



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD



EPIC

Economic Performance Indicators for Cape Town

Quarter 2 (April-June) 2015

Sector focus: The informal sector

Making progress possible. Together.

Document navigation shortcuts

- Entries on the Contents pages link to the relevant page.
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<https://www.capetown.gov.za/en/visitcapetown/Pages/EPIC.aspx>.

Foreword



I concern myself daily with how our city's economy can grow and create jobs, and how we in the City of Cape Town can enable this. At all times, we are aligning and increasing our efforts to create an enabling environment for new investments and the retention of existing businesses.

We are continuously investing in infrastructure, cutting red tape, and working on improving and maintaining our high level of service delivery in order to make our city a great place to work and live in.

Our city is fully integrated with the national and world economy, as it should be, but sadly, times are tough.

Joblessness is increasing across the country and the wage packets of our citizens are increasingly under pressure as they strive to provide for themselves and their families.

Despite the international and national economic headwinds, the City is doing everything possible to grow the local economy, inclusive of both the formal and informal economies.

This edition of the *Economic Performance Indicators for Cape Town – EPIC* highlights the important role that the informal economy plays in providing access to income and employment.

The informal sector and its impact on vulnerable households and poverty reduction is an important part of Cape Town's economy and of our goal to build an opportunity city.

This edition of *EPIC* contains extensive up-to-date data and intelligence on the state of the local economy, which can be used by the City's leadership to assist in improving the lives of the residents of Cape Town.

This quarterly publication is increasingly being consumed by the business community. This is a fine endorsement of this excellent publication, now in its ninth edition.

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

P. de Lille

Patricia de Lille
Executive Mayor

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Introduction

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

Rationale for a quarterly economic publication

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

Aim of publication, and key principles

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

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

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

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

Acknowledgements

The *EPIC* quarterly publication is a collaborative product of the Trade and Investment Department of the City of Cape Town, together with Wesgro and, in this quarter, the Western Cape Economic Development Partnership. The publication is authored, consolidated and edited by the Economic Research Unit within the City's Department of Trade and Investment.

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

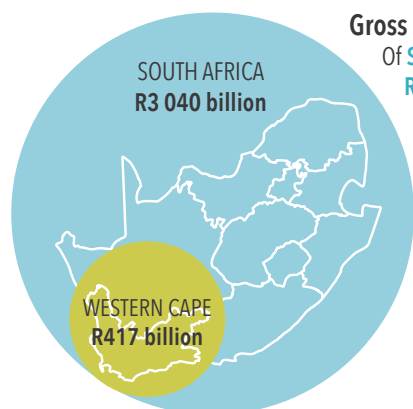
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WESGRO
cape town & western cape
tourism, trade & investment





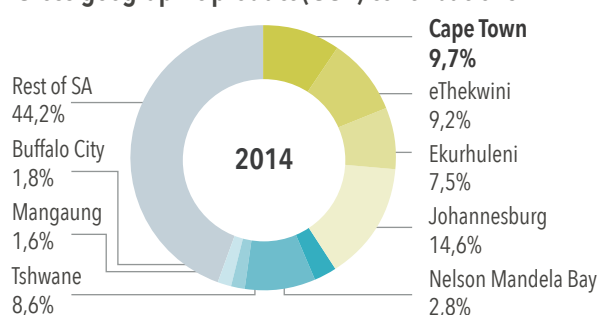
Gross domestic product (GDP)

Of **South Africa's R3 040 592 million** gross domestic product generated in the second quarter of 2015, the **Western Cape¹** accounted for **R417 329 million**.

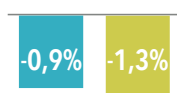
Source: Quantec, September 2015.

13,72%

Gross geographic product (GGP) contributions



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



Western Cape
South Africa

GDP growth

During the second quarter of 2015, the **Western Cape** had a quarter-on-quarter GDP contraction of 0,9%, against a national contraction of 1,3%.

Source: Quantec, September 2015.



Inflation

During the second quarter of 2015, the **Western Cape** had a higher rate of inflation – **5,1%** – than the rest of **South Africa** at **4,7%**.

Source: SA Reserve Bank, August 2015.



Passenger vehicle sales

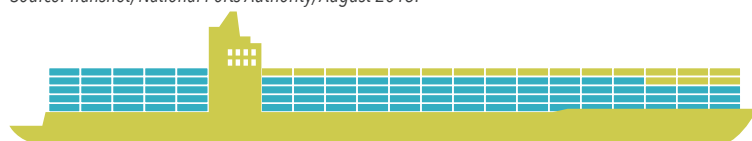
Of the **90 908** new passenger vehicles sold in **South Africa** during the second quarter of 2015, **11 793** were sold in the **Western Cape**.

Source: NAAMSA, August 2015.

Cargo tonnage handled at ports

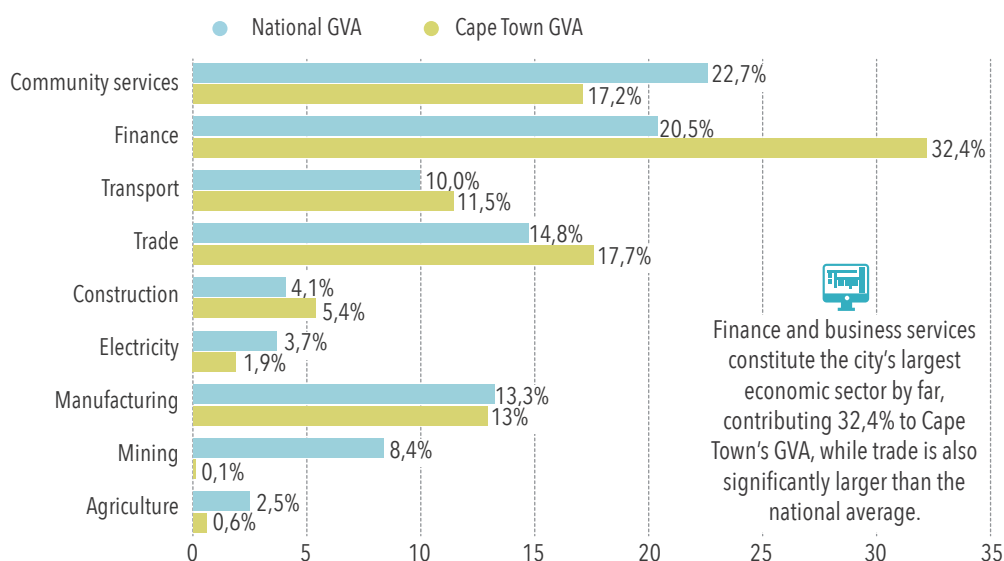
During the second quarter of 2015, **57 917 950** tons of cargo were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **1 396 933 tonnes**.

Source: Transnet, National Ports Authority, August 2015.



18,2%

Cape Town's gross value added (GVA) versus national GVA 2014



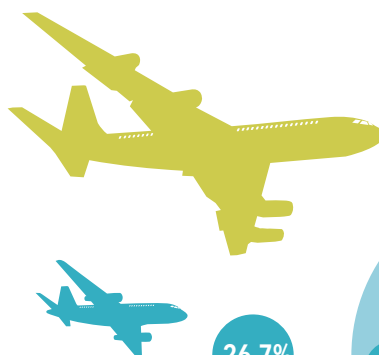
Source: Own calculations based on IHS Global Insight ReX regional data 2015.

Finance and business services constitute the city's largest economic sector by far, contributing 32,4% to Cape Town's GVA, while trade is also significantly larger than the national average.

Air passenger movements

Of the **7 996 090** passenger movements through **South Africa's three international airports²** during the second quarter of 2015, **2 139 481** were through **Cape Town International Airport**.

Source: ACSA, August 2015.

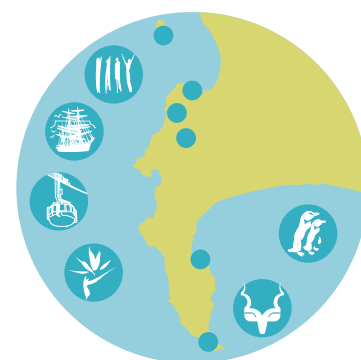


26,7%

Containers handled at ports

During the second quarter of 2015, **1 170 606** containers were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **222 843**.

Source: Transnet, National Ports Authority, August 2015.



Visitor attractions

In the second quarter of 2015, tourists and residents made

5 755 549

visits to Cape Town's six major attractions.

Source: Wesgro, August 2015.

1. Where figures for Cape Town are not available, Western Cape figures are presented in brackets.

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



Population

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



Gini coefficient

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

0,72

Human development index

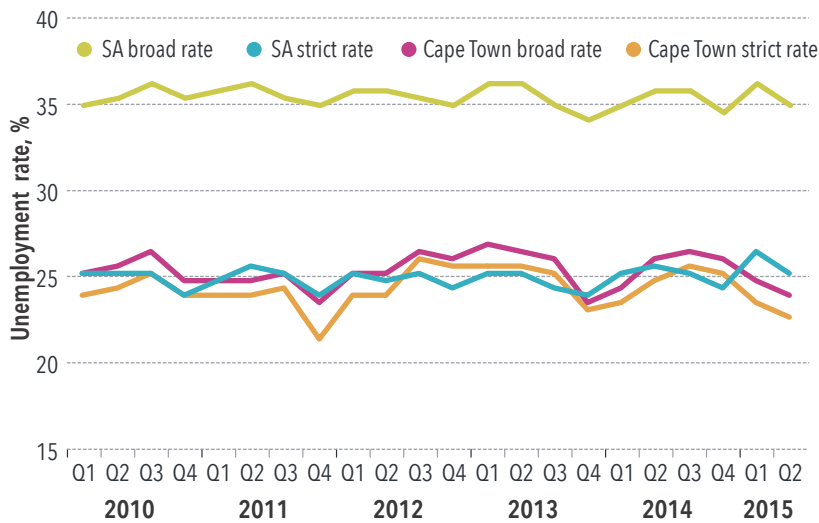
In 2014, South Africa had an HDI⁵ of
0,63, while Cape Town's was 0,72.
Source: IHS Global Insight, September 2015.

Functional literacy

South Africa has a functional
literacy rate of 82,9%, while
Cape Town has a rate of 92,2%.
Source: IHS Global Insight, September 2015.



Strict vs broad unemployment rates (Q1, 2010-Q2, 2015)



Source: Stats SA, June 2015.

Expanded unemployment rate

While South Africa had a 34,9%
unemployment rate during the second
quarter of 2015, Cape Town had a
lower rate of 23,9%.
Source: Stats SA, QLFS, August 2015.

Labour absorption rate

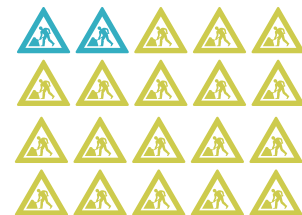
South Africa had a 43,5% absorption rate –
the percentage of the working-age population in
employment – in the second quarter of 2015,
while Cape Town had a higher rate of 52,2%.
Source: Stats SA, QLFS, August 2015.

7,95%



Unemployment

Of the 5 230 139 unemployed people in South Africa
in the second quarter of 2015, 415 997 live in Cape Town.
Source: Stats SA, QLFS, August 2015.



Labour force

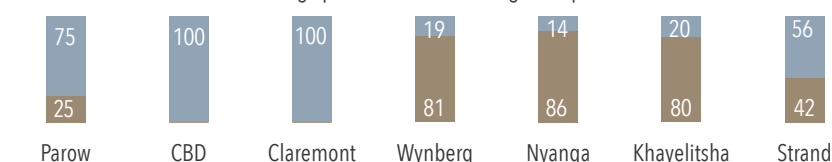
Of South Africa's 20 887 142 labour force
participants, 1 840 527 live in Cape Town.
Source: Stats SA, QLFS, August 2015.

SECTOR FOCUS – THE INFORMAL SECTOR

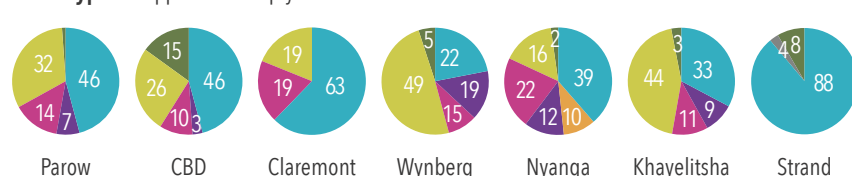
The informal sector is a crucial and often overlooked part of Cape Town's economy. The use of the term 'informal' often conjures up images of survivalist street traders. However, the notion of 'informality' refers more to the conditions of work than to any specific type of economic activity.

Characteristics of informal traders by spatial location

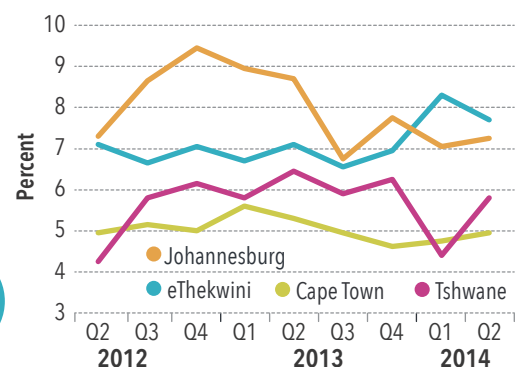
Trade formalisation: ● Percentage permitted ● Percentage non-permitted



Trade type: ● Apparel ● Empty ● Art ● Services ● Household ● Food ● Pharmaceutical



Proportion of working-age population employed in informal sector, by metro



Source: City of Cape Town, 2015b.

3. Mid-year estimates, 2015.

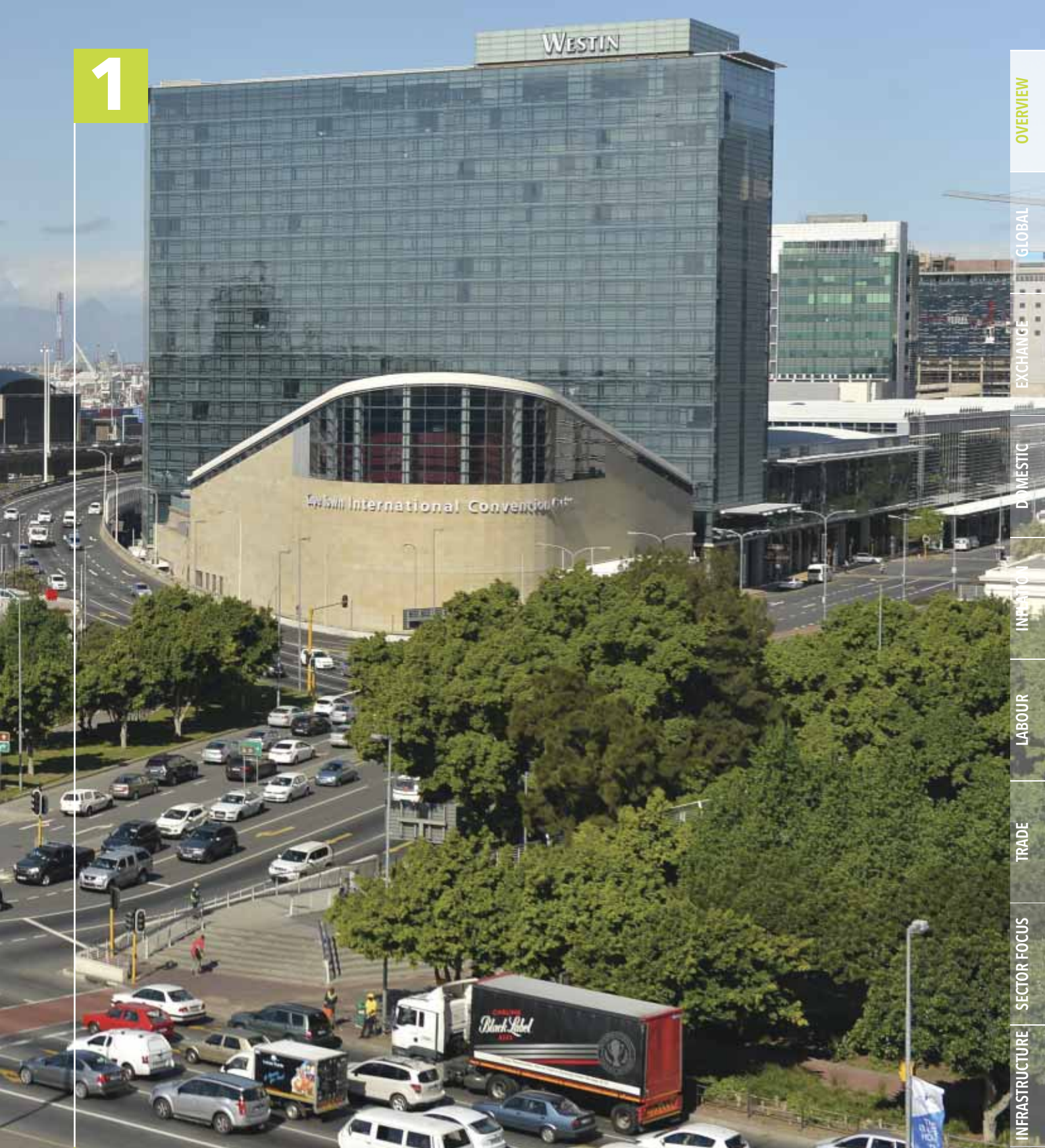
4. The Gini coefficient measures inequality in levels of income.

Lower values represent greater equality. Values are for 2014.

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

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





Overview

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



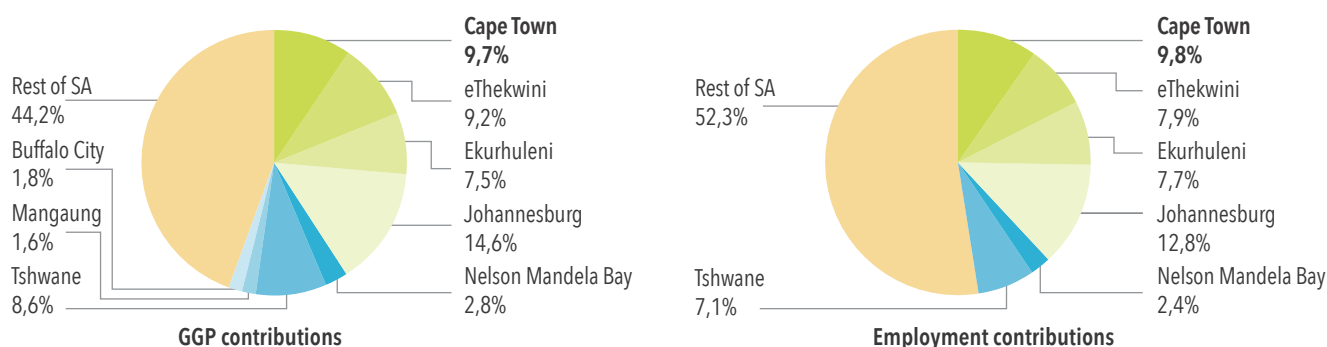
Cape Town is the second-most-important contributor to national employment, after the City of Johannesburg.

CAPE TOWN'S ECONOMY IN CONTEXT

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

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

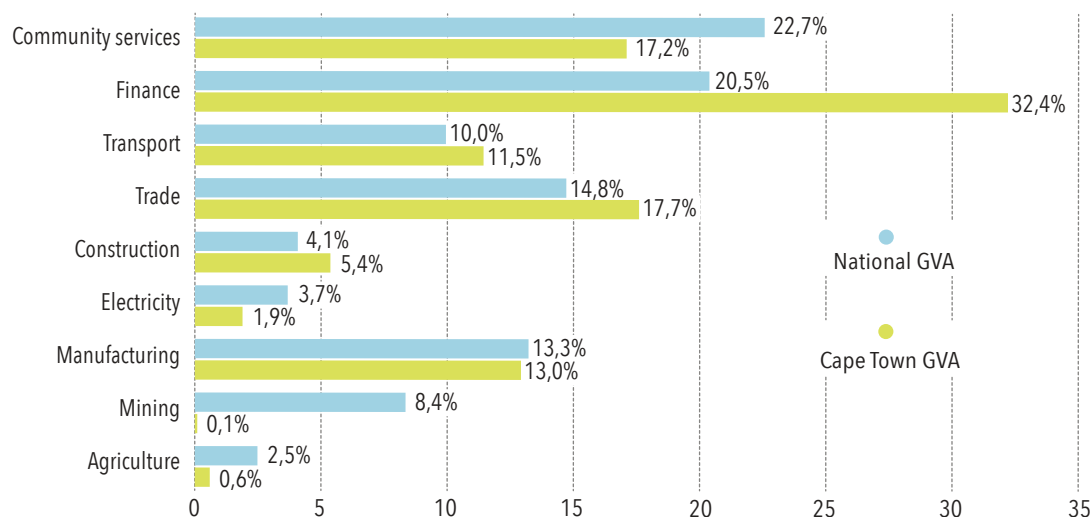
Figure 1: Gross geographic product (GGP) and employment contributions, 2014



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

THE STRUCTURE OF CAPE TOWN'S ECONOMY

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

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

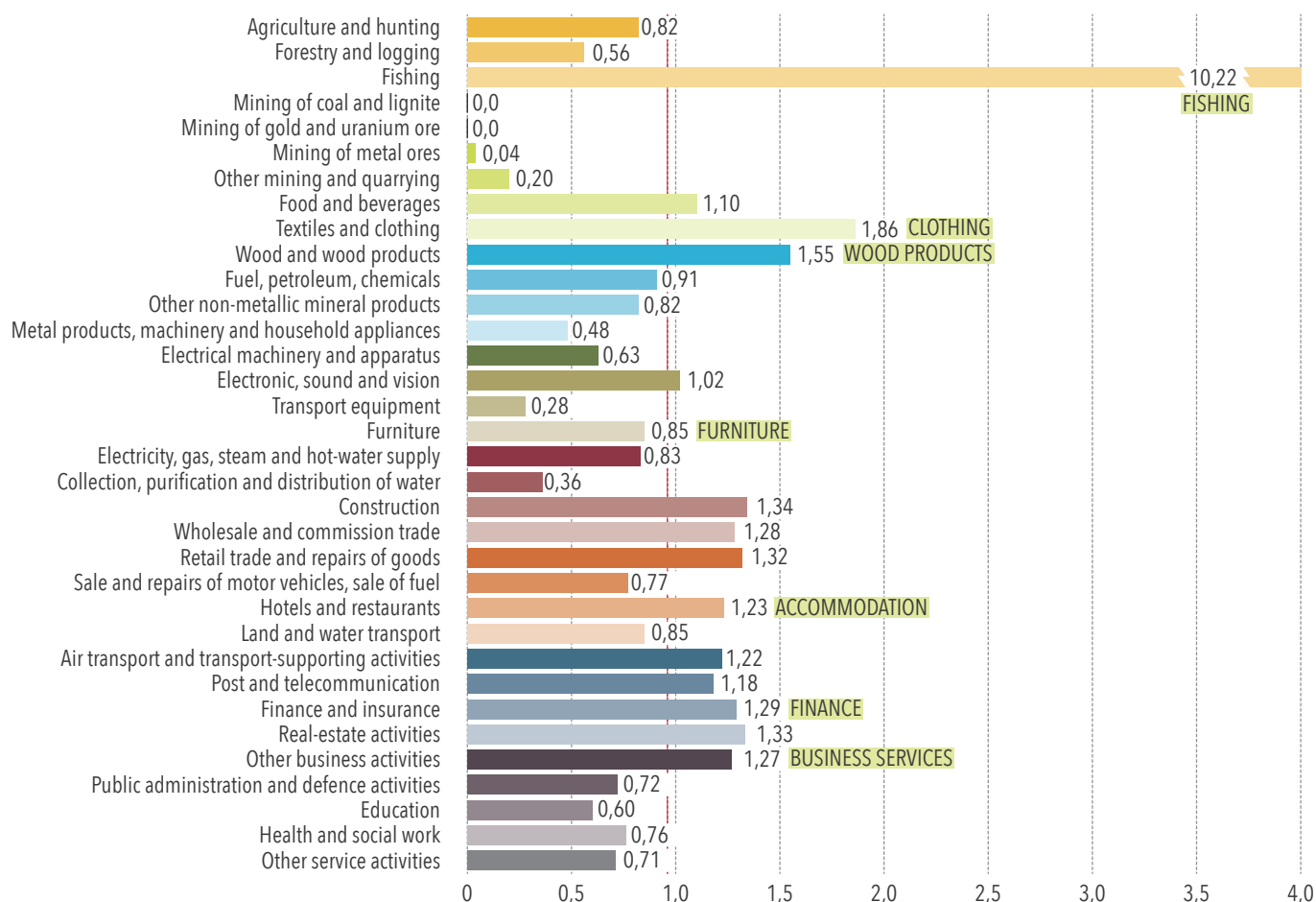
Source: Own calculations based on IHS Global Insight ReX regional data 2015.

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

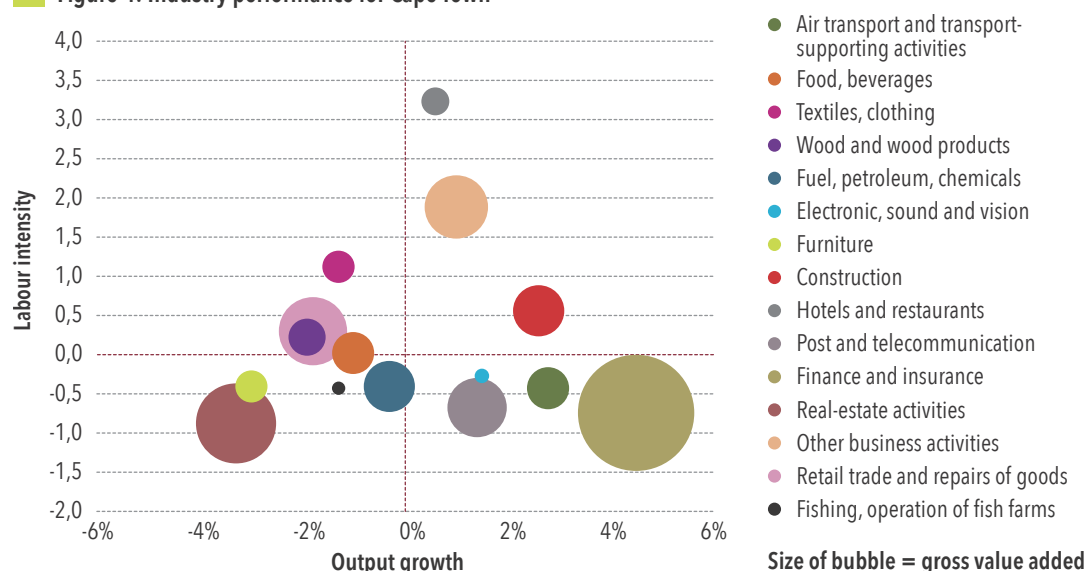
CAPE TOWN'S COMPARATIVE ADVANTAGES

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 3 provides an indication of Cape Town's comparative advantages as compared to the rest of the metros. A location quotient value of greater than one indicates that a sector has a comparative advantage.

