CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

EPIC

Economic Performance Indicators for Cape Town

Quarter 2 (April–June) **2016**

SECTOR FOCUS: OIL AND GAS

Making progress possible. Together.

Document navigation shortcuts

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

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

Foreword

At the end of October we will welcome delegates from the member cities of the World Energy Cities Partnership (WECP) to Cape Town. The WECP is a collaboration of 19 of the world's leading energy capitals, including the likes of Aberdeen, Calgary, Doha, Halifax, Houston, Kuala Lumpur, Luanda and Perth. Cape Town is the newest member of the WECP.

The WECP concerns itself with the development of all energy sectors, including renewable energy. It was however the oil and gas sector that brought the founding members of this partnership together for the first time more than 20 years ago. Whilst Cape Town has enjoyed considerable activity in the downstream components of the oil and gas value chain for several decades, the city and regional economies could very possibly benefit from extensive activity across the whole value chain, including upstream components, in the not too distant future. Both the Western Cape Government's Project Khulisa and the South African Government's Project Phakisa are under way and designed to unlock opportunities in the oil and gas sector and the ocean economy in general.

In this edition of *EPIC – Economic Performance Indicators for Cape Town*, the sector focus is on oil and gas. Much of the city region's performance in this sector will hinge on the level of the oil price going forward and the solving of the remaining regulatory challenges, however, it is admirable that the various spheres of government, in collaboration with entities such as the Saldanha Bay IDZ and the South African Oil and Gas Alliance, are putting in place the necessary steps to realise the opportunities when they emerge. In the City of Cape Town we are particularly excited about the possibility of the development of a local gas economy, including the installation of local gas-to-power generation capacity. Much work is being performed by various partners in an attempt to realise these opportunities.

Improving energy security and efficiency, diversifying the energy mix towards a reduction in emissions and building resilience are all important for the future success of Cape Town's economy. Officials in the city administration are constantly engaged in working through these complex challenges.

This is the 13th edition of our quarterly report on the state of the Cape Town economy. It takes an in-depth look at the performance of the economy across of a number of indicators. Readers are invited to engage with its contents and to develop new ways to address the opportunities and challenges in the economy.

P. de Lille

Patricia de Lille
Executive Mayor

Table of contents

FOREWORD 1

INTRODUCTION 5

1 **OVERVIEW** 8
Cape Town's economy in context 10
The structure of Cape Town's economy 10
Cape Town's comparative advantages 11

2 **GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK** 13
Recent global economic developments 14
Developed economies 14
Emerging economies 14
Global economic outlook 15
Commodities 16
Exchange rates 17

3 **ECONOMIC GROWTH** 18
Economic growth in South Africa 20
Quarter-on-quarter gross domestic product (GDP) growth rate 20
Sectoral determinants of GDP growth in South Africa 20
Economic growth outlook for South Africa 21
Economic growth in the Western Cape 22
Quarter-on-quarter regional gross domestic product (GDP-R) growth rate 22
Provincial economic growth comparisons 23
Sectoral drivers of economic growth in the Western Cape 23
Growth outlook for Cape Town and the Western Cape 24

4 **INFLATION** 25
South Africa's inflation overview 25
Geographical inflation 26
Inflation outlook 26

5 **LABOUR MARKET TRENDS** 27
Overview of the labour market in South Africa 30
Labour market trends for Cape Town 31
A broad overview of the Cape Town labour market 31
Unemployment in Cape Town 32
Labour force and employment 33
Sector employment trends in Cape Town 34
Labour market outlook 34

6 **TRADE AND INVESTMENT** 35
Trade 36
Global trade 36
South African trade 36
Cape Town trade in oil and gas 38
Investment 40
Global foreign direct investment (FDI) 40
Cape Town foreign direct investment (FDI) 41
Investment facilitation 41

7 **SECTOR FOCUS: OIL AND GAS** 42
The nature of Cape Town's oil and gas industry 44
A strategic services hub for the upstream oil and gas industry 46
Providing infrastructure to service the oil and gas industry: Operation Phakisa 46
Performance of the industry – pressure on upstream in the short/medium term 46
Opportunities and constraints 49
The energy generating potential of Liquefied Natural Gas (LNG) 49
Threats to the industry 51

8 **INFRASTRUCTURE** 52
Cape Town port movements 54
Volume of vessels 54
Cargo (gross tonnage) and container handling 54
Cape Town airport statistics 55
Total passenger movements 55
International versus domestic arrivals for South Africa's two busiest airports 56
Electricity 57

9 **TOURISM DEVELOPMENTS** 58
International tourism developments 60
South African tourism developments – tourist arrivals in South Africa 60
Cape Town's tourism developments 61
Tourist accommodation in Cape Town 61
Performance of Cape Town's top visitor attractions 62
Most-visited tourist attractions 63

10 **ADDITIONAL INDICATORS** 64
Building developments 66
Construction industry overview 66
Building plan applications in Cape Town 67
Building plans completed 67
Commercial property developments 68
Performance of Cape Town's office and banking property market 68
Top commercial developments 69
Future developments 69
New vehicle sales 70

REFERENCES 71

LIST OF ABBREVIATIONS 72

LIST OF FIGURES

Figure 1: Gross geographic product (GGP) and employment contributions, 2015 10
Figure 2: Cape Town's GVA versus national GVA, 2015 10
Figure 3: Location quotients for industries in Cape Town (compared to other metros) 11
Figure 4: Industry performance for Cape Town 12
Figure 5: Economic growth trends in developed countries (Quarter 1, 2008 to Quarter 2, 2016) 14
Figure 6: Economic growth trends in emerging economies (Quarter 1, 2008 to Quarter 2, 2016) 14
Figure 7: World commodity indices (March 2012 to June 2016) 16
Figure 8: Indexed nominal exchange rate trends (January 2012 to July 2016) 17
Figure 9: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 2, 2016) 20
Figure 10: Sectoral GDP growth rates for South Africa (Quarter 2, 2016) 21
Figure 11: Purchasing Managers' Index for South Africa 21
Figure 12: Real GDP-R growth for the Western Cape (Quarter 1, 2008 to Quarter 2, 2016) 22
Figure 13: Provincial comparisons of real GDP-R growth rates (Quarter 2, 2016) 23
Figure 14: Sectoral real GDP-R growth rates in the Western Cape (Quarter 2, 2016) 24
Figure 15: CPI and PPI trends for South Africa (January 2011 to June 2016) 25
Figure 16: CPI inflation rate at a provincial level (April 2016 to June 2016) 26
Figure 17: Employment trends vs strict unemployment rate in South Africa (Quarter 2, 2008 to Quarter 2, 2016) 30
Figure 18: Employment comparison with other metros (Quarter 1, 2016 to Quarter 2, 2016) 31
Figure 19: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 2, 2016) 32
Figure 20: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 2, 2016) 33
Figure 21: Broad labour force and employment growth rates for Cape Town (Quarter 2, 2008 to Quarter 2, 2016) 33
Figure 22: Quarterly and annual change per sector for Cape Town (Quarter 2, 2016) 34
Figure 23: Global imports of goods (Quarter 2, 2013 to Quarter 2, 2016) 36
Figure 24: South Africa's exports, imports and trade balance (Quarter 2, 2013 to Quarter 2, 2016) 37
Figure 25: South Africa's export markets (Quarter 2, 2013 to Quarter 2, 2016) 37
Figure 26: Cape Town trade in oil and gas (2006 to 2015) 38
Figure 27: Global FDI (2005 to June 2016) 40
Figure 28: Foreign direct investment (FDI) flows into Cape Town (2005 to December 2015) 41
Figure 29: International rig count with three-month lagged oil price average (Q1, 2014 to Q2, 2016) 47
Figure 30: Global production and consumption of oil (Quarter 1, 2011 to Quarter 4, 2017) 47
Figure 31: Dynamic performance of Cape Town's fuel, petroleum and chemicals industry 48
Figure 32: Oil and gas exploration in and around South Africa 50
Figure 33: Total number of vessels (March 2013 to June 2016) 54
Figure 34: Total containers handled (TEUs) (March 2013 to June 2016) 55
Figure 35: Total passenger movements at South Africa's major airports (March 2013 to June 2016) 56
Figure 36: International and domestic passenger arrivals for Cape Town and OR Tambo International airports 56
Figure 37: City of Cape Town electricity consumption (July 2015 to June 2016) 57
Figure 38: Total visits to Cape Town's major (top six) tourist destinations (2013 to 2016) 62
Figure 39: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront) 63
Figure 40: Building confidence index (2011 to 2016) 66
Figure 41: Building plans submitted 67
Figure 42: Office/banking space sector developments (January 2015 to June 2016) 68
Figure 43: Passenger vehicle sales versus GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 2, 2016) 70

