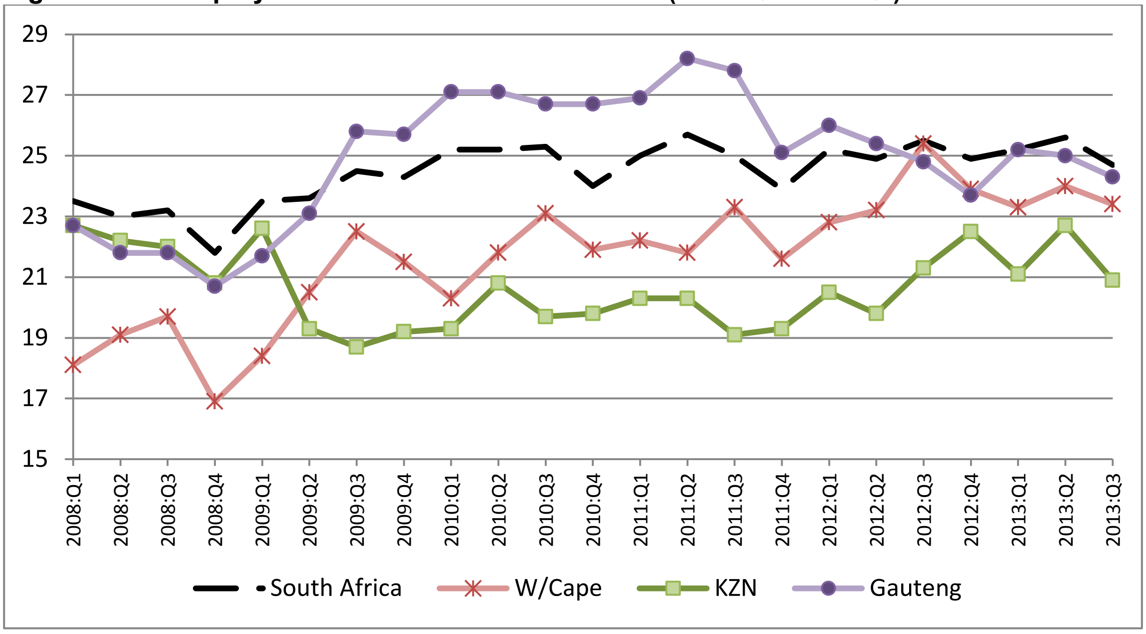
Source: Stats SA, October 2013

Figure 24 illustrates that all three "urban" provinces have created employment in the 3rd quarter of 2013. KwaZulu-Natal performed best, with an increase of 134,000 while Gauteng experienced a more moderate increase of 54,000. All three provinces performed much better when compared to the 2nd quarter of 2013. South Africa's overall employment growth in the 3rd quarter was driven mainly by KwaZulu-Natal (134,000); Gauteng (54,000) and Limpopo (51,000). The only provinces to experience decreases in the level of employment were Free State (-21,000) and North West (-2,000). This finding runs counter to the finding in the previous chapter that Gauteng and KwaZulu-Natal (and the Western Cape) experienced low economic growth rates (0.2% and -0.2% respectively) in the 3rd quarter. This apparent divergence of economic growth and employment growth is most likely a consequence of a lagged impact of increased job creation following the relatively high economic growth rates in these provinces in the previous quarter.

6.3.2 Unemployment Trends for the Western Cape

According to the official/strict unemployment rate, the Western Cape has remained constantly below the national average unemployment rate. On a comparative provincial basis, the Western Cape performed poorly when compared to KwaZulu-Natal; although it performed better than Gauteng. The official unemployment rates for the 3rd quarter of 2013 were 23.7% for the Western Cape, 20.9% for KwaZulu-Natal and 24.3% for Gauteng.

Figure 25: Unemployment Rate on a Provincial level (2008:Q1-2013:Q3)



Source: Stats SA, October 2013

The following table indicates the official and expanded unemployment rates for all nine provinces of South Africa. South Africa currently uses the strict unemployment rate as its official definition of unemployment. StatsSA's definition of 'unemployed' is any person aged between 15 and 64 who was without work in the week preceding the interview, but actively looked for work in the previous 4 weeks and was available to start work or a business in the next week (Statistics South Africa, 2013).

The expanded definition of unemployment drops the search criteria and includes people who have stopped looking for work, namely discouraged workers who nevertheless still want to find work (Statistics South Africa, 2013).

Table 4: Official vs. Expanded Unemployment Rate

	Official			Expanded		
	Q3:2013	Q2:2013	Q3:2012	Q3:2013	Q2:2013	Q3:2012
Western Cape	23.4	24.0	25.4	25.7	26.7	27.0
Eastern Cape	30.8	30.8	28.8	44.3	45.2	43.0
Northern Cape	28.0	29.0	29.9	36.3	35.9	37.2
Free State	34.0	33.1	32.0	41.2	39.3	39.7
KwaZulu-Natal	20.9	22.7	21.3	37.6	39.9	39.5
North West	26.6	27.1	25.0	42.9	43.5	41.5
Gauteng	24.3	25.0	24.8	29.0	30.0	29.2
Mpumalanga	26.6	29.4	31.0	40.5	42.2	45.5
Limpopo	17.8	18.1	22.3	40.1	42.5	41.3
South Africa	24.7	25.6	25.5	35.6	36.8	36.3

Source: Stats SA, October 2013

Overall, there was only one province (Free State) which experienced an increase in its strict unemployment rate, while seven provinces (Western Cape, Northern Cape, KwaZulu-Natal, North West, Gauteng; Limpopo and Mpumalanga) experienced decreases and one province (Eastern Cape) remained unchanged for the 3rd quarter of 2013. The performance of the expanded rate (which includes the non-searching unemployed) for the 3rd quarter of 2013 revealed a largely similar decreasing unemployment trend for almost all the provinces. The expanded rate of unemployment decreased (to 25.7%) in the Western Cape in the 3rd quarter and it remained the lowest expanded rate in the country, while the Eastern Cape remained the highest.

6.4 Labour Market Trends for Cape Town

6.4.1 A Broad Overview of Cape Town Labour Market

Table 5: Labour Market Indicators South Africa and Cape Town

Indicator	South Africa			Cape Town		
	Q3:2013	Q2:2013	Q3:2012	Q3:2013	Q2:2013	Q3:2012
Working Age Population (000s)	33 464	33 352	33 018	2 367	2 366	2 387
Labour Force	18 638	18 444	18 313	1 608	1 603	1 661
Employed	14 029	13 721	13 645	1 196	1 185	1 218
Unemployed	4 609	4 723	4 667	411	417	443
Not economically active	14 826	14 908	14 705	759	763	726
Discouraged work-seekers	2 240	2 365	2 170	5	3	3
Other	12 586	12 543	12 535	754	760	723
Unemployment rate (%)	24.7	25.6	25.5	25.6	26.0	26.7
Absorption rate (%)	41.9	41.1	41.3	50.4	50.0	51.0
Labour force participation rate (%)	55.7	55.3	55.5	67.8	67.7	69.6

Source: Stats SA, October 2013

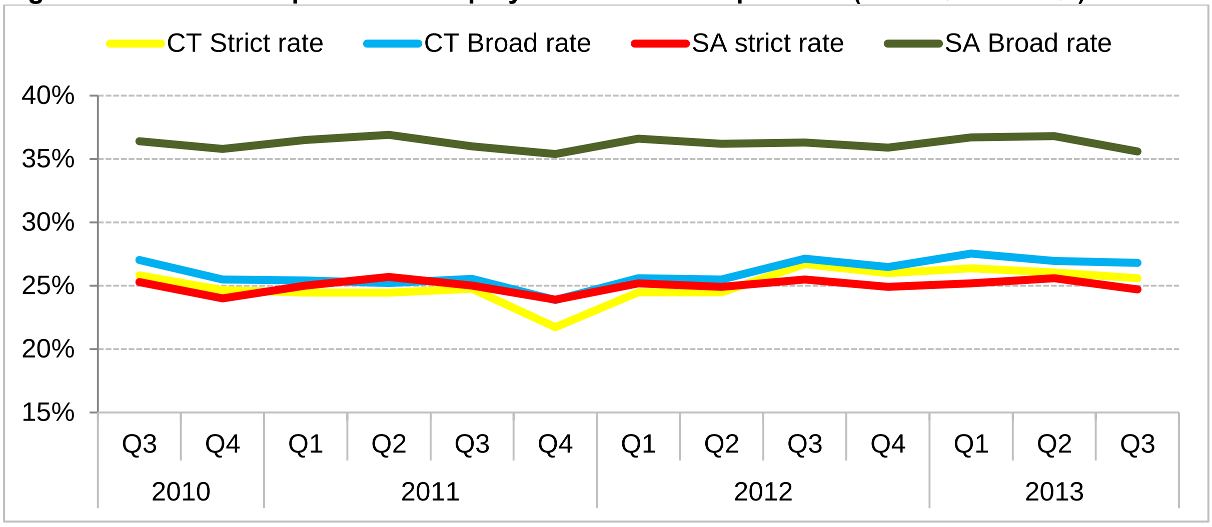
The working age population in Cape Town has increased by 1,000 to a total of 2.37 million individuals in the 3rd quarter of 2013. Following the increase in the working-age population, Cape Town's labour force (employed and unemployed) increased by 5,000 individuals to a total labour force of 1.61 million in the 3rd quarter. The labour force participation rate rose marginally to 67.8% in Cape Town, a figure which is significantly higher than the national rate of 55.7% and points to the greater inclusiveness of Cape Town's labour market.

The number of people employed in Cape Town in the 3rd quarter of 2013 increased by 11,000 individuals on a quarterly basis, with an annual decrease of 22,000 individuals. The key sectors that contributed to the increasing employment level in the 3rd quarter were transport, community and social services, finance and private households, while the trade, construction and manufacturing sectors showed decreasing trends when compared to the 2nd quarter of 2013.

6.4.2 Unemployment in Cape Town

In line with the national and provincial trends, the number of unemployed people in Cape Town decreased by approximately 6,000 individuals between the 2nd quarter of 2013 and the 3rd quarter of 2013. On an annual basis, the number of unemployed people in the City decreased by around 32,000 individuals. As a result of decreasing unemployment, Cape Town's strict unemployment rate decreased by 0.4 percentage points to 25.6% between the 2nd and 3rd quarter 2013. The official unemployment rate also decreased by 1.1 percentage points compared to the 3rd quarter 2012.

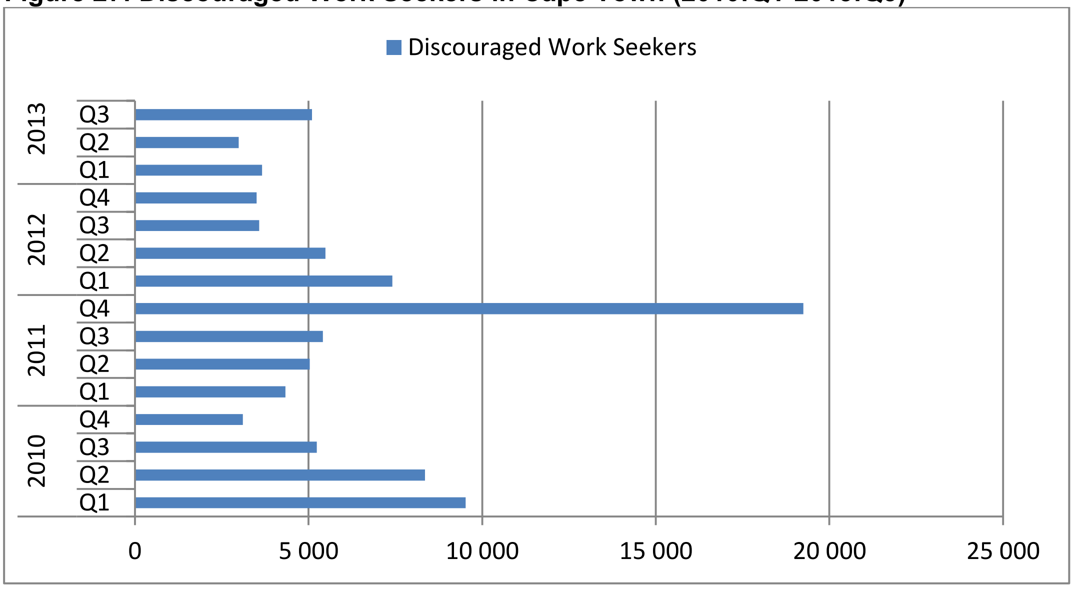
Figure 26: Strict vs. Expanded Unemployment Rate for Cape Town (2010:Q1-2013:Q3)



Source: Stats SA, October 2013

By excluding discouraged work-seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals desiring to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by Figure 26, the two rates of unemployment for Cape Town have remained relatively close over the last 12 quarters, with the expanded rate on average, 0.98% higher than the strict rate. Both rates declined in the 3rd quarter of 2013, and are also lower than what they were a year ago. Although Cape Town's unemployment rates have decreased the city has a slightly higher (by 0.88 percentage points) strict unemployment rate than South Africa as a whole. The picture is markedly different, however, if one uses the expanded rate of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in Figure 26). South Africa's expanded unemployment rate in the 3rd quarter of 2013 was 35.6% compared to Cape Town's expanded rate of 26.8%. On this basis Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

Figure 27: Discouraged Work Seekers in Cape Town (2010:Q1-2013:Q3)



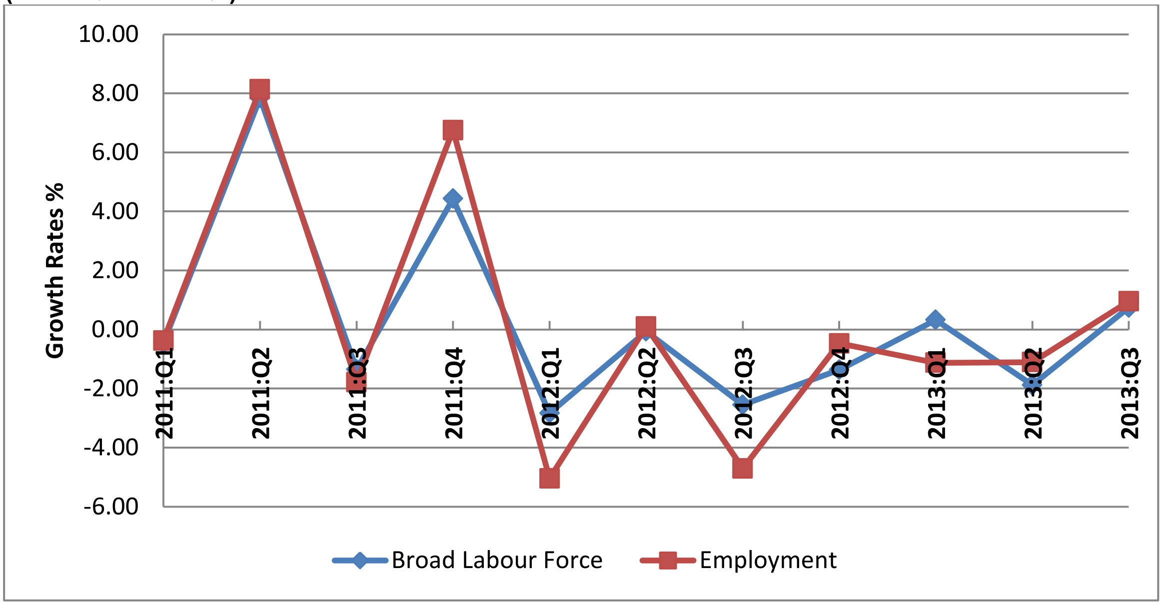
Source: Stats SA, October 2013

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 StatsSA (2013), 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, therefore explaining why this figure is slightly higher than that of the strict unemployment figure. The number of discouraged work-seekers in Cape Town increased from nearly 3,000 in the 2nd quarter of 2013 to approximately 5,000 in the 3rd quarter. This remains a very low incidence of discouragement for a metro.
Figure 27 shows that the number of discouraged work-seekers, has consistently (except for the Q4:2011 outlier) been below 10,000 individuals and has, prior to the 3rd quarter of 2013, experienced a downward trend for the past 6 quarters. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0.22%) of the country's total number of discouraged work-seekers. The reasons for this remain largely unclear and requires further research.