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

Figure 3: Location quotients for industries in Cape Town (vis-à-vis other metros)

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

Figure 4: Industry performance for Cape Town

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

Industries that are growing fast, are labour-intensive and, therefore, offer good opportunities for employment creation are construction, business services, and hotels and restaurants (a good proxy for tourism).

These industries contribute relatively more to the city's economic output than they do to the combined economic output of South African metros. While the analysis in figure 3 provides some idea of specific industries in which Cape Town has a comparative advantage, it is a static and one-dimensional analysis that fails to take into account the dynamic nature of the city's economy and the extent to which individual sectors contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's sectors with a comparative advantage.

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

The importance of the tertiary sector is strongly reflected in figure 4, with the four largest bubbles being finance and insurance, business services, retail trade, and real-estate activities. A number of these 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-intensive as opposed to labour-intensive. This is true of post and telecommunication as well as finance and insurance. Industries that are growing fast, are labour-intensive and, therefore, offer good opportunities for employment creation are construction, business services, and hotels and restaurants (a good proxy for tourism).

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

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

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

Global economic developments and outlook

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

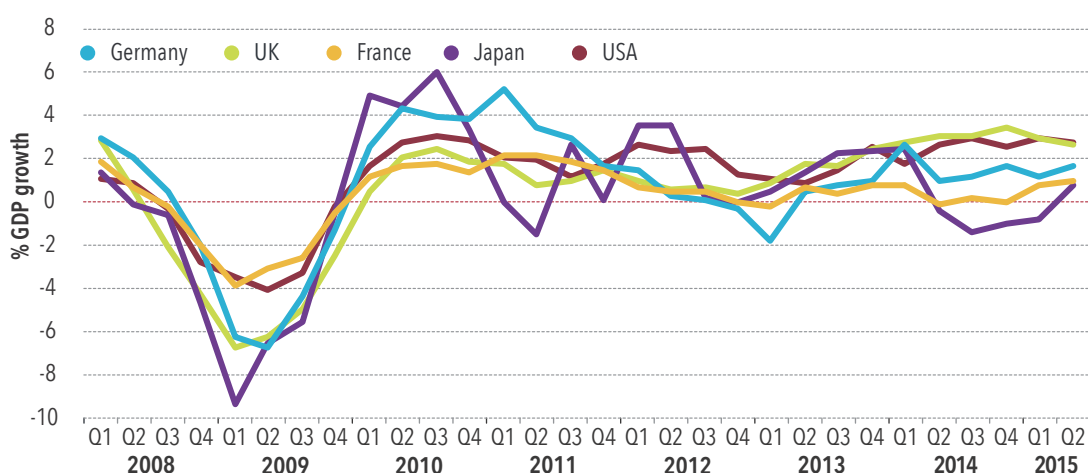
RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

The second-quarter GDP growth figures reflect a slightly stronger performance by developed countries. While GDP growth declined in the United States from 2,9% to 2,7%, and in the United Kingdom from 2,9% to 2,6%, all the other economies depicted in the figure below showed some improvement in the second quarter, with France growing by 1,0% (from 0,8% in the previous quarter), Japan by 0,8% (previously -0,8%) and Germany by 1,6% (up from 1,2%). The weaker year-on-year GDP performance by the United States can be misleading, as it is compared to a very strong second-quarter performance in 2014. On a quarter-on-quarter basis, the United States economy actually recorded a robust growth rate of 3,7%, up from 0,6% in the previous quarter and driven by higher business spending and a quicker build-up of inventories. In contrast, the Japanese economy declined on a quarter-on-quarter basis as a result of a sharp decrease in private consumption.

While GDP growth declined in the United States from 2,9% to 2,7%, and in the United Kingdom from 2,9% to 2,6%, France, Japan and Germany showed some improvement in the second quarter.

Figure 5: Economic growth trends in developed countries

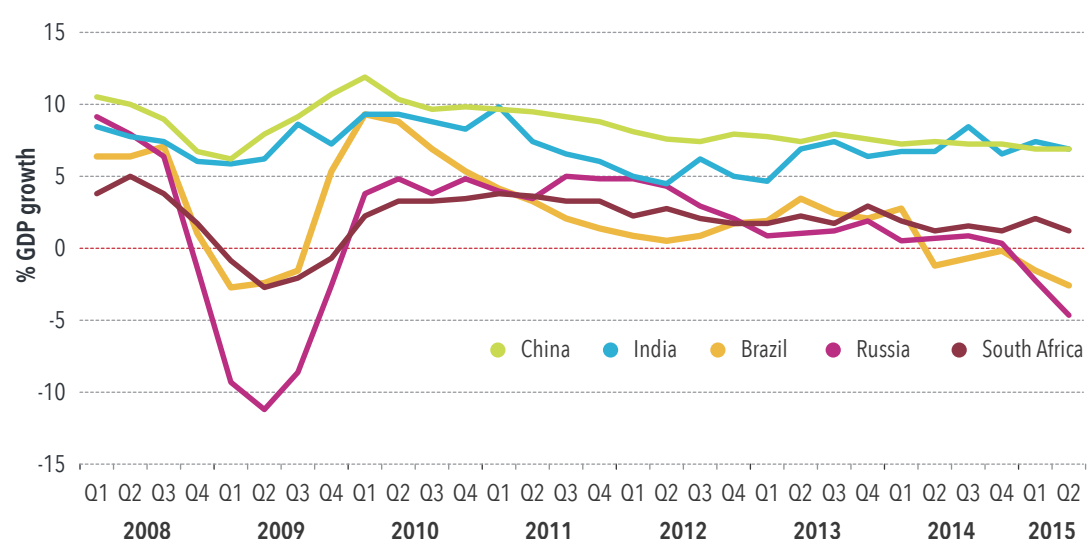


Source: Trading Economics, August 2015.

Emerging economies

Growth trends in emerging economies present a different picture from those in developed economies, as figure 6 indicates. The BRICS countries (Brazil, Russia, India, China and South Africa) have achieved much higher growth rates, with an average rate of 4,5% since the beginning of 2010, compared to 1,6% for developed countries in the same period. While, on average, emerging economies have largely outperformed developed economies in this period, more recent indications are that economic growth in a number of these countries is beginning to slow. Four out of the five BRICS countries recorded negative growth trends in the second quarter of 2015, with only China maintaining a constant growth rate of 7,0%. Two of the BRICS economies, namely Russia and Brazil, actually experienced economic contractions (-4,6% and -2,6% respectively) in the second quarter, while South Africa's year-on-year growth rate decreased from 2,1% to 1,2%. The sluggish

Figure 6: Economic growth trends in emerging economies



Source: Trading Economics, August 2015.

performance of these countries may in part be a negative consequence of economic recovery in developed economies, but also reflects challenging domestic conditions. The significant decline in Russia's economic performance, for example, can be attributed to the sharp drop in oil prices as well as sanctions imposed over the Ukraine crisis. Brazil's fifth consecutive year-on-year contraction relates to the fall in commodity prices and weakening domestic demand. In contrast, while growth in India fell from 7,5% in the previous quarter to 7,0% in the current quarter, it is still matching China's growth performance. The sluggish performance of these countries may in part be a negative consequence of economic recovery in developed economies, but also reflects challenging domestic conditions.

Global economic outlook

The International Monetary Fund's (IMF) updated *World Economic Outlook* (2015c), published in July 2015, shows that global growth is projected at 3,3% in 2015, which is marginally lower than in 2014, with a gradual pickup in advanced economies and a slowdown in emerging-market and developing economies. In 2016, growth is expected to strengthen to 3,8%. Compared to the first quarter, oil prices rebounded more than expected in the second quarter of 2015, reflecting higher demand and expectations that oil production in the United States will slow faster than previously forecast. While the IMF has left its global growth forecast for 2015 constant, it has revised its projection for 2016 up to 3,8% from 3,7%.

Following an improvement from -0,4% growth in 2013 to 0,8% growth in 2014, the IMF has adopted a more positive outlook for the Eurozone. Its forecast has been revised upward, projecting growth of 1,5% for 2015 and 1,7% (revised from 1,6%) in 2016. This recovery is however expected to be uneven, as lower oil prices, an easing in monetary policy and a more neutral fiscal policy stance are expected to be offset by weaker investment projections (IMF 2015c:3).

The moderation in the rate of growth of the Chinese economy (7,4%) continued for the completed year 2014, with the IMF projecting growth rates of 6,8% and 6,3% for China in 2015 and 2016 respectively. Slowing growth in China is expected to have important regional effects in emerging Asian markets. After low growth rates (by its own standards) in 2013, economic growth in India picked up to 7,3% (revised from 7,2%) in 2014, and is expected to increase to 7,5% in both 2015 and 2016 on the back of investment-supportive policies.

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

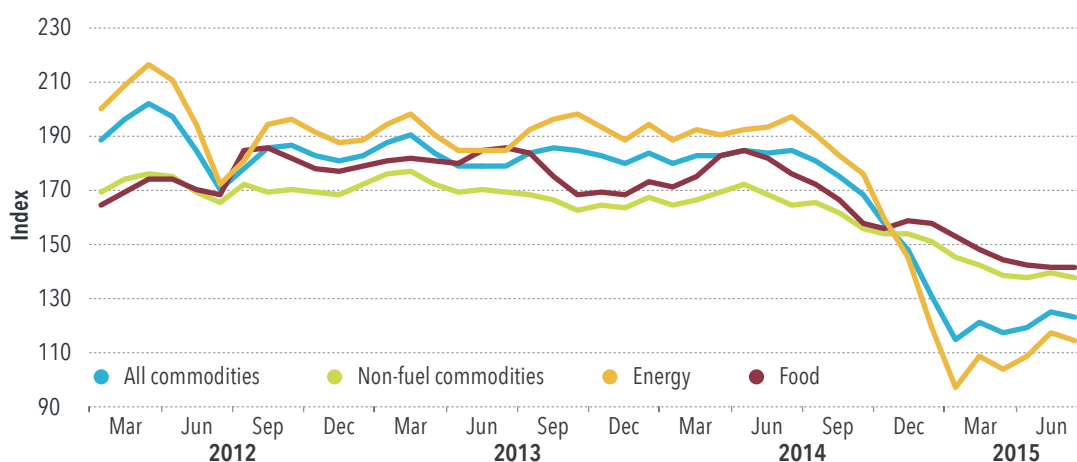
COMMODITIES

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

Following a slow climb from 116,99 index points in March 2015 to 125,32 index points in May 2015, the all-commodities index had fallen back again to 123,30 index points by the end of the second quarter of 2015. This resulted in a total growth of 6,31 index points over the second quarter of 2015. The increase in the index can be attributed to the moderate recovery in oil prices, while the subsequent decline during June can be attributed to the falling price of metals and energy due to the

The International Monetary Fund's (IMF) updated *World Economic Outlook*, published in July 2015, shows that global growth is projected at 3,3% in 2015, which is marginally lower than in 2014, with a gradual pickup in advanced economies and a slowdown in emerging-market and developing economies.

Figure 7: World commodity indices (March 2012 to June 2015)



Source: IMF, August 2015a.

The price of Brent crude oil continued its recovery into the second quarter of 2015, although it had started to decline again by June as a result of strong production within the Organisation of the Petroleum Exporting Countries (OPEC) and the possibility of the sanctions against Iran being lifted.



macroeconomic risks emanating from Greece and China.

When the fuel price is removed, a slightly different trend to that observed for the all-commodities index emerges. The non-fuel commodities index continued its steady downward trend in the second quarter, falling to 137,92 index points in April. The index then rose to 139,43 index points in May, but had dropped again to 137,71 index points by the end of June. The initial decrease during April can be attributed to the decline in metals and agricultural products as well as the continued strength of the United States dollar. During May, metals picked up, causing the slight increase in the non-fuel commodities index, but subsequently dropped in June, which caused the index to decline again.

Brent crude oil

The price of Brent crude oil continued its recovery into the second quarter of 2015, although it had started to decline again by June. The price increased from \$55,79 per barrel at the end of the first quarter to \$64,56 per barrel by the end of May. The increase in the price can be attributed to the conflict in Yemen, which raised concerns over the security of Middle Eastern oil supplies, as well as a smaller-than-expected rise in United States crude oil inventories. However, in June, the price fell to \$62,35 per barrel as a result of strong production within the Organisation of the Petroleum Exporting Countries (OPEC) and the possibility of the sanctions against Iran being lifted.

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



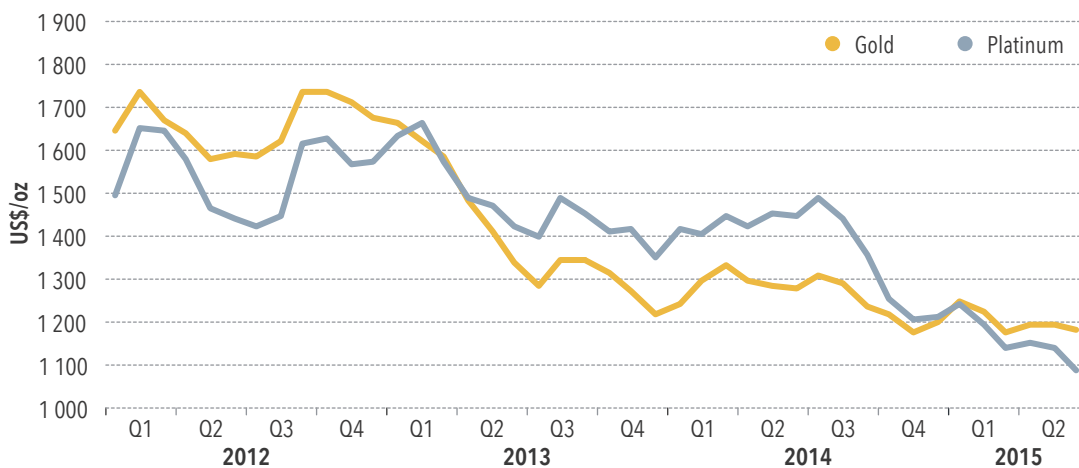
Source: IMF, August 2015a.

Gold and platinum

The gold price picked up in the second quarter of 2015 and ended April at \$1 198,93/oz, up from \$1 178,63/oz at the end of the first quarter of 2015. Prices then remained relatively unchanged for May (\$1 198,63/oz) before falling to \$1 181,5/oz at the end of the second quarter of 2015. The initial increase in April can be attributed to the increased demand for wedding and festival-related gold jewellery in India. However, the increased demand for jewellery from the United States and Europe in the rest of the quarter was not sufficient to offset the subsequent decline in demand from Asia (World Gold Council 2015).

In the first month of the second quarter of 2015, the platinum price increased to \$1 151,45/oz from \$1 138,64/oz. The platinum price then fell by \$62,47/oz in the remainder of the quarter, ending June at \$1 088,82/oz. The decrease over the last two months of the quarter can be attributed to weak investment demand and reduced imports into China, coupled with growing supply due to the continued recovery in South African mining output (IMF, 2015b).

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



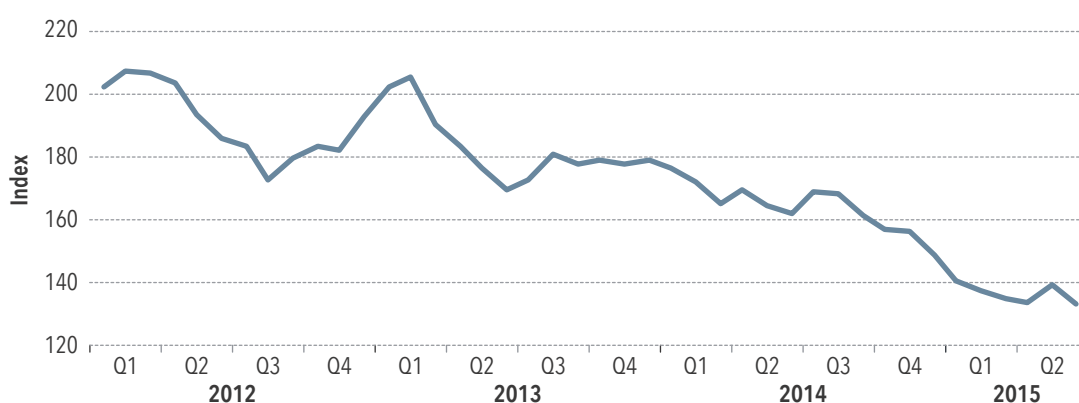
Source: World Bank, August 2015.

The gold price picked up in April 2015, but fell again at the end of the second quarter. The initial increase in April can be attributed to the increased demand for wedding and festival-related gold jewellery in India.

Non-precious metals

The metals index continued its downward trend for the first month of the second quarter of 2015, down from 134,60 index points at the end of March to 133,79 index points at the end of April, largely due to the weak import demand from China, which accounts for nearly half of global metal consumption. Thereafter, there was a sharp increase to 139,57 index points. This was the first price increase in ten months and can be attributed to falling stocks, rising seasonal demand and supply tightness. In June, turmoil in Greece, weak demand in China and increased supply pushed the index sharply down again, reversing the previous gains and seeing the second quarter end at 133,17 index points (IMF 2015b).

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

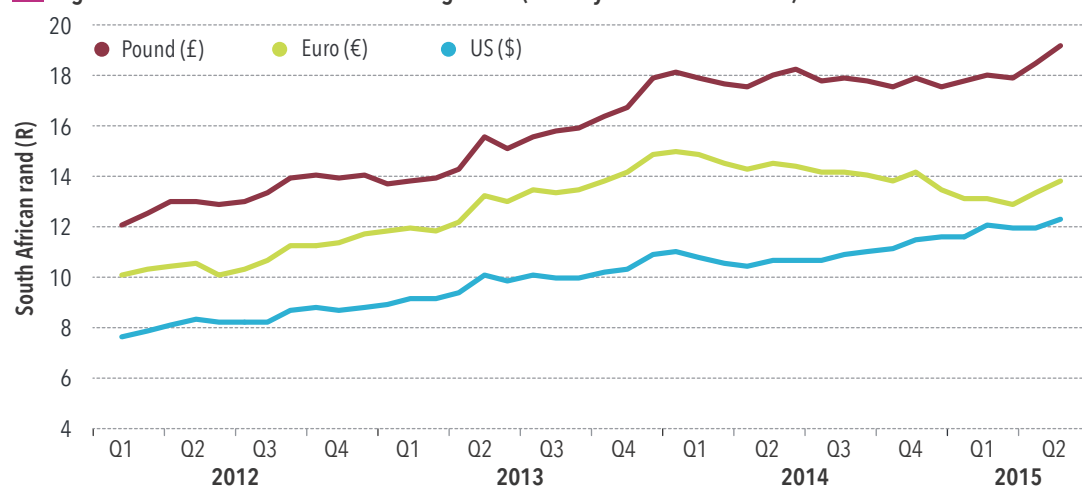


Source: IMF, August 2015a.



Exchange rates

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

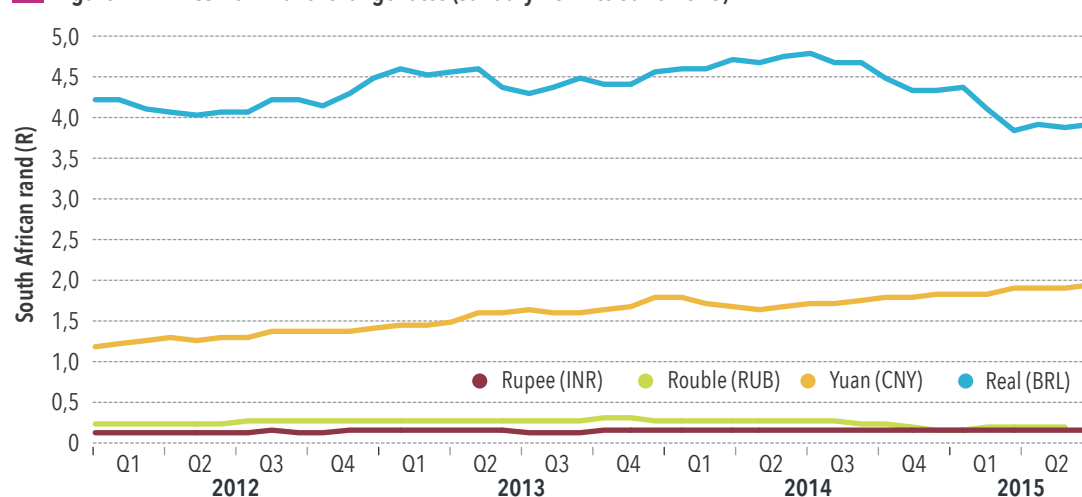
Figure 11: South African nominal exchange rates (January 2012 to June 2015)

Source: South African Reserve Bank, August 2015.

Figure 11 (above) illustrates the performance of the rand against the three major developed-economy currencies for the period January 2012 to June 2015. In February 2014, the rand hit a more-than-ten-year low against the dollar with a rate of R10,98 to the American currency. The rand continued to post record lows against the dollar, closing the second quarter of 2015 at R12,30. The weaker rand is partly a result of the ongoing expectation of tightening United States monetary policy and an imminent rates hike. Indications by the Federal Reserve suggest that the rates hike could possibly happen within the third quarter of 2015 due to domestic pressures pushing US inflation above the target range.

It is unclear whether the Greek bailout, which is putting pressure on the euro, along with the European Central Bank starting quantitative easing, will have a direct negative effect on trade with Europe. However, the rand weakened against both the euro (R13,80) and the pound (R19,14). Although international developments have put pressure on the rand, domestic factors such as substantial strike activity and the ongoing electricity shortages have also dampened investor confidence.

Although international developments have put pressure on the rand, domestic factors such as substantial strike activity and the ongoing electricity shortages have also dampened investor confidence.

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

Source: South African Reserve Bank, August 2015.

The rand's performance against the real and the yuan was relatively stable in the second quarter, whereas there was a dramatic appreciation against the rouble and a steady appreciation against the rupee. India and China posted the same year-on-year growth rates in the second quarter, but the Chinese yuan gained value against the rand, while the rupee lost value following a downward trend since 2013. As the yuan has long been overvalued and tends to track the dollar, it was one of the best-performing currencies up to the end of the second quarter. Brazil and Russia experienced negative economic growth in the second quarter, which has put downward pressure on their currencies. This was the fifth consecutive decline in Brazil's GDP, but the real appeared to have stabilised somewhat against the rand in the second quarter after a strong depreciation in the first quarter.

The rouble remains the worst-performing exchange rate since 2014 as a result of economic contraction predictions of more than 3% for the Russian economy for the rest of 2015. Other factors influencing the poor performance of the rouble were the declining value of oil exports as well as ongoing trade sanctions.





Domestic economic performance

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

ECONOMIC GROWTH IN SOUTH AFRICA

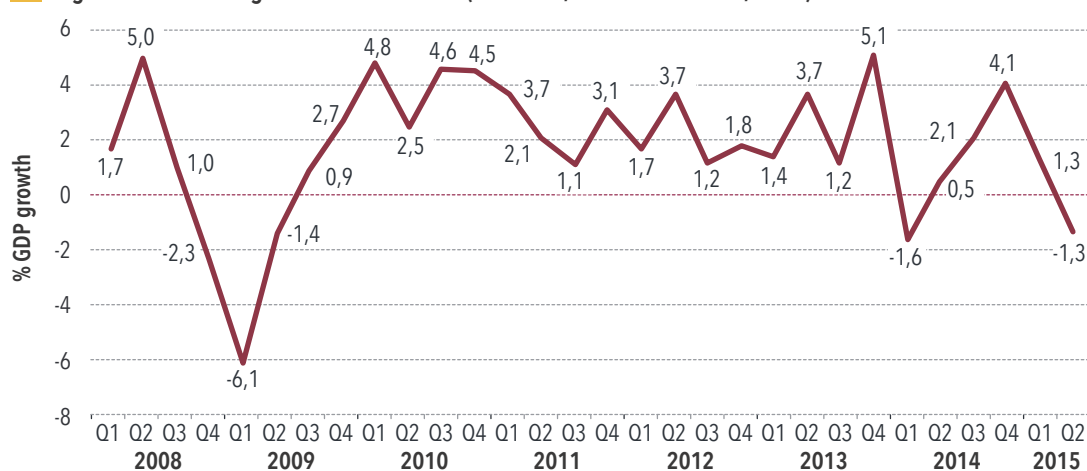
Quarter-on-quarter gross domestic product (GDP) growth rate

South Africa's economy contracted by 1,3% on a quarter-on-quarter basis in the second quarter of 2015. While some analysts had expected a mild contraction, none anticipated the extent of the decline recorded. The negative growth rate undershot the Bureau of Economic Research's conservative forecast for the second quarter by 1,0%, reflecting weak sectoral performances across the board (BER, 2015a).