LIST OF TABLES

Table 1: Inflation levels by household expenditure groups 25
Table 2: Labour market indicators: South Africa and Cape Town* 31
Table 3: Official vs expanded unemployment rates 32
Table 4: Top 10 export and import mineral oil products for Cape Town (2015) 39
Table 5: Sector classification of activities in the oil and gas value chain 45
Table 6: International tourist arrivals in South Africa 60
Table 7: Income derived from tourist accommodation – Cape Town 61
Table 8: Ranking of the most-visited tourist attractions in Cape Town 63
Table 9: Building plans completed in the second quarter of 2016 67
Table 10: Top 10 commercial property developments – Cape Town 69

Introduction

This is the 13th 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 2016, covering the period 1 April to 30 June 2016.

Rationale for a quarterly economic publication

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

Aim of publication, and key principles

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

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

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

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

Acknowledgements

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

Produced by the Economic Research Unit

Manager: Economic Research: Tim Hadingham
Author and editor-in-chief: Paul Court
Author and editor: Meagan Jooste
Authors: Monique Petersen, Nicole Mack, Dilshaad Gallie, Yoliswa Tiwe and Tamsyn Hendricks

E-mail: economic.research@capetown.gov.za

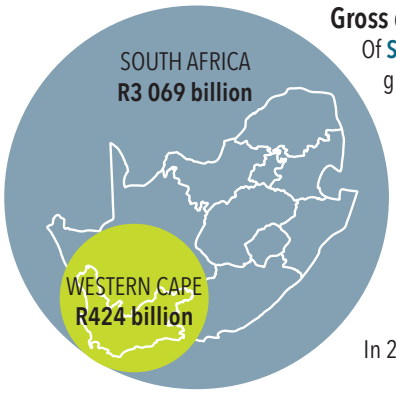
Chapter contributions
Wesgro Research Unit: Julius Okiror

Additional sources of information and analysis
Planning and Building Development Management, City of Cape Town: Marius Crous
Wesgro Research Unit: Nwabisa Thiso
Cape Town Tourism: Nolubabalo Manona
Saldanha Bay Industrial Development Zone: Laura Peinke
South African Oil and Gas Alliance: Niall Kramer, Belinda Williams

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.

Photography: Bruce Sutherland, Integrated Strategic Communications, Branding and Marketing Department, City of Cape Town; Shutterstock
Design and production: The Creative Store
Published by the Integrated Strategic Communications, Branding and Marketing Department, City of Cape Town

CAPE TOWN AT A GLANCE



Gross domestic product (GDP)

Of **South Africa's R3 069 817 million** gross domestic product generated in the second quarter of 2016, the **Western Cape**[1] accounted for **R424 377 million**.

13,82%

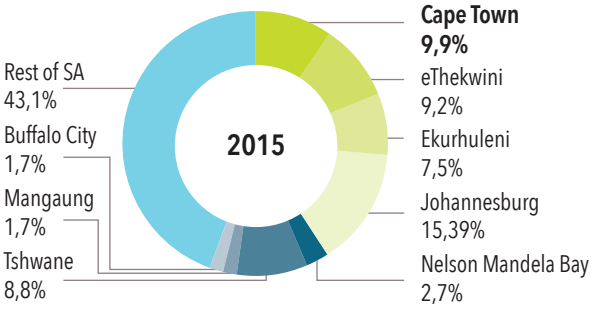
Source: Quantec, September 2016.

GDP per capita

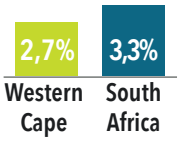
In 2015, **South Africa** had a GDP per capita of **R55 609**, while the **Western Cape** value was **R74 274**.

Source: IHS Global Insight, September 2016.

Gross geographic product (GGP) contributions



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

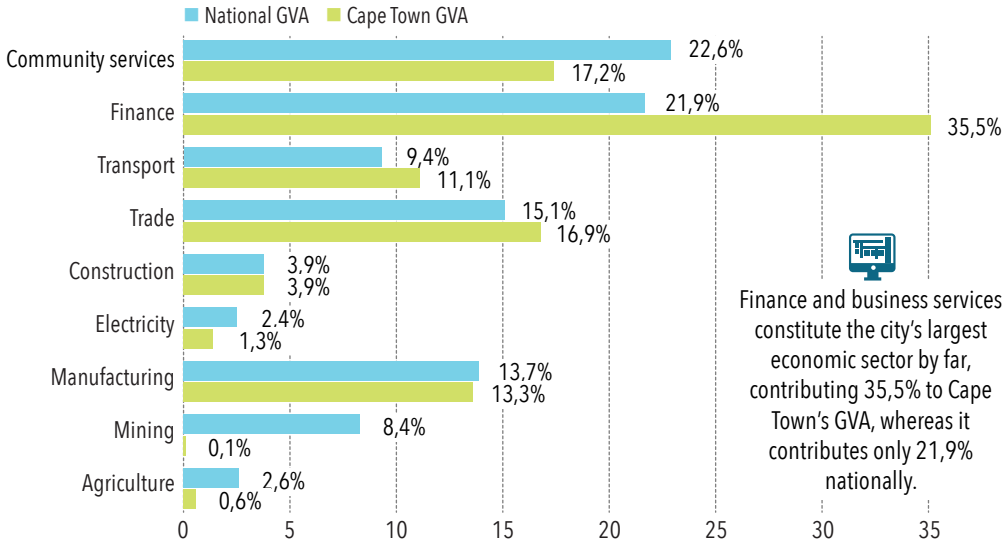


GDP growth

During the second quarter of 2016, the **Western Cape** had a quarter-on-quarter GDP growth of 2,7%, against a national growth of 3,3%.

Source: Quantec, September 2016.

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



Finance and business services constitute the city's largest economic sector by far, contributing 35,5% to Cape Town's GVA, whereas it contributes only 21,9% nationally.

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

6,3%

Inflation

At the end of the second quarter of 2016, the **Western Cape** had the same rate of inflation – **6,3%** – as the rest of **South Africa**.

Source: Stats SA, Consumer Price Index June 2016.

Passenger vehicle sales

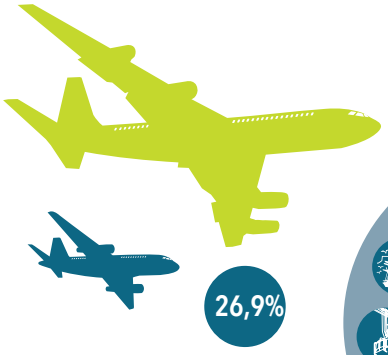
Of the **79 459** new passenger vehicles sold in **South Africa** during the second quarter of 2016, **10 250** were sold in the **Western Cape**.