6.4.3 Labour Force and Employment

Figure 28: Broad Labour Force and Employment Growth Rates for Cape Town (2011:Q1-2013:Q3)



Source: Stats SA, October 2013

There are two factors that can lead to a decreasing expanded rate of unemployment, the first is an increase in employment; and the second is a decrease in labour force participation. When the rate of employment growth exceeds the rate at which the expanded labour force grows, the expanded unemployment rate decreases. Figure 28 shows that employment growth in the 3rd quarter of 2013 has grown at a faster rate than the expanded labour force. This has then led to a decrease in the expanded unemployment rate for this period. Employment creation, rather than a reduction in the labour force in the 3rd quarter of 2013 can be considered to be the primary cause of the decline in the unemployment rate during this period.

6.4.4 Sector Employment Trends for Cape Town

Table 6: Employment by Sector for Cape Town

Sector	2013:Q3	2013:Q2	2012:Q3	Quarterly Change	Annual Change
Agriculture	9 893	11 594	16 448	-1 701	-6 555
Mining	0[4]	110	740	-110	-740
Manufacturing	161 771	170 508	213 514	-8 737	-51 743
Utilities	10 952	11 799	10 447	-847	505
Construction	90 993	99 876	95 604	-8 883	-4 611
Trade	268 912	280 984	267 223	-12 072	1 689
Transport	102 524	93 879	77 513	8 645	25 011
Finance	247 852	223 385	218 714	24 467	29 138
Community and social services	245 459	240 826	245 943	4 633	-484
Private households	58 391	51 776	71 476	6 615	-13 085
Total	1 196 746	1 185 433	1 218 059	11 313	-21 313

Source: Stats SA, October 2013

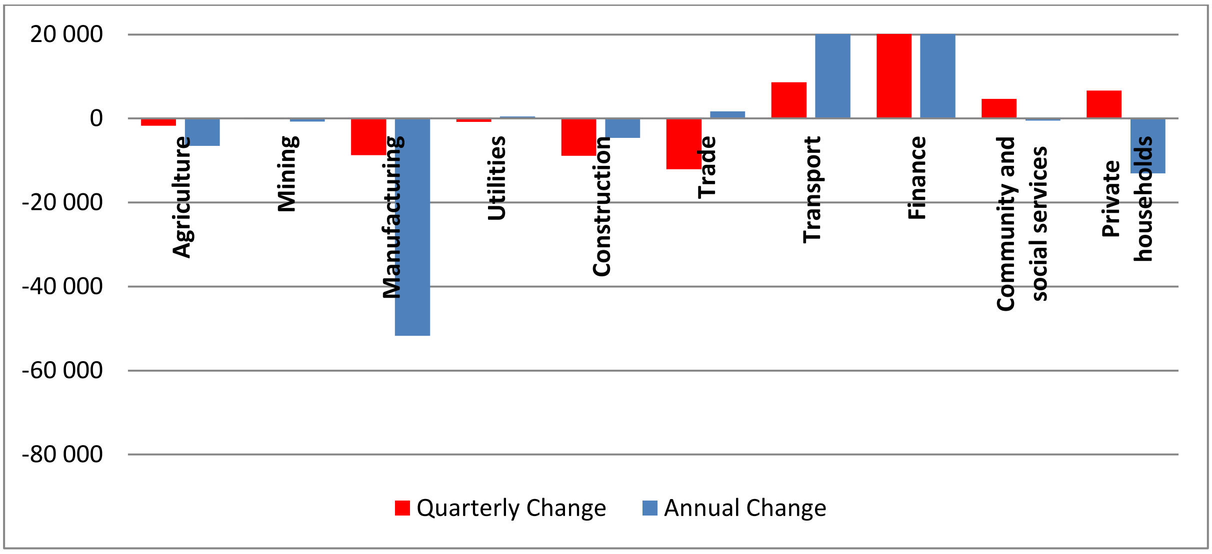
Table 6 and Figure 29 display the level of employment by industry/sector within Cape Town. Finance was the largest contributor to total employment growth in the 3rd quarter with employment growth of 24,467. It was followed by transport (8,645); private households (6,615) and community and services (4,633). The sectors with the biggest job losses were trade (-12,072), construction (-8,883) as well as manufacturing (-8,737). The poor employment performance of the manufacturing sector may be attributable to the impact of strike activity in a number of manufacturing sub-sectors. The anticipated impact of strikes may have both hampered the positive lagged impact of strong output growth from the previous sector, as well as employment creation in the current quarter.

Annually, the strongest sector that contributed to employment growth was finance, with an employment increase of 29,138 jobs. This reflects Cape Town's comparative advantage in this sector and its' the strong long-term economic growth of the sector. The transport sector was also a strong employment creator on an annual basis, creating 25,011 jobs. While the trade sector experienced a quarterly decline in job creation, it enjoyed positive net job creation of 1,689 jobs on an annual basis.

The sector that experienced the biggest job losses on annual basis in the 3rd quarter of 2013, was manufacturing (-51,743) followed by private households (-13,085), agriculture (-6,555) and construction (-4,611). The job losses in these sectors are concerning given that they are generally considered to be labour intensive sectors with extensive penetration into impoverished households.

[4] The zero figure does not necessarily mean that nobody works within this industry in Cape Town but rather, simply, that none of the individuals surveyed in the QLFS were employed in mining

Figure 29: Quarterly and Annual Change per Sector for Cape Town (3rd Quarter 2013)



Source: Stats SA, October 2013

6.4.5 Labour Market Outlook

The key labour market indicators (the labour force participation rate and the two unemployment rates) showed improvement in the 3rd quarter of 2013 for Cape Town. While the strict rate of unemployment remains above the national average, the expanded rate of unemployment is nearly 10% lower than the national average. In addition the labour force participation rate and the absorption rates are also higher than their respective national averages. This would suggest that Cape Town's labour market is, on the whole, more inclusive than the national labour market. If Cape Town is to achieve its objective of being an Opportunity City, however, employment growth must be at the forefront of improving labour market outcomes. Encouragingly employment creation (and not merely labour force reduction as in the previous quarter) drove the decrease in the unemployment rate in the 3rd quarter.

A question, however, remains regarding the sustainability of the levels of employment creation observed in the 3rd quarter of 2013. This is especially, pertinent given the low GDP growth rate in the 3rd quarter, and the fact that labour outcomes often lag output trends. The positive recent developments in the Kagiso Purchasing Managers Index, may suggest an upturn in the manufacturing industry which could result in job creation in the sector, however, this will probably not be captured in the 4th quarter. More generally, there would appear to be a growing disjuncture between economic growth and job creation. It's possible that job creation may be relying on past growth in industries as opposed to more recent growth trends. In this respect, the more recent slower performance of finance and business services may negatively impact on employment growth in forthcoming quarters.

In order to ensure greater opportunities for people to actively participate in the local economy, Cape Town needs to exploit the employment creation potential of key strategic industries. Two labour intensive, but fast growing industries within Cape Town, are business process outsourcing and tourism. The City of Cape Town needs to implement supportive strategies which help to create an enabling environment for the growth of these industries.

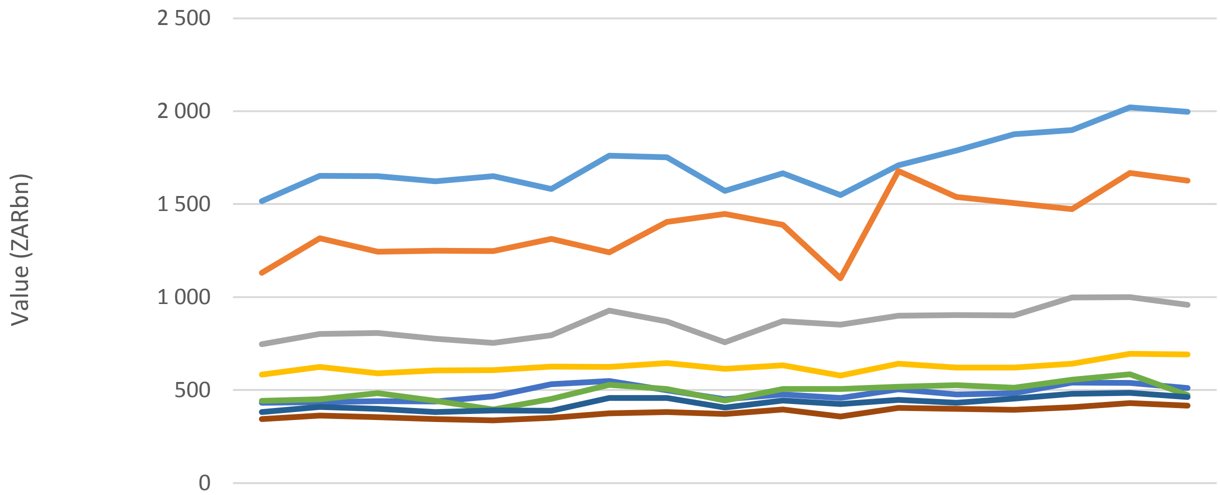
7. TRADE & INVESTMENT

7.1 Trade

7.1.1 Global Trade

The world's largest importers of goods are the United States and China with imports reaching ZAR19.1trn and ZAR14.9trn in 2012. All of the top 8 import markets shown in the figure below were demonstrating import growth rates exceeding 11% in 2012 with the exception of France (7.3% growth). It is thus evident that markets have recovered from the global financial crisis and international trade has once again begun to prosper. As exports precede foreign direct investments (FDI) there is hope that this trend would be matched by stronger global FDI in 2013. Strong growth in imports by most of these countries occurred at the beginning of the 3rd quarter in July 2013, but subsequently moderated in August.

Figure 30: Global Imports of goods (April 2012 to Aug 2013)



	Apr/2012	May/2012	Jun/2012	Jul/2012	Aug/2012	Sep/2012	Oct/2012	Nov/2012	Dec/2012	Jan/2013	Feb/2013	Mar/2013	Apr/2013	May/2013	Jun/2013	Jul/2013	Aug/2013
United States of America	1 517	1 652	1 651	1 622	1 650	1 582	1 762	1 752	1 571	1 666	1 548	1 708	1 788	1 877	1 898	2 020	1 997
China	1 131	1 316	1 245	1 249	1 248	1 313	1 241	1 404	1 448	1 389	1 102	1 678	1 538	1 505	1 474	1 667	1 627
Germany	747	802	806	775	754	795	927	869	756	870	852	900	904	902	998	1 000	958
Japan	584	624	591	605	608	626	624	646	614	633	578	642	620	622	641	695	692
United Kingdom	432	436	440	439	467	531	549	500	451	477	458	504	477	483	540	539	511
France	443	451	484	442	396	452	529	505	444	506	506	517	526	513	556	584	473
Netherlands	382	409	399	382	390	388	458	457	406	444	425	447	431	454	481	485	463
Korea, Republic of	344	363	355	345	338	352	375	382	372	396	358	404	399	394	408	429	417

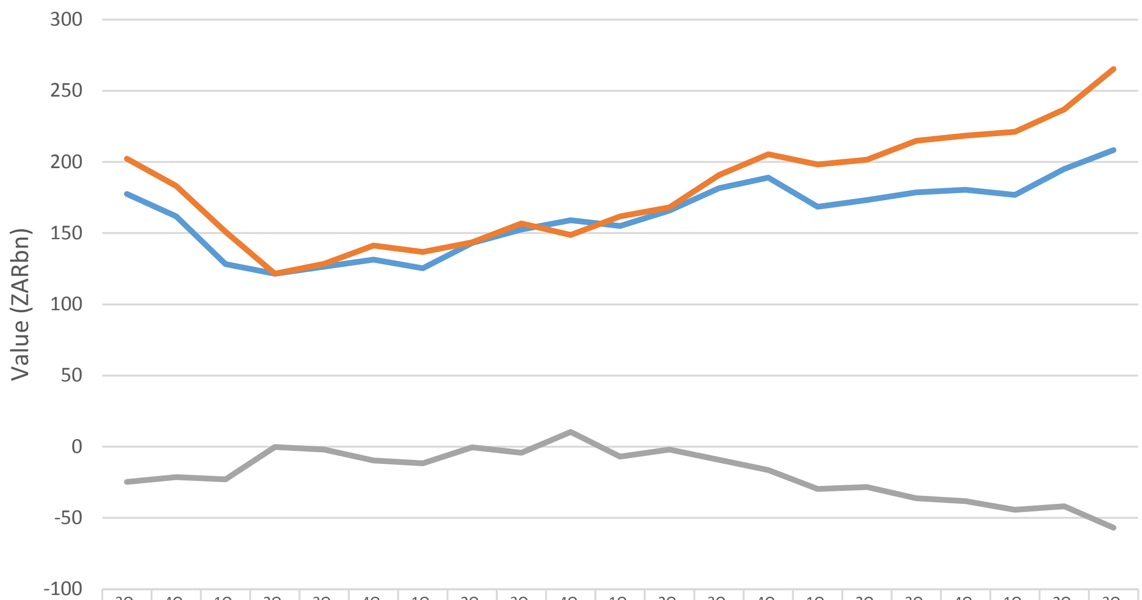
Source: TradeMap, 2013

The most traded product in the world is petroleum oils accounting for ZAR27.8trn in 2012, followed by electrical and electronic equipment at ZAR19.1trn and machinery at ZAR17.2trn. Global trade in cars reached ZAR7.8trn almost exceeding pre-crisis levels. Record trade levels of pharmaceutical products were reached in 2012 reaching ZAR2.8trn.