South Africa's year-on-year economic growth rate (1,6%) in the second quarter of 2015 may not initially seem as stark as the quarter-on-quarter rate, in part because it removes some of the volatility attached to short-term output changes, but was nevertheless down by 0,4 percentage points from the previous quarter's year-on-year rate. Analysts believe that this represents a downward trend in year-on-year growth rates, which will see annual growth for 2015 come in below the 1,5% recorded in 2014. Two consecutive years of economic growth less than 2% casts doubt on the country's ability, in the short term, to achieve the 5% to 7% growth target of the National Development Plan (NDP) and points to the need for significant structural interventions to kick-start economic growth again.

South Africa's economy contracted by 1,3% on a quarter-on-quarter basis in the second quarter of 2015. While some analysts had expected a mild contraction, none anticipated the extent of the decline recorded.

Figure 13: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 2, 2015)



Source: Stats SA, August 2015.

Sectoral determinants of GDP growth in South Africa

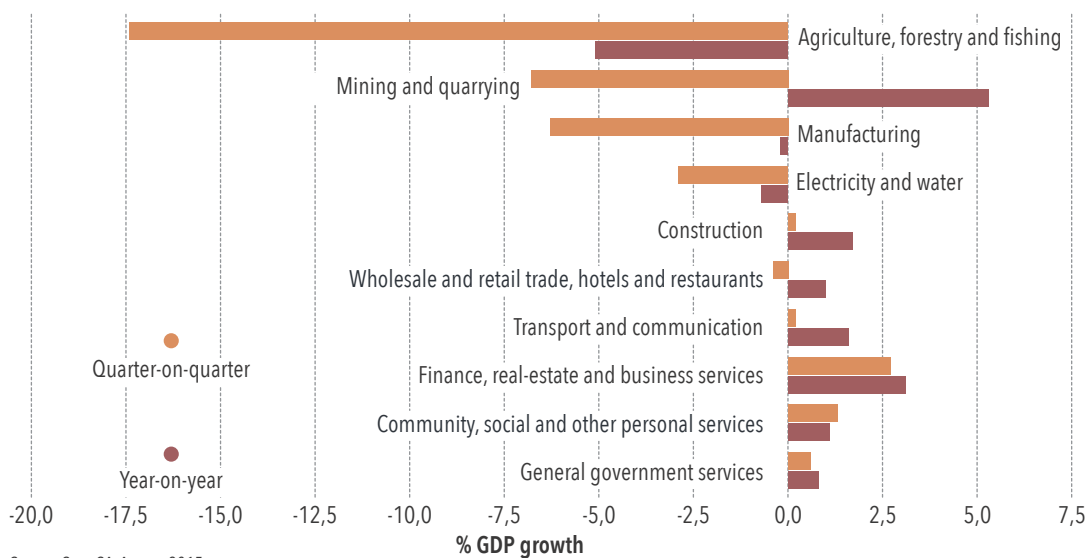
The weak performance of the economy in the second quarter was broad-based, with slower growth in the tertiary sector and negative growth in the secondary and primary sectors. The primary sector contracted most sharply, by 9,3% compared to a 4,7% contraction for the secondary sector and 1,1% growth in the tertiary sector. Within the primary sector, agriculture recorded a 17,4% decline on the back of unfavourable climatic conditions affecting field crop yields. After a number of quarters of strong output recovery, the mining sector saw a contraction of 6,8%. This is attributed to weaker production in the mining of coal and other ores, both of which were adversely affected by the slowdown in China's economy.

All the main secondary-sector industries experienced negative growth rates in the second quarter. Manufacturing, which decreased by 6,3%, had the largest impact on GDP, deducting 0,8 percentage points from overall GDP growth. Lower production in metal industries and in the petroleum and chemicals industry drove the decline in manufacturing in the second quarter. This is likely to reflect both supply constraints such as electricity shortages and demand constraints such as the slowdown in the Chinese economy. The electricity and water sector predictably – considering the current infrastructural challenges – contracted by 2,9% in the second quarter, while the construction sector posted sedate growth of 0,2%. The latter represents a gradual but consistent slowdown in construction activity over the past few quarters.

While the tertiary sector was the only sector to have grown on a quarter-on-quarter basis, it was the sector most responsible for the overestimation of GDP growth, as analysts had expected it to grow much more robustly. The finance sector performed best, posting a rate of 2,7%, although this was still 1,1 percentage points lower than the previous quarter. General government renewed its countercyclical spending pattern, growing by 0,6% in the second quarter – a 1,4 percentage point turnaround from the previous quarter. Most surprisingly, however, was the enduring weakness of the trade sector, which contracted by 0,4% and is perhaps indicative of weakening consumer confidence in the wake of interest rate hikes and a depreciating rand.

Figure 14 shows that the year-on-year growth rates are less variable than their quarterly counterparts. However, unlike in the previous quarter, when electricity and water was the only sector to post a negative year-on-year growth rate, three sectors posted negative growth rates in the second quarter, namely electricity and water, manufacturing and agriculture. This perhaps points to a longer-term weakening of the economy on the back of increasingly systemic challenges.

All the main secondary-sector industries experienced negative growth rates in the second quarter. Manufacturing, which decreased by 6,3%, had the largest impact on GDP, deducting 0,8 percentage points from overall GDP growth.

Figure 14: Sectoral GDP growth rates for South Africa (Quarter 2, 2015)

Source: Stats SA, August 2015.

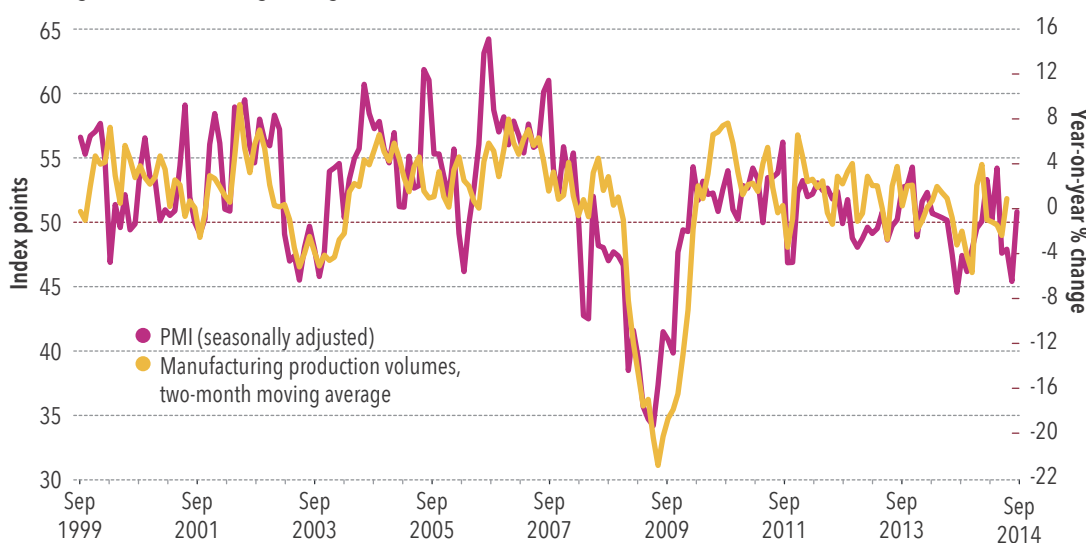
Economic growth outlook for South Africa

The tertiary sector has been the main source of growth in the South African economy since 2008, and has often counterbalanced the volatility of the mining and manufacturing sectors. However, the dampened performance of the tertiary sector over the last year and a half has exposed the country to the volatility of the primary and secondary sectors. Indeed, the BER (2015a) notes that in the last 26 quarters, the secondary sector reported negative growth in 13 quarters. This points to a very erratic short-term cyclical pattern, which historical data would suggest forms part of a longer-term downward trend. A similar situation is prevalent in the mining and agricultural sectors, both of which are highly vulnerable to exogenous conditions such as weather patterns and global pricing. Without correcting some of the systemic weaknesses in these sectors, South Africa's quarterly growth rates are likely to remain highly erratic. In general, the weak growth of the tertiary sector, especially retail trade, means that South Africa's reliance on consumption-led growth may be unsuitable to achieving the rates targeted by the NDP, and that a shift toward strengthening the productive sectors, especially manufacturing, is required.

The short-term outlook for the manufacturing sector, as conveyed by the Barclay's Purchasing Managers' Index (PMI),⁶ is relatively bleak, falling below the 50-point mark at 48,9 points in August. This was matched by declines to below the 50-point mark in the inventories, business activity and employment indices, and would suggest that actual production volumes may have fallen in August. July's business activity index, however, was 53,2, resulting in an average figure of 50,9 in the first two months of the third quarter and potentially pointing to very slight growth in the sector, although this will depend on it being able to maintain this performance in September.

From a longer-term perspective, perhaps more worrying was the substantial drop of more than 10 points in the six-month

The short-term outlook for the manufacturing sector, as conveyed by the Barclay's Purchasing Managers' Index (PMI), is relatively bleak, falling below the 50-point mark at 48,9 points in August.

Figure 15: Purchasing Managers' Index™ for South Africa

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

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



expected business conditions index. This index had been stubbornly positive over the last year, so the sharp drop should be viewed seriously. Medium-term threats to increased production in the manufacturing industry include higher input costs, especially for electricity and imported components, and decreased demand for commodity and related exports from China.

The primary sector's growth prospects are hampered by the poor winter rains in the Western Cape, which are expected to negatively affect agricultural production, as well as by the possibility of nationwide mining-sector strikes in the gold and coal-mining sectors.

The BER (2015a) believes that an improved growth performance in the rest of the year will hinge on the ability of consumer spending to regain some of its historical impetus. Should consumer confidence dip rather than improve, it may be sufficient to tip the country into a technical recession (two consecutive quarters of negative growth). In light of these downside risks, the BER has adjusted their growth forecast for South Africa down to 1,3% for the year.

The Western Cape economy contributes around 15% of national GDP, and is strongly influenced by national economic conditions. As expected, given the performance of the national economy, the Western Cape's economy contracted in the second quarter of 2015, albeit at a slower rate.

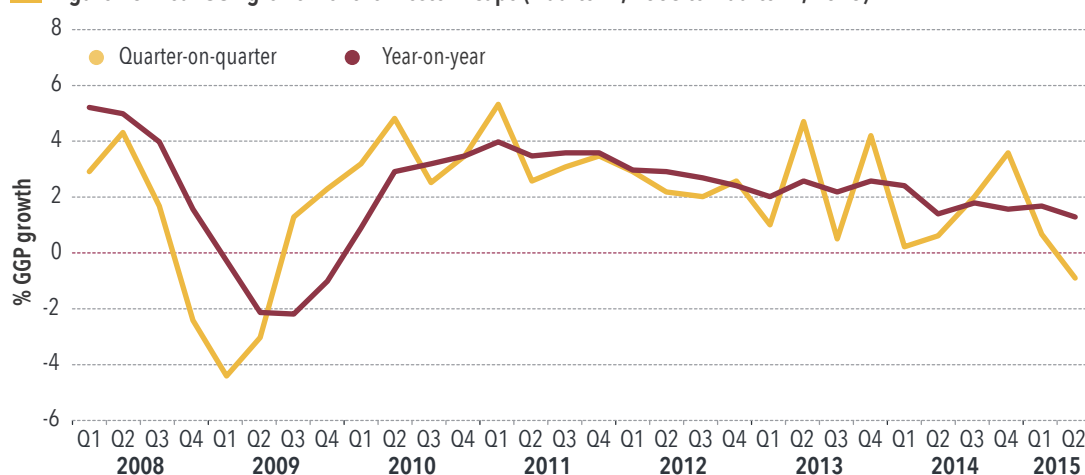
ECONOMIC GROWTH IN THE WESTERN CAPE

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

The Western Cape economy contributes around 15% of national GDP, and is strongly influenced by national economic conditions (Quantec 2015). As expected, given the performance of the national economy, the Western Cape's economy contracted in the second quarter of 2015, albeit at a slower rate (-0,9% compared to -1,3%). This discrepancy in growth rates is due to the differing structure of the national and provincial economy. The Western Cape's limited mining industry activity meant that it was not affected to the same extent as the national economy by the contraction in mining. That being said, however, agriculture and manufacturing weighed heavily on the Western Cape economy in the second quarter.

The Western Cape's year-on-year economic growth rate decreased to 1,3% in the second quarter from 1,7% in the previous

Figure 16: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 2, 2015)



Source: Quantec, August 2015.



quarter. This was primarily driven by the year-on-year contraction in the agricultural sector.

While GGP statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to typically mirror that of the provincial economy. This is because the metro contributes about 75% of the provincial economic output (IHS Global Insight 2015). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate was 0,5 percentage points. If this were to hold in the second quarter of 2015, the city's growth rate would be in the region of -0,4% to -1,4%. However, considering the nature of the drivers of the economic contraction in the Western Cape, it is more likely that the city performed markedly better than the province in the second quarter.

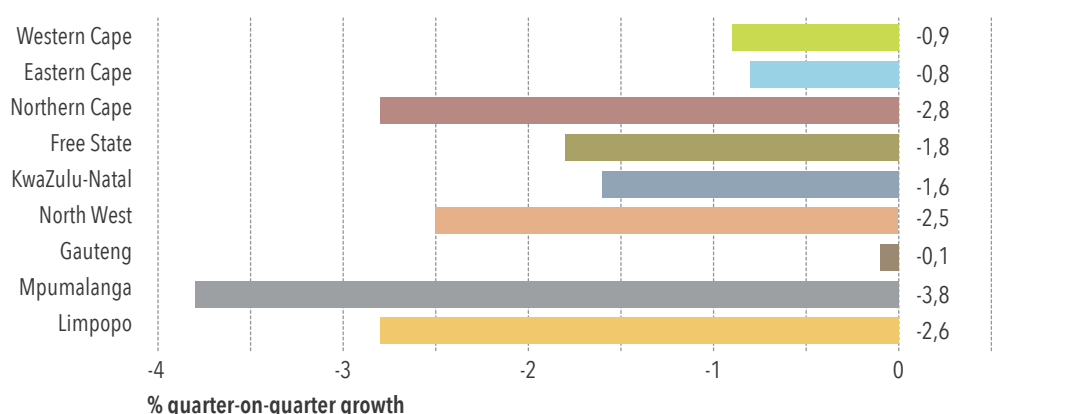
Provincial economic growth comparisons

A comparison of economic growth rates between provinces reveals that the weak performance in the second quarter was geographically widespread. However, it would appear that provinces that are less exposed to the primary sector typically performed better. Gauteng, with its fairly small mining (in relation to its GGP) and agricultural sectors, recorded the strongest – or rather, least poor – growth rate of -0,1%. The Western Cape's poor agricultural performance was also counterbalanced to some extent by its relatively large tertiary sector, and was not compounded by mining losses. In contrast, the provinces in which mining and agriculture feature prominently contracted most sharply. Mpumalanga, which recorded the lowest GGP growth rate, attributes 28% of its output to the primary sector, whereas Gauteng attributes only 3,2% of its output to the primary sector.

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

A comparison of economic growth rates between provinces reveals that the weak performance in the second quarter was geographically widespread. However, it would appear that provinces that are less exposed to the primary sector typically performed better. Cape Town is not significantly affected by declines in the primary sector.

Figure 17: Provincial comparisons of real GGP growth rates (Quarter 2, 2015)



Source: Quantec, August 2015.

Sectoral drivers of economic growth in the Western Cape

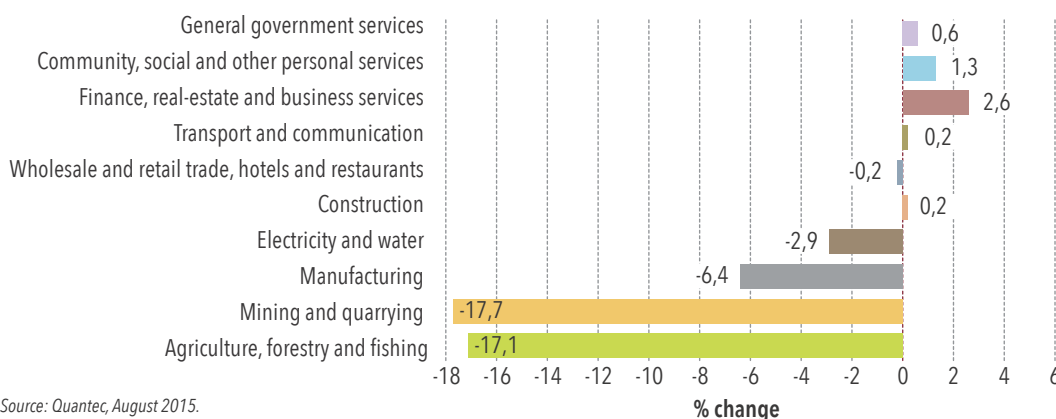
The Western Cape's growth performance by sector largely mirrors the trends in the national economy. In the second quarter of 2015, however, there was a sharp disparity between the growth rate recorded for mining in the Western Cape (-17,7%) and that recorded at a national level (-6,8%). This can be explained by the different types of mining activities conducted, with platinum and gold mining dominating the national industry, and mainly quarrying dominating the industry in the Western Cape. The largest contributor to economic growth in the Western Cape was the finance and business services sector, which recorded a growth rate of 2,6% – 0,1 percentage points lower than the sector's growth rate nationally in the second quarter. The second-largest contributor to provincial economic growth in the second quarter was community and personal services, which grew at the same rate as the national sector (1,3%). The sectors that contracted at a national level also contracted provincially. The agricultural sector recorded the largest contraction for the Western Cape, having declined by 17,1% compared to 17,4% nationally. The other contractions experienced by the provincial economy were in the manufacturing sector (-6,4%), electricity and water (-2,9%) and trade (-0,2%).

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

In contrast to Cape Town's contribution to the tertiary-sector output of the province, its contribution to the province's total primary-sector GGP is only 29%. Thus, it is difficult to make inferences about the performance of the city's primary sector based on primary-sector GGP growth in the Western Cape. However, even if Cape Town's primary sector (agriculture in particular) did mirror provincial trends, it is unlikely that this would have had a large impact on the overall growth rate, as the primary sector contributes less than 1% to Cape Town's GGP. The performance of the city's economy in the second quarter would have hinged on the ability of growth in the finance and business services as well as in the community and personal services sectors to counterbalance the impact of negative growth in the manufacturing sector.

The largest contributor to economic growth in the Western Cape was the finance and business services sector, which recorded a growth rate of 2,6% – 0,1 percentage points lower than the sector's growth rate nationally in the second quarter. The second-largest contributor to provincial economic growth in the second quarter was community and personal services, which grew at the same rate as the national sector.

Figure 18: Sectoral real GGP growth rates in the Western Cape (Quarter 2, 2015)



Source: Quantec, August 2015.

Growth outlook for Cape Town and the Western Cape

The main sources of growth for both the Western Cape and Cape Town in the second quarter of 2015 were the finance and business services and the community and personal services sectors. Although the finance sector recorded a positive growth rate, it was nevertheless well below its historical trend and represented a broader weakening of the consumer climate, most starkly illustrated by the contraction of the retail sector. In light of concerns about poor winter rains in the Western Cape affecting future agricultural production, along with the expected ongoing poor performance of the manufacturing industry, this poses significant downside risks to the province's growth outlook. While the Western Cape will be insulated against the impact of potential gold mine strikes, growth is still likely to be subdued for the rest of the year.

At a metro level, slow but positive tertiary-sector growth (with the exception of trade) should ensure that the city performs better than the province and country more broadly in the short term. However, without a pickup in consumer confidence or a change in the fortunes of manufacturing, the city will also continue on a low growth path. This is especially the case if one considers the negative impact of new visa regulations on the tourism industry. In light of these challenges, it is important for the City of Cape Town to continue to support productive and innovative industries that offer the largest potential for growth contribution and job creation.

Inflation

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

SOUTH AFRICA'S INFLATION OVERVIEW

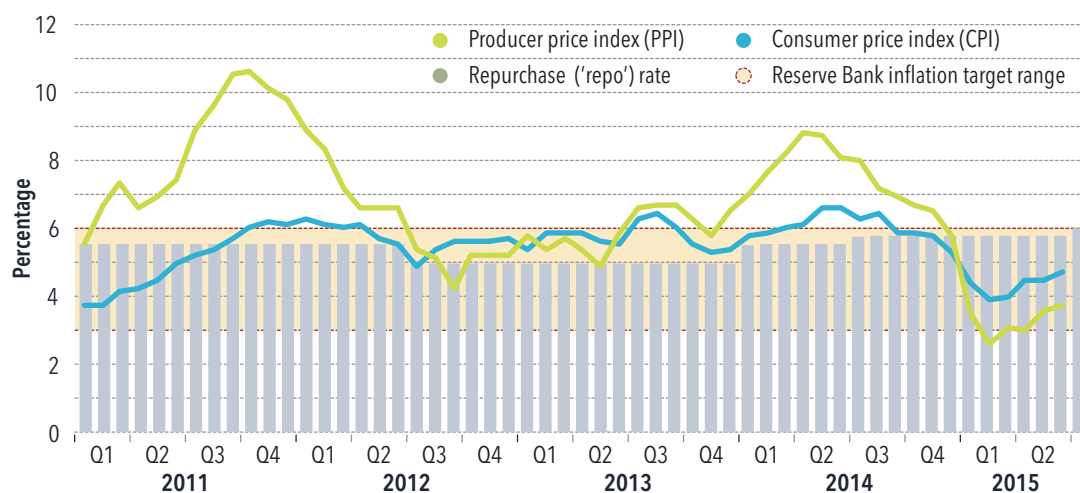
Overall, inflation in the second quarter of 2015 was higher than in the first quarter. The headline consumer price index (CPI) increased to 4,7% in June 2015, compared to 4% in March 2015, but remained below 5% for the entire three-month period. Inflation has however started to show signs of being on an increasing trend compared to the previous two quarters. Annually, the performance of the second quarter of 2015 was better than the overall performance of the second quarter of 2014, which ended on an inflation rate of 6,6%.

Similar to the CPI, the headline producer price index (PPI) for the second quarter of 2015 increased compared to the first quarter. However, the PPI recordings remain lower than those of the CPI. At the end of June 2015, the PPI recorded a rate of 3,7%, unchanged from May, but up from the 3,0% recorded for April. Since January 2015, the PPI has remained significantly below 4%. Key drivers of the increase in the PPI in June 2015 were food products, beverages and tobacco products (6,1%), metals, machinery, equipment and computing equipment (5,9%), as well as wood and paper products (6,8%).

At the end of June 2015, the PPI recorded a rate of 3,7%, unchanged from May, but up from the 3,0% recorded for April.

Key drivers of the increase in the PPI in June 2015 were food products, beverages and tobacco products (6,1%), metals, machinery, equipment and computing equipment (5,9%), as well as wood and paper products (6,8%).

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



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

Figure 19 also illustrates the movement of the repurchase rate (repo rate). As indicated on the graph, the repo rate remained unchanged at 5,75% for the second quarter of 2015. However, in July 2015, the Monetary Policy Committee (MPC) decided to increase the repo rate by 25 basis points to 6% (SARB 2015). This increase was driven by the inflation outlook for the first two quarters of 2016, which sees inflation breaching the upper end of the target range. Future increases in electricity tariffs at the time and the on-going volatility of the exchange rate due to a possible rate hike in the United States of America (USA) played an important role in the decision to increase the repo rate.

Table 1 indicates how different expenditure groups are affected by inflation. In the second quarter of 2015, inflation decreased for the lower expenditure quintile, increased for the high expenditure quintile, and remained the same for the middle

Table 1: Inflation levels by household expenditure groups

Quintiles	Level	Monthly expenditure	Inflation rate as in June 2015
	Average		4,7%
1	Very low	R0 to R1 213/month	5,0%
2	Low	R1 214 to R1 939/month	4,8%
3	Middle	R1 940 to R3 062/month	4,7%
4	High	R3 063 to R6 596/month	4,6%
5	Very high	R6 596 and more	4,7%

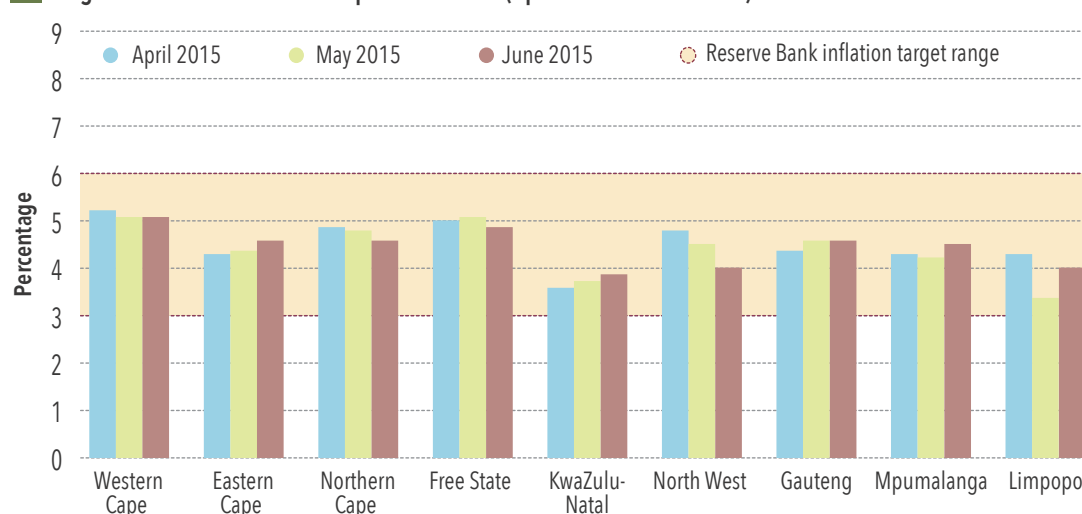
Source: Stats SA, August 2015.

quintile. The population quintile with the highest level of monthly expenditure was subject to an inflation rate of 4,7% in June 2015, while the population quintile with the lowest monthly expenditure was subject to an inflation rate of 5%. A reason for this disparity (despite the gap having closed somewhat in the second quarter) could be that the lowest quintile was more affected by the petrol price increase in April and June 2015 as well as by strong food price inflation.