Source: NAAMSA, September 2016.

Air passenger movements

Of the **8 358 923** passenger movements through **South Africa's three international airports**[2] during the second quarter of 2016, **2 250 653** were through **Cape Town International Airport**.

Source: ACSA, August 2016.



26,9%

Visitor attractions

In the second quarter of 2016, tourists and residents made **5 936 518** visits to Cape Town's six major attractions.

Source: Wesgro, August 2016.

Cargo tonnage handled at ports

During the second quarter of 2016, **57 605 904** tons of cargo were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **1 203 197** tons.

Source: Transnet, National Ports Authority, August 2016.

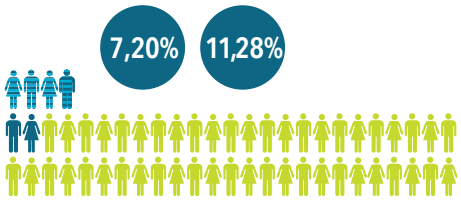
Containers handled at ports

During the second quarter of 2016, **1 119 042** containers were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **256 339**.

Source: Transnet, National Ports Authority, August 2016.

22,9%

1. GDP figures are not available for Cape Town on a quarterly basis so Western Cape figures are used as a proxy.
2. The combined total for South Africa's three international airports.



Population

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

Source: Stats SA, City of Cape Town.

Gini coefficient

In 2015, South Africa had a Gini coefficient[4] of 0,63, while Cape Town had a slightly lower value of 0,62.

Source: IHS Global Insight, September 2016.

0,72

Human development index

In 2015, South Africa had an HDI[5] of 0,65, while Cape Town's was 0,75.

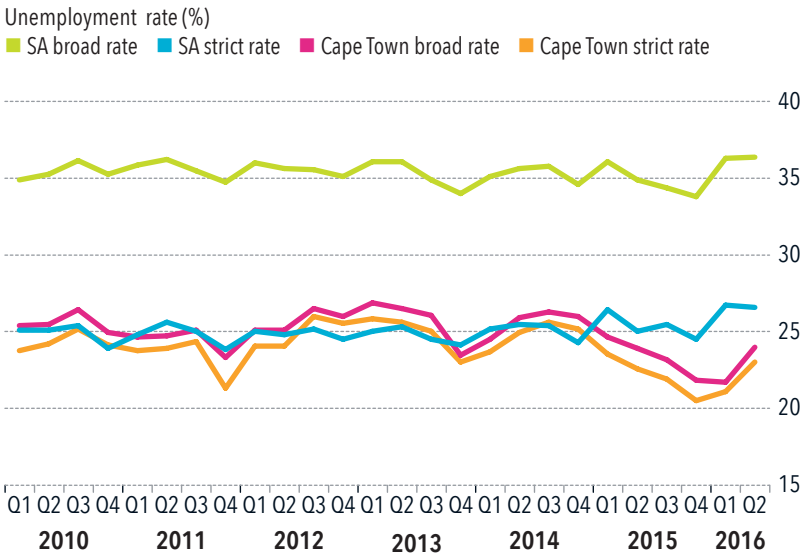
Source: IHS Global Insight, September 2016.

Functional literacy

South Africa has a functional literacy rate of 83,3%, while Cape Town has a rate of 92,5%.

Source: IHS Global Insight, September 2016.

Strict vs broad unemployment rates for Cape Town (Q1, 2010 to Q2, 2016)



Source: Stats SA, August 2016.

7,61%

Working-age population

Of the 36 590 827 people aged 15–64 in South Africa, 2 785 871 are resident in Cape Town.

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

7,76%

Unemployment

Of the 5 633 562 unemployed people in South Africa in the second quarter of 2016, 437 656 lived in Cape Town.

Source: Stats SA, QLFS, August 2016.

Expanded unemployment

Of the 8 879 779 unemployed people in South Africa during the second quarter of 2016, 462 442 live in Cape Town.

Source: Stats SA, QLFS, August 2016.

Labour absorption rate

South Africa had a 42,5% absorption rate – the percentage of the working-age population in employment – in the second quarter of 2016, while Cape Town had a rate of 52,4%.

Source: Stats SA, QLFS, August 2016.

7,9%

Expanded labour force

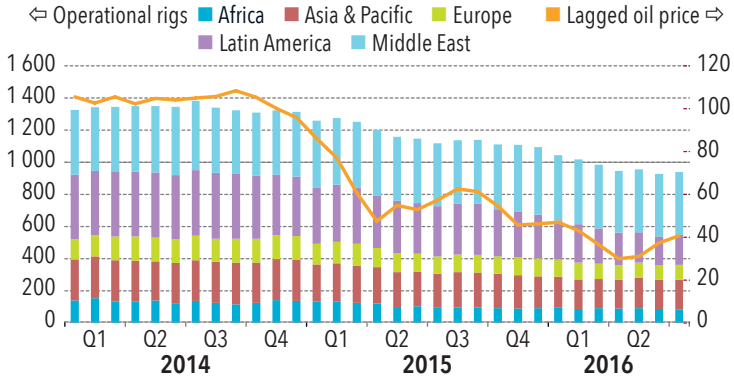
Of South Africa's 24 425 227 labour force participants, 1 930 219 live in Cape Town.

Source: Stats SA, QLFS, August 2016.

SECTOR FOCUS – OIL AND GAS

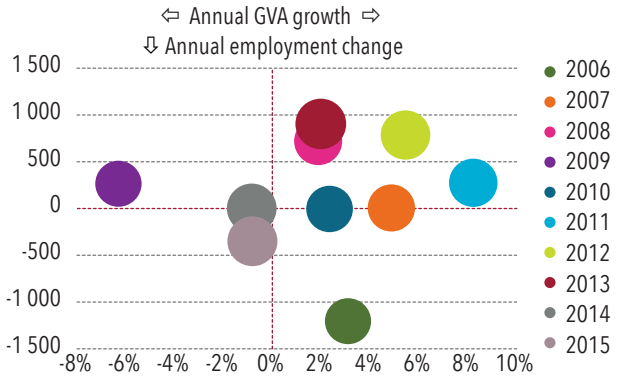
Cape Town has become a prominent service hub for the oil and gas industry on the African continent. The city has an active rig repair industry and also offers ancillary services such as engineering, fabricating and geological and seismic surveying to the upstream oil and gas industry.

International rig count with three-month lagged oil price (US$) average



Source: Baker Hughes International, 2016.