7.1.2 South African Trade

South African trade has experienced strong and consistent growth since the 2nd quarter 2009 with an average quarterly growth rate reaching 3.4% for exports and 4.8% for imports. The trade balance deficit has continued to grow as imports exceeded exports. Exports in the 3rd quarter of 2013 reached ZAR208.4bn growing by 6.8% from the 2nd quarter of 2013. While, imports reached ZAR265.3bn growing by 12%. Total exports in 2012 were ZAR700.9bn and imports were ZAR833.2bn.

Figure 31: South Africa's exports and imports (3rd quarter 2008 to 3rd quarter 2013)



	3Q-2008	4Q-2008	1Q-2009	2Q-2009	3Q-2009	4Q-2009	1Q-2010	2Q-2010	3Q-2010	4Q-2010	1Q-2011	2Q-2011	3Q-2011	4Q-2011	1Q-2012	2Q-2012	3Q-2012	4Q-2012	1Q-2013	2Q-2013	3Q-2013
Total Exports (ZARbn)	177.6	161.9	128.2	121.5	126.4	131.5	125.3	143.1	152.6	159.1	155.0	165.9	181.6	189.0	168.5	173.3	178.7	180.4	176.9	195.1	208.3
Total Imports (ZARbn)	202.4	183.2	151.0	121.6	128.5	141.3	136.8	143.6	156.9	148.8	161.9	168.0	190.9	205.4	198.3	201.7	214.8	218.5	221.2	237.0	265.3
Trade balance	-24.7	-21.3	-22.8	-0.1	-2.1	-9.7	-11.6	-0.5	-4.2	10.3	-6.8	-2.1	-9.3	-16.5	-29.7	-28.4	-36.1	-38.1	-44.3	-41.8	-57.0

Source: Quantec, 2013

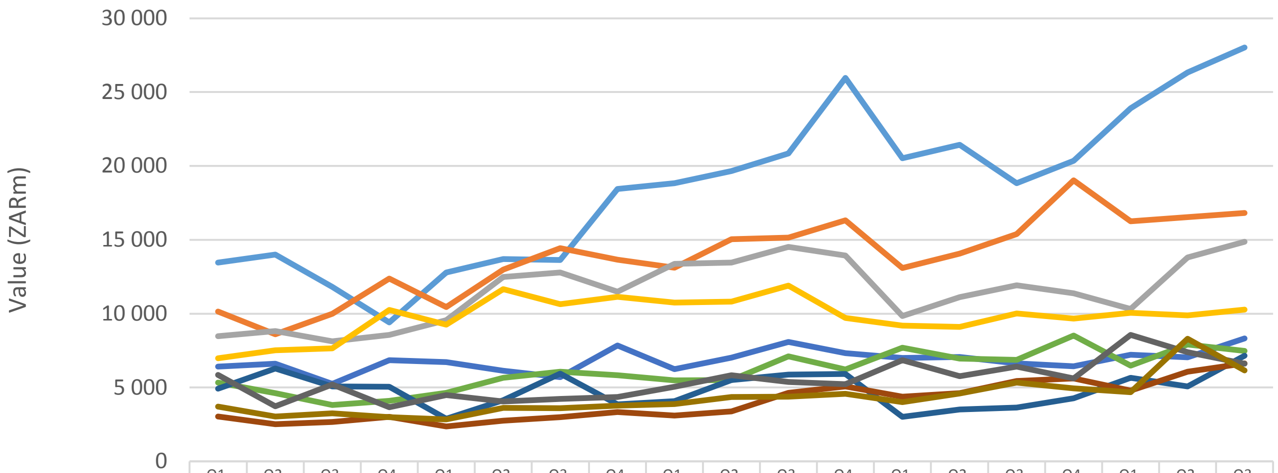
China is South Africa's largest export destination with exports reaching ZAR28bn in the 3rd quarter of 2013 and ZAR81.1bn in 2012. South Africa's exports to China are influenced by the country's appetite for South African mineral commodities which continue to drive exports. South Africa has a strong and growing dependency on computers and telecommunication apparatus from China, which has resulted in imports from the country reaching ZAR120m in 2012 with an annual growth of 16.4%.

South Africa's 2nd largest export market is the United States followed by Japan and Germany, with these countries also featuring as source markets for South African imports. Zambia has emerged as South Africa's top export market in Africa in the 3rd quarter of 2013 and in 2012 reaching ZAR20.1bn (8th largest export market). This is followed by Zimbabwe and Mozambique (9th and 10th respectively). This demonstrates the importance of intra-African trade to South African exporters.

South African export products to the globe are dominated by minerals and metals accounting for approximately 36.3% of total exports in 2012. The export of motor vehicles for the transport of persons as well as goods showed consistent growth along with the export of machinery.

Imports of petroleum oils have been prominent and continue to dominate the import product list accounting for more than 22% of total imports. Capital equipment and electronic goods make up the rest of the top imports into South Africa.

Figure 32: South Africa's export markets (1st quarter 2009 to 3rd quarter 2013)



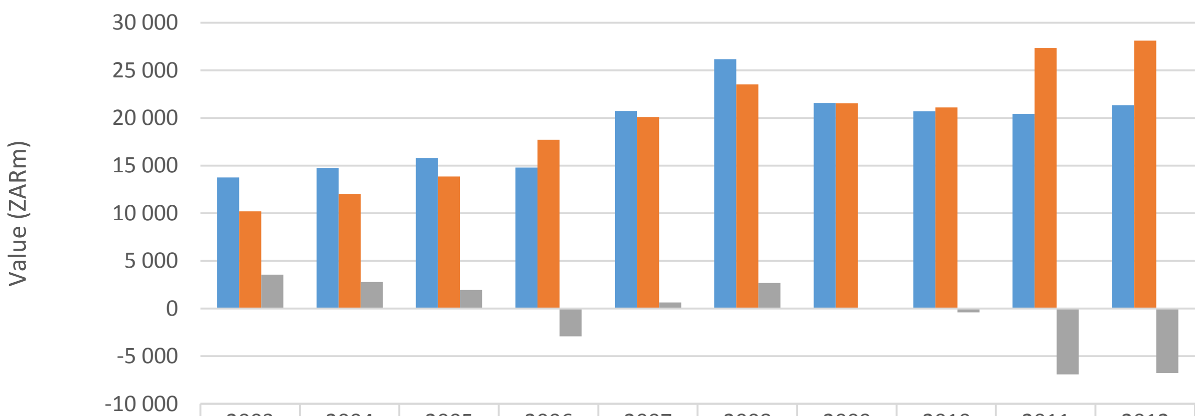
	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012	Q4-2012	Q1-2013	Q2-2013	Q3-2013
China	13 470	14 009	11 809	9 398	12 795	13 689	13 625	18 442	18 830	19 662	20 850	25 955	20 519	21 441	18 833	20 348	23 904	26 322	28 017
United States	10 156	8 611	9 996	12 379	10 446	12 974	14 433	13 652	13 103	15 049	15 150	16 327	13 091	14 060	15 385	19 021	16 265	16 542	16 817
Japan	8 468	8 822	8 132	8 554	9 559	12 488	12 794	11 490	13 380	13 464	14 519	13 932	9 836	11 123	11 919	11 379	10 311	13 818	14 871
Germany	6 988	7 527	7 650	10 256	9 261	11 668	10 647	11 140	10 753	10 807	11 897	9 712	9 194	9 111	10 020	9 669	10 067	9 875	10 265
United Kingdom	6 415	6 607	5 247	6 850	6 715	6 146	5 706	7 857	6 245	7 017	8 090	7 329	6 996	7 061	6 641	6 435	7 215	7 055	8 324
India	5 341	4 622	3 818	4 095	4 647	5 656	6 073	5 833	5 497	5 519	7 104	6 213	7 697	6 965	6 879	8 524	6 484	7 913	7 475
Switzerland	4 915	6 295	5 069	5 064	2 896	4 143	5 940	3 862	4 089	5 501	5 874	5 909	3 021	3 522	3 643	4 277	5 651	5 074	7 145
Zambia	3 033	2 517	2 673	3 017	2 363	2 749	3 000	3 332	3 114	3 389	4 634	5 076	4 387	4 616	5 450	5 622	4 794	6 079	6 635
Netherlands	5 861	3 730	5 203	3 657	4 498	4 062	4 235	4 357	5 048	5 842	5 381	5 233	6 853	5 763	6 419	5 621	8 563	7 386	6 608
Mozambique	3 701	3 036	3 260	2 994	2 843	3 624	3 610	3 775	3 889	4 354	4 375	4 567	4 023	4 605	5 333	4 940	4 683	8 296	6 158

Source: Quantec, 2013

7.1.3 Western Cape Trade with the EU

In the absence of quarterly trade data for the Western Cape, and to ensure that there is no repetition with previous quarterly editions, this section will focus on different selected trade and investment themes as they pertain to the Western Cape each quarter. In this particular edition the section focuses on the Western Cape and Cape Town's trade relations with the European Union. Considering the EU is Cape Town's main trading partner, this analysis is particularly important to an understanding of the city's economic performance.

Figure 33: Western Cape Trade with EU (2003-2012)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports (ZARm)	13 760.9	14 766.1	15 806.3	14 787.5	20 720.8	26 177.4	21 581.0	20 709.6	20 419.6	21 332.5
Imports (ZARm)	10 209.8	11 995.1	13 859.7	17 701.4	20 083.4	23 513.3	21 551.1	21 105.4	27 329.0	28 096.0
Trade balance	3 551.09	2 770.98	1 946.53	-2 913.9	637.41	2 664.10	29.87	-395.80	-6 909.4	-6 763.4

Source: Quantec, 2013

The European Union was the largest region for Western Cape exports in 2012. Exports to the region were valued at ZAR21bn, accounted for 33% of the Western Cape's total exports and grew by 4.5% on an annual basis. Imports from the EU to the Western Cape reached ZAR28.10bn, increasing by 4.5% from 2011. The Western Cape has decreased the extent of its trade deficit with the region since 2011.

The United Kingdom was the largest export destination for Western Cape exports reaching ZAR5.4bn and accounting for 19.3% of total exports to the EU in 2012, followed by the Netherlands and Germany. The Netherlands and Finland were the two fastest growing markets among the top ten (364% and 114% growth respectively). The Netherlands was the top source market valued at ZAR6.8bn and accounting for 31.9% of total imports from the EU in 2012, followed by the United Kingdom and Germany.

Table 7: Western Cape Trade with EU

TOP 1O EU MARKETS FOR WESTERN CAPE EXPORTS, 2012				TOP 10 EU MARKETS FOR WESTERN CAPE IMPORTS, 2012			
RANK	MARKET	VALUE 2012 (ZARm)	% GROWTH, 2012	RANK	MARKET	VALUE 2012 (ZARm)	% GROWTH, 2012
1	United Kingdom	5 428.6	-19.2%	1	Netherlands	6 800.9	25.5%
2	Netherlands	5 223.7	114.4%	2	United Kingdom	5 324.5	7.4%
3	Germany	4 896.4	9.9%	3	Germany	3 071.5	-1.8%
4	Italy	3 785.9	-24.4%	4	Belgium	1 236.4	-18.1%
5	France	1 932.0	-28.6%	5	Italy	1 029.0	-9.2%
6	Finland	1 676.1	364.3%	6	France	921.7	-9.7%
7	Belgium	1 241.9	7.0%	7	Spain	798.6	-10.2%
8	Austria	879.5	58.9%	8	Sweden	652.7	-8.7%
9	Spain	872.0	2.6%	9	Denmark	357.8	-6.6%
10	Ireland	494.8	-41.1%	10	Portugal	329.6	-30.4%
TOTAL EXPORTS		**28 096.0**	**2.8%**	**TOTAL IMPORTS**		**21 332.6**	**4.5%**

Source: Quantec, 2013

Agribusiness products dominate the top 10 exports from the Western Cape to the EU in 2012, with grape wines topping the list reaching ZAR3.7bn. This was followed by grapes and citrus fruits (ZAR2.1bn and ZAR1.9bn respectively). Petroleum products top the list of imports from the EU reaching ZAR6.1bn in 2012, followed by liqueur and transport ships.

Table 8: Western Cape Trade with EU

TOP 1O EU PRODUCTS FOR WESTERN CAPE EXPORTS, 2012				TOP 10 EU PRODUCTS FOR WESTERN CAPE IMPORTS, 2012			
RANK	PRODUCT	VALUE 2012 (ZARm)	% GROWTH, 2012	RANK	PRODUCT	VALUE 2012 (ZARm)	% GROWTH, 2012
1	Grape wines	3 691.42	0.34%	1	Oils petroleum, bituminous, distillates, except crude	6 129.45	-28.37%
2	Grapes, fresh or dried	2 088.52	7.17%	2	Liqueur, spirits and undenatured ethyl alcohol <80%	1 903.40	7.00%
3	Citrus fruit, fresh or dried	1 935.87	12.15%	3	Passenger and goods transport ships, boats	1 218.74	-
4	Liquid, gas centrifuges, filtering, purifying machines	1 843.68	-14.99%	4	Machines having individual functions	755.13	496.37%
5	Apples, pears and quinces, fresh	1 508.62	7.65%	5	Meat, edible offal of domestic poultry	469.15	151.37%
6	Organic composite solvents, paint, varnish remover	1 307.61	505.02%	6	Paper, board, clay, inorganic coated at least one side	321.04	26.75%