GEOGRAPHICAL INFLATION

The Western Cape recorded a higher inflation rate (5,1%) than the national inflation rate (4,7%) at the end of the second quarter of 2015. The majority of the provinces experienced an increase in prices compared to the end of the first quarter of 2015. As illustrated by figure 20, the inflation rate fluctuated across provinces during the second quarter. The Eastern Cape, Gauteng and KwaZulu-Natal experienced an increasing trend, while the Northern Cape experienced a decrease. The Western Cape recorded the highest inflation rate for June 2015, while KwaZulu-Natal came in lowest at 3,9%. Food price inflation in the Western Cape was 5,1% in June 2015 (having decreased from 6,2% in May), while nationally, it was lower at 4,1% (having increased from 4% in May). Health cost inflation for the Western Cape (8,9%, up from 7,5% in May) was higher than the 6,2% recorded nationally (previously 7%). Inflation in transport costs (0,5% compared to 0,7% nationally) as well as restaurant and hotel prices (4,3% compared to 6,1% nationally) was lower in the Western Cape, although higher inflation rates were recorded in the price of housing and utilities (6,2% compared to 5,2% nationally).

Figure 20: CPI inflation rate at provincial level (April 2015 to June 2015)



Source: Stats SA, August 2015.

The Reserve Bank has forecast that inflation will breach the upper end of the inflation target range in the first two quarters of 2016. This is based on an expected electricity price hike of 13% between July 2016 and July 2017, and the tightening of United States monetary policy by the raising of interest rates, putting downward pressure on the rand.

INFLATION OUTLOOK

For the first two quarters of 2015, headline CPI remained significantly below 6%, with June having the highest recording at 4,7%. Even though inflation is moving comfortably within the target range, it does reflect an upward trend. From the end of the first quarter of 2015, it has been gradually increasing, with the biggest change recorded at 0,5 percentage points between March and April 2015. According to the MPC (SARB 2015) statement for May 2015, April's recorded inflation rate was influenced by the petrol price increase of R1,56 per litre experienced in that month. Likewise, the petrol price increased by another R0,47 in June 2015, which resulted in a decline in the disinflation of the overall transport category. The change in petrol price was highly affected by the increase in the oil price. The MPC will closely monitor this increasing trend in inflation for future implications.

According to the MPC (SARB 2015), high levels of wage growth, currency depreciation, a poor growth outlook and the potential for electricity tariff hikes are likely to put upward pressure on prices going forward. For the PPI, the upward movement is expected to continue as a result of the rise in agricultural crop prices and the rumoured hikes in electricity tariffs.

The abovementioned factors have all added to an upward shift in inflation expectations. According to the survey conducted by the BER (2015a), average inflation expectations for 2015 and 2016 have increased to 5,6% (previously 5,4%) and 6,1% (previously 5,9%) respectively. Furthermore, the Reserve Bank has forecast that inflation will breach the upper end of the inflation target range in the first two quarters of 2016. This is based on an expected electricity price hike of 13% between July 2016 and July 2017, and the tightening of United States monetary policy by the raising of interest rates, thereby putting downward pressure on the rand. This worsening inflation outlook also formed the basis for the MPC's decision to increase the repo rate to 6%. If inflation expectations continue to increase, it will enhance the likelihood of a further increase in the repo rate. However, oil prices are decreasing once again and, as a result, the petrol price decreased by R0,51 in August 2015. This downward movement in the oil prices, coupled with weak annual GDP growth figures, could keep inflation down and allow for the repo rate to remain unchanged at the next MPC meeting.



Labour market trends

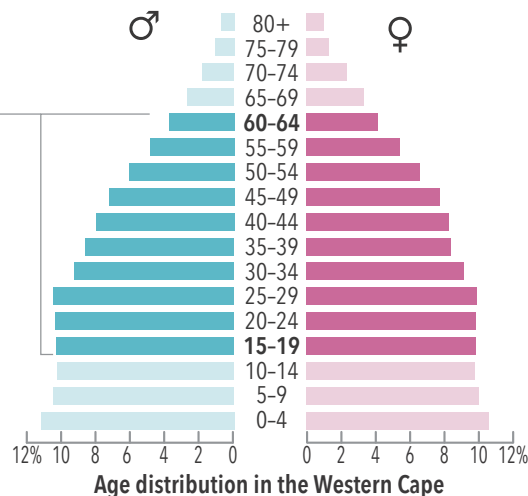
The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic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

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET

THE WORKING-AGE POPULATION



Cape Town has **2 729 523** people aged between 15 and 64. This group forms the **working-age population**. This is the value from which employment and unemployment figures are derived.



2 729 523
working-age population

The dependency ratio

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

EMPLOYMENT

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



Of the **2 729 523** people who make up the **working-age population**, **1 424 530** – 52,2% – are **employed**. This percentage is also known as the labour absorption rate.

1 424 530
employed people

52,2%
labour absorption rate

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

Of the **1 424 530** employed Capetonians, the majority are employed in the formal sector, with 11,3% in the informal sector.



1 152 350
(80,89%)

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

How these figures are calculated

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

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

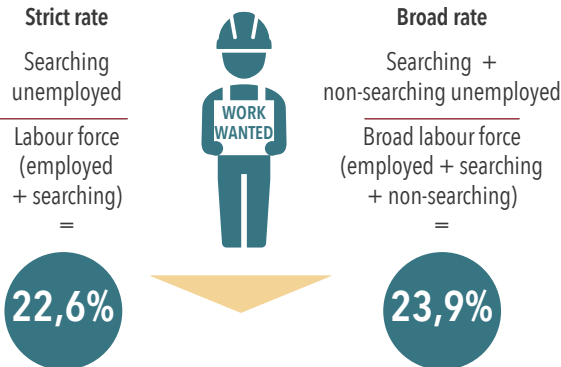
households and worker hostels across the country. The results are then weighted (adjusted) to accommodate factors such as rural and urban variations and to ensure that they are representative of the population as a whole.

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET

UNEMPLOYMENT

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

Strict unemployment
The 'strict' definition of unemployment includes only people who are actively seeking work. By that definition, Cape Town has **415 997 unemployed people** – 22,6% of the strict labour force.



Broad unemployment
The 'broad' definition of unemployment includes those under the 'strict' definition as well as 'discouraged' and other 'non-searching' job seekers. By that definition, Cape Town has **447 319 unemployed people** – 23,9% of the broad labour force.

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

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

↑ SEARCH CRITERIA

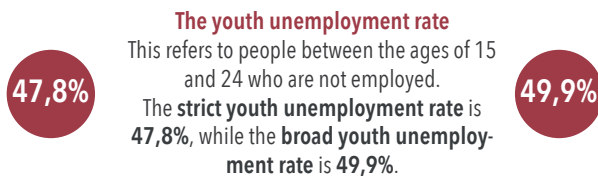
- were available for work, i.e. would have been able to start work or a business in the reference week; or
- had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and were available.

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

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

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

↑ SEARCH CRITERIA



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

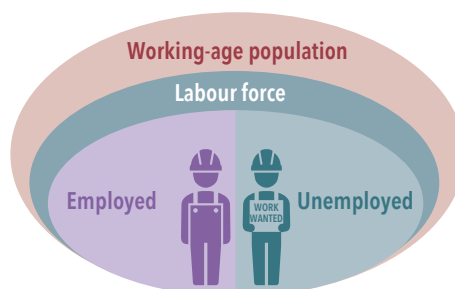
27,9% The youth NEET rate in Cape Town is 27,9%.

THE LABOUR FORCE

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

Strict labour force = 1 840 527

The 'strict' definition of the labour force includes both those in employment and those unemployed people who are actively seeking work. By that measure, the Cape Town labour force is **1 840 527** strong, being made up of **1 424 530 employed people** and **415 997 job seekers**.



Broad labour force = 1 871 849

The 'broad' definition of the labour force includes those under the 'strict' definition, and 'non-searching' job seekers. By this measure, Cape Town's labour force is **1 871 849** strong, being made up of **1 424 530 employed people**, **415 997 job seekers**, **11 764 discouraged** and **19 558 other non-searching unemployed**.

THE LABOUR FORCE

1 424 530 EMPLOYED

415 997 SEARCHING UNEMPLOYED

31 322 DISCOURAGED AND OTHER NON-SEARCHING UNEMPLOYED

STRICT

67,4%

LABOUR FORCE PARTICIPATION RATE

BROAD

68,6%

Labour force participation rate

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

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

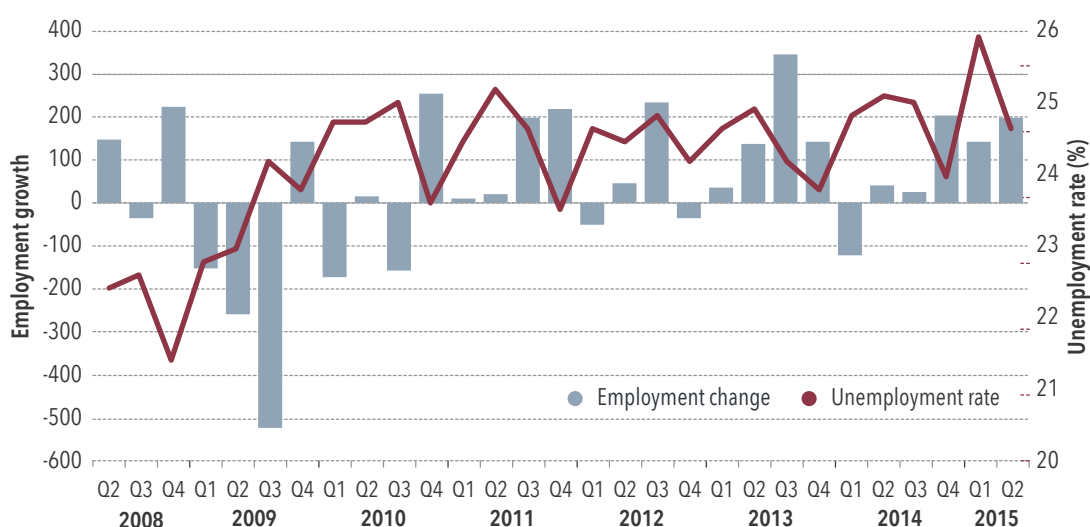
Sources: Stats SA Quarterly Labour Force Survey (QLFS), City of Cape Town.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

In the second quarter of 2015, South Africa's labour force decreased by 107 000 individuals compared to the first quarter. The number of employed people increased by 198 000 to 15,66 million in this period. This marks the fifth consecutive quarter with an employment increase and was largely on account of employment growth in the community and other social services sector (98 000), construction (79 000) as well as trade (73 000). Whilst these three industries experienced particularly strong employment growth, others experienced declines. Employment losses were led by finance and other business services (-31 000), manufacturing (-23 000) as well as agriculture (-22 000).

Annually, 563 000 more people were employed compared to the second quarter of 2014, while 639 000 individuals were added to the labour force. Overall, the majority of the industries added to employment growth. The largest contributor to annual employment growth was the construction sector (219 000), followed by agriculture (200 000). The construction sector outperformed the others on both a quarterly and annual basis. The finance and other business services sector performed poorly on a quarterly basis, while experiencing positive growth on a year-on-year basis (153 000). In contrast, the sectors of trade (-60 000) and transport (-25 000) recorded negative year-on-year growth, but contributed to employment on a quarterly basis.

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



Source: Stats SA, August 2015.

In the second quarter of 2015, the number of employed people increased by 198 000 to 15,66 million. This marks the fifth consecutive quarter with an employment increase and was largely on account of employment growth in the community and other social services sector (98 000), construction (79 000) as well as trade (73 000).

For the second quarter of 2015, unemployment in South Africa decreased by 305 000 quarter on quarter to a total of 5,23 million people. This resulted in a 1,4 percentage point decrease in the official unemployment rate to 25%. Discouraged work seekers, who are only included in the expanded measure of unemployment, increased by 38 000 to a total of 2,43 million individuals. The above figure illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, faster employment growth typically leads to decreases in the unemployment rate.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the second quarter of 2015, the working-age population of Cape Town increased by approximately 14 000 individuals compared to the first quarter, but decreased by nearly 178 000 individuals on a year-on-year basis. Cape Town's labour force decreased by 18 000 individuals to a total of 1,841 million in the second quarter, and its labour force participation rate decreased by a percentage point to 67,4%. This remains significantly higher than the national rate of 58,1%, pointing to the greater inclusiveness of Cape Town's labour market.

The number of people employed in Cape Town in the second quarter of 2015 increased by 2 000 individuals on a quarterly basis, and decreased by 176 000 individuals on an annual basis. The formal sector absorbs the bulk of those employed in Cape Town, but reflected a decrease in the second quarter (-24 000). Employment in the informal sector increased by 26 000 quarter on quarter in the second quarter, as well as by 18 000 individuals on a year-on-year basis. This has seen the informal sector's share of employment increase to 11,3% from a previous 9,5%. However, the majority of employment gains were experienced in the agricultural and private-household sectors.

To measure Cape Town's job-creating performance, a comparison with the other metros in the country is helpful. From a static point of view, Cape Town has the second-most employed people in the country, with 1,42 million people employed in the city compared to Johannesburg's 1,9 million. This is to be expected, as Johannesburg has a significantly larger population.

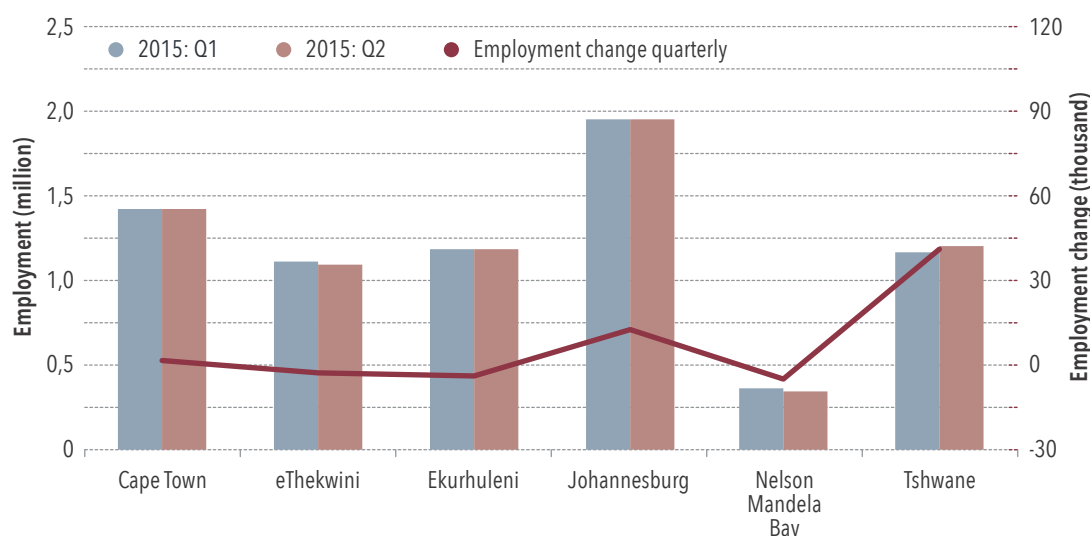
Table 2: Labour market indicators: South Africa and Cape Town*

Indicator	South Africa			Cape Town		
	Q2:2015	Q1:2015	Q2:2014	Q2:2015	Q1:2015	Q2:2014
Working-age population (000s)	35 955	35 799	35 332	2 730	2 716	2 908
Labour force	20 887	20 994	20 248	1 841	1 859	2 017
Employed	15 657	15 459	15 094	1 425	1 423	1 514
Employed by the formal sector	10 835	10 796	10 755	1 152	1 176	1 258
Employed by the informal sector	2 661	2 483	2 379	161	135	143
Unemployed	5 230	5 535	5 154	416	436	503
Not economically active	15 068	14 809	15 084	889	857	890
Discouraged work seekers	2 434	2 397	2 419	12	7	6
Other	12 633	12 408	12 665	877	850	884
Unemployment rate (%)	25,0	26,4	25,5	22,6	23,5	24,9
Youth unemployment rate (%)	49,9	50,3	51,8	47,8	48,0	52,6
NEET** as % of working-age population	39,2	40,4	40,1	33,8	34,4	35,7
Absorption rate (%)	43,5	43,2	42,7	52,2	52,4	52,1
Labour force participation rate (%)	58,1	58,6	57,3	67,4	68,4	69,4

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

Turning attention to employment creation in the second quarter, as measured by the difference between the first-quarter and second-quarter employment levels, one observes mixed performance. The biggest increase in employment was recorded in Tshwane (41 510), with Johannesburg (12 927) and Cape Town (1 962) following suit, while all the other metros shed jobs. Nelson Mandela Bay (-5 209) and Ekurhuleni (-3 613) shed the most jobs in this quarter. On a year-on-year basis, Nelson Mandela Bay shed jobs at the fastest rate (7%), while employment in Tshwane grew fastest (10,8%).

Figure 22: Employment comparison with other metros (Quarter 1, 2015 to Quarter 2, 2015)



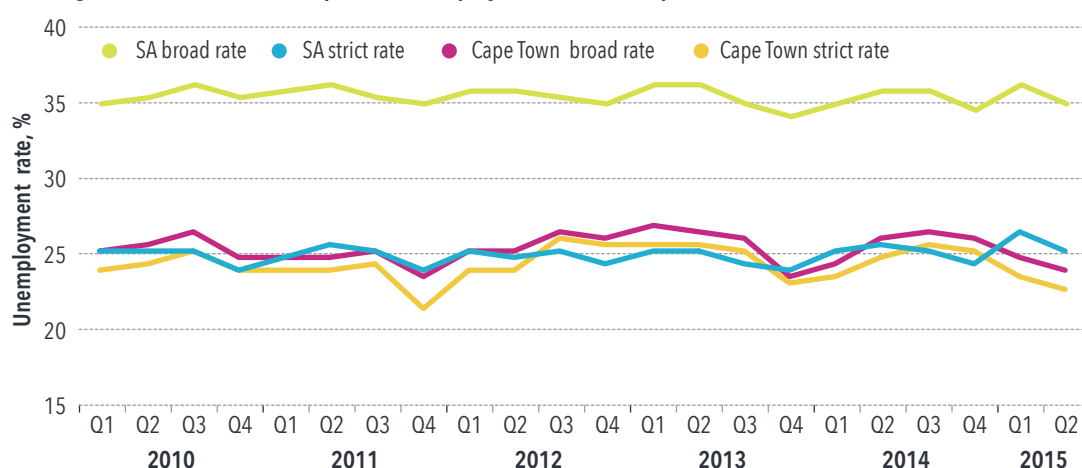
Source: Stats SA, August 2015.

Unemployment in Cape Town

In line with national unemployment trends, Cape Town experienced a decrease (-20 000) in the number of unemployed people in the second quarter compared to the previous quarter. The number of unemployed in the city also showed a decrease of approximately 87 000 compared to the corresponding period the previous year. As a result of decreasing unemployment on a quarterly basis, Cape Town's strict unemployment rate decreased by 0,9 percentage points to 22,6%. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 47,8% in the second quarter of 2015, having decreased from 48% in the previous quarter. While this is below the national rate of 49,9%, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

By excluding discouraged work seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals desiring to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by figure 23, the two rates of unemployment for Cape Town have remained relatively close

The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 47,8% in the second quarter of 2015, having decreased from 48% in the previous quarter. While below the national rate of 49,9%, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

Figure 23: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 2, 2015)


Source: Stats SA, August 2015.

over the last few years, although Cape Town's unemployment rates over the last two quarters have slowly started to deviate from South Africa's strict unemployment rate. On average, the expanded unemployment rate in Cape Town is only 1,03% higher than the city's strict rate. Cape Town's strict unemployment rate decreased in the second quarter of 2015, and was 2,1 percentage points lower than the national rate. However, it is important to consider the expanded definition of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 23). South Africa's expanded unemployment rate in the second quarter of 2015 was 34,9%, compared to Cape Town's expanded rate of 23,9%. On this basis, Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

Table 3: Official vs expanded unemployment rates (Quarter 2, 2014 to Quarter 2, 2015)

Metro	Official			Expanded		
	2015:Q2	2015:Q1	2014:Q2	2015:Q2	2015:Q1	2014:Q2
Cape Town	22,60	23,48	24,96	23,90	24,68	25,94
eThekweni	16,46	19,62	15,97	26,33	28,49	25,15
Ekurhuleni	29,44	30,63	28,29	34,44	35,33	31,72
Johannesburg	26,20	26,66	25,16	28,69	29,69	27,46
Nelson Mandela Bay	33,20	33,08	38,51	33,20	33,15	38,56
Tshwane	24,64	27,63	20,22	29,57	33,02	26,78

Source: Stats SA, June 2015.

The reason for the small disparity between Cape Town's strict and expanded unemployment rates, unlike other metros, is the relatively low number of discouraged work seekers in the city.

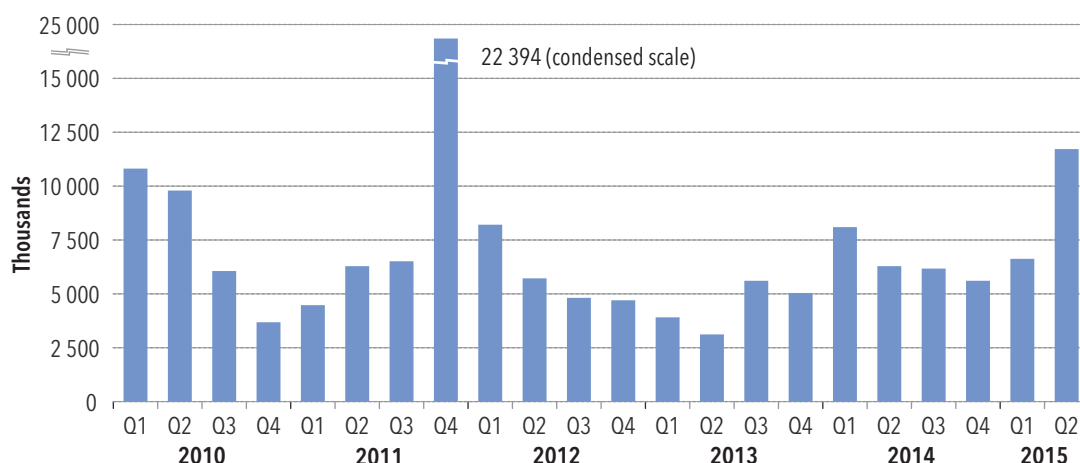
While comparing Cape Town's unemployment trends with South Africa as a whole is important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics. In the second quarter of 2015, Cape Town, Johannesburg, Ekurhuleni and eThekweni experienced quarter-on-quarter decreases in both unemployment rates. Nelson Mandela Bay was the only metro to have experienced increases in both unemployment rates. From a static point of view, Nelson Mandela Bay had the highest expanded unemployment rate (33,2%) and the highest official/strict unemployment rate (33,2%),⁷ while Cape Town had the lowest expanded unemployment rate (23,90%) and eThekweni the lowest strict rate (16,46%). What is also notable from table 3 is how similar Cape Town's expanded and official unemployment rates are, especially compared to metros such as eThekweni, where the expanded rate is almost 10 percentage points higher than the strict rate.

The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work seekers in Cape Town. According to Stats SA (2015), a discouraged work seeker "is a person who was not employed during the reference period, wanted to work, was available to work/start a business but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work". Discouraged work seekers are included in the expanded unemployment figure, which explains why this figure is slightly higher than the strict unemployment figure. The number of discouraged work seekers in Cape Town increased from 6 619 in the first quarter of 2015 to 11 764 in the second quarter.

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



Figure 24: Discouraged work seekers in Cape Town (Quarter 1, 2010 to Quarter 2, 2015)



Source: Stats SA, August 2015.

For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,48%) of the country's total number of discouraged work seekers.

Figure 24 shows that the number of discouraged work seekers has (except for the outlier of the fourth quarter of 2011) consistently been below 10 000 individuals. However, in the second quarter of 2015, the number of discouraged work seekers nearly doubled compared to the first, and breached the 10 000 mark once again.

For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,48%) of the country's total number of discouraged work seekers. The reasons for this remain largely unclear and require further research.

Labour force and employment

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

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



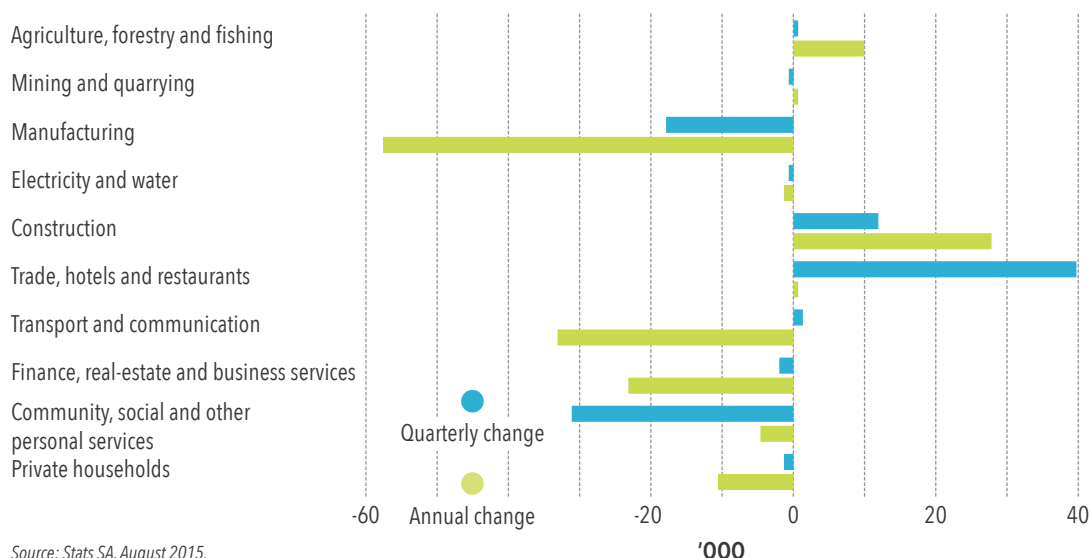
Source: Stats SA, August 2015.