Dynamic performance of Cape Town's fuel, petroleum and chemicals industry



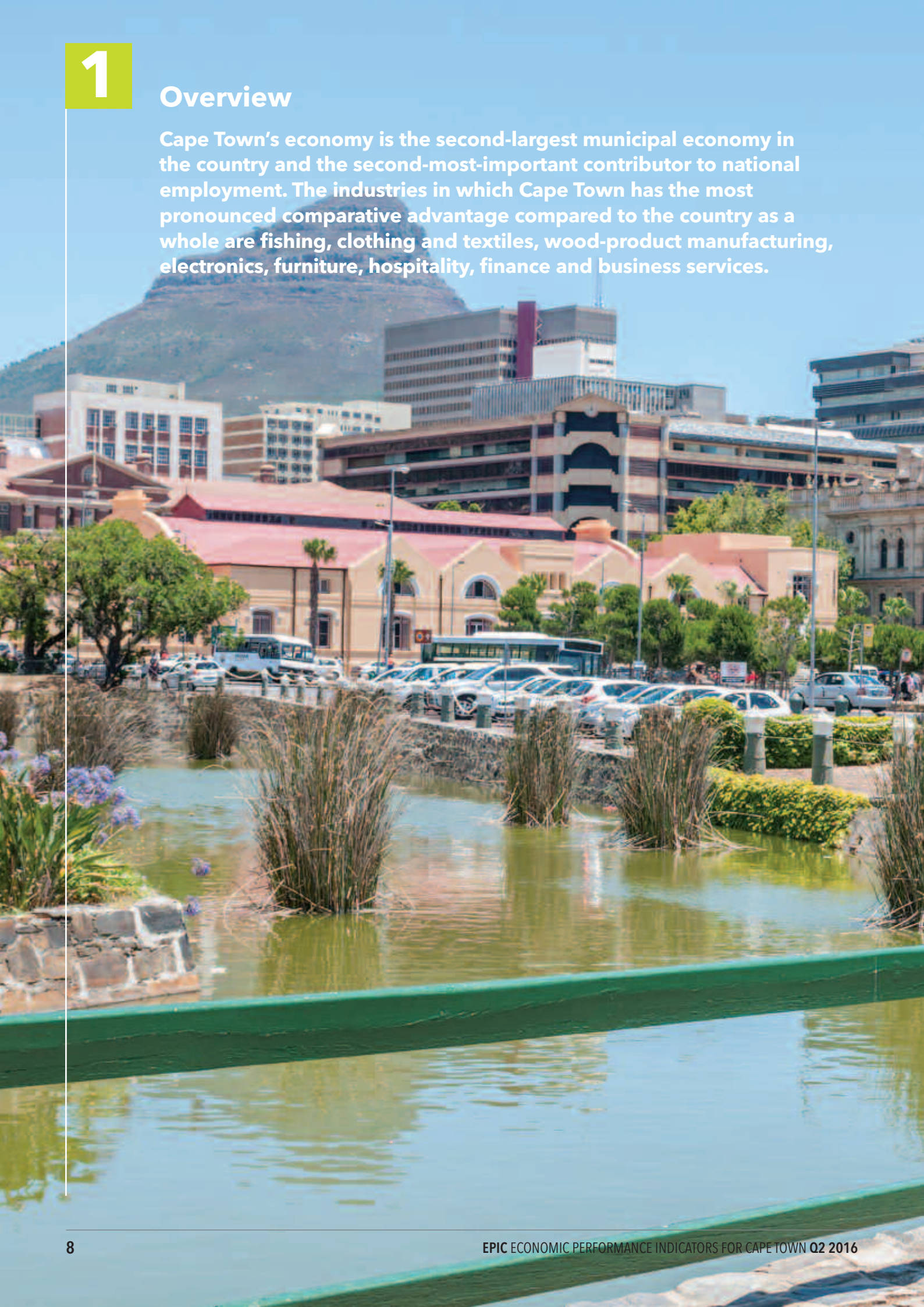
Source: IHS, Global Insight, 2016.

Size of bubble = gross value added (ZAR)

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.

1 Overview

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



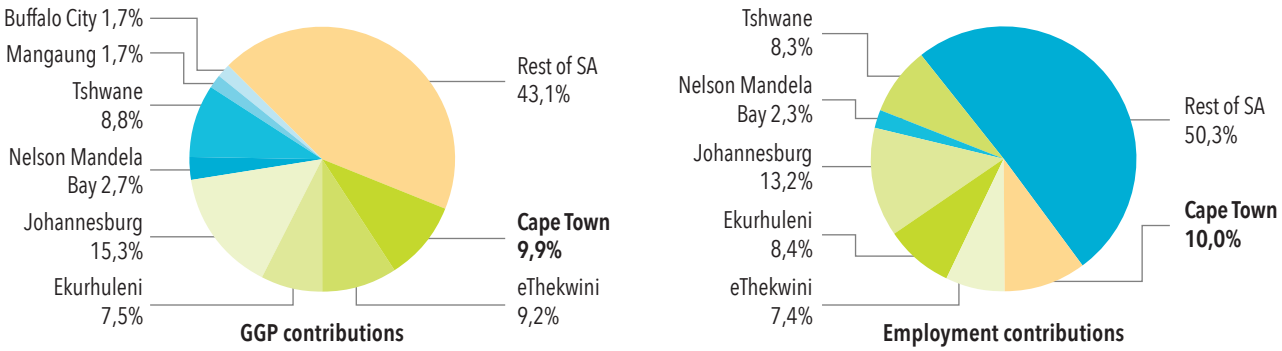
Cape Town's economy is the second-largest municipal economy in the country.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 9,9% to national gross domestic product (GDP) in 2015) is the second-largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 15,3% to national GDP in 2015), while eThekwini (9,2%) and Tshwane (8,8%) closely follow behind Cape Town (9,9%). Together, these four metropolitan municipalities accounted for 43,1% of the country's economic output in 2015.

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 43,2% of the country's output value, they account for only 38,9% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

Figure 1: Gross geographic product (GGP) and employment contributions, 2015

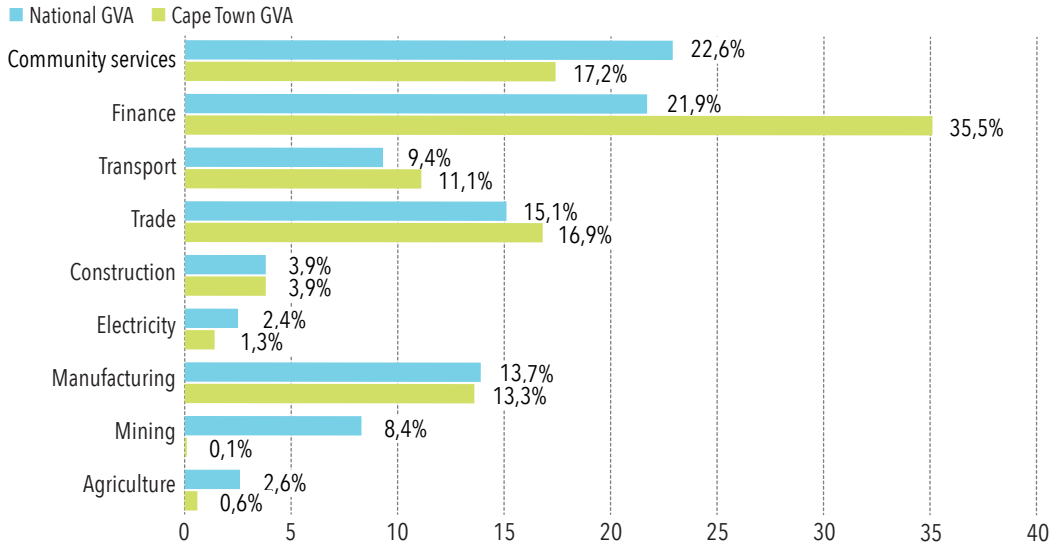


Source: Own calculations based on IHS Global Insight ReX regional data 2016 and Stats SA's QLFS data, 2016.