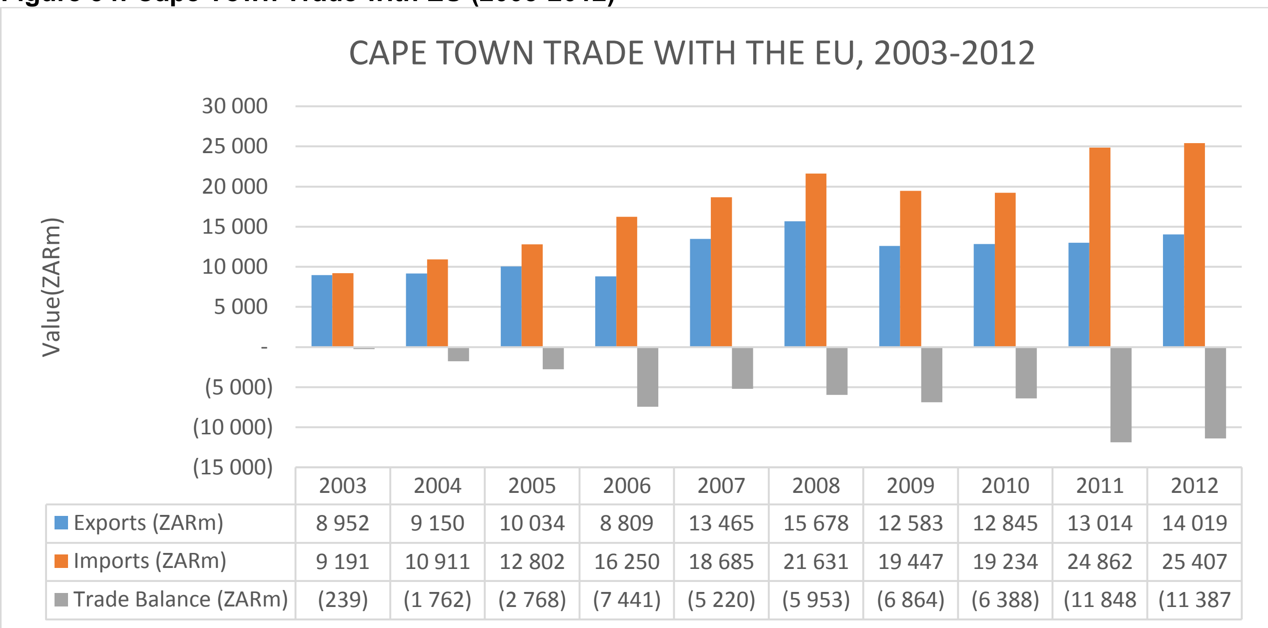
TOP 1O EU PRODUCTS FOR WESTERN CAPE EXPORTS, 2012				TOP 10 EU PRODUCTS FOR WESTERN CAPE IMPORTS, 2012			
RANK	**PRODUCT**	**VALUE 2012 (ZARm)**	**% GROWTH, 2012**	**RANK**	**PRODUCT**	**VALUE 2012 (ZARm)**	**% GROWTH, 2012**
7	Diamonds, not mounted or set	774.36	34.37%	7	Parts and accessories for motor vehicles	313.17	-3.59%
8	Fish fillets, fish meat, mince except liver, roe	579.74	-3.05%	8	Waters, non-alcoholic sweetened or flavoured beverages	311.41	77.64%
9	Oils petroleum, bituminous, distillates, except crude	547.63	81.20%	9	Self-propelled earth moving, road making, etc machines	300.51	-3.72%
10	Stone fruit, fresh (apricot, cherry, plum, peach)	532.06	-4.79%	10	Gasoline and oil additives	292.21	27.52%
TOTAL EXPORTS		**21 332.56**	**4.47%**	**TOTAL IMPORTS**		**28 096.02**	**2.81%**

Source: Quantec, 2013

7.1.4 Cape Town Trade with the EU

The European Union was the largest region for Cape Town exports in 2012. Exports to the region were valued at ZAR14bn, accounted for 31% of total city exports and grew at 7.7% on an annual basis. Imports from the EU to Cape Town reached ZAR28.1bn, increasing by 2% from 2011. In line with the provincial trend, Cape Town has decreased its trade deficit with the region since 2011.

Figure 34: Cape Town Trade with EU (2003-2012)



Source: Quantec, 2013

The Netherlands was the largest export destination for Western Cape exports reaching ZAR4.8bn and accounting for 34.3% of total exports to the EU in 2012, followed by the United Kingdom and Germany. The Netherlands and Poland were the two fastest growing markets among the top ten (34% and 20% respectively). The United Kingdom was the top source market reaching ZAR5.2bn and accounting for 20.5% of total imports from the EU in 2012, followed by the Netherlands and Germany.

Table 9: Cape Town Trade with EU

TOP 1O EU MARKETS FOR CAPE TOWN EXPORTS, 2012				TOP 10 EU MARKETS FOR CAPE TOWN IMPORTS, 2012			
RANK	MARKET	VALUE 2012 (ZARm)	% GROWTH, 2012	RANK	MARKET	VALUE 2012 (ZARm)	% GROWTH, 2012
1	Netherlands	4 828.1	33.7%	1	United Kingdom	5 163.2	-20.4%
2	United Kingdom	2 967.5	6.2%	2	Netherlands	5 026.0	119.0%
3	Germany	1 928.6	-1.5%	3	Germany	4 216.8	14.2%
4	Belgium	1 048.7	-10.1%	4	Italy	3 399.4	-28.4%
5	Italy	909.1	-2.5%	5	France	1 621.0	-32.4%
6	France	692.8	-18.7%	6	Finland	1 391.7	807.9%
7	Spain	679.5	-8.7%	7	Belgium	1 209.5	12.5%
8	Portugal	285.0	1.8%	8	Spain	734.6	6.5%
9	Sweden	127.6	6.8%	9	Austria	698.4	40.3%
10	Poland	95.3	19.5%	10	Ireland	487.9	-41.8%
TOTAL EXPORTS		14 019.2	**7.7%**	**TOTAL IMPORTS**		25 406.5	2.2%

Source: Quantec, 2013

Agribusiness products dominated the top 10 exports from Cape Town to the EU in 2012. Liquid gas centrifuges was the largest export product/s reaching ZAR1.8bn in 2012, followed by citrus fruit and grapes (ZAR1.34bn and ZAR1.32bn respectively). Petroleum products top the list of imports from the EU reaching ZAR6.1bn in 2012, followed by liqueur and transport ships.

It is clear from Table 10 that Cape Town is on the wrong side of the Terms of Trade with the EU. In other words, the value of the goods that Cape Town imports from the EU is higher than the value of the goods it exports. This is due to the fact that Cape Town largely exports raw, or moderately beneficiated products, while it imports high value add products such as machines; transport ships and motor vehicle parts. Poor Terms of Trade contributes to the continuing trade balance deficit Cape Town has with the EU.

Table 10: Cape Town Trade with EU

TOP 1O EU PRODUCTS FOR CAPE TOWN EXPORTS, 2012				TOP 10 EU PRODUCTS FOR CAPE TOWN IMPORTS, 2012			
RANK	PRODUCT	VALUE 2012 (ZARm)	% GROWTH, 2012	RANK	PRODUCT	VALUE 2012 (ZARm)	% GROWTH, 2012
1	Liquid, gas centrifuges, filtering, purifying machines	1 841.4	-15.1%	1	Oils petroleum, bituminous, distillates, except crude	6 129.5	-28.4%
2	Citrus fruit, fresh or dried	1 342.7	5.0%	2	Liqueur, spirits and undenatured ethyl alcohol <80%	1 762.0	4.4%
3	Grapes, fresh or dried	1 329.6	6.3%	3	Passenger and goods transport ships, boats	1 218.7	-
4	Organic composite solvents, paint, varnish remover etc	1 307.6	505.0%	4	Machines having individual functions	722.5	636.6%
5	Diamonds, not mounted or set	774.4	34.4%	5	Meat, edible offal of domestic poultry	396.6	154.2%
6	Apples, pears and quinces, fresh	753.1	5.2%	6	Waters, non-alcoholic sweetened or flavoured beverages	310.6	77.4%

7	Grape wines(including fortified), alcoholic grape must	642.8	9.7%	7	Parts and accessories for motor vehicles	310.1	-3.8%
8	Fish fillets, fish meat, mince except liver, roe	568.2	-3.6%	8	Self-propelled earth moving, road making, etc machines	300.5	-3.7%
9	Oils petroleum, bituminous, distillates, except crude	547.6	81.2%	9	Gasoline and oil additives	292.2	27.5%
10	Fish, frozen, whole	459.0	8.9%	10	Refrigerators, freezers and heat pumps nes	241.9	8.2%
TOTAL EXPORTS		**14 019.2**	**7.7%**	**TOTAL IMPORTS**		**25 406.5**	**2.2%**

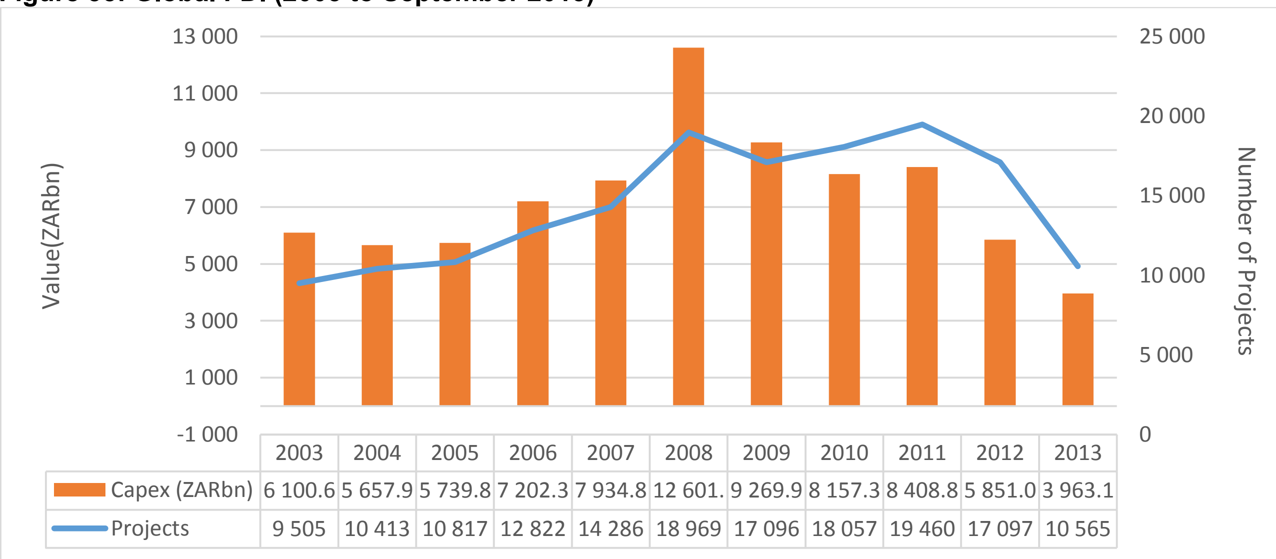
Source: Quantec, 2013

7.2 Investment

7.2.1 Global FDI

2012 witnessed the lowest global foreign direct investment (ZAR5.8trn) since 2003 and was less than half the pre-recession value (ZAR12.6trn in 2008). This is in part attributable to the European sovereign lending crisis in 2012. The levels of global capital investments to date (ZAR3.9trn up to September 2013), have shown no indication that FDI has recovered in any meaningful way in 2013 as continued weak economic growth in Europe and the spectre of fiscal tapering in the United States dampens investment appetite.

Figure 35: Global FDI (2003 to September 2013)

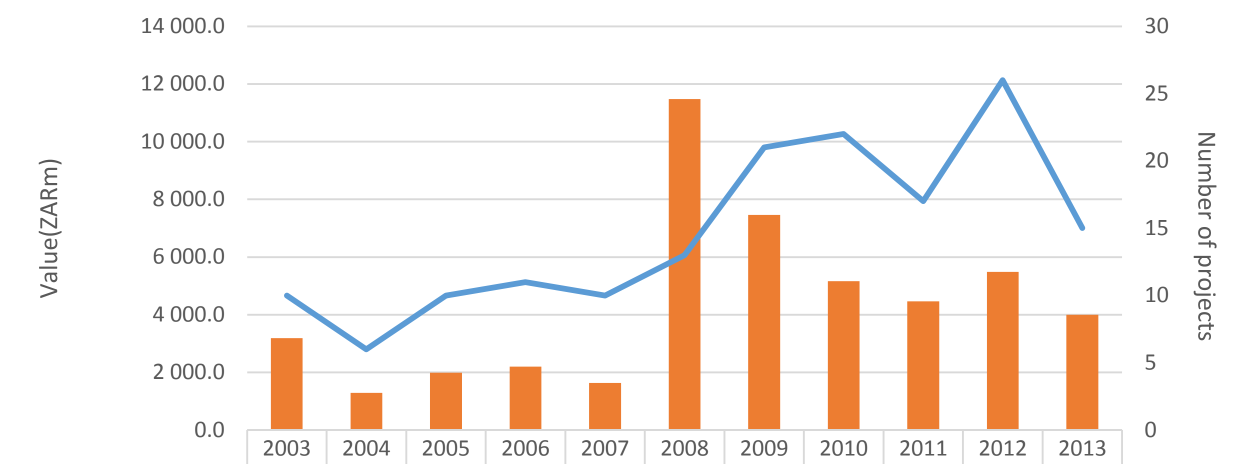


Source: Financial Times, 2013

7.2.2 Cape Town FDI

Inward FDI into Cape Town in terms of capital investment has not recovered to the pre-crisis levels attained in 2008 although capital investments from 2009 to 2013 have far exceeded investments from 2003 to 2007. The number of FDI projects into Cape Town increased from 10 projects in 2003 to 26 projects in 2012, the highest compared to all the years back to 2003. For the current year, the number of FDI projects stands at 15, and the value at just below R4 billion.

Figure 36: Inward FDI into Cape Town (2003 to September 2013)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Capex(ZARm)	3 182.4	1 293.6	1 985.5	2 204.6	1 633.4	11 480.	7 462.6	5 168.0	4 459.6	5 483.7	3 999.1
Projects	10	6	10	11	10	13	21	22	17	26	15

Source: Financial Times, 2013

The focus of FDI included 17 software projects valued at ZAR1.4bn followed by internet publishing and broadcasting at 9 projects valued at ZAR653bn. Real estate received the highest value of investment at ZAR10.8bn followed by wireless telecommunications at ZAR5.3bn.

In terms of outward FDI, Cape Town companies committed ZAR30bn to 104 FDI projects globally between 2003 and September 2013. Most projects have been in food and beverage stores (24 projects; ZAR4.6bn) as well as advertising and PR services (11 projects; ZAR523m).

7.2.3 Investment Facilitation

In the third quarter of 2013, Wesgro facilitated three major investments to the value of ZAR219.4m. One of these investments, in the media and advertising sector was valued at ZAR56.4m, creating an estimated 2,100 jobs. Another investment was in a ZAR143m renewable energy photovoltaic project, creating an estimated 2,265 jobs and the third investment was a ZAR20m project, creating an estimated 40 jobs in retail.

7.2.4 Saldanha Bay IDZ

The Saldanha Bay Industrial Development Zone (IDZ) was officially launched at Saldanha Bay on South Africa's south-western coast on 31 October 2013. Wesgro acted in an administrative role on behalf of the three tiers of government, to secure the designation of the Saldanha Bay Industrial Development Zone.

The Saldanha Bay Industrial Development Zone (SBIDZ) is intended to be an oil and gas and marine repair engineering and logistics services complex, serving the needs of the upstream exploration and production service companies operating in the oil and gas fields in Sub-Saharan Africa. The SBIDZ will include logistics, repairs and maintenance, as well as fabrication activities. The IDZ designation will also afford the SBIDZ the ability to offer a contiguous customs-free area. The SBIDZ Li Co[5] is the implementing vehicle of the SBIDZ and will be responsible for the provision of infrastructure, promotion, management and marketing of the IDZ.