Sector employment trends in Cape Town

Figure 26 displays the level of employment by industry/sector within Cape Town. Overall, four sectors reflected positive growth and six reflected negative growth for the second quarter of 2015 compared to the previous quarter. The largest contributors to employment were trade and construction, which increased by 39 642 and 12 143 jobs respectively. This is also in line with the national trend, as both these sectors added positively to employment countrywide. The sectors that experienced the biggest job losses were community and social services (-30 986) and manufacturing (-17 361), while finance and other business services (-1 775) also reflected negative growth. Once again, these figures reflect a similar trend to the national employment figures by industry, except for community and social services, which contributed positively to national employment.

On an annual basis, the majority of the sectors reflected negative growth. The strongest contributing sectors in respect of employment growth were construction and agriculture, which grew employment by 27 889 and 10 484 jobs respectively. The sector that experienced the biggest year-on-year job losses in the second quarter of 2015 was manufacturing (-57 174), followed by transport (-32 728).

Figure 26: Quarterly and annual change per sector for Cape Town (Quarter 2, 2015)



Source: Stats SA, August 2015.

Employment growth must still be pursued as the primary means of unemployment reduction. However, owing to current macroeconomic conditions, the immediate prospect for employment growth is very limited. The weak GDP performance of manufacturing and agriculture means that these sectors are unlikely to meaningfully stem job losses in the short term.

Labour market outlook

For the second quarter of 2015, Cape Town recorded decreases in all its unemployment rates (official, expanded and youth) compared to the previous quarter as well as to the corresponding period in 2014. The lower unemployment rates reflect increased employment as well as a substantial increase in economic inactivity. In terms of the former, employment growth was fuelled by the construction and trade sectors. This is at odds with the Western Cape GDP growth figures, which indicated that both of these sectors performed badly in the second quarter, but can perhaps be explained by the lag between production and employment changes. The employment performance of the manufacturing sector, however, is largely matched by GDP figures and may reflect a longer-term GDP decline, resulting in employment losses in the current period.

Unfortunately, the decline in unemployment cannot be entirely ascribed to job creation, as the decline in unemployment (-20 000) far exceeded the increase in employment (2 000). It would appear that many of the previously unemployed individuals were absorbed into the category of discouraged work seekers and other not economically active categories in the second quarter. While this may reduce the unemployment rate, it will not necessarily have the desired impact on household well-being.

Employment growth must still be pursued as the primary means of unemployment reduction. However, owing to current macroeconomic conditions, the immediate prospect for employment growth is very limited. The weak GDP performance of manufacturing and agriculture means that these sectors are unlikely to meaningfully stem job losses in the short term. Meanwhile, the increasingly weak GDP figures for the trade and construction sectors suggest that job losses in these sectors may be imminent if they continue to record such poor growth rates. One industry in Cape Town that, if properly supported, may be able to positively contribute to employment growth in the short term is business services, particularly business process outsourcing.

Trade and investment

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

In the second quarter of 2015 South Africa experienced a trade surplus for the first time since 2011. This was partly due to a R11,7 billion decrease in crude petroleum imports during the quarter as a result of globally reduced crude petroleum prices.

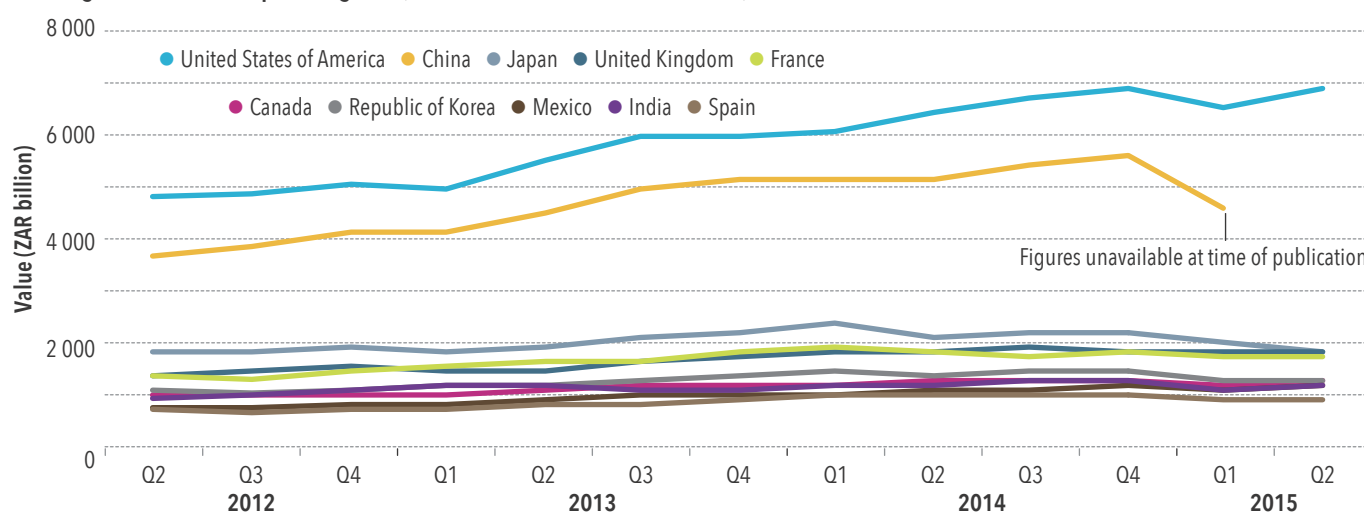


TRADE

Global trade

The world's largest importer of goods remains the United States, followed by China (although China has not reported its trade data since March 2014). Global imports have been consistent since the previous quarter as well as the previous year. Quarterly as well as annual increases in imports were observed in countries such as the United States, France, Canada, Mexico, India and Spain in the period under review. Continued imports from these markets are encouraging for local exporters, and demonstrate that these markets have continued demand for imported products.

Figure 27: Global imports of goods (Quarter 2, 2012 to Quarter 2, 2015)



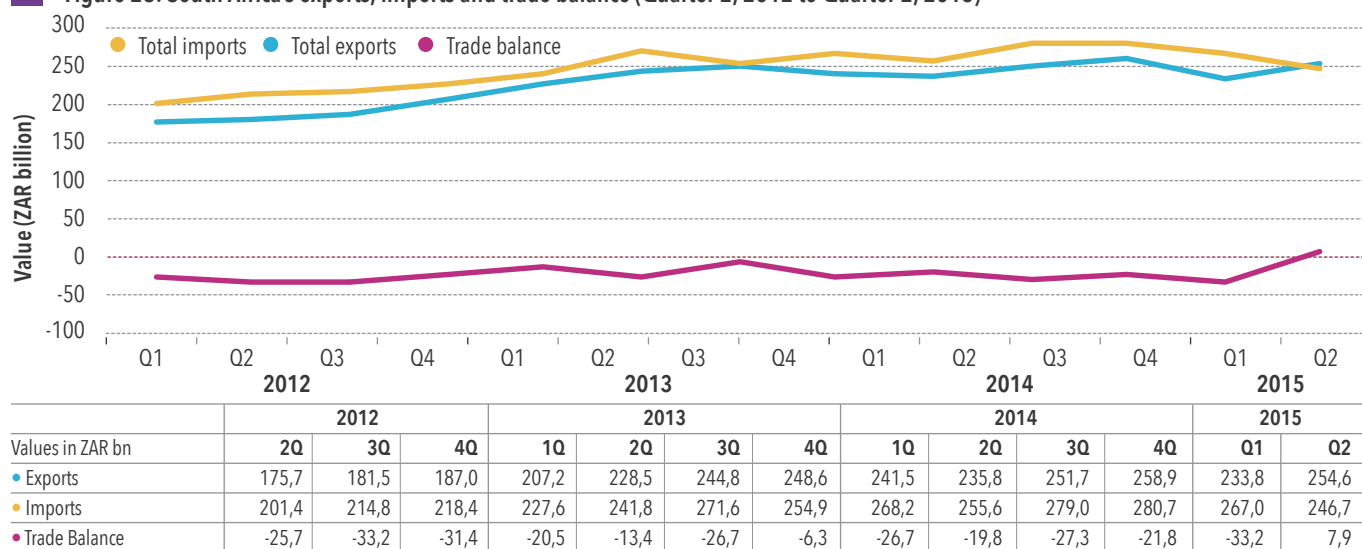
Values in ZAR bn	Q2-'12	Q3-'12	Q4-'12	Q1-'13	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15
United States of America	4 814	4 853	5 085	4 929	5 551	5 966	5 996	6 099	6 468	6 665	6 867	6 517	6 899
China	3 687	3 809	4 092	4 161	4 519	4 996	5 117	5 141	5 104	5 446	5 564	4 577	-
Japan	1 799	1 844	1 884	1 854	1 882	2 084	2 204	2 370	2 079	2 189	2 166	2 009	1 851
United Kingdom	1 340	1 467	1 533	1 437	1 502	1 632	1 749	1 814	1 807	1 904	1 865	1 831	1 816
France	1 384	1 296	1 474	1 531	1 598	1 637	1 792	1 894	1 835	1 761	1 799	1 689	1 699
Canada	954	950	1 000	1 003	1 118	1 157	1 163	1 175	1 272	1 277	1 287	1 209	1 297
Republic of Korea	1 062	1 034	1 129	1 158	1 197	1 257	1 349	1 435	1 379	1 428	1 451	1 314	1 296
Mexico	752	762	847	798	922	971	983	998	1 062	1 105	1 168	1 086	1 173
India	930	991	1 129	1 139	1 147	1 097	1 104	1 210	1 199	1 300	1 306	1 122	1 159
Spain	686	656	727	744	805	828	903	997	972	951	959	898	927

Source: International Trade Centre, September 2015.

South African trade

South African trade had experienced strong and consistent growth since the first quarter of 2012, with exports of more than R200 billion each quarter since the first quarter of 2013. However, in the first quarter of 2015, both exports and imports decreased (by 9,5% and 4,7% respectively) in line with the global trend. Exports rebounded with 8,9% growth during the second quarter of 2015, but a sustained decline in imports, dropping by 7,9%, resulted in a trade surplus for the first time since the second quarter of 2011. This was partly due to a R11,7 billion decrease in crude petroleum imports during the quarter as a result of globally reduced crude petroleum prices.

China is South Africa's largest export destination, with exports reaching R23 billion in the second quarter of 2015. South

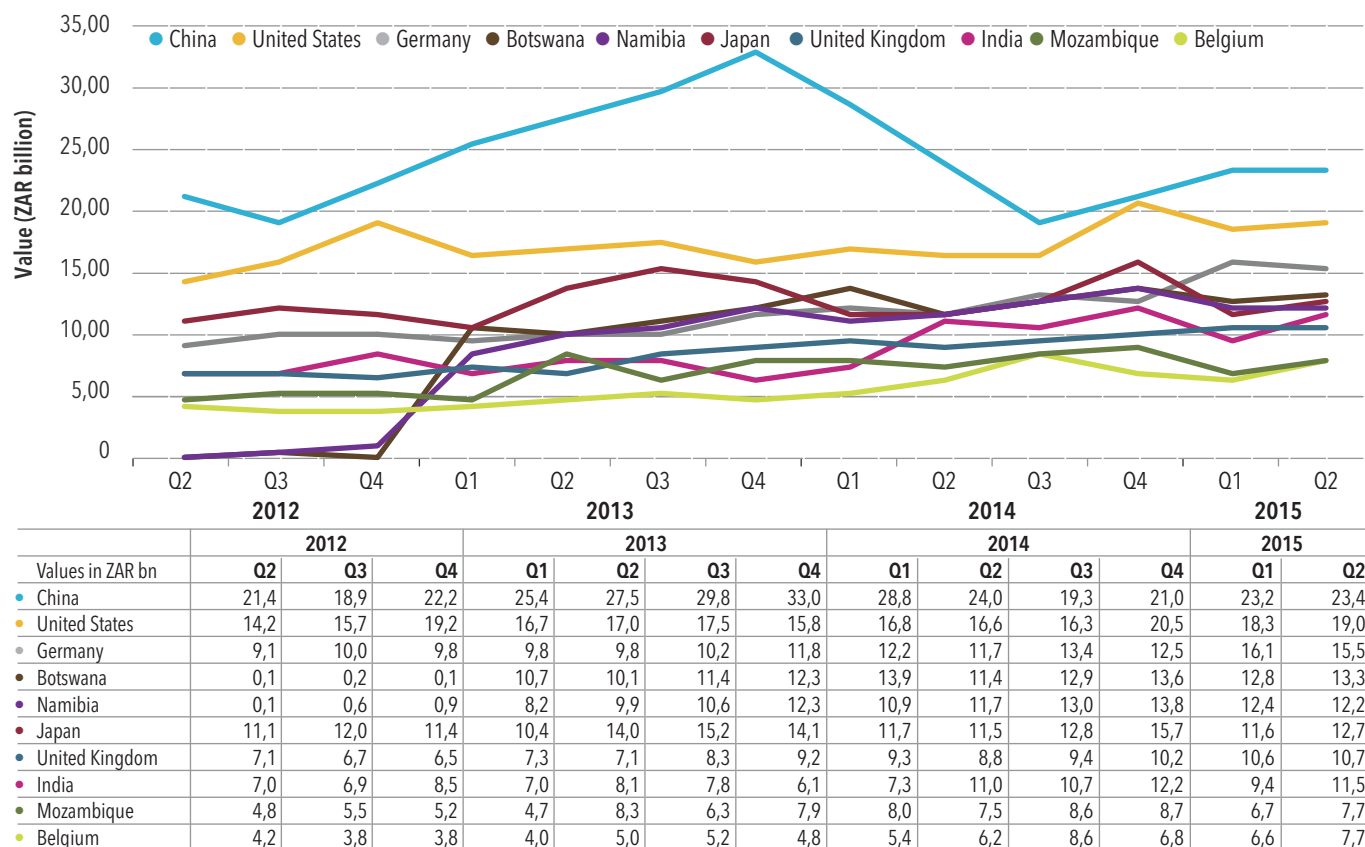
Figure 28: South Africa's exports, imports and trade balance (Quarter 2, 2012 to Quarter 2, 2015)

Source: Quantec, September 2015.

Africa's exports to China continue to be driven by the Chinese appetite for South African mineral commodities, especially iron ore and concentrates. There was a marginal increase (0,9%) in exports to China from the first quarter to the second quarter of 2015. It is important to continue stimulating the Chinese demand for South African manufactured products so as to limit the impact on exports when the demand for mineral commodities declines.

South Africa's second-largest export market is the United States, followed by Germany, Botswana and Japan. Exports to the United States are driven by platinum exports, which grew by 24,4% during the second quarter of 2015. Botswana and Namibia joined Mozambique as South Africa's top export markets in Africa in the period under review. Growth in exports to Africa now sees the continent playing a very important part in South Africa's global trade. Increased exports to Africa will further diversify South Africa's export markets and hedge against external shocks to the economy from the Eurozone as well as the United States.

South Africa's second-largest export market is the United States, followed by Germany, Botswana and Japan.

Figure 29: South Africa's export markets (Quarter 2, 2012 to Quarter 2, 2015)

Source: Quantec, September 2015.

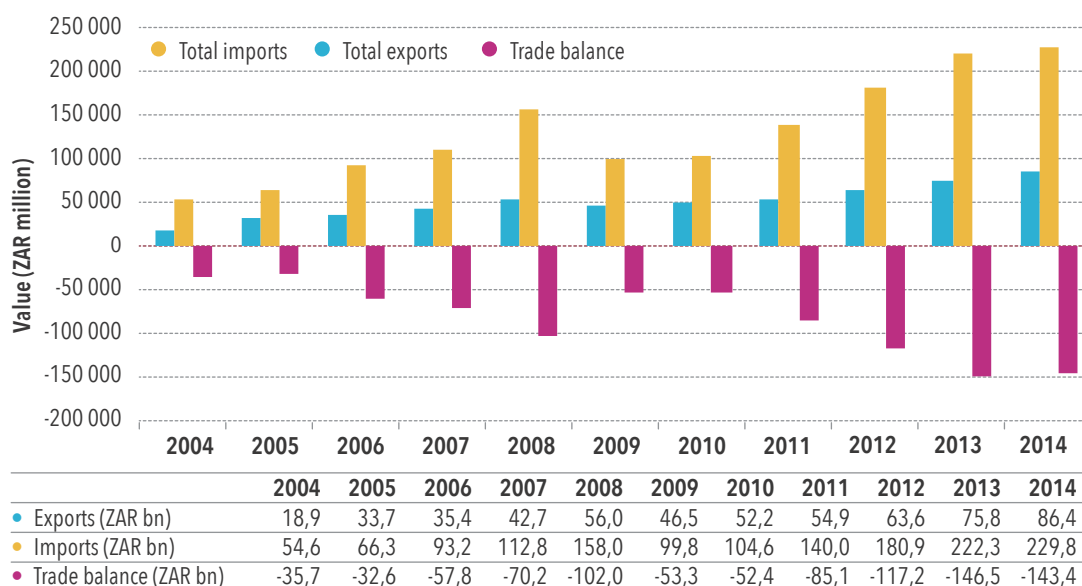
The top export products from the Western Cape in 2014 were petroleum oils and oils obtained from bituminous minerals (refined petroleum preparations), followed by wine.



Western Cape trade⁸

The Western Cape has demonstrated strong growth in exports since the decline in 2009. Exports in 2014 grew by 13,9% annually to reach R86,4 billion, while imports grew by 3,3% to reach R229,8 billion. The trade deficit for the Western Cape has also decreased since 2013, but remains very high.

Figure 30: Western Cape trade (2004 to 2014)



Source: Quantec, September 2015.

The top export products from the Western Cape in 2014 were petroleum oils and oils obtained from bituminous minerals (refined petroleum preparations), followed by wine. The Western Cape experienced a bumper year for grapes and citrus fruit exports, with export values growing by 26,6% and 26,3% respectively. Fruit juice exports also demonstrated strong growth at 19,4%, however wine exports experienced a slight decline of 0,7% during 2014.

The Western Cape continues to import crude petroleum oils as well as petroleum oils and oils obtained from bituminous minerals (refined petroleum preparations), as the province has refining capacity. There was a significant increase in the imports of machinery and wheat during 2014, with growth rates exceeding 60%.

8. The graph excludes Southern African Customs Union trade data introduced as from 2014, with exports to the value of R22,9 billion and imports to the value of R63 billion. The exclusion was due to poor comparability year-on-year.

**Table 4: Top ten export and import products for the Western Cape⁹ (2014)****Top 10 exports from the Western Cape, 2014**

Rank	Product	Value 2014 (ZAR billion)	% growth 2014
1	Refined petroleum oils and oils obtained from bituminous minerals	8,73	-4,3
2	Wine of fresh grapes, including fortified wines grape must (excluding that of heading 20.09)	7,75	-0,7
3	Citrus fruit, fresh or dried	7,66	26,3
4	Apples, pears and quinces, fresh	5,14	-6,7
5	Grapes, fresh or dried	5,04	26,6
6	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated	3,91	25,7
7	Centrifuges, including centrifugal dryers filtering or purifying machinery and apparatuses, for liquids or gases	1,99	-1,1
8	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar	1,70	7,7
9	Diamonds, whether or not worked, but not mounted or set	1,63	122,1
10	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter	1,56	19,4
TOTAL		86,4	13,9

Top 10 imports to the Western Cape, 2014

Rank	Product	Value 2014 (ZAR billion)	% growth 2014
1	Crude petroleum oils and oils obtained from bituminous minerals, crude	92,80	4,3
2	Refined petroleum oils and oils obtained from bituminous minerals	44,56	-5,2
3	Undenatured ethyl alcohol – spirits, liqueurs and other spirituous beverages	2,52	-10,7
4	Electricity-generating sets and rotary converters	1,98	79,7
5	Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including photo-voltaic cells	1,75	-52,4
6	Wheat and meslin	1,54	63,3
7	Other footwear with outer soles and uppers of rubber or plastics	1,52	13,7
8	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of mixed or unmixed products for therapeutic or prophylactic uses	1,50	-7,7
9	Prepared or preserved fish caviar and caviar substitutes prepared from fish eggs	1,15	-31,1
10	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear)	1,05	11,4
TOTAL		229,8	3,3

Source: Quantec, 2015.

9. All data in this table exclude products exported to the Southern African Customs Union, as no growth rates could be established for previous years.



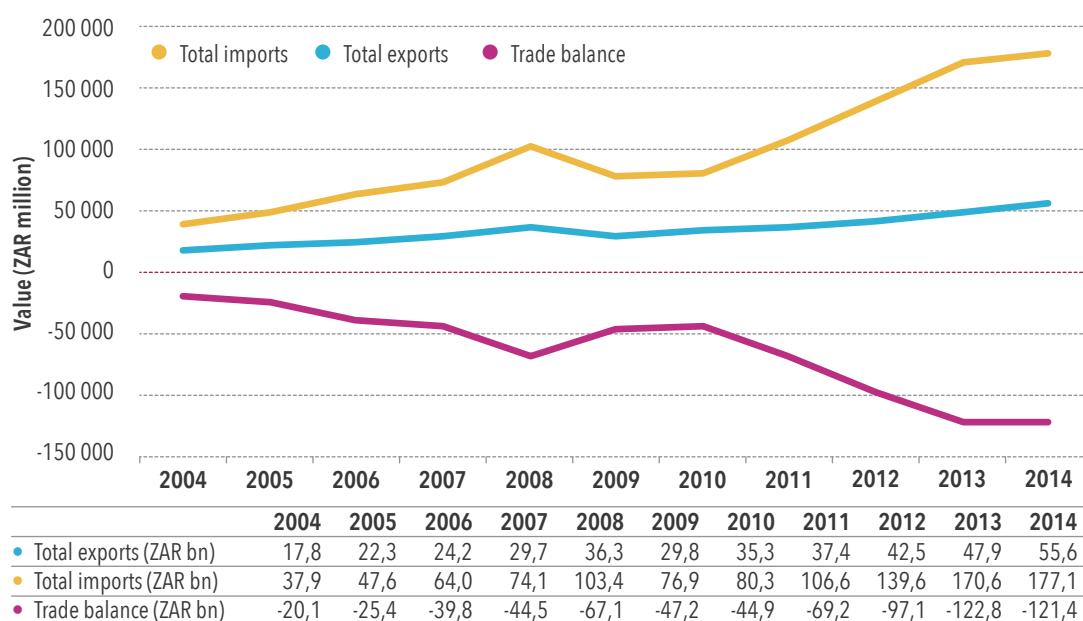
Cape Town imported R63 billion worth of crude petroleum oils in 2014, which constitutes a 3,4% decrease on the previous year's figures.

Electronic machinery imports grew quite substantially during 2014, as well as footwear and men's clothing.

Cape Town trade

Cape Town's exports have shown strong and consistent growth over the past ten years, reaching R55 billion in 2014 and growing by 16,1%. It is encouraging to see that the growth in imports slowed down to 3,7% during 2014. This can be attributed to the lower fuel prices experienced globally. The sharp growth in exports compared to imports has resulted in a decrease in the trade deficit.

Figure 31: Cape Town trade¹⁰ (2004 to 2014)



Source: Quantec, 2015.

Cape Town's largest export product remains petroleum oils and oils obtained from bituminous minerals (refined petroleum preparations), at R8,7 billion. This product experienced a decline in its export value due to the drop in oil prices experienced during 2014. Citrus fruit exports reached R4,7 billion, having grown by 22% in 2014. Export products such as engine parts (349%) as well as diamonds (145%) also experienced notable growth.

Cape Town imported R63 billion worth of crude petroleum oils in 2014, which constitutes a 3,4% decrease on the previous year's figures. Imports of petroleum oils and oils obtained from bituminous minerals (refined petroleum preparations) were up 11,8% at R37 billion. Electronic machinery imports grew quite substantially during 2014, as well as footwear and men's clothing.

10. This graph excludes Southern African Customs Union trade data introduced as from 2014, with exports to the value of R18,9 billion and imports to the value of R5,8 billion. The exclusion was due to poor comparability year-on-year.

Table 5: Top ten export and import products for Cape Town¹¹

Top 10 exports from Cape Town, 2014				Top 10 imports to Cape Town, 2014			
Rank	Product	Value 2014 (ZAR bn)	% growth 2014	Rank	Product	Value 2014 (ZAR bn)	% growth 2014
1	Petroleum oils and oils obtained from bituminous minerals (excluding crude); preparations not elsewhere specified or included	8,70	-4,6	1	Petroleum oils and oils obtained from bituminous minerals, crude	63,07	-3,4
2	Citrus fruit, fresh or dried	4,71	22,0	2	Petroleum oils and oils obtained from bituminous minerals (excluding crude); preparations not elsewhere specified or included	37,29	11,8
3	Apples, pears and quinces, fresh	2,77	-10,3	3	Undenatured ethyl alcohol – spirits, liqueurs and other spirituous beverages	2,24	-13,7
4	Grapes, fresh or dried	2,59	19,2	4	Electricity-generating sets and rotary converters	1,98	80,0
5	Centrifuges, including centrifugal dryers filtering or purifying machinery and apparatus, for liquids or gases	1,98	-1,1	5	Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including photo-voltaic cells	1,74	-50,3
6	Diamonds, whether or not worked, but not mounted or set	1,45	145,3	6	Other footwear with outer soles and uppers of rubber or plastics	1,50	14,0
7	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08	1,36	349,2	7	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of mixed or unmixed products for therapeutic or prophylactic uses	1,47	-8,7
8	Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen	1,27	30,8	8	Unmanufactured tobacco tobacco refuse	1,10	98,2
9	Yachts and other vessels for pleasure or sports rowing boats and canoes	1,02	32,3	9	Prepared or preserved fish caviar and caviar substitutes prepared from fish eggs	1,09	-32,1
10	Fish, frozen (excluding fish fillets and other fish meat of heading 03.04)	1,01	13,6	10	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear)	1,05	11,3
TOTAL		55,61	16,2	TOTAL		177,06	3,8

Source: Quantec, 2015.