THE STRUCTURE OF CAPE TOWN'S ECONOMY

Figure 2 compares the sectoral distribution of gross value added (GVA) for Cape Town's economy to that of the national economy. The distribution differs from the national economy predominantly in terms of the smaller relative size of the primary sector (agriculture and mining) and the greater relative size of the tertiary sector (particularly finance and insurance). Finance and business services constitute the city's largest economic sector by far, contributing 35,5% to Cape Town's GVA, whereas it contributes only 21,9% 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 GVA versus national GVA, 2015



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

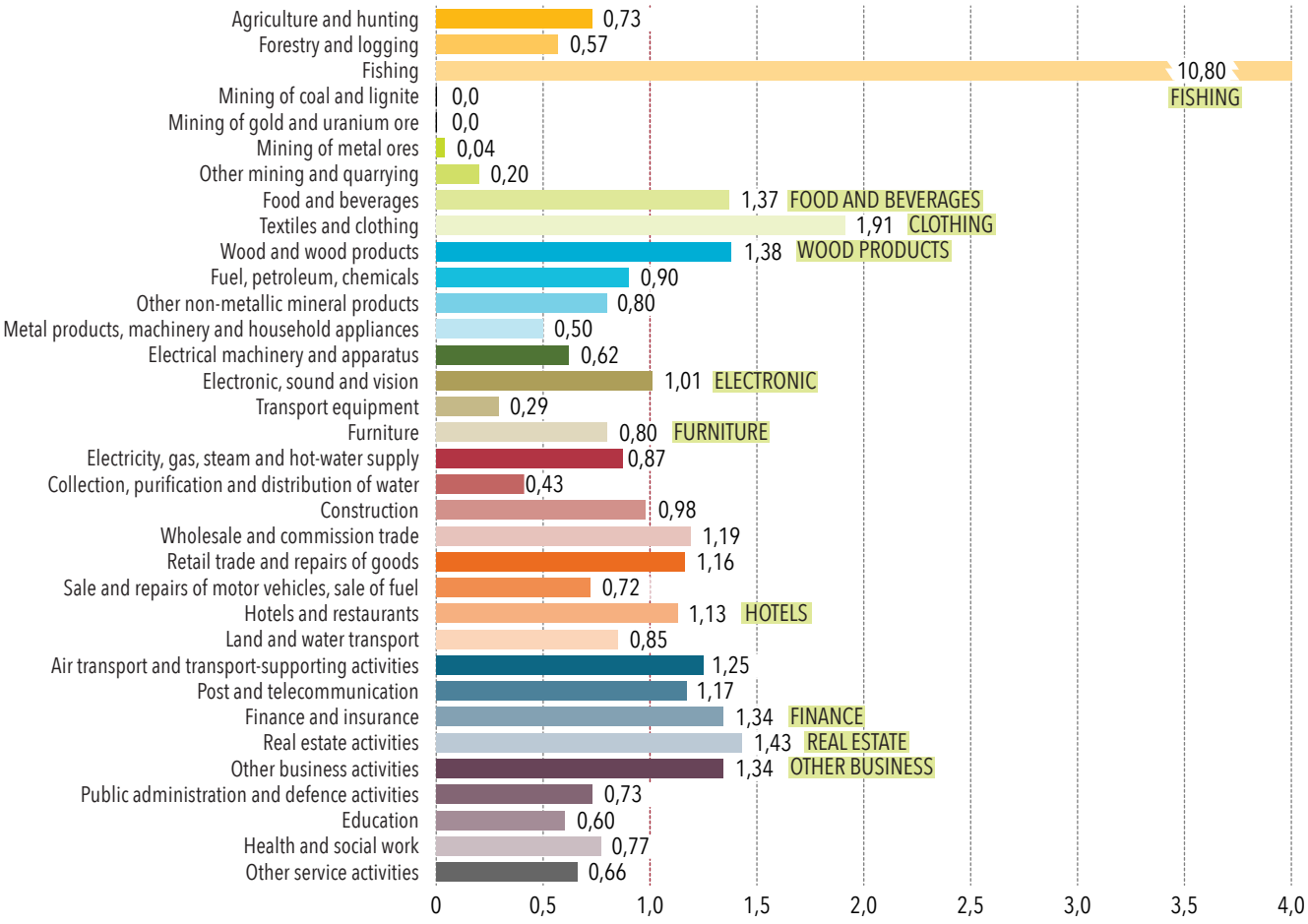
Finance and business services constitute the city's largest economic sector by far, contributing 35,5% to Cape Town's GVA, whereas it contributes only 21,9% nationally.

CAPE TOWN'S COMPARATIVE ADVANTAGES

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

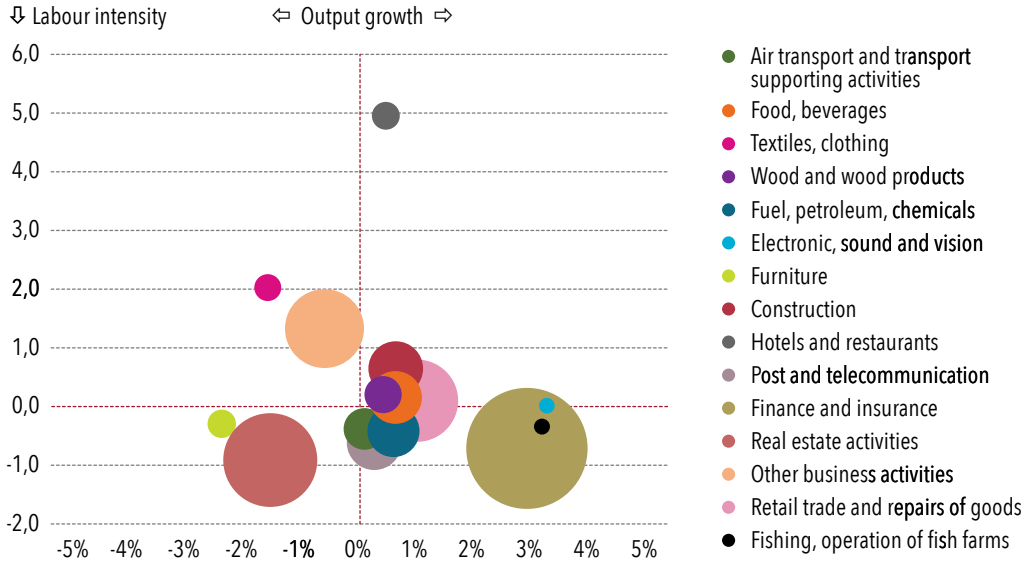
The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, textiles and clothing, real estate, wood-product manufacturing, food and beverages, finance, other business ac-

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



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

Figure 4: Industry performance for Cape Town



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

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

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

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

The importance of the tertiary sector is strongly reflected in figure 4, with the four largest bubbles being finance and insurance, other business activities, retail trade, and real estate activities. Of these industries, finance is the only industry also growing rapidly in the city, developing above the average industry growth rate for Cape Town's economy. Unfortunately, a number of Cape Town's growth industries are also below 0 on the y-axis, indicating that they are capital-intensive as opposed to labour-intensive. This is true of finance and insurance; post and telecommunications, and fuel, petroleum and chemicals. The industries that are growing fast, which are labour-intensive – and therefore offer good opportunities for employment creation – are construction, and hotels and restaurants (a good proxy for tourism). The 'other business activities' industry, while growing a bit slower than average, is also labour-intensive, with strong potential for job creation.

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

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

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

2

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.

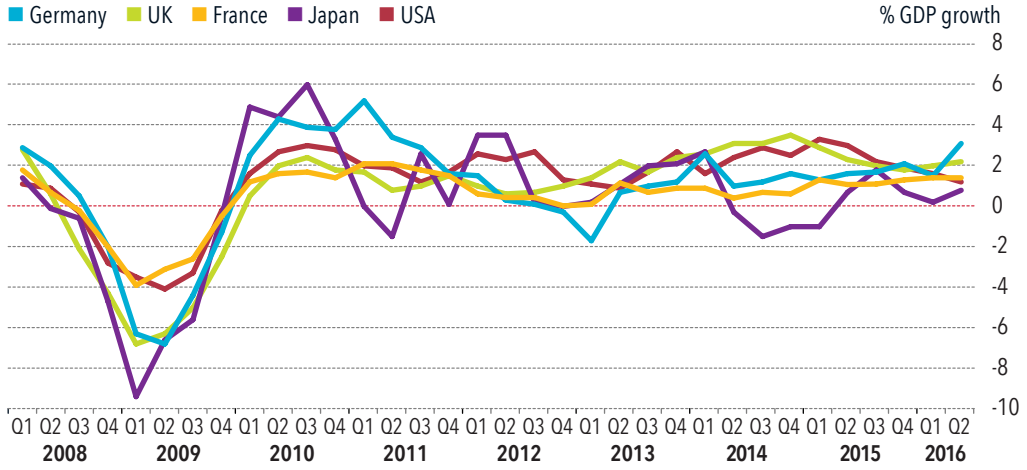
RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

While year-on-year GDP growth remained stable for most developed economies during the second quarter of 2016, Germany observed a significant increase from 1,5% in the first quarter to 3,1%.