[5] Licensing Company

8. SECTOR FOCUS: OIL AND GAS

The Oil and Gas industry has long been established in Cape Town, with the port acting as a servicing hub for offshore rigs operating along the West Coast of Africa. Milnerton is also the location of the Chevron Refinery, which processes oil piped in from a storage facility in Saldanha Bay, and is responsible for the production of most of the fuel consumed in the Western Cape. The fuel; petroleum and chemicals sub-sector, of which oil and gas is a component constituted 4% of Cape Town's gross value added and grew at 3.8% in 2012.

With the increased exploration activity in the region (discussed below) and the proclamation of the Saldanha IDZ as a hub for servicing the needs of Africa's upstream oil and gas sector, it is anticipated that this sector will become increasingly important as a source of output and employment in the Western Cape and in Cape Town.

8.1 Context for the Oil and Gas Industry in South Africa and Cape Town

For many years South Africa's approach to the oil and gas sector has been opportunistic, taking advantage of activities in the rest of Africa and in other regions of the world. This led to an industry that could best be described as seasonal and restricted to certain segments of the upstream value chain. Significant discoveries of oil and gas in Africa and increased regional interest in exploration activity in South Africa, both onshore and offshore, has changed the domestic landscape for upstream and midstream oil and gas industry activity in South Africa. Consequently, there is a real opportunity for South Africa, particularly Cape Town, to leverage its infrastructure, location, expertise and existing downstream industry to create permanent hubs to service the African oil and gas industry. This has already started taking place, with the recent acquisitions of local firms by international field service companies and the setting up of official offices in and around Cape Town by many upstream and midstream exploration and field service companies.

8.2 Prospects for the Oil and Gas Industry

In the next five years, four key areas will drive activity in the Oil and Gas industry in Sub-Saharan Africa viz. onshore activity, offshore activities, opportunities in the rest of Africa and new developments in the sector.

South Africa Onshore Activity

Shale Gas

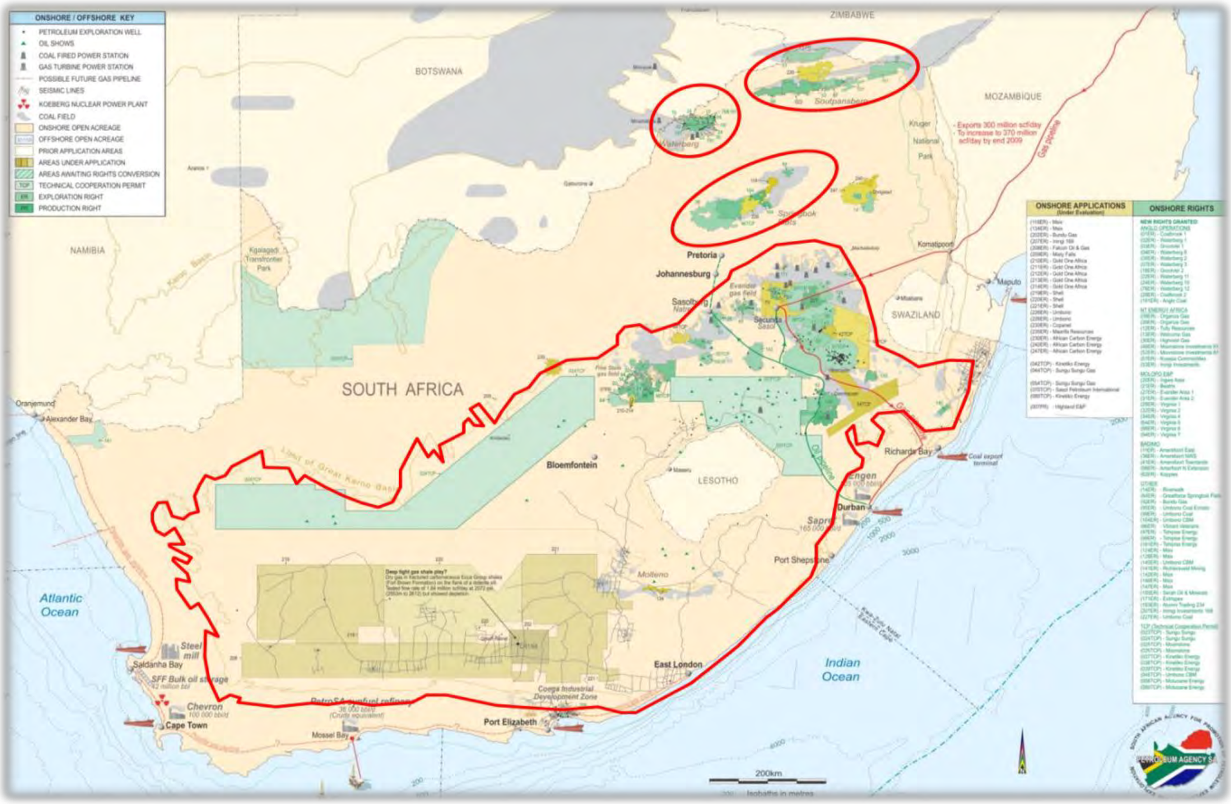
South Africa is ranked between fourth and eighth for shale gas exploration potential with 390 tcf[6] of recoverable resource. The Petroleum Agency of South Africa (rather more conservative) estimate puts the extent of the recoverable resource at 30 tcf. To put this into perspective, the Mossel Bay Gas Project was built on the basis of a proven reserve of 1.2 tcf. In terms of legislation, technical regulations for the future exploitation of this resource were released for comment by the South African government in October 2013. Following environmental impact assessments, it is expected that limited exploration activity will commence in 2015/2016.

Coal Bed Methane

Interest in exploration for coal bed methane in South Africa has increased recently as it offers the potential to be an alternative energy source which is more environmentally friendly.

[6] Trillion cubic feet – one barrel of oil is roughly equivalent to 6000 cubic feet.

Figure 37: Onshore Shale Gas and Coal Bed Methane Areas of Interest

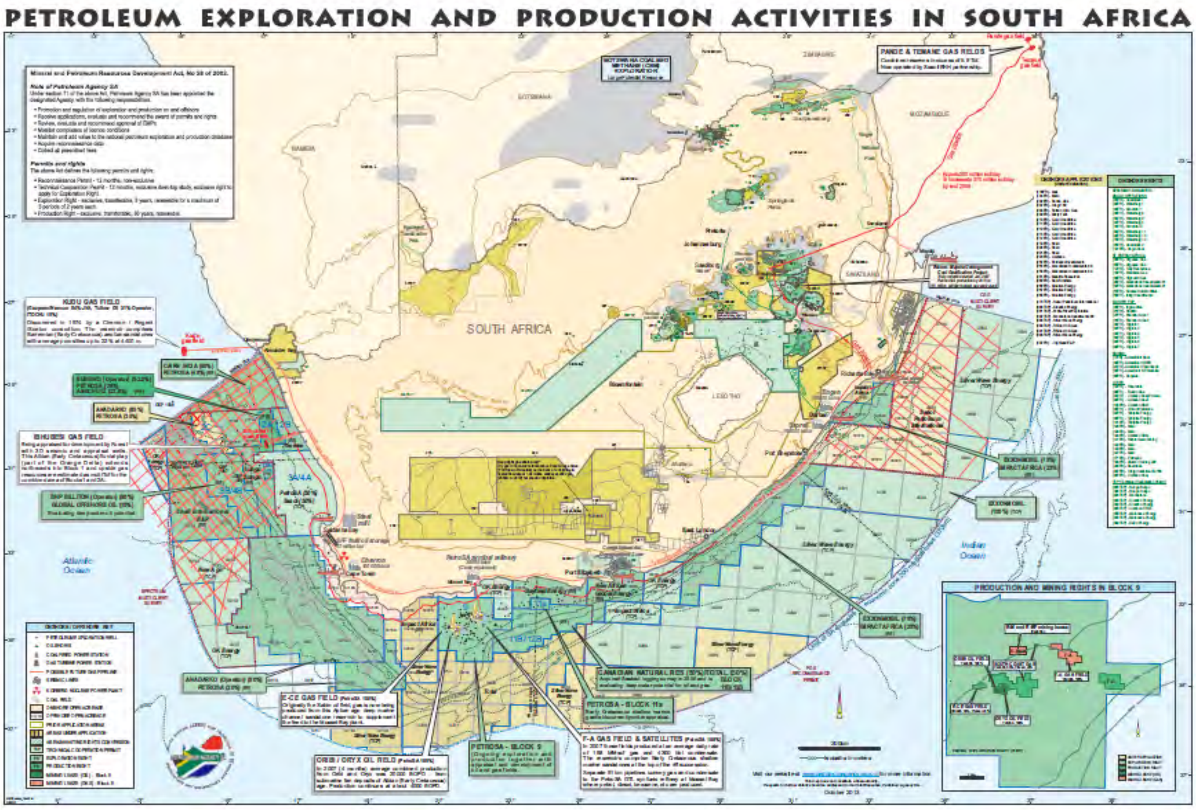


Source: PASA, 2013

South Africa Offshore Activity

In the last ten years, offshore exploration activity has been limited to the state-owned petroleum company, PetroSA. However, within the next 18-24 months thirty exploration licences will be issued to twenty companies for offshore exploration. This could, however, be delayed if some of the issues related to legislative uncertainty are not resolved.

Figure 38: Petroleum, Exploration and Production Activities in South Africa



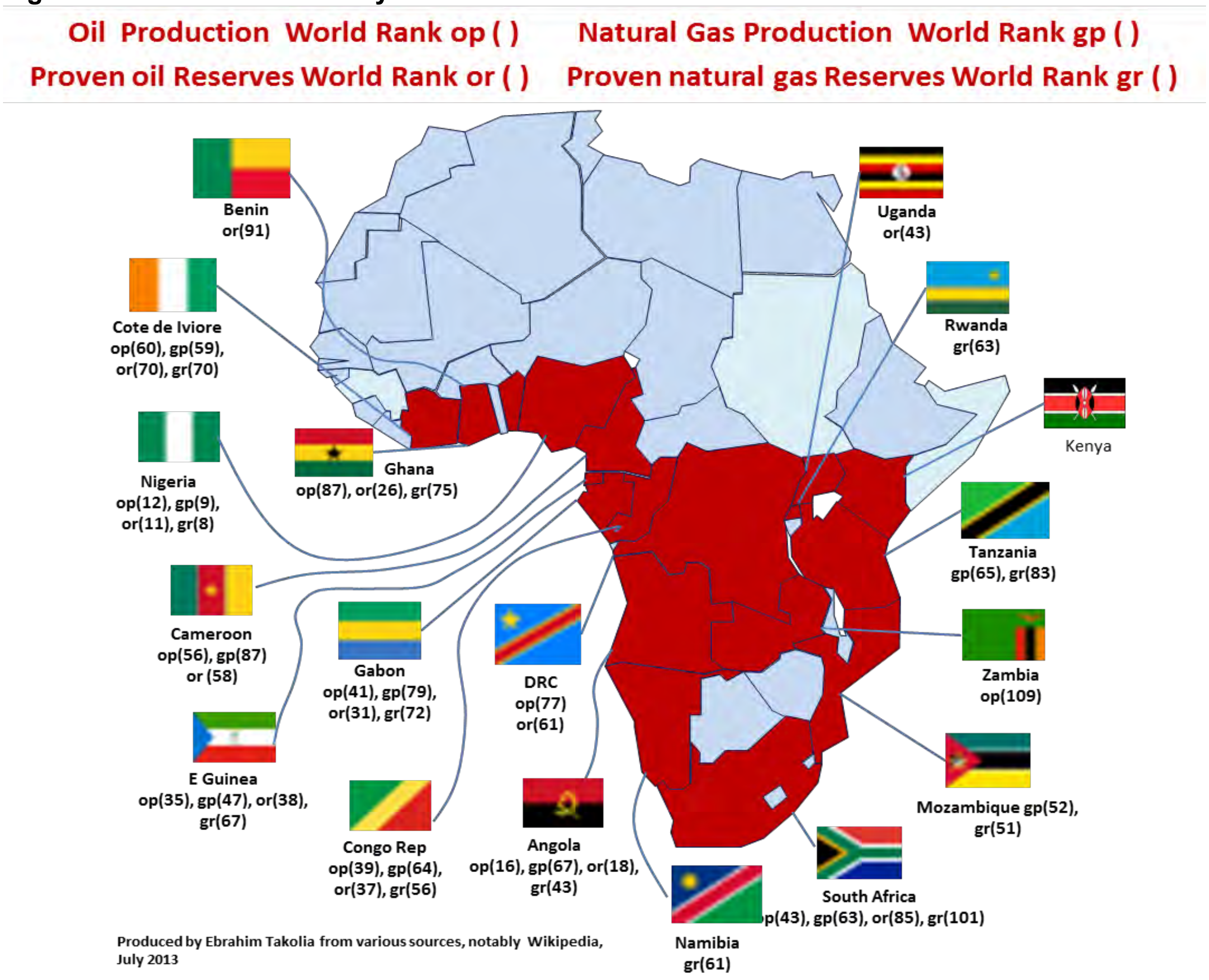
Source: PASA, 2013

Africa Oil and Gas Activity

The significant exploration activity has resulted in oil and gas reserves increasing dramatically in the last few years, with some of the biggest new discoveries made in Sub-Saharan Africa. EIC DataStream (2013), which tracks over 8,500 projects across the global energy industry, shows there are currently 715 active and future energy projects throughout Africa. Of these, 361 are in the upstream oil and gas sector, 72 in the midstream sector, and 134 downstream. However, Africa still only accounts for 4.2% of world oil reserves and 3.3% of world gas reserves.

Many of the world’s key producing fields are now budding or seriously depleted, and continued demand means companies and governments are looking to new, often completely unknown regions for supply. As such Africa is an attractive destination for large scale oil and gas exploration as countries with established industries bring their oil and gas resources under state control.

Figure 39: Oil and Gas Activity in Africa



Africa	Production / Reserves	Share of World
Oil Production (bbl/day)	5 577 961	6.37%
Proven Oil Reserves (MMbbl)	61 518	4.15%
Gas Production (m^3/pa)	106 044 000 000	3.16%
Proven Gas Reserves (m^3)	6 114 594 260 000	3.26%

bbl = 1 barrel
MMbbl = 1 million barrels
(m^3/pa) = cubic metres per year

8.3 New developments in the industry

The following major projects are expected to be undertaken in the next few years:

- Refineries: Clean fuel technology upgrades and a possible new refinery in South Africa.
- Terminals: Storage, blending and import terminals.