INVESTMENT

Global foreign direct investment (FDI)

Global foreign direct investment (FDI) reached R9,6 trillion in 2014, with a year-on-year decline in projects of 4,3%, or 782 projects. Halfway through 2015, it can be expected that FDI globally will achieve similar levels to those reached in 2014. The trend line for projects does indicate that the number of investments taking place globally is beginning to decrease. However, capital expenditure values over the past few years have indicated that FDI projects are of greater values.

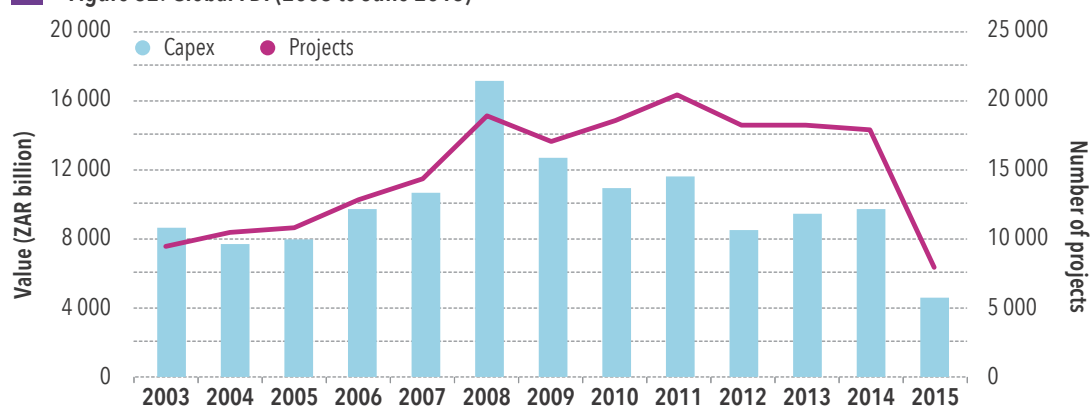
Between January 2015 and June 2015, a total of 3 984 FDI projects were recorded globally, representing a total capital investment of R5,76 trillion, which results in an average investment of R1,446 million per project.

The United States attracted the highest number of projects (1 649) as well as the highest capital expenditure value (R743 billion) in this quarter. This was followed by the United Kingdom, Japan and China in terms of the capital expenditure value of their FDI. When judged by the number of projects received, however, the United States is followed by the United Kingdom, Germany and Japan.

The top sub-sectors globally for FDI (in terms of projects) in the first quarter of 2015 were software publishers (except video games), with a 7,5% share of total projects, followed by clothing and clothing accessories (7,1%) and retail banking (3,5%). Despite services dominating in terms of the number of projects attracted globally, construction and energy received the bulk of the capital expenditure. Commercial and institutional building construction received a 7,7% share of capital expenditure, followed by fossil-fuel electric power at 5,2% and solar electric power at 4,8%.

FDI flows into Cape Town in terms of capital investment have not recovered to the pre-crisis levels attained in 2008, although capital investments from 2009 to 2014 exceeded investments from 2003 to 2007.

11. All data in this table exclude products exported to the Southern African Customs Union, as no growth rates could be established for previous years.

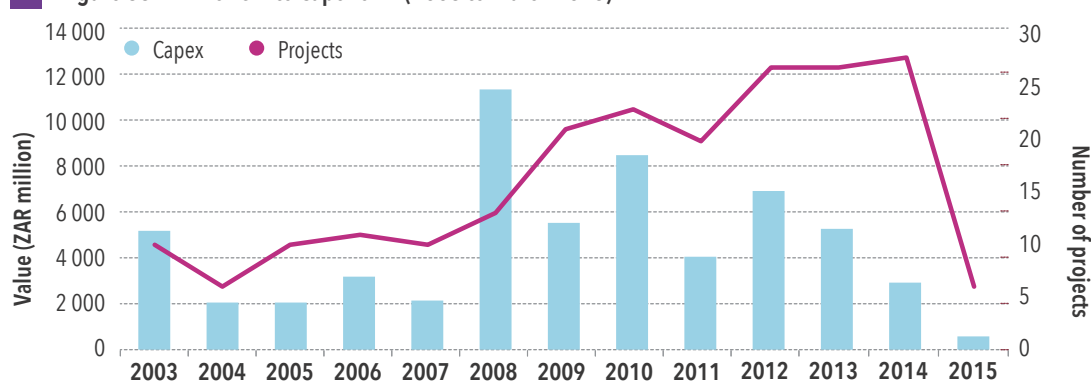
Figure 32: Global FDI (2003 to June 2015)¹²


Source: Financial Times, September 2015.

Cape Town foreign direct investment (FDI)

FDI flows into Cape Town in terms of capital investment have not recovered to the pre-crisis levels attained in 2008, although capital investments from 2009 to 2014 exceeded investments from 2003 to 2007. The number of FDI projects received into Cape Town increased from six projects in 2004 to a record level of 28 projects in 2014. This growth in project numbers indicates that more companies are investing in Cape Town now compared to previous years, despite lower levels of capital investment.

From January 2015 to March 2015, Cape Town attracted six investment projects worth R622,1 million. The largest investment in this quarter, totalling R179,3 million, was in the software and information technology (IT) services sector by United States-based company Oracle to expand its office in Cape Town. The second-largest investment, totalling R126,5 million, was by China-based Suntech Power Holdings, a solar energy company, which opened a new warehouse in Cape Town to store 500 kilowatts of modules, and intends to expand its storage capacity to 1 megawatt later in 2015. The company intends to increase its sales capacity into the wider Southern African Development Community. Other sectors receiving investment included business services and consumer products.

Figure 33: FDI flows into Cape Town (2003 to March 2015)


Source: Financial Times, September 2015.

Investment facilitation

Between April and June 2015, Wesgro facilitated two new investment projects and two expansion projects in Cape Town. The new investments were an animal feed production project of R240 million, which created 100 jobs, and an information communications technology (ICT) project of R15 million, which created 20 jobs. The expansion projects were a manufacturing project of R221 million, which created 32 jobs, and a film-sector project of R283 million, which created 20 jobs.

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



Sector focus: The informal sector

The informal sector is a crucial and often overlooked part of Cape Town's economy. The use of the term 'informal' often conjures up images of survivalist street traders operating on the side of the road. However, the notion of 'informality' refers more to the conditions of work than to any specific type of economic activity, and should not be taken to imply discreteness from the rest of the economy. As this chapter will show, the informal sector incorporates a broad spectrum of economic activities and business typologies in a diverse range of geographic locations across the city, with varying intensities of relations with formal business. While Cape Town's informal sector may be relatively small, especially by emerging-country standards, its penetration into the most vulnerable households in the city and its impact in terms of poverty reduction are disproportionately large.



OVERVIEW OF THE INFORMAL SECTOR IN CAPE TOWN

The informal sector is commonly understood to refer to the unregulated, non-formal portion of the market economy. Statistics SA (2015) uses an employment-based definition for the sector, defining it broadly as comprising of employees working in establishments employing less than five employees who do not pay income tax, as well as own-account workers whose businesses are not registered for either income tax or value-added tax. The use of the term 'informal economy' is often preferred to 'informal sector', as it conveys a broader sense of the scope of economic activities that take place informally. At the same time, however, it may erroneously create the impression that the informal economy exists in isolation from the formal economy. For the sake of continuity with previous editions of *EPIC*, this chapter will use the term 'informal sector'.

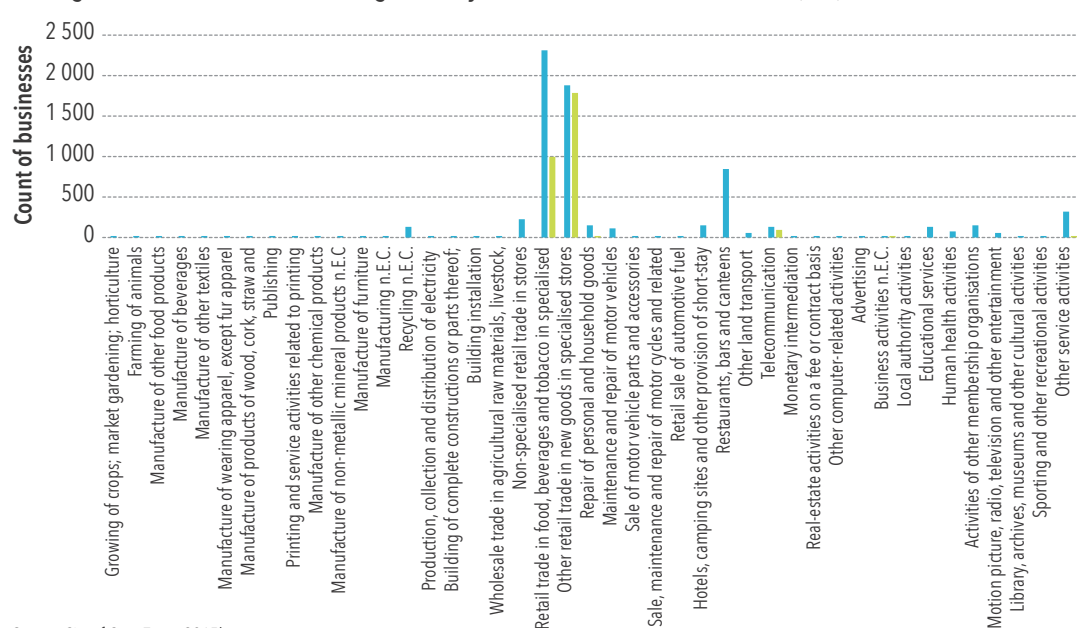
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Scope of informal-sector activity: More than just trading

Devey and colleagues (2006) note that the informal economy is often marginalised, or sometimes even considered as a 'sector' on its own. In reality, however, the informal sector exists both together and co-dependently with the formal economy (Devey *et al.* 2006). As such, it is more appropriate that informal activities (as they exist on a spectrum with formal activities)¹³ are considered in conjunction with formal activities as part of a common overarching economy (Devey *et al.* 2006). The formal

Figure 34: Informal businesses organised by standard industrial classification (SIC) codes



Source: City of Cape Town, 2015b.

13. This chapter draws entirely on the Informal Economy Development Study undertaken by the City of Cape Town between 2014 and 2015.



sector is typically categorised according to the standard industrial classification (SIC) codes, which broadly identify 44 industries in the economy. If informal economic activity is to be viewed in conjunction with formal activities as part of a holistic economy, it follows that informal-sector activity should also be categorised using the SIC codes. Figure 34 categorises informal-sector businesses according to SIC codes, using the results of a rapid appraisal of informal businesses based on existing township informal business databases and the City of Cape Town's own informal-trader permitting database.

Within Cape Town, 41 of the 44 SIC categories are represented in the formal sector, while 37 are represented in the informal sector. Predictably, the categories that are not represented in the informal sector, but are represented in the formal sector, are those that require large capital outlays, such as the mining of metal ores, water transport, air transport, telecommunications, and research and development. These categories aside, the informal economy is represented in a very diverse array of economic activities, from financial services to health care. As indicated by figure 34, however, informal economic activity is disproportionately clustered around the tertiary sector, especially retail and repairs.

The data used for figure 34 are likely to be biased toward retail trading, as these types of businesses are almost exclusively captured on the City's permitting database and, due to their visibility, are also most commonly picked up in non-representative surveys. However, when utilising representative survey data from Stats SA's QLFS, a less concentrated picture of the informal sector emerges. According to the QLFS, while almost 40% of informal-sector workers are employed in wholesale and retail businesses, significant proportions also exist in manufacturing (10,2%), construction (13,1%), financial services (10,9%) and community services (16,9%).

The informal economy is represented in a very diverse array of economic activities, from financial services to health care.

However, informal economic activity is disproportionately clustered around the tertiary sector, especially retail and repairs.





Characteristics of informal-sector employees

The first column of table 6 shows the composition of informal-sector employment, namely the demographic characteristics that feature most prominently among the informally employed. The predominant groups participating in the informal economy in Cape Town are African (49%), male (60%) and prime-aged (41,1%). In terms of skills distribution among informal-sector workers in Cape Town, and using years of completed education as a proxy, the largest group is those who have some secondary schooling but have not completed their matric, at 43%. The second-largest group (27%) is made up of people with matric only. Together, these two groups account for 70% of informal-sector workers, which implies that work in the informal sector is relatively unskilled.

From a spatial perspective, about one in 12 people living in informal areas are found to be employed in the informal sector, with the rest living in areas defined as formal. This may initially come as a surprise, because informal settlement patterns are often linked to a higher incidence of informal work. However, this can be explained by the population effect, namely that since many more people reside in formal areas, they are likely to constitute the largest proportion of informal workers. For this reason, it is also important to look at the informal employment rates among different demographic and spatial groupings. In this respect, urban informal dwellers (8,0%), as intuitively expected, have a higher informal-sector employment rate than urban formal dwellers (5,0%). Similarly, although the largest number of informal-sector workers is found to have less than a secondary education (43,3%), the highest employment rate in the informal sector is actually among those with no education (16,9% compared to 5,2% for less than secondary). In fact, there seems to be an inverse relationship between the employment rate in the informal sector, and education.

The predominant groups participating in the informal economy in Cape Town are African (49%), male (60%) and prime-aged (41,1%). In terms of education, 43% have some secondary schooling and 27% have matric only. These two groups account for 70% of informal-sector workers, which implies that work in the sector is relatively unskilled.

Table 6: Composition of informal sector, and employment rates in the informal sector (QLFS 2012:1 – QLFS 2014:2)

	% informal-sector workers	Employment rate in informal sector (%)
Gender		
Male	59,8	6,4
Female	40,2	4,1
Race		
African/black	48,5	6,9
Coloured	36,0	4,1
Indian/Asian	0,5	3,9
White	14,9	4,6
Age		
Youth (15–29 years old)	26,5	3,5
Almost youth (30–34 years old)	14,5	6,1
Prime (35–49 years old)	41,1	7,0
Older (50–64 years old)	17,9	5,2
Education		
None	3,0	16,9
Less than primary	8,2	7,2
Primary	5,4	6,1
Less than secondary	43,3	5,2
Matric	27,1	4,8
Some tertiary	10,4	3,7
Other	2,6	9,3
Spatial location		
Urban formal	88,2	5,0
Urban informal	11,8	8,0
Tribal areas	0,0	0,0

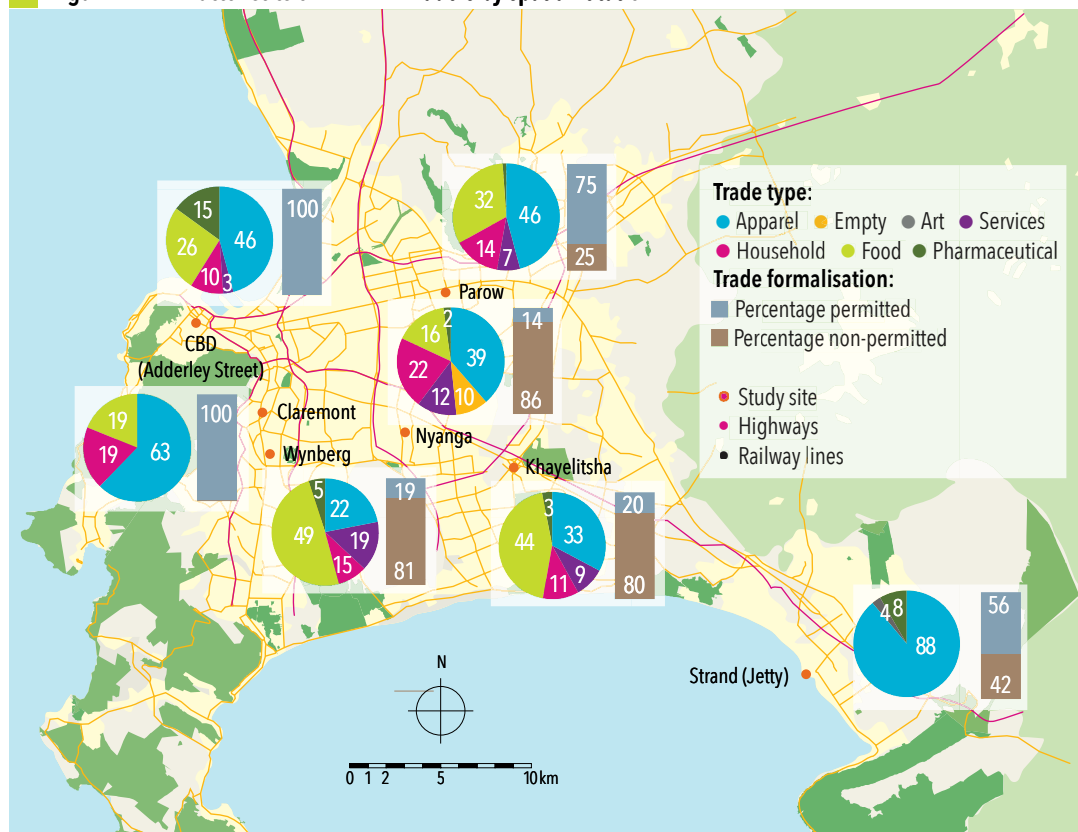
Source: City of Cape Town 2015b.



Spatial trends of the informal sector in Cape Town

Figure 35 below presents the findings of a survey of over 200 informal trading enterprises along transport corridors and business nodes across the city. Of particular interest is the extent to which informal businesses are permitted according to the City's informal-trader permitting system, and the type of goods that are traded at the different sites. The differences in goods traded points to area-specific product specialisation. For instance, the focus of trade at the Strand jetty is clothing apparel and accessories (compared to the Khayelitsha taxi rank, where locally manufactured clothes are sold), while the focus of trade at Wynberg Station is food.

Figure 35: Characteristics of informal traders by spatial location



Source: City of Cape Town, 2015b

The traders identified can be broadly divided into general (who rely on high-volume, low-margin sales) and specialised (who sell higher-margin items to smaller numbers of customers).

The traders identified in each of the selected areas can be broadly divided into two categories, namely general (who rely on high-volume, low-margin sales) and specialised (who sell higher-margin items to smaller numbers of customers). General traders are more responsive to pedestrian flows, as customer convenience is their main competitive advantage, while specialised traders specifically attract customers to them. Specialised traders, such as seamstresses at the Khayelitsha Site C taxi rank, operate in a market that is unique and suffers minimal competition with textile imports. Such activities have important local economic development potential. Generalised traders mainly function as retailers selling cheap and popular items, such as fruit, vegetables and snacks. This distinction implies that a one-size-fits-all approach to informal-trading management may be ineffective. While clustering of traders can be beneficial to specialised traders, who create their own pull factor (such as the Adderley Street flower traders), it tends to be harmful to general traders, who directly compete with each other on price and convenience.



SIZE AND IMPACT OF THE INFORMAL SECTOR IN CAPE TOWN

Employment in the informal sector

Census 2011 estimated that 122 013 people (or 9,44% of the total city workforce) were employed in the informal sector in Cape Town. This was substantially higher than the 2001 Census figure of 47 020 (5,01% of the workforce), although there may have been an element of measurement error in the 2001 figure. While Census figures provide an 80%+ sample of the population, they are not specifically geared toward measuring the labour market, and are outdated. Instead, Stats SA recommends that the QLFS, which is representative at the metro level, be used to estimate employment figures. According to the QLFS, the average number of people employed in the informal sector between the first quarter of 2011 and the second quarter of 2014 was 145 315, which is equivalent to 10,09% of the city's workforce. A more recent yet volatile estimate is the QLFS estimate for the second quarter of 2015, which finds 161 000 (11,3% of the workforce) employed in the sector. If the informal sector were to be viewed as a conventional economic sector, based on the more conservative estimate of 10,09% of the workforce, it would be the fifth-largest employing sector in the city, just below manufacturing (11,96%) and just above construction (9,52%). This attests to the sector's importance as an employer in the Cape Town economy.

If the informal sector were to be viewed as a conventional economic sector, based on the conservative estimate of 10,09% of the workforce, it would be the fifth-largest employing sector in the city, just below manufacturing and just above construction. This attests to the sector's importance as an employer in the Cape Town economy.

Table 7: Employment and wage estimates for the informal sector in Cape Town

Data source	Total employment in the informal sector	% of total employment in the informal sector	Mean wage in the informal sector (rand)	Reduction in the poverty rate
Census 2001	47 020	5,01	-	-
Census 2011	122 013	9,44	1 601-3 200	-
QLFS 2011:1-2014:2	145 315	10,09	-	-
General Household Survey 2013	185 984	11,84	3 432	4,5%, or 186 000 individuals
QLFS 2015: 2	161 000	11,30	-	-
Survey of Employers and Self-Employed 2013	-	-	3 300	-

Source: City of Cape Town, 2015b.

Impact of the informal sector on poverty

The socio-economic impact of the informal sector is even larger than what its contribution to employment would imply, as the income received from informal work accrues disproportionately to households that are close to the poverty line. Mean wages in the 2013 General Household Survey (GHS) are estimated at R3 432 per month, while the 2013 Survey of Employers and the Self-Employed (SESE) estimated a combined mean value of informal-sector wages and profits of about R3 300 per month.

The impact of informal-sector income on otherwise impoverished households is measured using the GHS wage and household income figures. The relatively low wages of informal-sector workers, who tend to reside predominantly in poor households with a larger-than-average household size, result in a substantial decrease in the city's poverty rate. Without informal-sector income, the poverty rate in the city would be 25,1%, but once informal sector income is taken into account, the poverty rate is reduced to 20,6%. This 4,5 percentage point reduction in Cape Town's poverty rate is equivalent to pulling 186 000 people out of poverty. This would suggest that although the aggregate contribution from this sector to GDP may be small, the aggregate improvement in well-being is large.

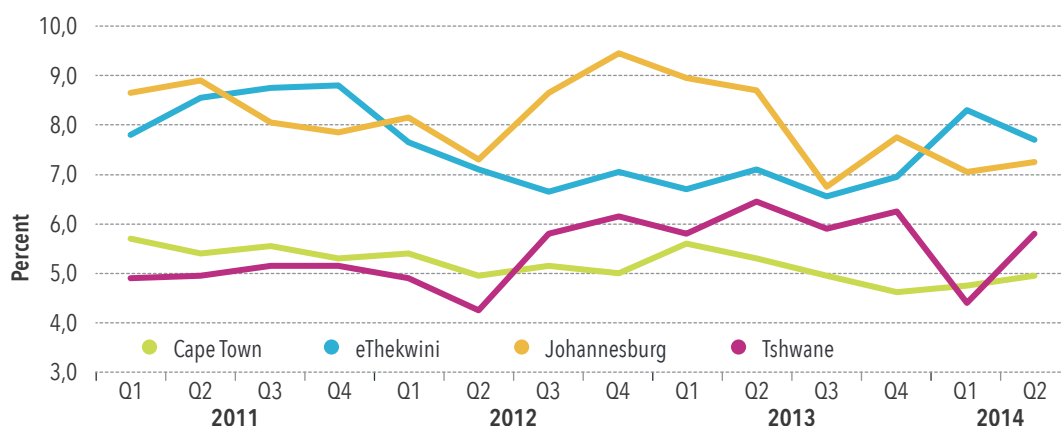


TRENDS IN INFORMAL-SECTOR EMPLOYMENT IN CAPE TOWN

Historical employment trends

Figure 36 below compares the proportion of the working-age population who have been employed in the informal sector in different metro areas over the past four years. At the very outset, it is clear that a substantially higher proportion of the working-age population of both eThekweni and Johannesburg are employed in the informal sector. Neither metro has a significantly larger overall employment rate than Cape Town, so this reflects a larger proportion of their workforce being informally employed rather than better employment outcomes more generally. Another observation from figure 36 is that the proportion of informal-sector employment shows a declining trend in all metros except Tshwane. If the overall unemployment rate is static or decreasing in this period, the implication may be that formal-sector employment is increasing at the expense of informal employment.

Figure 36: Proportion of working-age population (15-64) employed in informal sector, by metro (QLFS figures)



Source: City of Cape Town, 2015b.

Transition rates and barriers to growth

To better understand the dynamic changes in informal-sector employment over time, it is useful to look at transition rates between the informal sector, formal sector and unemployment. This analysis supports the findings above, which seem to indicate that there is a strong movement between the formal and informal sectors as economic opportunities change over time. More than two out of every five people in the informal sector were no longer employed in this sector in the next wave of the QLFS panel, which was just three months later. Some of this relates to measurement error, but it still seems that the sector is incredibly fluid. One out of every three people employed in the informal sector were employed in the formal sector by the next quarter, while one out of four people employed in the informal sector in the next quarter were employed in the formal sector in the preceding quarter. Rates of entry and exit into and out of unemployment appear substantially lower in comparison. The implication of these findings is that the informal sector is probably more likely to absorb people who leave formal-sector employment (24,78%), either voluntarily or involuntarily, rather than to reduce the existing pool of the unemployed (7,29%).

Considering that a large proportion of the informally employed are own-account workers, the relatively weak transition of people from unemployment to informal-sector employment is likely due to certain intractable barriers to starting a business, such as entrepreneurial initiative, access to capital and having some degree of business acumen. Therefore, opportunities for the transition of more unemployed individuals to employment in the informal-sector employment may reside more in the ex-

Considering that a large proportion of the informally employed are own-account workers, the relatively weak transition of people from unemployment to informal-sector employment is likely due to certain barriers to starting a business, such as entrepreneurial initiative, access to capital and having some degree of business acumen.



pansion of existing informal businesses, which could then employ more people. In this respect, the two barriers to growth most frequently cited by owners of informal businesses are access to better locations (41,4%) and stifling government regulations (40,4%), both of which have implications for how the City of Cape Town can best maximise the sector's potential to help reduce unemployment and poverty.