While year-on-year[6] GDP growth remained stable for most developed economies during the second quarter of 2016, Germany observed a significant increase from 1,5% in the first quarter to 3,1%. Exceeding forecast estimates, Germany's positive performance came on the back of increased exports as well as increased household and government consumption spending. The United Kingdom (UK) and Japan observed minimal increases of 0,2 and 0,6 percentage points, respectively, in the second quarter of 2016 to growth rates of 2,2% and 0,8%. By contrast the United States (US) recorded a decline in growth from 1,6% in the first quarter to 1,2% in the second quarter of 2016; while France maintained its first quarter growth of 1,4%.

Figure 5: Economic growth trends in developed countries (Quarter 1, 2008 to Quarter 2, 2016)



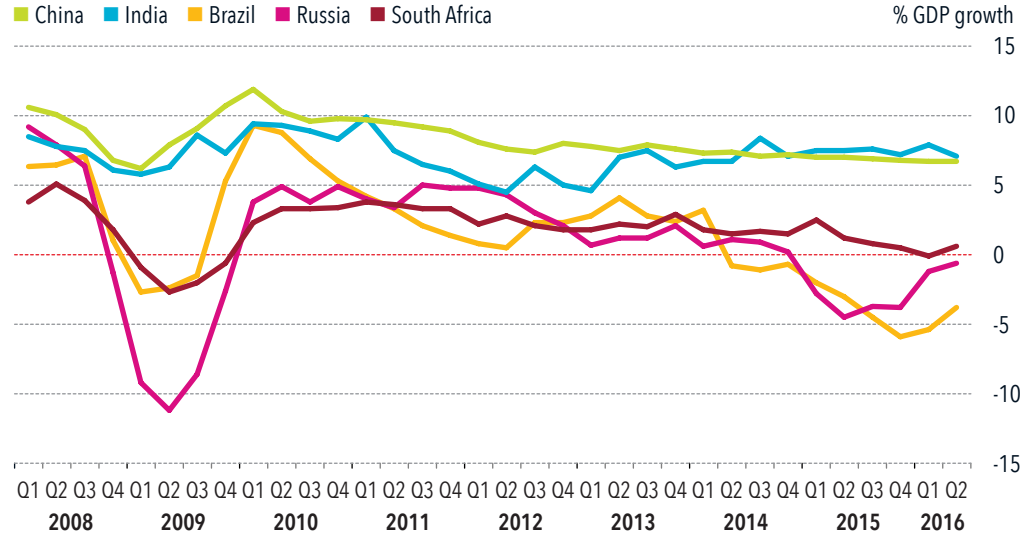
Source: Trading Economics, June 2016.

Emerging economies

Year-on-year GDP growth trends in the BRICS (Brazil, Russia, India, China and South Africa) economies have been diverse with high growth in India and China and some reprieve from recessionary trends in Russia and Brazil.

Year-on-year GDP growth trends in the BRICS (Brazil, Russia, India, China and South Africa) economies have been diverse with high growth in India and China and some reprieve from recessionary trends in Russia and Brazil. China and India's economic growth has, on average, tended towards 7% and 8% year-on-year GDP growth since 2010. While China's growth remained at 6,7% in the second quarter of 2016, India experienced a decline from 7,9% in the first quarter to 7,1% in the second quarter of 2016. The lower than expected performance was impacted by private consumption expanding at a slower pace while fixed investment declined further. The case is quite different for the Russian and Brazilian economies, however, with a drop in crude oil prices having plunged the Russian economy into recession for the last two years. While Russia's year-on-year GDP growth

Figure 6: Economic growth trends in emerging economies (Quarter 1, 2008 to Quarter 2, 2016)



Trading Economics and Stats SA, September 2016.

6. 'Year-on-year' is used here instead of annual to reflect that the comparison is between the same quarters in two different years (Q2 2016 vs Q2 2015) as opposed to comparisons across different whole completed years (i.e. 2016 vs 2015). Quarter on quarter refers to the comparison between the current quarter and the previous one (Q2 2016 vs Q1 2016).

remained negative (-0,6%) in the second quarter of 2016, its improvement by 0,6 percentage points on the growth rate in the previous quarter confirmed indications of a possible stabilisation. The stabilisation is likely driven by the recent increase in oil prices globally due to supply shortages induced by a decline in non-OPEC (Organization of the Petroleum Exporting Countries) oil production and various supply disruptions (International Monetary Fund (IMF), 2016). Brazil has similarly been in recession for the last two years, resulting from domestic political crises and made worse by the Zika virus. The reprieve in the rate of contraction in the second quarter of 2016 (-3,8%) relative to the first quarter of 2016 (-5,4%), was fuelled by an increase in exports and decline in imports. The South African economy avoided a technical recession, recording a year-on-year growth rate of 0,6% in the second quarter of 2016, compared to -0,1% in the first quarter of 2016. The chapter on economic growth delves deeper into the reasons for this.

Global economic outlook

According to the latest IMF World Economic Outlook (WEO) Update (2016), published in July, global growth in 2016 is expected to be 3,1% – 0,1 percentage points lower than the forecast in April – rising to 3,4% in 2017. While growth amongst advanced economies is anticipated to be 1,8% for both 2016 and 2017, emerging market and developing economies are expected to grow by 4,1% in 2016 and 4,6% in 2017.

Following an improvement from -0,4% growth in 2013 to 0,9% growth in 2014, the IMF reported positive growth of 1,7% in the Eurozone in 2015. The forecast for 2016 growth has been scaled up from the previous forecast in April 2016 by 0,1 percentage points to 1,6%. By 2017, however, the IMF projects that growth will slow to 1,4%.

While the IMF reported growth of 6,9% for China in 2015, its projection for 2016 was scaled up an additional 0,1 percentage points from its April 2016 forecast to 6,6% – possibly indicative of the successful rebalancing of the Chinese economy following recent policy support. However, its forecast of 6,2% growth for the economy in 2017 reflects the anticipation of slowing of the Chinese economy. According to the IMF (2016), while the country is experiencing lower growth rates than that of the past two decades, its economic expansion still remains notably high on a global scale. Growth forecasts for India remain positive, with the economy expected to grow by 7,4% in 2016 and 2017 – driven by rising private consumption and facilitated by lower energy prices and higher real incomes.

Sub-Saharan Africa's economic growth projection for 2016 has been significantly revised downwards by 1,4 percentage points to 1,6%. This is attributed to challenging macroeconomic conditions in some of its largest economies, driven mainly by lower commodity revenues. Growth is, however, anticipated to rise to 3,3% in 2017 based on an expectation that commodity prices will recover and that policy implementation will be more timely. South Africa's economic growth forecast has been revised down to 0,1%, which is notably lower than its growth rate of 1,3% in 2015. Forecasts do, however, predict a modest improvement in 2017 with a growth projection of 1%.

Overall, global output growth is expected to be driven by growth of 4,1% in emerging market and developing economies and 1,8% in advanced economies in 2016. The marginally revised outlook for advanced economies in 2016 is the result of

South Africa's economic growth forecast has been revised down to 0,1%, which is notably lower than its growth rate of 1,3% in 2015. Forecasts do, however, predict a modest improvement in 2017 with a growth projection of 1%.