These projects have the potential to generate significant economic activity in the oil and gas industry in South Africa and will require planning and resources to bring them to a successful conclusion. However, these projects have the potential to address significant bottlenecks in the local oil and gas industry although the industry faces key challenges with respect to skills and expertise to deliver on these projects. The South African Oil and Gas Alliance (SAOGA) is working on a project to obtain information to establish how best to deal with some of the challenges to these projects.

Oil and Gas Academy

To address the expected skills challenges associated with the increased activity within the industry, SAOGA has consulted widely with industry, and further education and higher education institutions on the issue of developing a coherent instrument for oil and gas skills development delivery. The SAOGA Oil and Gas academy will create an enabling environment for human capital development in the oil and gas industry in South Africa and beyond. The Academy will provide a coherent training and skills development solution to the oil and gas sector, in collaboration with local and international academic institutions and public and private training providers. The intention is to provide improved access to globally benchmarked oil and gas training programmes in the Southern African region.

9. INFRASTRUCTURE

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 the city is both globally and locally 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 highway routes connecting it to the rest of the country, as well as an extensive railway network. This section looks to provide some statistics relating to the performance of these crucial transport infrastructure facilities on a quarterly basis.

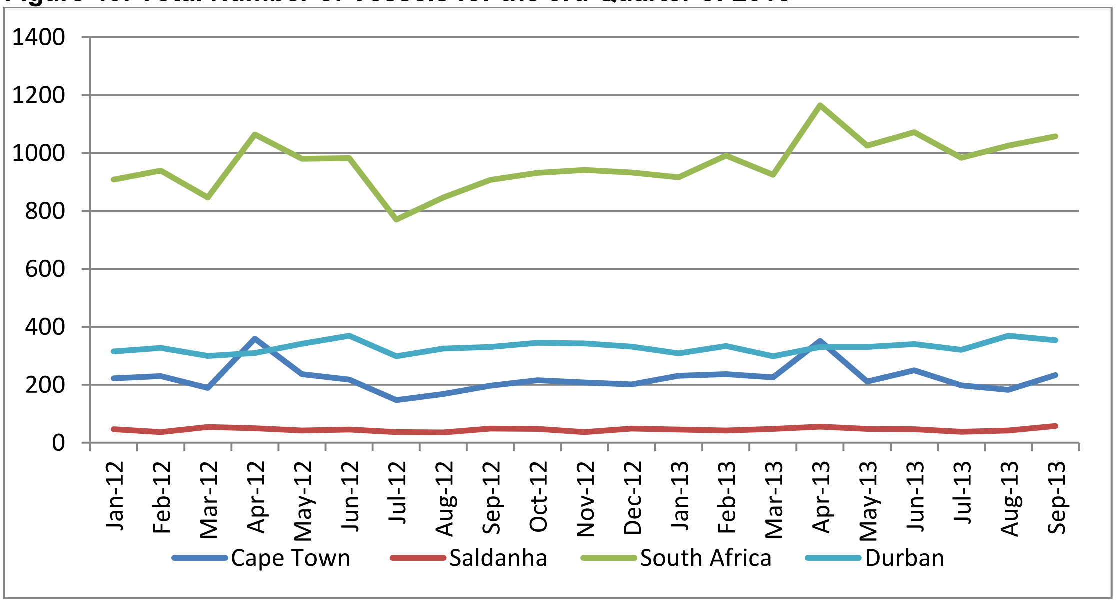
9.1 Cape Town Port Movements

9.1.1 Volume of Vessels

The total volume of vessels arriving in South African ports in the 3rd quarter of 2013 decreased from 3,262 in the 2nd quarter to 3,068 in the 3rd quarter of 2013 (a decrease of 194 vessels). The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the 3rd quarter was 613 vessels (accounting for 20% of total vessels). This represented a substantial decrease on the previous quarter's figure of 812 vessels (25%) but was an increase from the 512 vessels recorded in the 3rd quarter of 2012. Despite this absolute increase, there was no increase in the share of national vessel movements which remained at 20%.

The Port of Saldanha, the closest port to the Port of Cape Town, experiences far fewer vessel arrivals per month. This is because the Port of Saldanha currently focuses on the shipment of bulk cargo, predominantly steel and iron ore and does not currently have container handling facilities, thereby limiting the volume of vessels utilising the Port. The average tonnage per vessel handled at Saldanha, however, is substantially higher than that handled at the Port of Cape Town. The Port of Durban on average has more vessel movements than the Port of Cape Town, with the exception being in the peak fishing month of April.

Figure 40: Total Number of Vessels for the 3rd Quarter of 2013



Source: Transnet, September 2013

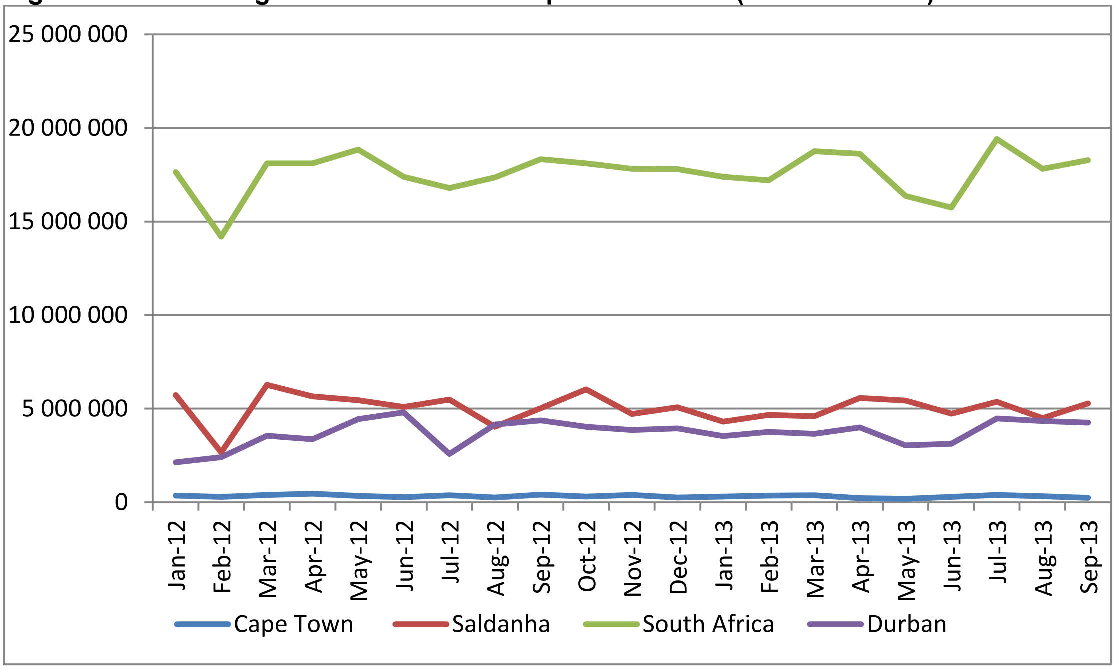
9.1.2 Cargo Handling (Gross Tonnage)

In the 3rd quarter of 2013 South African ports handled 55.5 million metric tonnes of cargo. This compares to 50.7 million in the 2nd quarter of 2013 and 52.5 million metric tonnes in the corresponding period in 2012.

Following the national trend, Durban and Cape Town both experienced an increase in cargo handling in the 3rd quarter, while Saldanha experienced a decrease in cargo handling activity (from 15.7 million tonnes in the 2nd quarter to 15.1 million tonnes in the 3rd quarter of 2013). In contrast, Cape Town increased cargo handling from 0.7 million metric tonnes in the 2nd quarter to 0.9 million metric tonnes in the 3rd quarter of 2013. On an annual basis, however, cargo handling at the Port of Cape Town showed a slight decrease from 1 million metric tonnes handled in the corresponding period in 2012.

The sharp increase in cargo handling on a quarter-by-quarter basis may be as a result of the return to normal operations at the ports in the 3rd quarter after industrial action disruptions in the 2nd quarter reduced handling in the ports.

Figure 41: Total Cargo Handled for the 3rd quarter of 2013 (metric Tonnes)



Source: Transnet: September 2013

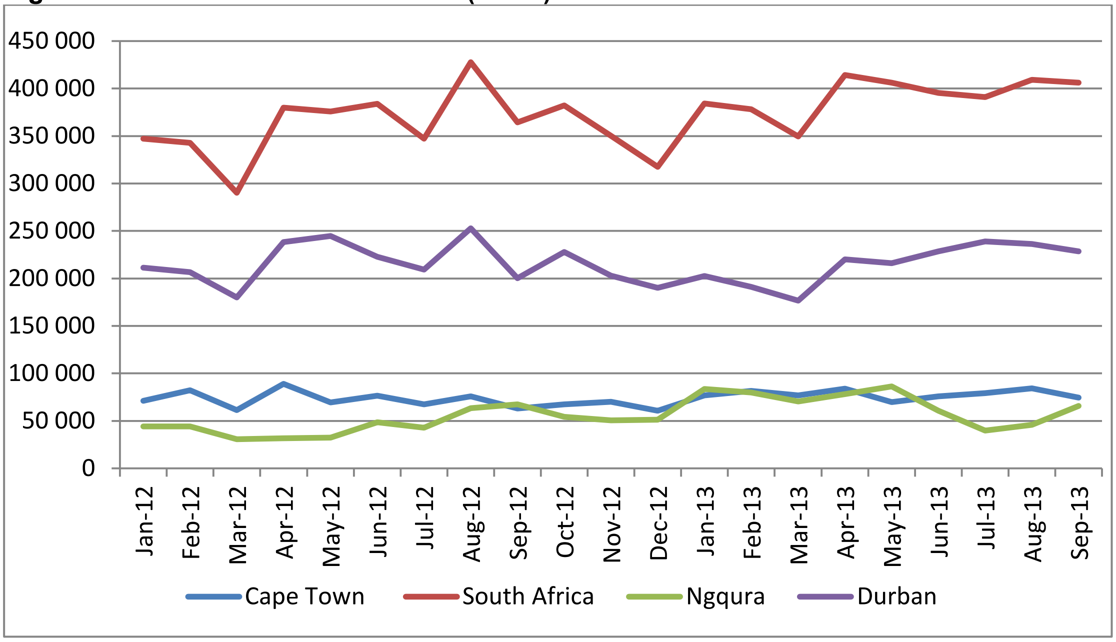
9.1.3 Container Handling

The Port of Durban is South Africa's main container handling port, contributing more than half (58%) of the total containers, handled in South African oorts in the 3rd quarter of 2013. Although the Port of Cape Town is the second busiest container handling port in the country, it handles far few containers than Durban, accounting for only 20% of all containers handled in South African ports in the 3rd quarter of 2013.

Container traffic is very seasonal as Figure 42 indicates, so it is therefore more meaningful to compare total containers handled over the period of a year. Over this period (3rd quarter 2013), the number of containers handled at the Port of Cape Town has been relatively consistent with a moderate increase from 205,946 containers handled in 2012 to 237,766 containers handled in 2013.

Recently the Port of Cape Town has appeared to be losing some ground to the Port of Ngqura which has shown a large increase in containers handled, performing equally well as the Port of Cape Town over the first two quarters of 2013. In the 3rd quarter, however, the Port of Ngqura recorded a 33% reduction in TEUs handled quarter-on-quarter, also resulting in lower year-on-year performance. The total number of containers handled at the Port of Ngqura in the 3rd quarter of 2013 was 151,268 compared to 173,433 containers in the 2nd quarter of 2012. Despite Ngqura's poor performance in the 3rd quarter of 2013, the Port of Ngqura, as a large, new, purpose built port, may overtake the Port of Cape Town with regard to container handling in the near future due to capacity constraints in the Port of Cape Town.

Figure 42: Total Containers handled (TEUs)



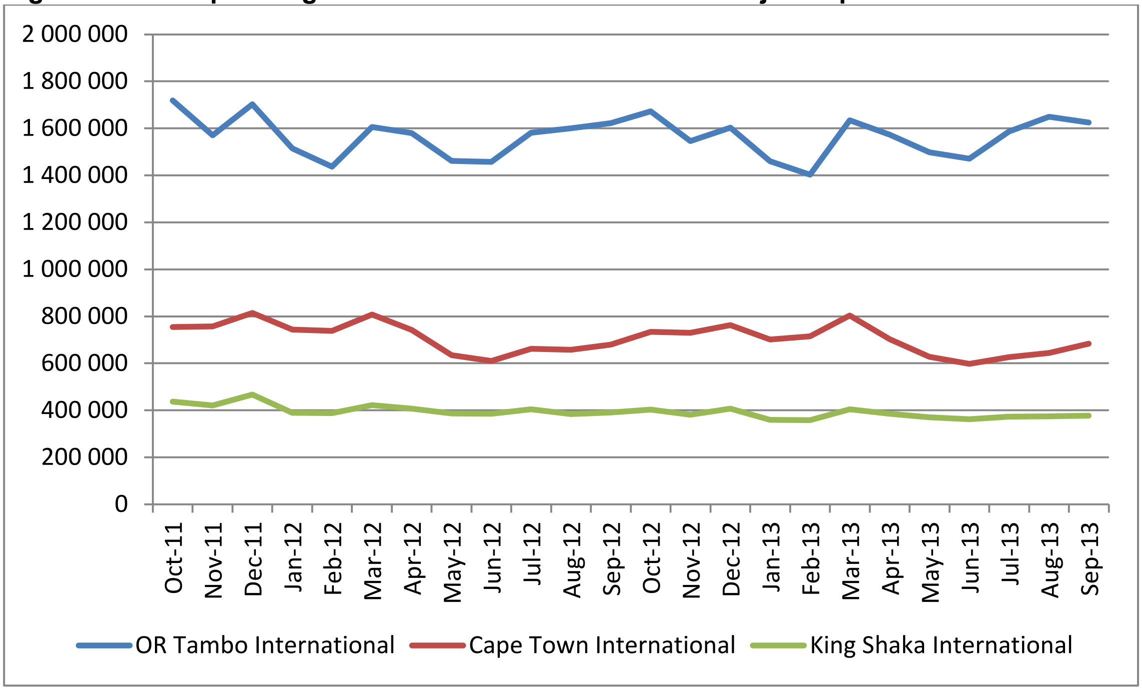
Source: Transnet: September, 2013

9.2 Cape Town Airport Statistics

9.2.1 Total Passenger Movements

Cape Town International, voted the best airport in Africa in 2013, is South Africa's 2nd busiest airport and recorded 1.95 million total passenger movements in the 3rd quarter of 2013 as compared to 4.86 million passenger movements at OR Tambo and 1.12 million at King Shaka International during the same period. Total passenger movements at Cape Town International for the 3rd quarter of 2013 were slightly lower than in the 3rd quarter of 2012, in which 2 million passenger movements were recorded. King Shaka International displayed a similar trend to Cape Town International, also recording lower total passenger movements, year-on-year for the period under review. In contrast OR Tambo International Airport recorded an increase in passenger numbers in the 3rd quarter. A quick analysis of the graph below indicates the more pronounced degree of seasonality in Cape Town's passenger movements while OR Tambo shows a more erratic distribution. This is reflective of Cape Town's standing as a popular tourist destination, subject to seasonal tourism trends, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