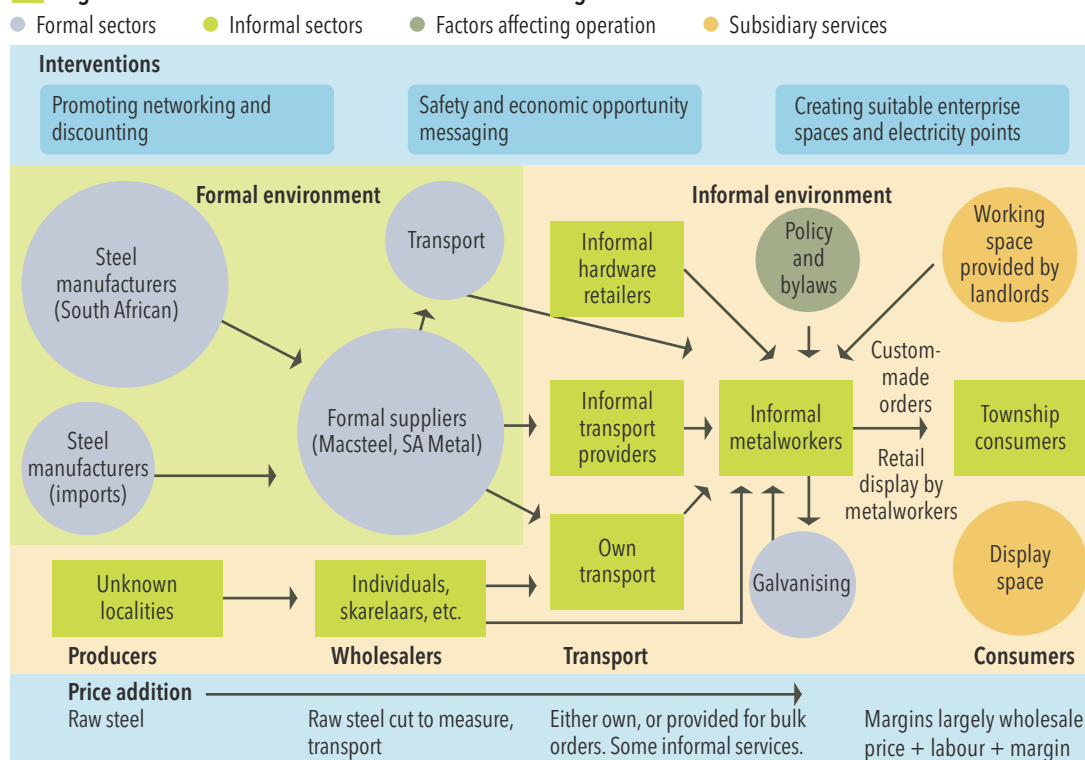
PROMINENT INFORMAL VALUE CHAINS IN CAPE TOWN

While informal trade is the predominant type of informal economic activity, it is by no means the only or the most productive. Specialised informal production of goods, whether in public areas (such as those identified in the section on spatial trends) or residential areas, offers the most potential for growth and value addition. One such informal economic activity is metal product micro-manufacturing and sales. A value chain analysis, as depicted below, helps illustrate the stages of value addition associated with this type of activity and, importantly, its linkages with formal businesses.

Metal product micro-manufacturing businesses specialise in the manufacture (welding) of burglar bars, security gates and car body repairs. The sector is relatively skills-intensive and relies on supplies of raw material inputs in the form of steel, locks, hinges, welding rods and equipment. The majority of businesses in this sector in Cape Town yield a profit of approximately R5 000 per month (significantly more than the average wages in the informal sector) off a trade revenue of R8 500 to R13 500 per month. These characteristics describe businesses that operate beyond survivalist levels and that have the potential to create employment and transfer skills. However, significant challenges for these businesses relate to a lack of space to operate, the health and safety of metal workers and the general public, and enterprises' lack of access to credit. In the township context, the construction of metalwork items also brings about environmental, town planning and land use incompatibilities (i.e. excessive noise) with residential living. Informal metal workers, according to the earlier distinction, would be regarded as specialised traders who could benefit from specific strategies, such as clustering in light industrial parks on the edge of townships, for example.

The majority of metal product micro-manufacturing businesses in Cape Town yield a profit of approximately R5 000 per month (significantly more than the average wages in the informal sector) off a trade revenue of R8 500 to R13 500 per month. These characteristics describe businesses that operate beyond survivalist levels and that have the potential to create employment and transfer skills.

Figure 37: Value chain for informal metal manufacturing



Source: City of Cape Town, 2015b.



Infrastructure

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

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

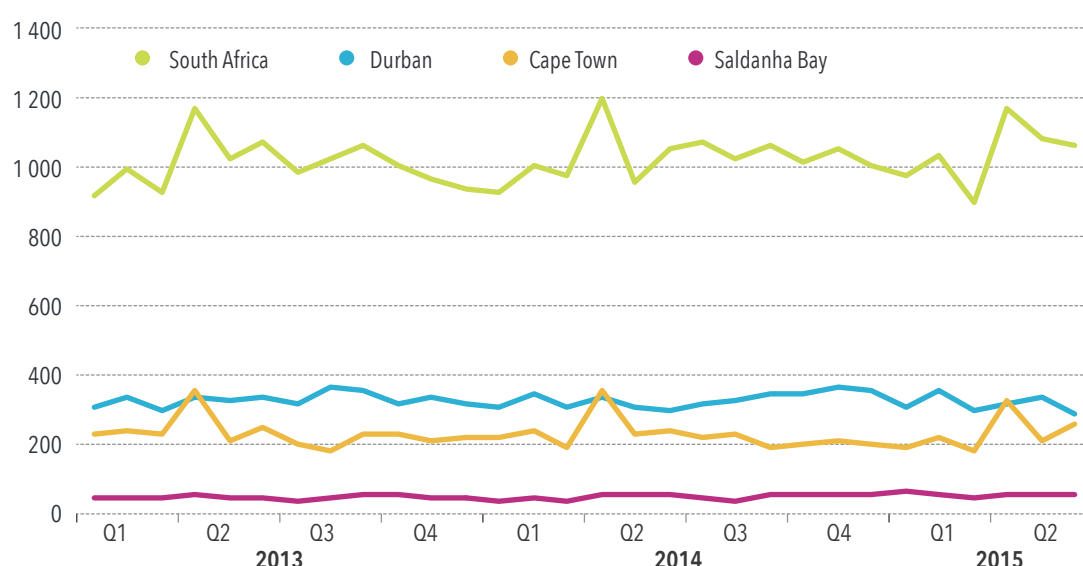
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports increased by 408 vessels from 2 904 in the first quarter of 2015 to 3 312 in the second quarter of 2015. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the second quarter of 2015 was 796 vessels (accounting for 24% of total vessels). This represented a substantial increase on the previous quarter's figure of 589 vessels. On a year-on-year basis, vessel arrivals in Cape Town in the second quarter decreased by 36 vessels, while Cape Town's share of national vessel arrivals decreased from 26% to 24%. The Port of Saldanha, the closest port to the Port of Cape Town, sees far fewer vessel arrivals per month, as it currently focuses on the shipment of bulk cargo, predominantly steel and iron ore, and does not have container-handling facilities, which limits the volume of vessels utilising the port. The average tonnage per vessel handled at Saldanha, however, is substantially higher than at Cape Town. On average, the Port of Durban has more vessel movements than Cape Town, except in the peak fishing month of April.

The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the second quarter of 2015 was 796 vessels (accounting for 24% of total vessels). This represented a substantial increase on the previous quarter's figure of 589 vessels.

Figure 38: Total number of vessels (January 2013 to June 2015)

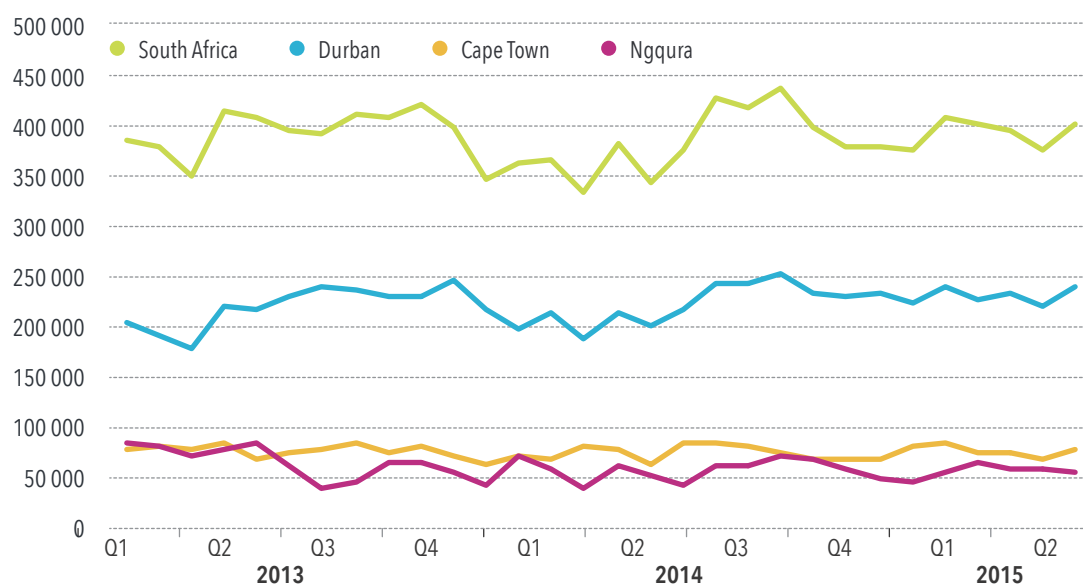


Source: Transnet National Ports Authority, August 2015.

Cargo (gross tonnage) and container handling

In the second quarter of 2015, South African ports handled 57,9 million tonnes of cargo compared to 61,8 million in the first quarter and 53,6 million in the corresponding period in 2014. Cape Town experienced an increase in cargo handling, from 1,04 million tonnes in the first quarter to 1,40 million tonnes in the second quarter of 2015. There was also a substantial increase of 37,8% from the 1,01 million tonnes handled in the corresponding period in 2014. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike Saldanha and Richards Bay). Therefore, it does not have a significant impact on the national cargo-handling performance. The ports of Durban and Saldanha, which are much larger cargo handlers than Cape Town, showed varying trends, with cargo handling decreasing at both ports on a quarter-on-quarter basis (-11,1% for the Port of Durban and -1,3% at the Port of Saldanha). Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed a 21% increase in cargo handled at the Port of Saldanha and a 9,8% decrease for the Port of Durban.

The Port of Durban is South Africa's main container-handling port and contributed more than half (59%) of the total containers handled in South African ports in the second quarter of 2015. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 19% of all containers handled in South African ports in the second quarter of 2015.

Figure 39: Total containers handled (TEUs)¹⁴ (January 2013 to June 2015)

Source: Transnet National Ports Authority, August 2015.

Container traffic is very seasonal, as figure 39 indicates, so it is more meaningful to compare total containers handled over the period of a year. The number of containers handled at the Port of Cape Town decreased from 226 143 in the second quarter of 2014 to 222 843 in the second quarter of 2015 – a decline of 1,46%. In 2013, the Port of Cape Town appeared to be losing ground to the Port of Ngqura in terms of container handling, as the latter port recorded a large increase in containers handled in that year. This trend was reversed in 2014, when the Port of Ngqura recorded a decrease in containers handled for the year, and was maintained in the first quarter of 2015. However, in the second quarter of 2015, Ngqura recorded an increase in containers handled year on year (159 044 for the second quarter of 2014 compared to 173 876 for the second quarter of 2015). While the Port of Ngqura still lags behind Cape Town in terms of the volume of containers handled, capacity constraints experienced at the Port of Cape Town mean that Ngqura may in future overtake it as the country's second-largest container-handling port. That being said, however, Transnet has approved plans for a multibillion rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

The number of containers handled at the Port of Cape Town decreased from 226 143 in the second quarter of 2014 to 222 843 in the second quarter of 2015 – a decline of 1,46%.

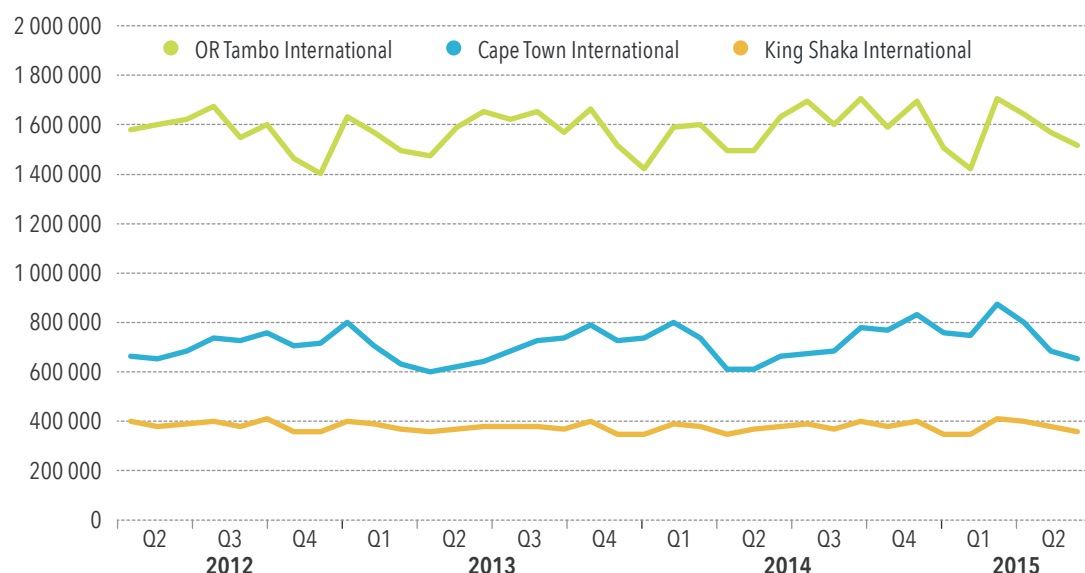


CAPE TOWN AIRPORT STATISTICS

Total passenger movements

Cape Town International Airport is South Africa's second-busiest airport. It recorded 2,14 million total passenger movements in the second quarter of 2015 compared to 4,72 million passenger movements at OR Tambo and 1,13 million at King Shaka international airports during the same period. Total passenger movements at Cape Town International in the second quarter of 2015 were higher compared to the second quarter of 2014, when 1,98 million passenger movements were recorded. Similarly, OR Tambo International and King Shaka International recorded increases in passenger numbers in the second quarter compared to the same period in the previous year.

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

Figure 40: Total passenger movements at South Africa's major airports (July 2012 to June 2015)


Source: ACSA, August 2015.

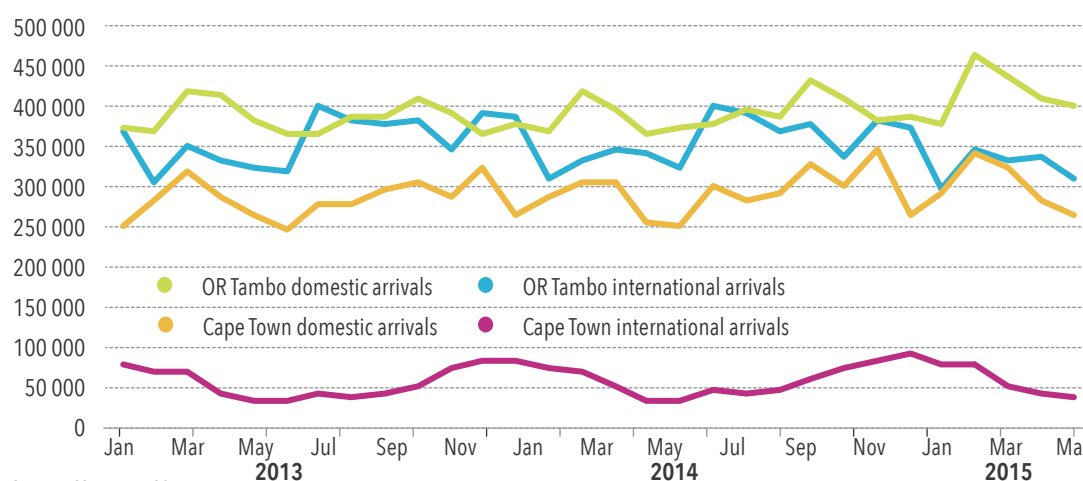
Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with the summer months being the peak period for travel to the city. The total number of passenger arrivals to Cape Town International in the second quarter of 2015 increased by 7,4% year on year, with international arrivals increasing by 7,3%.

A quick glance at figure 40 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with passenger movements declining in the second quarter when Cape Town enters its winter months. In contrast, OR Tambo shows a more erratic distribution with a less defined seasonal trend. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

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

The direct international proportion of passenger arrivals to Cape Town International for the second quarter of 2015 constituted 13,2% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 44% of its total passenger arrivals. This reflects the fact that the Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. While Cape Town International hosts 15 international airlines with 89 international flights a week, the figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many international tourists take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight. This may change in the future, however, as Ethiopian Airlines has announced direct flights from Munich to Cape Town, and other airlines may follow suit.

Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with the summer months of December to March being the peak period for travel to the city. Cape Town's domestic arrivals, however, show far more variation, with peaks and troughs dispersed throughout the year (clearly visible in figure 41). The total number of passenger arrivals to Cape Town International in the second quarter of 2015 increased

Figure 41: International and domestic passenger arrivals for Cape Town and OR Tambo international airports


Source: ACSA, August 2015.

by 7,4% year on year, with international arrivals increasing by 7,3%.

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

ELECTRICITY

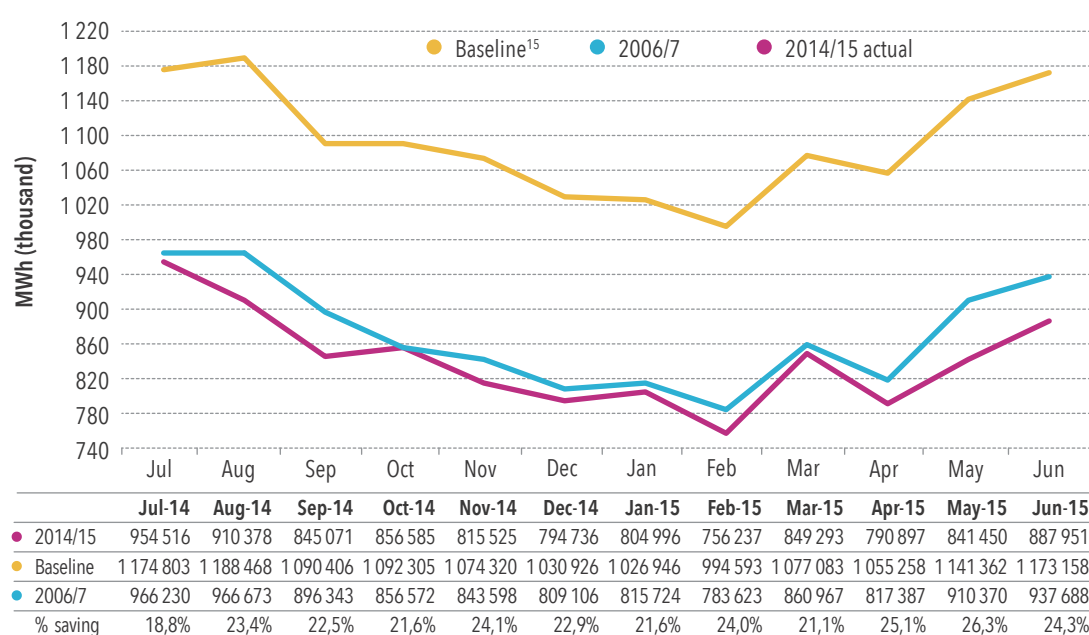
A review of South Africa's energy mix reveals that the country is largely reliant on coal, with some nuclear, hydro and renewable energy sources also contributing to the national grid. As is the case in most economies, the availability, reliability and affordability of electricity supply are key considerations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

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

Figure 42 depicts the City's baseline consumption forecast, the actual consumption of electricity over the last year, as well as the period of 2006/7 as benchmark, being the year when the problems with electricity supply first started to emerge. The difference between the baseline forecast and actual consumption is reflected as the rate of energy savings achieved for the period as a result of energy-saving and energy-efficiency measures. The rate of savings continued to fluctuate in the second quarter of 2015, going from 25,1% in April up to a high of 26,3% in May, and falling back again to 24,3% in June.

Energy security has become a pressing economic issue as Eskom battles to match the demand for electricity from businesses and households with the existing sources of supply, which either require significant maintenance and renewal or are still under construction.

Figure 42: City of Cape Town actual, historical and baseline electricity consumption (July 2014 to June 2015)



Source: City of Cape Town, Electricity Services Department, August 2015a.

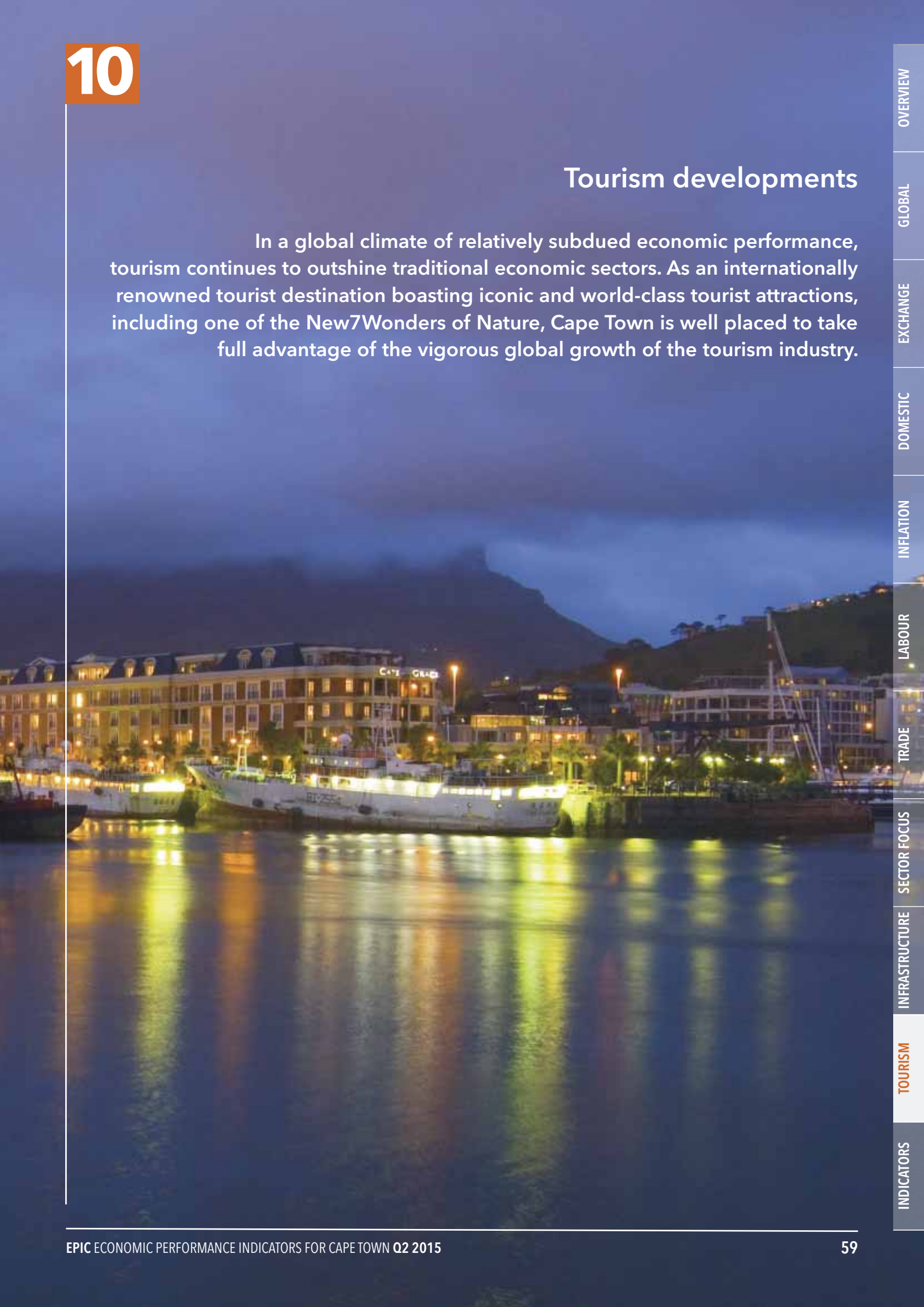


15. The baseline is the amount of electricity the City makes provision for based on historical trends.



Tourism developments

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



INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) World Tourism Barometer for June 2015, 332 million global tourist arrivals were recorded in the first four months of 2015. This constituted an increase of 14 million (or 4%) in tourist arrivals compared to the same period in 2014. Growth in arrivals remained above the long-term trend rate of 3,8%, attesting to the health of the global tourism industry.

In terms of regional performance, growth in international arrivals for the period January to April 2015 was led by strong arrivals growth in the Americas (6%), followed by Europe, Asia and the Pacific, and the Middle East, which all recorded between 4% and 5% growth in international tourist arrivals. In the Americas, South America (8%) and the Caribbean (7%) were the leading sub-regions. In Asia and the Pacific, the leading sub-regions in terms of arrivals growth were Oceania (8%) and North-East Asia (5%). Although arrivals to Thailand rebounded with a growth figure of 25%, the effect of this on Asian arrivals was offset by declines in other countries.

Europe, the world's most-visited region, continued to exhibit strong growth of 5% in tourist arrivals, with arrivals to Central and Eastern Europe increasing by 7%. This constituted a recovery from the poor arrivals recorded in this region in 2014 as a result of the conflict in Ukraine and the slowdown of the Russian economy. Similarly, the Middle East continued its recovery that started in 2014 after three consecutive years of decline. Africa's international tourist numbers, on the other hand, experienced an estimated 6% decline, mainly due to a decrease in arrivals to North Africa (-7%) as well as to sub-Saharan Africa (-5%). The Ebola outbreak in West Africa remained a deterrent for international visitors, but the UNWTO (2015:5) also notes that data for Africa and the Middle East should be read with caution, being based on limited and volatile information.

The UNWTO has estimated that close to 500 million tourists will travel abroad between May and August 2015. This is the peak holiday season in the northern hemisphere, and normally accounts for 41% of annual tourist arrivals. According to the latest UNWTO Tourism Confidence Index, these figures are the highest for this period since the pre-crisis year of 2007. The UNWTO forecast an annual arrivals growth rate of between 3% and 4% for the completed year.