Global output growth is expected to be driven by growth of 4,1% in emerging market and developing economies and 1,8% in advanced economies in 2016.

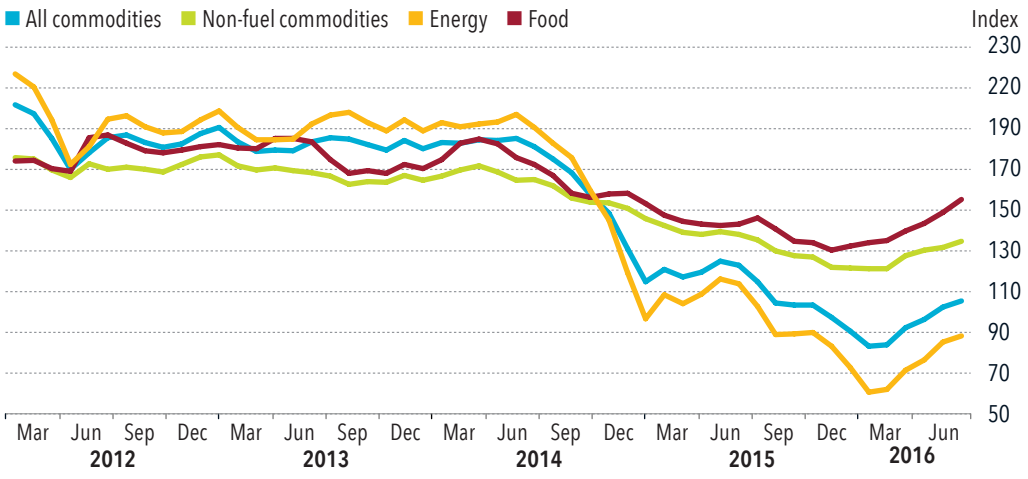
economic and political uncertainty surrounding the outcomes of the United Kingdom's Exit from the European Union (Brexit). As the macroeconomic implications of the Brexit are still unfolding, the IMF anticipates more negative outcomes than its initial baseline prediction for 2016 had forecast. In light of sluggish economic performance and a weak inflation outlook in advanced economies, the IMF recommends a combination of near-term demand support and structural reforms in advanced economies, in particular, to bolster medium-term growth. In emerging market and developing economies where policy dynamics are more varied, structural reforms are also proposed. In general, the economic and political uncertainty brought on by the Brexit has heightened the need for more resilient financial systems globally to manage the potential negative impacts on growth.

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 an extensive commodity price decline in 2015, the all-commodities index gradually increased into the second quarter of 2016. The index increased from 83,05 index points in January 2016, its lowest value since 2004, to 105,36 index points at the end of the second quarter. This is due to a number of factors including the devaluation of the US dollar as well as increases in all the main commodity indices, particularly energy which increased by 28,5% relative to the first quarter. However, while metal prices increased at the

Following an extensive commodity price decline in 2015, the all-commodities index gradually increased into the second quarter of 2016.

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



Source: IMF, August 2016.

beginning of the second quarter as a result of higher demand and increasing oil prices, it marginally declined towards the end of the second quarter due to an oversupply of metal products. This slight decline in metal prices was counterbalanced by the increase in energy and agriculture prices, particularly crude oil prices which increased by 3,7% in June owing to higher demand, a drop in US oil production and continuous supply disruptions (IMF, 2016). Despite these gains, the outcome of the Brexit has increased the volatility in oil prices due to 'macroeconomic concerns and exchange rate adjustments' (IMF, 2016).

Analogously, the non-fuel commodities index observed a steadier trend to that observed for the all-commodities index. Specifically, non-fuel commodities increased marginally from 130,18 index points at the beginning of the second quarter to 134,67 index points at the end of the quarter. The upward trend in the non-fuel commodities index was more muted than that observed for the all-commodities and fuel (energy) indices that were both heavily influenced by increasing oil prices. Growth in food prices in the second quarter was predominantly driven by soybean and corn price increases. This was partly attributable to a higher than expected drop in food production in South America caused by adverse climatic conditions and thus higher international demand (IMF, 2016).

A continuous moderate rise in oil prices is anticipated for the rest of the year while metal prices are likely to stay unchanged as a result of substantial supply and continued sluggish demand. In contrast, agricultural commodity prices are expected to be erratic, reflecting continuously changing weather conditions.

EXCHANGE RATES

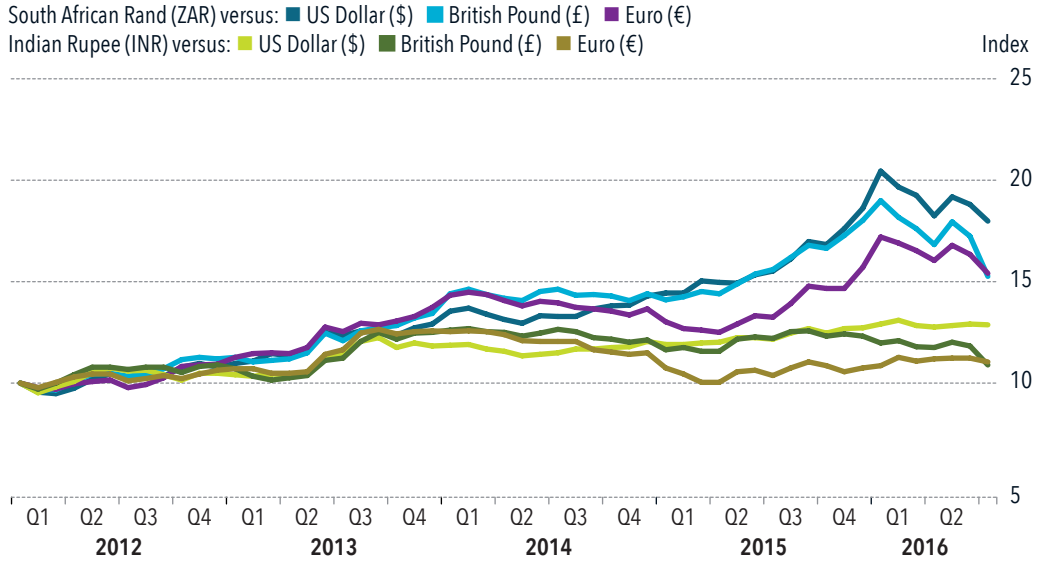
To measure the performance of the South African rand, its exchange rate is compared to three other currencies, namely the US dollar ($), the British pound (£) and the euro (€). Further, in order to measure the impact of global financial market developments on other emerging countries as well, the Indian rupee is used as a proxy, and is similarly compared to the US dollar, British pound and the euro[7].

In the second quarter the South African rand appreciated significantly against all three currencies after reaching a new low during the first quarter of 2016.

Overall, in the second quarter the South African rand appreciated significantly against all three currencies after reaching a new low during the first quarter of 2016. Specifically, the rand recovered in April, depreciated slightly in May and strengthened again at the end of June. Improved commodity prices and the narrower trade balance were key factors that positively influenced the rand during the first part of the second quarter of 2016. However, sluggish economic growth figures from the first quarter of 2016 and expectations of a downgrade by major sovereign credit ratings agencies led to a renewed depreciation of the rand in May. The impact of Brexit at the end of the quarter (23 June) helped the rand appreciate moderately against the dollar and the euro, and sharply against the pound.

The Indian rupee, unlike the rand, maintained a fairly constant movement relative to the developed currencies during the first part of the second quarter, suggesting that the volatility of the South African currency during this period was largely a result of domestic factors. The sharp appreciation of the rupee at the end of June, however, provides a strong indication of the extent to which the rand's appreciation against the pound in the same period could be attributed to external factors, in this case the Brexit.