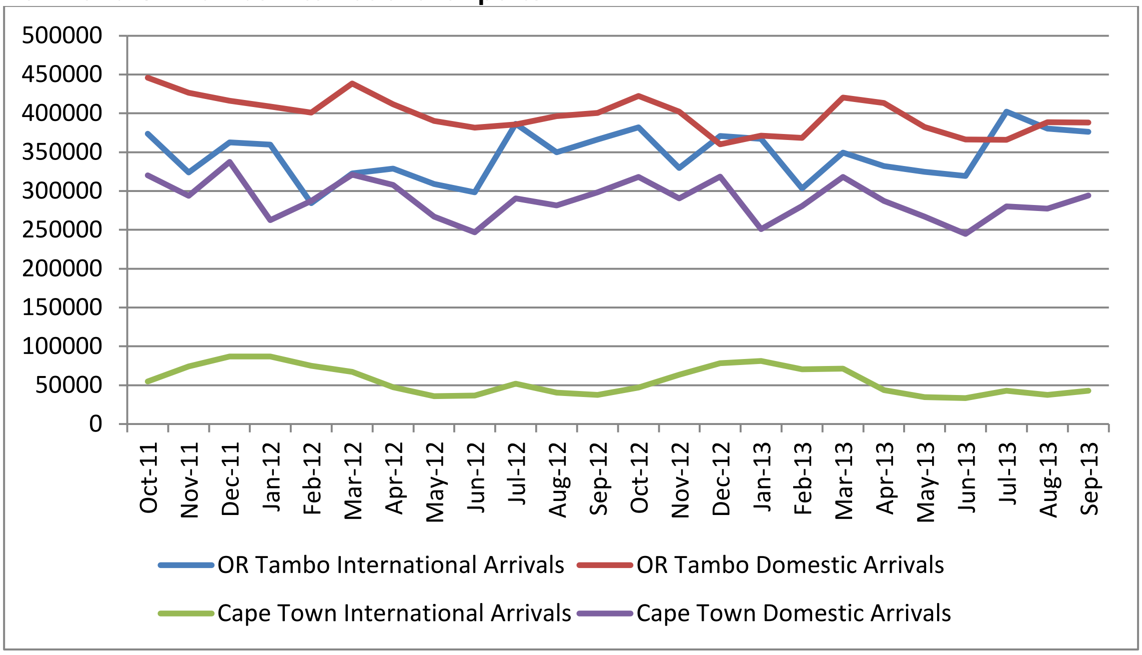
Figure 43: Total passenger Movements at South Africa's Major Airports



Source: ACSA, September 2013

9.2.2 International Versus Domestic Arrivals for South Africa's Two Busiest Airports

Figure 44: A Comparison of International and Domestic Passenger Arrivals for Cape Town and OR Tambo International airports



Source: ACSA, September 2013

The direct international proportion of passenger arrivals to Cape Town International, for the 3rd quarter of 2013, constituted 13% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's domestic arrivals constituted 50% of its total passenger arrivals.

This reflects the fact that OR Tambo is operated by the Airports Company of South Africa (ACSA) as the international airport hub for South Africa. While Cape Town International hosts 15 international airlines with 89 international flights a week, the figure for direct international arrivals highly underestimates total international tourists arrivals in the city. This is because a large number of international tourists take advantage of the greater number of flight options to Johannesburg by flying to OR Tambo first and thereafter catching a domestic flight to Cape Town. Direct international arrivals to Cape Town display a far greater seasonal pattern than international arrivals to Johannesburg, with the summer months of December to March being the peak period for international arrivals. Cape Town's domestic arrivals, however, show far more variation with peaks and troughs dispersed throughout the year (clearly visible in figure 44). The total number of arrivals at Cape Town International in the 3rd quarter of 2013 decreased by 2.3% year-on-year, with international arrivals decreasing at the highest rate.

10. TOURISM DEVELOPMENTS

10.1 International Tourism Developments

The United Nations World Tourism Organisation's (UNWTO) World Tourism Barometer for October 2013 finds that the number of global tourist arrivals for the period January to August 2013 was a record 747 million. This constituted a 38 million (or 5%) increase in tourist arrivals over the corresponding period in the previous year. The Northern Hemisphere summer months of June (6%); July (3%) and August (5%) all enjoyed robust tourist arrival growth rates. In particular, tourist arrivals in June hit the 100 million mark for the first time in that particular month. While tourist arrivals exceeded 125 million in both July and August, the weaker comparative growth in July (3%), can be attributed to "a slowdown in travel" in countries with large Muslim countries during this period. This is because the month of Ramadan fell largely within July in 2013.

In terms of regional performance, growth in international arrivals for the first eight months of the year was driven by strong arrivals growth of 5.4% (equivalent to 20 million more arrivals) in Europe. Growth in tourist arrivals in Europe was led by Central and Eastern Europe (7.4%) and Southern and Mediterranean Europe (6.1%). The Asia and Pacific region grew faster (6.3%) than Europe as a whole but only contributed half the new arrivals (10 million). In the Asia Pacific region, growth was led by South East Asia (11.8%) and South Asia (6.1%). On the other end of the spectrum the Americas experienced weaker than anticipated tourist growth of 3.2% for the first 8 months of 2013, weighed down by poor growth in the Caribbean (0.1%) and South America (1.6%). After posting very high growth figures in the first three months of the year, on-going political unrest, particularly during July (-20.4% arrivals growth) and August (-13.5%) has undermined the rate of growth in the Middle East (6.8%). Africa's performance was more moderate, recording a tourist growth rate of 5% for the first 8 months of 2013. Buoyed by a tourism recovery after earlier political unrest in Egypt, North Africa (6.1%) grew its tourist arrivals faster than Sub-Saharan Africa (4.4%).

The UNWTO had initially forecast a tourist arrivals growth rate of between 3-4% for the completed year 2013. Considering the strong performance of countries in July and August, and the positive findings of a tourism business survey conducted by the UNWTO, the initial forecast for 2013 will most likely need to be revised upward.

10.2 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, particularly in the context of continuing political uncertainty in Egypt. In July 2013, 789,168 foreign tourists visited South Africa. Poor tourist arrivals growth of only -0.5% year-on-year, however, was recorded for the period. Overseas tourist arrivals growth was weighed down by negative arrival growth rates from North America (-2.1%); Asia (-8.0%); Central and South America (-6.3%) and the Middle East (-17.6%). Growth in tourists from Africa, the country's largest tourist source market marginally declined by -0.2%. These trends would seem to be validated by the decrease in international arrivals at the country's main airports in July 2013 (see previous chapter).

The negative trend in tourist numbers is seemingly out of sync with the arrival growth figures for Sub-Saharan African in July 2013 (3.9%). While it is unclear what the exact reason for the overall decline in tourist arrivals in the month of July is, two contributing factors for lower arrivals can be identified. The first factor is simply that July 2012 was a bumper month for tourist arrivals (with total arrivals growth of 10.4%), and arrivals in July 2013 have failed to sustain this high number of tourist arrivals. The second factor contributing to lower tourist arrivals in July 2013 is the fact that there was a drop-off in the number of Muslims who travelled during the period as a result of Ramadan. This is would appear to be corroborated by the large decrease in tourist arrivals from the Middle East as well as other countries with large Muslim populations. However, while world arrivals growth in July was lower, 3% compared to 6% for June, it wasn't negative as was the case in South Africa during July. Rather it seems that tourist arrivals in South Africa have been on a declining trend since March of this year. Nevertheless, South Africa's arrivals growth in the first 7 months of the year as compared to the first 7 months of the previous year was a healthy 4.3%.

In terms of the overseas market, Europe is the country's biggest tourist source market with 104,600 tourist arrivals in July 2013, growing at 1.8% annually. Within the European region, the UK; Germany and the Netherlands were South Africa's largest individual source markets. Arrivals from Germany (4.5%) and the Netherlands (6.8%) grew strongly while the UK, South Africa's second largest overseas tourist source market, grew at a more sedate 0.8%. Overall, South Africa's largest source market during the period was the USA with 34,584 arrivals. This figure however, represented a slight decrease (-0.7%) in the number of arrivals from the region in the previous year.

One of the main reasons for the lower arrivals total in July 2013 was the decrease in arrivals from emerging market countries. These countries have previously been the key contributors to arrivals growth in South Africa, with China; India and Brazil leading the way. In July 2013, however, arrivals from all three countries dropped significantly. While arrivals growth from these countries may have dipped in July, they are still responsible for much of the growth in tourist arrivals to South Africa for the period January to July 2013 as compared to January to July 2012. The BRIC countries combined, contributed 14.4% of South Africa's overseas tourist arrivals during January to July 2013, but perhaps more importantly, contributed over 30% of the annual growth in arrivals in that period. South Africa needs to continue to target these countries as major tourist source markets in the future. At the same time, however, tourism promotion is a balancing act as the country's traditional tourist markets like the UK need to be maintained, while the growing African leisure-tourism market needs to be more intentionally exploited.

Table 11: International Tourist Arrivals in South Africa

	Total Arrivals			
Region	**July 2013**	**July 2012**	**%change**	**% change Jan-July 2012 to Jan-July 2013**
Europe	104,600	102,721	1.8%	5.0%
• Russia	886	918	-3.5%	9.9%
North America	39,124	39,969	-2.1%	2.7%
Central & South America	11,052	11,789	-6.3%	3.1%
• Brazil	6,916	7,732	-10.6%	2.3%
Australasia	13,402	12,632	6.1%	2.8%
Middle East	3,665	4,448	-17.6%	-1.1%
Asia	32,277	35,088	-8.0%	9.4%
• China	11,642	12,076	-3.6%	19.3%
• India	7,935	8,720	-9.0%	8.2%
Overseas Total	204,120	206,656	-1.2%	5.0%
Africa	583,503	584,590	-0.2%	4.1%
Total	**789,168**	**793,245**	**-0.5%**	**4.3%**

Source: South Africa Tourism, August 2013

10.3 Cape Town's Tourism Developments

10.3.1 Tourism Accommodation in Cape Town

Table 12: Income Derived from Tourist Accommodation – South Africa

Indicator	July		August		September		3rd quarter average	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Occupancy rate	53%	53.2%	55.5%	53.8%	59.1%	57%	55.9%	54.6%
Average room rate	R822	R768	R838	R800	R769	R749	R810	R772
Revenue per room	R436	R409	R465	R430	R455	R427	R452	R439

Source: Cape Town Tourism, November 2013

Accommodation spend typically constitutes the largest proportion of total visitor spending at a destination. It thus has the largest downstream impacts for 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 12, are derived from a survey of 59 tourism accommodation establishments in the Cape Town metro area.

In line with the decrease in tourist arrivals to South Africa in July 2013, occupancy rates at city accommodation establishments dropped by 0.2 percentage points when compared to the previous year. This drop in occupancy, was however, counterbalanced by a 7% increase in the average room rate (average price of rooms), ensuring that revenue per room increased from R409 to R436. Subsequent annual increases in occupancy rates in August and September meant that, despite the worse performance in July, the average occupancy rate of accommodation establishments in the city increased by 1.3 percentage points year-on-year. These statistics point to the continued health of the tourism industry in Cape Town.

Dissecting the statistics presented in Table 12 in greater detail, it is clear that occupancy rates tend to rise as the city emerges from winter – with September having an almost 6 percentage point higher occupancy rate than July. Interestingly, the average price of rooms is lower in September than in July, despite increased demand. This may be reflecting a lower number of rooms supplied by establishments in July combined with a strategy of maximising the return from rooms that are made available.

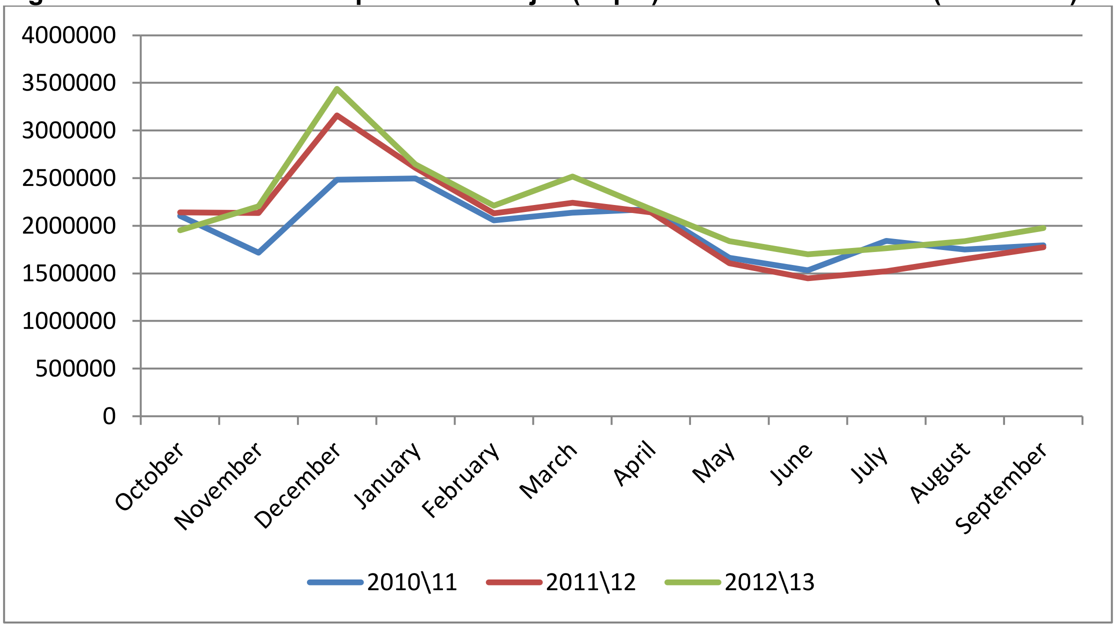
In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in September were achieved in hotels (60.2%). The type of establishments which experienced the greatest increase in occupancy rates, however, were guesthouses (3.1%). Guesthouses also experienced the largest increase in revenue per room (15.5%). Spatially, the highest occupancy rates in the City are to be found on the Atlantic seaboard (71.4%).

10.3.2 Performance of Cape Town's Top Visitor Attractions

Cape Town is an internationally renowned tourist destination boasting iconic and world class tourist attractions. Attractions of the calibre of Table Mountain, recognised as one of the 7 new wonders of the world; the V&A Waterfront with its cluster of international up-market accommodation; eateries and retail outlets; and the famed Robben Island world heritage site, together with a plethora of other attractions, drive the tourism economy of the city. These attractions are the reason that leisure tourists visit the city and they sustain the operation of tourism-focused businesses ranging from accommodation to craft markets. It is thus intuitive that an analysis of the performance of Cape Town's top attractions should be indicative of the performance of the leisure tourism market in Cape Town as a whole.