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS IN SOUTH AFRICA

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. In April 2015, 719 557 foreign tourists visited the country. Tourist arrivals decreased by 14,3% year on year for the period, with arrivals from Africa (South Africa's largest tourist source market) decreasing by 11,6% and the overseas market falling sharply by 23,8%. These are the worst declines in the last 21 years. The negative growth rate is corroborated by the figures for OR Tambo International Airport, which showed a 3,8% year-on-year decrease in international arrivals for April and a 2,9% year-on-year decrease for the whole of the second quarter of 2015. The sharp decline in growth can be ascribed to the Ebola outbreak (as explained above), the stricter visa requirements implemented by the Department of Home Affairs, reduced economic growth in source countries, as well as the xenophobic attacks experienced in South Africa earlier in the year.

The South African visa regulations implemented by Home Affairs, which now require foreign tourists to submit biometric data in person when applying for a visa, are a norm across the globe. When the law was first promulgated in South Africa, however, neither the requisite infrastructure nor proper instructions for implementation were in place. Now that South Africa has started implementing the new requirements, it unfortunately means that the country's travel regulations have been tightened in a time when the rest of the world is becoming more travel-friendly. As a result, South Africa has received less marketing and brochure space in travel advertisements.

When looking at the period January to April 2015, the arrival growth rates have not fallen as sharply, but are nevertheless

Tourist arrivals decreased by 14,3% year on year for the period to April 2015, with arrivals from Africa (South Africa's largest tourist source market) decreasing by 11,6% and the overseas market falling sharply by 23,8%. These are the worst declines in the last 21 years. The sharp decline in growth can be ascribed to the Ebola outbreak, the stricter visa requirements, reduced economic growth in source countries, as well as the xenophobic attacks experienced in South Africa earlier in the year.

Table 8: International tourist arrivals in South Africa

Region	April 2015	April 2014	% change	% change Jan-Apr 2014 to Jan-Apr 2015
Europe	87 291	116 092	-24,80%	-6,20%
Russia	533	1 077	-50,50%	-47,50%
North America	22 617	26 518	-17,70%	-9,50%
Central and South America	3 511	6 414	-45,30%	-40,60%
Brazil	2 161	4 333	-50,10%	-38,70%
Australasia	9 121	12 045	-24,30%	12,00%
Asia	18 599	24 201	-23,10%	26,10%
China	6 714	8 133	-17,40%	-33,60%
India	5 808	7 494	-22,50%	-15,40%
Middle East	3 632	4 673	-22,30%	-13,50%
Overseas total	144 771	189 943	-23,80%	-10,70%
Africa	573 857	648 956	-11,60%	-7,20%
Total	719 557	840 100	-14,30%	-8,10%

Source: South African Tourism, August 2015.



substantial. The arrival rates for this period dropped by 10,7% for overseas markets, 8,1% for all tourist arrivals and 7,2% for arrivals from Africa.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market and accounted for 87 291 tourist arrivals in April 2015, despite having fallen by 27,8% year on year. Within the European region, the United Kingdom, Germany and the Netherlands were South Africa's largest source markets. While these countries were the largest source markets in terms of absolute tourist arrivals, all recorded severe declines in April 2015 (the United Kingdom -21,0%, Germany -35,9%, and the Netherlands -21,5%). However, looking at performance in the period January to April 2015, arrivals from Poland, albeit a small number, grew by a healthy 23,8%, while the only other European region to have shown growth in arrivals to South Africa was Hungary (4%). Arrivals from Russia fell the sharpest during this period, by 47,5%.

Tourist arrivals from emerging markets followed the broader negative trend in April 2015. Although these countries had been the key contributors to recent arrivals growth in South Africa, with China, India and Brazil leading the way, arrivals from all three dropped significantly in April 2015 year on year. Despite the drop in arrivals from these emerging economies, South Africa needs to continue improving its efforts to target these countries in the future, as they remain the world's fastest-growing tourist source markets – a trend that is likely to continue as sustained high economic growth rates raise income levels in these countries.

The negative trend in tourist arrivals experienced in South Africa in April 2015 was mirrored in many other countries. Arrivals to Central and South America decreased by 45,3%, while arrivals to Australasia, Asia and North America decreased by 24,3%, 23,1% and 17,7% respectively. Where South Africa diverged from the international trend, however, was for the entire period of January to April, in which it recorded a decrease of 8,1% compared to the global increase of around 4%. This can be attributed to some of the factors highlighted earlier.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourism accommodation in Cape Town

Accommodation spend typically constitutes the largest portion of total visitor spend at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in table 9 were derived from a survey of 74 tourism accommodation establishments in the Cape Town metro area.

Occupancy rates at city accommodation establishments decreased by an average of 2,57 percentage points in the second quarter of 2015 compared to the second quarter of 2014. Occupancy rates decreased monthly year on year, with the exception of May, when it increased by 0,9 percentage points. Despite the average year-on-year drop in occupancy rates for the second quarter, the average room rate increased by R117 and revenue per room increased by R31. Overall, tourist accommodation in Cape Town did reasonably well, despite the decrease in the occupancy rate.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in June were achieved by self-catering establishments (49,9%). All establishment types experienced occupancy decreases, although self-catering establish-

Occupancy rates at city accommodation establishments decreased by an average of 2,57 percentage points in the second quarter of 2015 compared to the second quarter of 2014. Despite the average year-on-year drop, the average room rate and revenue per room increased. Overall, tourist accommodation in Cape Town did reasonably well, despite the decrease in the occupancy rate.

Table 9: Income derived from tourist accommodation – South Africa

Indicator	April		May		June		Second-quarter average	
	2015	2014	2015	2014	2015	2014	2015	2014
Occupancy rate	60,2%	63,2%	51,5%	50,6%	42,3%	47,9%	51,33%	53,9%
Average room rate	R1 344	R1 230	R1 111	R1 022	R1 144	R997	R1 200	R1 083
Revenue per room	R811	R778	R572	R517	R483	R478	R622	R591

Source: Cape Town Tourism, August 2015.

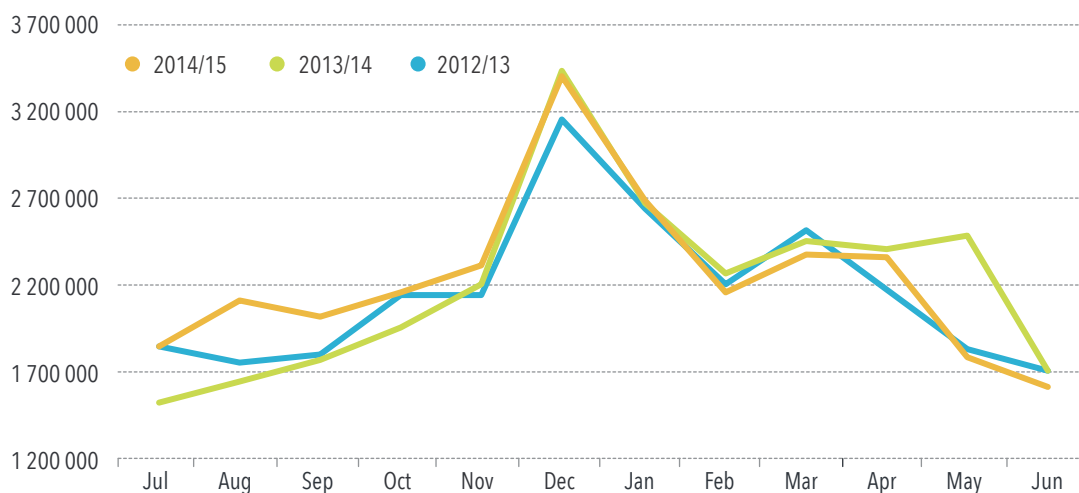


ments experienced the smallest decrease (0,1%). Despite recording negative occupancy growth rates, guesthouse establishments experienced the largest increase in revenue per room (27,7%). Spatially, the highest occupancy rates in the city in June were experienced in the northern suburbs (64,7%).

Performance of Cape Town's top visitor attractions

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 are the world-famous Table Mountain (specifically the Table Mountain aerial cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 43 indicates the cumulative number of visits by tourists to these six tourist attractions since April 2012. While all of these attractions are open to everyone – resident or non-resident, domestic or international – they attract large proportions of tourists, and are used in this section as a proxy for tourism demand in Cape Town.

Figure 43: Total visits to Cape Town's major (top six) tourist destinations (2012 to 2015)



Source: Derived from Wesgro data, August 2015.

The second quarter of 2015 showed a 20,3% quarter-on-quarter decrease in the number of visits to Cape Town's top attractions. This typifies the seasonal nature of tourism activity in Cape Town, as higher tourist volumes are experienced in the summer months of December to March.

From figure 43, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality. The second quarter of 2015 showed a 20,3% quarter-on-quarter decrease in the number of visits to these attractions. This typifies the seasonal nature of tourism activity in Cape Town, as higher tourist volumes are experienced in the summer months of December to March. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, the second quarter of 2015 yielded a 12,86% decrease in visits compared to the corresponding period in 2014.

It is important to note, however, that the visitor attraction data are strongly skewed by the V&A Waterfront. The V&A contributed more than 88% of the total number of visits to the six attractions analysed for the period under review. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends. When the V&A is removed, the number of visits to the five attractions decreases to 682 113 in the second quarter of 2015, representing a 10,41% year-on-year decline. One of the reasons for this sharp year-on-year decline is that the figures had come off a very strong base, as the second quarter of 2014 was a particularly good quarter for Cape Town's tourism industry. That being said, however, the weaker performance of Cape Town's tourist attractions cannot be viewed in isolation from the broader negative trend in tourist arrivals at a national level.

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

Rank	Q2 2015	Q1 2015	Q2 2014	Year-on-year growth rate % (Q2 2014-Q2 2015)
V&A Waterfront	5 073 436	6 141 114	5 843 355	-13,18%
Table Mountain National Park: Cape of Good Hope	157 061	253 818	180 635	-13,05%
Table Mountain National Park: Boulders Beach	111 857	195 748	136 422	-18,01%
Table Mountain aerial cableway	178 220	281 908	202 493	-11,99%
Kirstenbosch National Botanical Garden	176 449	257 460	175 205	0,71%
Robben Island	58 526	94 585	66 576	-12,09%
Total	5 755 549	7 224 633	6 604 686	-12,86%
Total (excluding V&A Waterfront)	682 113	1 083 519	761 331	-10,41%

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

Source: Wesgro, September 2015.

Most-visited tourist attractions

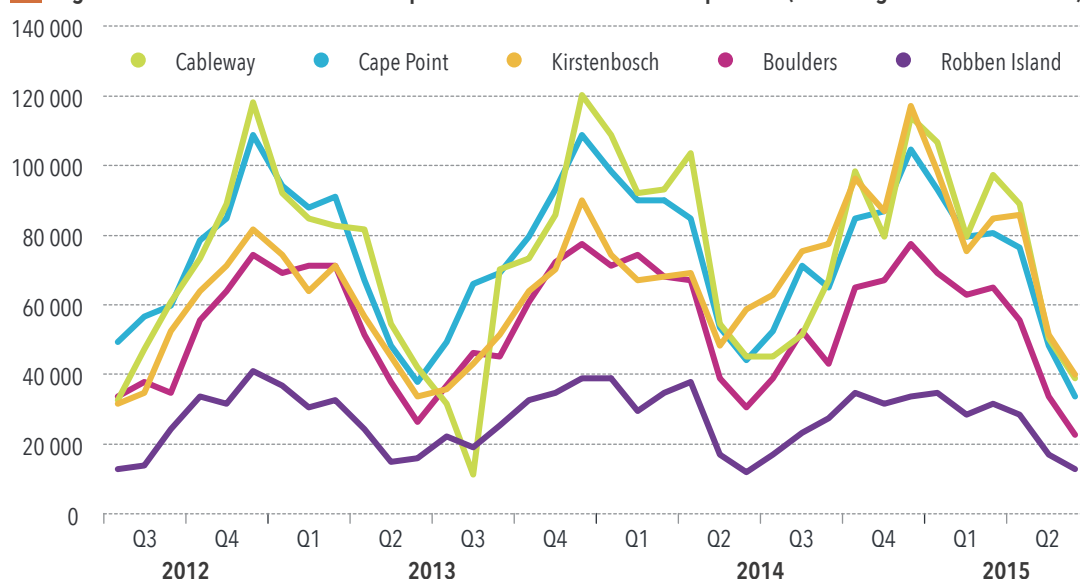
Table 10 indicates that, in terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town. However, for reasons described above, a more accurate reflection of the performance of major tourist attractions in Cape Town can be derived from the performance of the other five attractions. In this respect, the Table Mountain aerial cableway managed to record the second-highest visitor numbers for the second quarter of 2015, with 178 220 visits, while Kirstenbosch National Botanical Garden recorded the third-highest number of visits (176 449).

Kirstenbosch National Botanical Garden was the only attraction to record a positive year-on-year growth rate, albeit a small one, at 0,71% for the second quarter. Negative year-on-year growth rates were recorded for the Cape of Good Hope (-13,05%), Robben Island (-12,09%), Boulders Beach (-18,01%) and the Table Mountain aerial cableway (-11,99%). The positive visitor numbers for Kirstenbosch National Botanical Garden stem from the continuous positive effect of the Boomslang aerial boardwalk, which opened on 17 May 2014, and more recently, the dinosaur exhibition, which opened in June 2015.

The negative growth rate for most of the other attractions can partially be attributed to the decrease in international arrivals to OR Tambo International (where the majority of the city's international tourists initially fly to) for the months of April (-3,8%), May (-1,6%) and June (-3,4%). International tourists are the main visitors to these attractions, so a decrease in their numbers is likely to weigh down the number of visits to these attractions. For the Table Mountain aerial cableway, the biggest drop in visitor numbers came in April, when a decrease of 13,8% was recorded year on year. At least part of the decline can be attributed to a base effect, whereby visitor numbers have not been able to keep pace with the record figures achieved by the cableway in 2014.

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

Kirstenbosch National Botanical Garden was the only attraction to record a positive year-on-year growth rate, albeit a small one, at 0,71% for the second quarter. The positive visitor numbers for Kirstenbosch stem from the continuous positive effect of the Boomslang aerial boardwalk, which opened on 17 May 2014, and more recently, the dinosaur exhibition, which opened in June 2015.

Figure 44: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)

Source: Derived from Wesgro data, September 2015.



Additional indicators

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



BUILDING DEVELOPMENTS

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

CONSTRUCTION INDUSTRY OVERVIEW

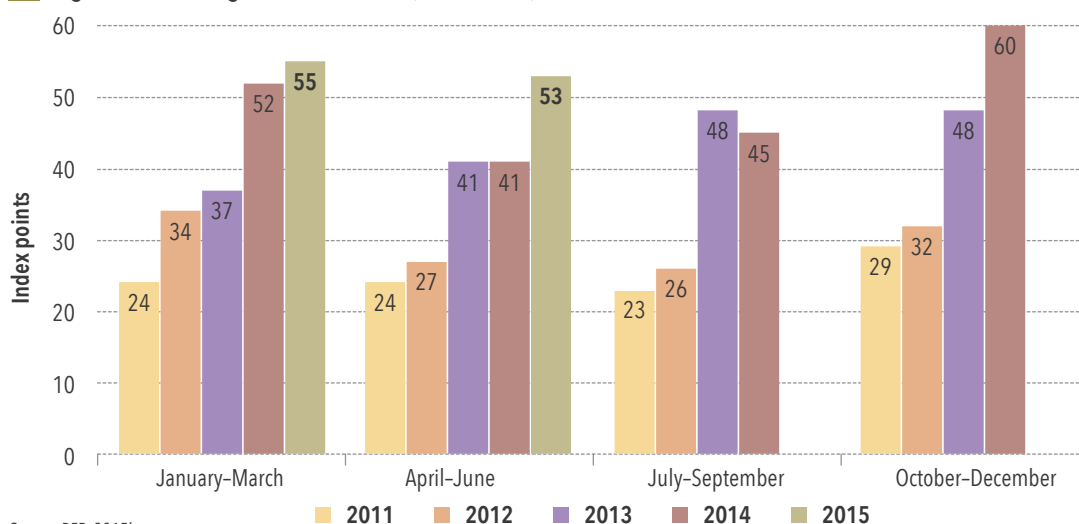
Chapter 4 showed that output in the national construction industry grew by 0,2% quarter on quarter in the second quarter of 2015. The industry recorded a year-on-year growth rate of 1,7%, making it the third-fastest-growing industry in South Africa on a year-on-year basis. The Western Cape construction industry performed similarly, recording an expansion of 0,2% on a quarter-on-quarter basis in the second quarter, and 1,8% on a year-on-year basis.

The First National Bank (FNB)/BER (2015b) composite building confidence index reveals the percentage of respondents, namely architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions. The building confidence index fell from 55 points in the first quarter of 2015 to 53 points in the second quarter of 2015. This slight decrease in confidence reflects the decline in the volume of building activity experienced by residential and non-residential contractors. This weaker performance indicates that recovery in the housing market has stalled, especially after the strong performance in the fourth quarter of 2014. Despite the quarterly drop in confidence, year-on-year confidence grew by 12 index points from the second quarter of 2014.

Output in the national construction industry grew by 0,2% quarter on quarter in the second quarter of 2015.

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

Figure 45: Building confidence index (2011-2015)

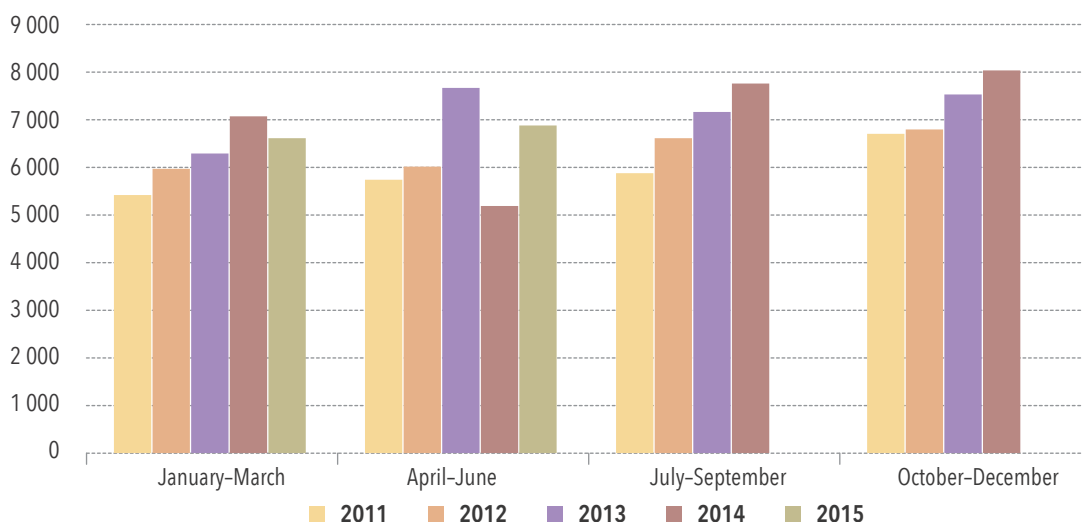


Source: BER, 2015b.

Building plan applications in Cape Town

Building plans submitted to the City of Cape Town in the second quarter of 2015 increased by 3,65% from the previous quarter. However, figure 46 provides an annual comparison of the number of building plans submitted in each of the quarters over the past four years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted in the second quarter of 2015 experienced an increase compared to the corresponding period in 2014. This year-on-year increase in the number of building plans submitted translated into a growth rate of 32,8% year on year for the second quarter of 2015, and may point to increased confidence by the building sector compared to the same period in 2014.

Figure 46: Building plans submitted



Source: City of Cape Town, Planning and Building Development Management Department, June 2015c.

The completion of building plans reflects the current economic climate within a region. By measuring the actual work undertaken to complete a building plan, actual economic activity – including employment and remuneration as well as spending on materials – is captured.

Building plans completed

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

Table 11: Building plans completed in the second quarter of 2015

Measure	Cape Town		South Africa	
	Number/value	Year-on-year change	Number/value	Year-on-year change
Building plans completed	5 026	52,07%	N/A	N/A
Value of building plans completed	R3 101 million	22,36%	R13 786 million	27,17%

Source: City of Cape Town, Planning and Building Development Management Department, September 2015c; Stats SA, 2015c.

Table 11 compares the number of completed building plans in Cape Town in the second quarter of 2015 to the number of completed building plans in South Africa over the same period. The figures for both Cape Town and the country reflect an upward trend, which perhaps indicates increased builder confidence compared to the same period in 2014.

The value of building plans completed in Cape Town in the second quarter amounted to R3,1 billion, which accounted for 22,49% of the total value (R13,8 billion) of building plans completed in South Africa's larger municipalities. Both Cape Town (22,36%) and South Africa (27,17%) recorded a year-on-year increase in the value of building plans completed for the second quarter. In Cape Town, despite decreases in the value of non-residential building plans completed (-12,9%) and minor works (-13%), the upward movement was largely driven by a 78,6% increase in additions and alterations, and a 28,9% increase in residential building plans completed.



NEW VEHICLE SALES

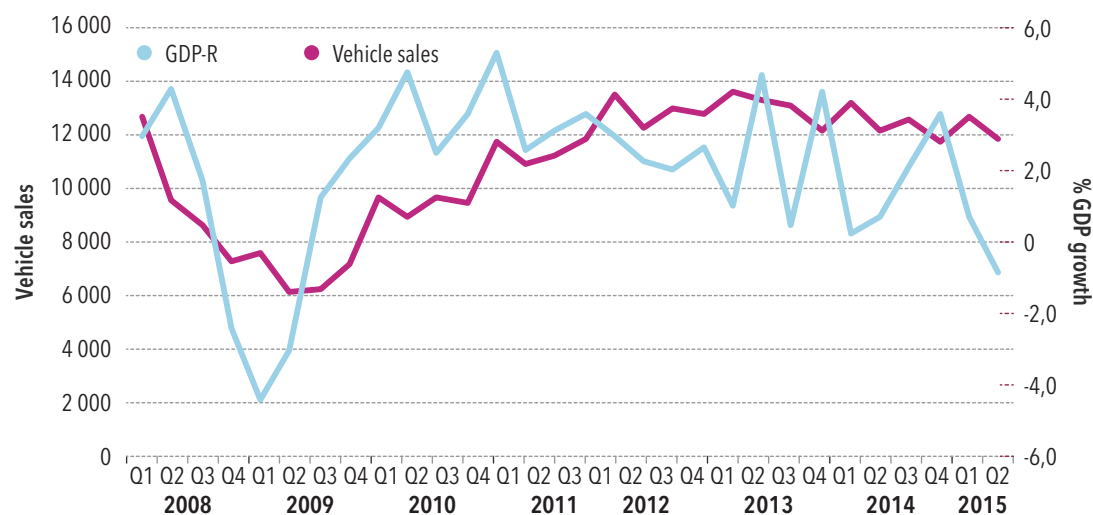
This section tracks new vehicle sales in the province on a quarterly basis. Typically, vehicle sales, especially passenger vehicle sales, are considered to mirror trends in the business cycle, and are in particular often regarded as a leading indicator of GDP growth. New vehicle sales are sensitive to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

In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). Total vehicle sales in the Western Cape declined from 18 490 vehicles sold in the first quarter of 2015 to 16 627 in the second quarter. Year-on-year results, which offer a more precise reflection of vehicle sales performance over time, saw a decrease of 917 from the 17 544 total vehicle sales in the corresponding period in 2014. Passenger vehicle sales, which is the private consumer segment of the market, saw a decrease from 12 607 in the first quarter of 2015 to 11 793 in the second quarter of 2015 in the Western Cape. Year-on-year results saw a decrease of 366 vehicles (or 5%) from the 12 159 passenger vehicles sold in the corresponding period in 2014. The subdued and, to a certain extent, stagnating vehicle sales compared to 2014 should be viewed in light of a year-on-year economic growth rate that has been below 2% since the second quarter of 2014, and a higher repo rate (6,0%) compared to the same period in 2014 (5,50%), both of which would have had a negative impact on consumer confidence and consumers' willingness to make large purchases.

Figure 47 plots the total passenger vehicle sales per quarter alongside the regional gross domestic product (GDP-R) for the Western Cape. The Reserve Bank includes new passenger vehicle sales as one of the variables in its leading indicator of GDP growth, on the assumption that new passenger vehicle sales and GDP growth are positively correlated, and that passenger vehicle sales 'lead' GDP growth. This assumption is not unique to the Reserve Bank, though, as passenger vehicle sales have been used as a leading variable in a number of leading indicator models. Looking at figure 47, however, it would appear that in the Western Cape, GDP growth seems to lead passenger vehicle sales growth, and not vice versa, although the actual nature of this relationship can only be fully appreciated when one isolates the impact that passenger vehicle sales have on GDP through the use of regression analysis. The City of Cape Town is currently working on a composite leading indicator of GDP growth, which will analyse these relationships in more detail.

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Figure 47: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 2, 2015)



Source: Quantec, Vehicle Sales (Naamsa) August 2015.

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List of abbreviations

ACSA	Airports Company South Africa	NAAMSA	National Association of Automobile Manufacturers of South Africa
BER	Bureau of Economic Research	NDP	National Development Plan
BRICS	Brazil, Russia, India, China and South Africa	NPA	National Ports Authority
CPI	consumer price index	OPEC	Organisation of the Petroleum Exporting Countries
FDI	foreign direct investment	PMI	(Barclay's) Purchasing Managers' Index
GDP	gross domestic product	PPI	producer price index
GDP-R	regional gross domestic product	QLFS	Quarterly Labour Force Survey
GGP	gross geographic product	SARB	South African Reserve Bank
GHS	General Household Survey	SESE	Survey of Employed and Self-Employed
GVA	gross value added	SIC	standard industrial classification (codes)
IMF	International Monetary Fund	Stats SA	Statistics South Africa
MPC	Monetary Policy Committee	UNWTO	United Nations World Tourism Organisation



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