For this section visitor statistics for six major tourist attractions in Cape Town were reviewed. These six attractions 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 comprise of the world famous Table Mountain (specifically the cableway), Kirstenbosch Botanical Gardens, Boulders Beach, Cape of Good Hope National Park, the V&A Waterfront and Robben Island. Figure 45 indicates the cumulative number of visits by tourists to these six tourist attractions since January 2011. While all of these attractions are open to everyone, resident or non-resident; domestic or international, they attract large proportions of tourists and as such are used in this section as a proxy for tourism demand in Cape Town.

Figure 45: Total Visits to Cape Town's Major (Top 6) Tourist Destinations (2010-2014)



Source: Derived from Wesgro data, November 2013

From the graph (Figure 45 above), it is clear to see that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality. The 3rd quarter of 2013 shows a 2% reduction, quarter-on-quarter, in number of visits to these attractions. This typifies the seasonal nature of tourism activity in the city of Cape Town, as lower tourist volumes are experienced in the winter months of July and August. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, the 3rd quarter of 2013 indicates a 19% increase in visits over the corresponding period of 2012.

It is important to note, however, that the visitor attraction data is strongly skewed by the V&A Waterfront. The V&A contributes more than 89% of the total number of visits to the six attractions analysed for the period under review. This includes a greater proportion of non-tourists than the other five attractions and is possibly as much representative of resident retail trends as it is of tourism trends. If the V&A is removed, the number of visits to the five attractions decreases to 619,070 in the 3rd quarter of 2013 and the growth rate in visitors drops to 6.8%. This rate is skewed downward by a large drop in visitors to the Cable Way (explained below). Overall the city's main attractions can be said to have continued to increase in popularity.

10.3.3 Most Visited Tourist Attractions

Table 13 indicates that the V&A Waterfront undisputedly outperforms (in terms of number of visits) 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 5 attractions. In this respect Table Mountain National Park: Cape of Good Hope managed to record the 2nd highest visitor numbers for the 3rd quarter of 2013, with 183,169 visits while the Kirstenbosch gardens recorded the third highest number of visits (129,649).

Table 13: Ranking of the Most Visited Tourist Attractions in Cape Town

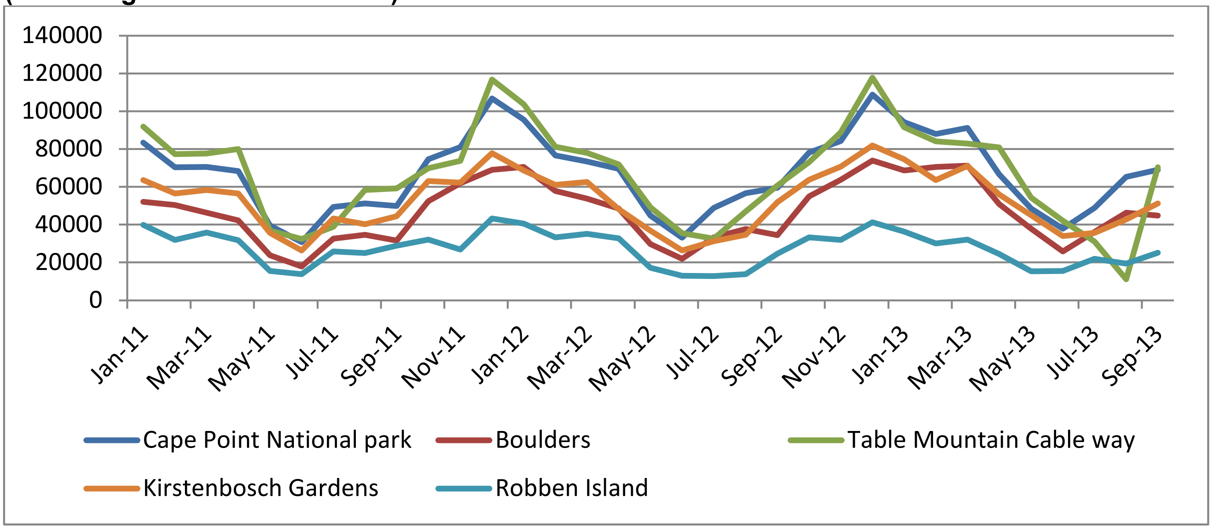
Rank	**Q3 2013**	**Q2 2013**	**Q3 2012**	**Annual Growth Rate %**
V&A Waterfront	**4,955,513**	**5,079,286**	**4,109,583**	20.58%
Table Mountain National Park: Cape of Good Hope	**183,169**	152,886	**164,994**	11.02%
Kirstenbosch Gardens	129,649	134,750	117,749	10.11%
Table Mountain National park: Boulders Beach	127,253	114,493	105,503	20.62%
Table Mountain Aerial Cable way	112,548	**177,257**	140,303	-19.78%[7]
Robben Island	66,451	55,240	51,146	29.92%
Total	5,574,583	5,713,912	4,689,278	18.88%

**most visited tourist destination in green, Second most visited tourist destination in red
Source: Wesgro, September 2013; Robben Island Museum, November 2013

Strong annual growth rates were recorded for Robben Island (29.9%); Boulders Beach (20.62%) and Table Mountain National Park: Cape of Good Hope (20.9%). In contrast, the negative growth in the number of visits to the Table Mountain aerial cableway relegated it from second most visited attraction in the 2nd quarter of 2013, to the fifth most visited attraction in the 3rd quarter of 2013. Table Mountain aerial cableway was the only attraction to experience a negative annual growth rate (-19.78%) in the number of visits. This negative growth was due to an annual maintenance period of five weeks in the month of August, where the aerial cable way was closed to the public. Figure 46 clearly reveals the decline in visitors to the Table Mountain aerial cableway in the month of August, as a result of the maintenance work. After a relatively poor performing 2nd quarter, Robben Island rebounded strongly in the 3rd quarter of 2013, posting the highest annual growth rate (29.9%) of all the major attractions. All attractions are subject to strong seasonality, with peak visitor activity occurring in the November to March period.

[7] The Cableway was closed in August for maintenance

Figure 46: The Total Tourists Visits to the Top 5 Tourist Destinations of Cape Town (excluding the V&A Waterfront)



Source: Derived from Wesgro data, November 2013

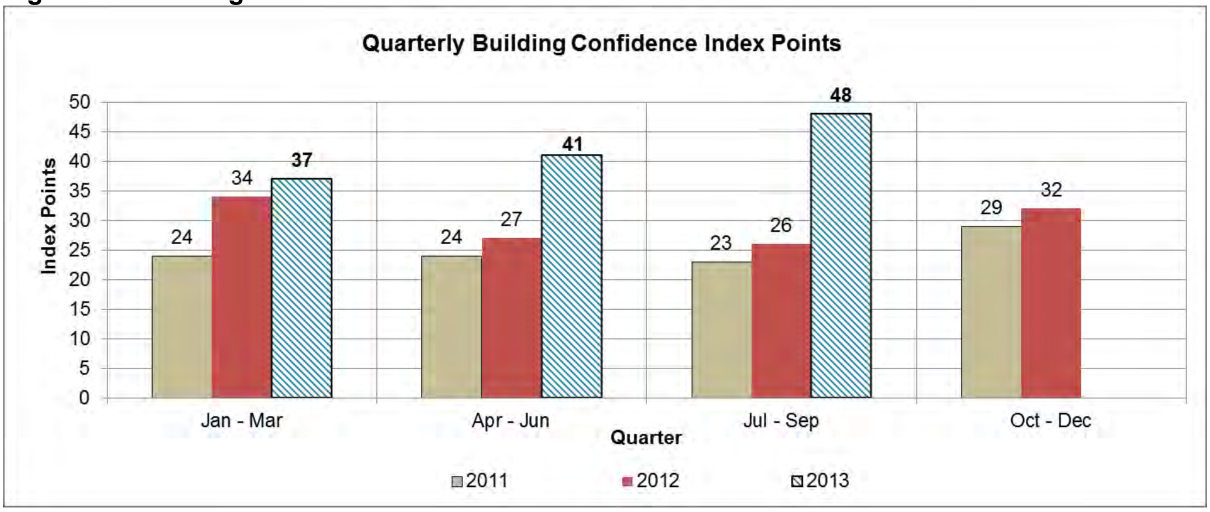
11 BUILDING DEVELOPMENTS

This chapter focuses on building developments as recorded by the City of Cape Town for the 3rd quarter of 2013. Building development statistics are key inputs in deriving Gross Domestic Product for South Africa, and offer important insights into confidence levels in the national economy. From the City's perspective building plan submissions and building plans completed are key indicators for the level of economic development occurring within the city.

11.1 Construction Industry Overview

Chapter 5 showed that output in the national construction industry grew by 2.1% quarter-on-quarter in the 3rd quarter of 2013. Compared to the same period in the previous year, the industry recorded a growth rate of 2.9%, making it the fastest growing industry in South Africa on a year-on-year basis. The Western Cape recorded a slightly lower quarterly growth rate in the construction industry (1.9%) than the national growth rate in the industry, but a higher year-on-year growth rate of 3.1%, suggesting a stronger long-term performance by the construction sector within the province.

Figure 47: Building Confidence



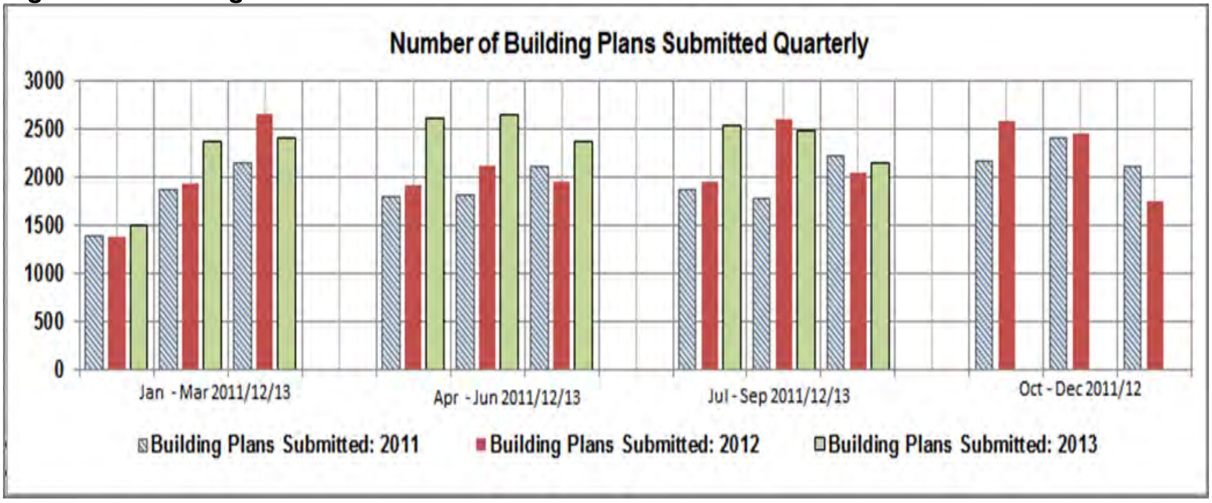
Source: BER, September 2013

The increased growth performance of the construction industry in the 3rd quarter is also reflected by the findings of the FNB Composite Building Confidence Index. The Building Confidence Index reveals the percentage of respondents, namely, architects; quantity surveyors; and contractors and manufacturers of building material, that are satisfied or wary of the prevailing business conditions. The Index rose by 7 index points to a new five-year high of 48 points in the 3rd quarter of 2013, driven largely by increased confidence in the residential sector as the property market begins to pick up again. While this increased level of confidence can be expected to result in increased building activity, confidence in the industry remains weak, and is far below the heights of 75+ index points enjoyed by the industry prior to the global recession.

11.2 Building Plan Applications in Cape Town

Building plans submitted to the City of Cape Town in the 3rd quarter of 2013, declined by 6.5% compared with the previous quarter. Figure 48, however, provides an annual comparison of the number of building plans submitted in each of the quarters over the past three years. It clearly depicts the growth in the number of building plans submitted to the City in the 3rd quarter of 2013 as compared to the same period in 2012 and 2011. The year-on-year growth rate in the number of building plans submitted in the 3rd quarter of 2013 is 8.2%. While the number of building plans submitted is certainly an indicator of the growing confidence of key construction industry stakeholders, and points to a more optimistic view of the future performance of the industry, it does not measure actual increased activity in the construction industry within Cape Town. The better indicator of actual growth in the industry is in the number of Building plans completed. Building plans completed represents actual construction activity in the 3rd quarter, as opposed to building plans submitted which represents the expected level of construction activity within the future.

Figure 48: Building Plans Submitted



Source: City of Cape Town, Planning and Building Development, 2013

11.3 Building Plans Completed

While building plan approvals are required to have a turnaround time of 30-60 days after submission, the completion of building work can take place up to 5 years after approval. The completion of building plans is reflective of 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 14: Building Plans Completed in the 3rd Quarter of 2013

	Cape Town		South Africa	
Measure	**Number/Value**	**year-on-year change**	**Number/Value**	**year-on-year change**
Building Plans Completed	7,797	30.8%	N/A	N/A
Value of Building Plans Completed	R3,841 million	47.8%	R14,146 million	19.9%

Source: City of Cape Town; StatsSA, 2013

Table 14, compares the number of completed building plans in Cape Town in the 3rd quarter of 2013 to the number of completed building plans in South Africa over the same period. The statistics presented in the table for Cape Town and South Africa show further evidence of increasing confidence in the construction industry.

The value of building plans completed in Cape Town in the 3rd quarter amounted to R3.8 billion which accounted for 27.2% of the total value (R13 billion) of building plans completed in South Africa's larger municipalities. Considering that Cape Town accounts for only 3.7% of the country's population, it has accounted for a disproportionate amount of the building plans completed in the 3rd quarter of 2013. This is reflected in a year-on-year growth rate of 47.8% in the value of building plans completed as compared to 19.9% for South Africa as a whole. The increased building activity indicated by the building plans completed, is in line with the GDP growth rates which show the construction industry in the Western Cape to be growing faster than the national construction industry on a year-on-year basis. The largest contributor to the value of building plans completed in Cape Town in the 3rd quarter of 2013 was non-residential developments with a value of R1.28 billion and a growth rate of 68.2%. This contrasts with the BER's nationwide Building Confidence Index which suggested that the residential sector was driving increased confidence. The growth of the non-residential sector is, however, reflective of the number of major commercial building developments taking place in the city and is a testament to the attractiveness of Cape Town as a prime office location.

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