Figure 8: Indexed nominal exchange rate trends (January 2012 to July 2016)



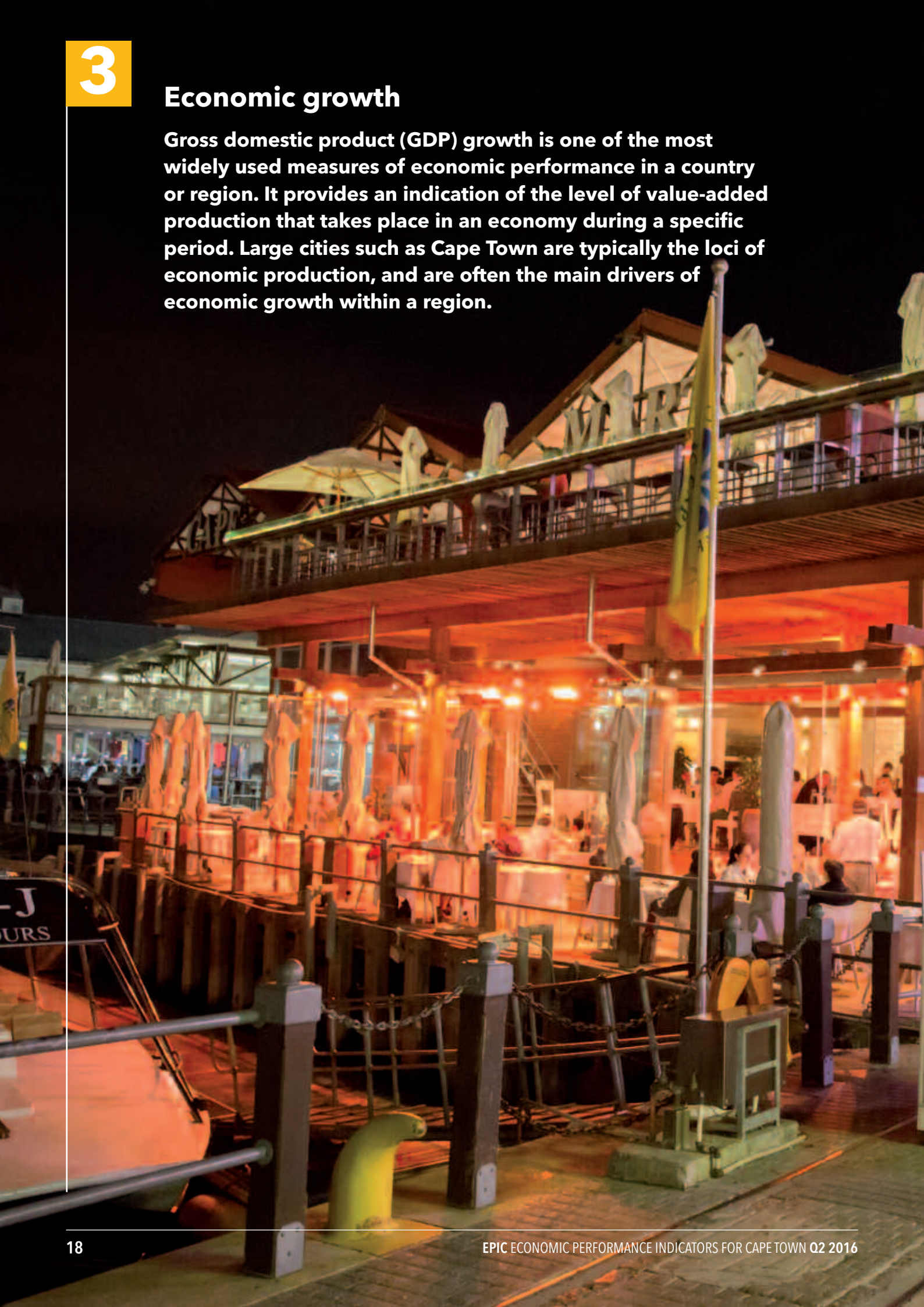
Source: South African Reserve Bank and OANDA Solutions for Business, August 2016.

7. Note that all currencies were indexed to 100 in the base period (January 2012) in order to normalise the various currencies and contrast the relative trajectories these followed up until the end of the period analysed (June 2016).

3

Economic growth

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

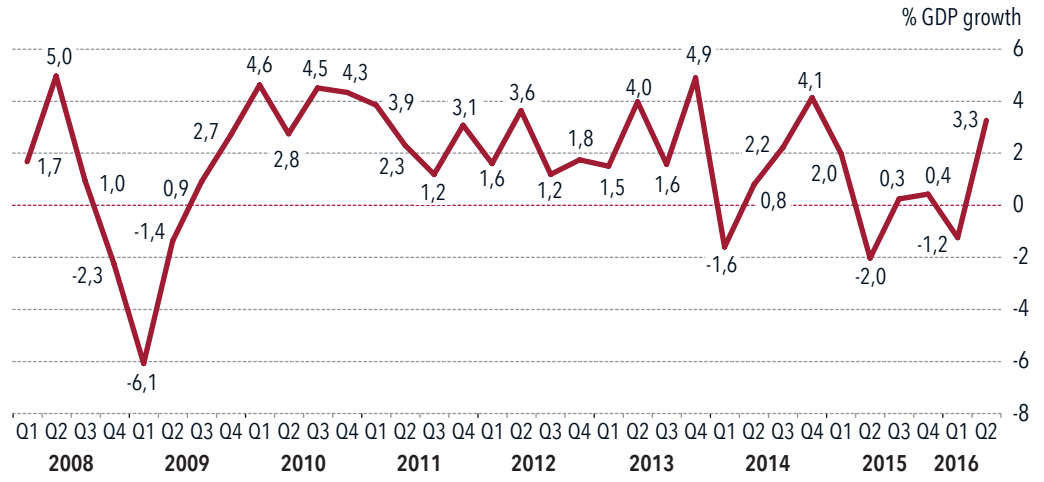
Quarter-on-quarter gross domestic product (GDP) growth rate

South Africa's economy avoided a technical recession in the second quarter of 2016 by growing 3,3% on a quarter-on-quarter basis, notably recovering from its 1,2% contraction in the first quarter of 2016.

South Africa's economy avoided a technical recession in the second quarter of 2016 by growing 3,3% on a quarter-on-quarter basis, notably recovering from its 1,2% contraction in the first quarter of 2016. This is the strongest quarter-on-quarter growth reported for the economy since the fourth quarter of 2014. The growth figure was significantly higher than the 2,7% rebound anticipated by the Bureau for Economic Research (BER) and the 2,6% growth predicted by Bloomberg's market consensus. The economic upswing was induced by broad-based improvement across the primary, secondary and tertiary sectors, the most prominent of which were seen in the mining sector (11,8%), manufacturing (8,1%), transport (2,9%) and financial (2,9%) sectors.

South Africa's economy also grew on a year-on-year basis, recording a rate of 0,7% in the second quarter of 2016. While growth rebounded in the second quarter, year-on-year growth was still 0,9 percentage points lower than in the second quarter of 2015. Despite economic recovery in the second quarter, economists remain sceptical of the sustainability of strong growth in the mining and manufacturing sectors of the economy. Furthermore, business confidence indices show low confidence despite the economic upswing. The better than expected growth has, however, led the South African Reserve Bank (SARB) to revise its 2016 economic growth forecast upwards.

Figure 9: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 2, 2016)



Source: Stats SA, September 2016.

Sectoral determinants of GDP growth in South Africa

The positive performance of the South African economy in the second quarter of 2016 was driven by considerable improvements in the manufacturing and mining sectors in particular. The primary sector observed a notable increase in output of 8,8% quarter on quarter, driven by a substantial upswing in mining output in the platinum group metals.

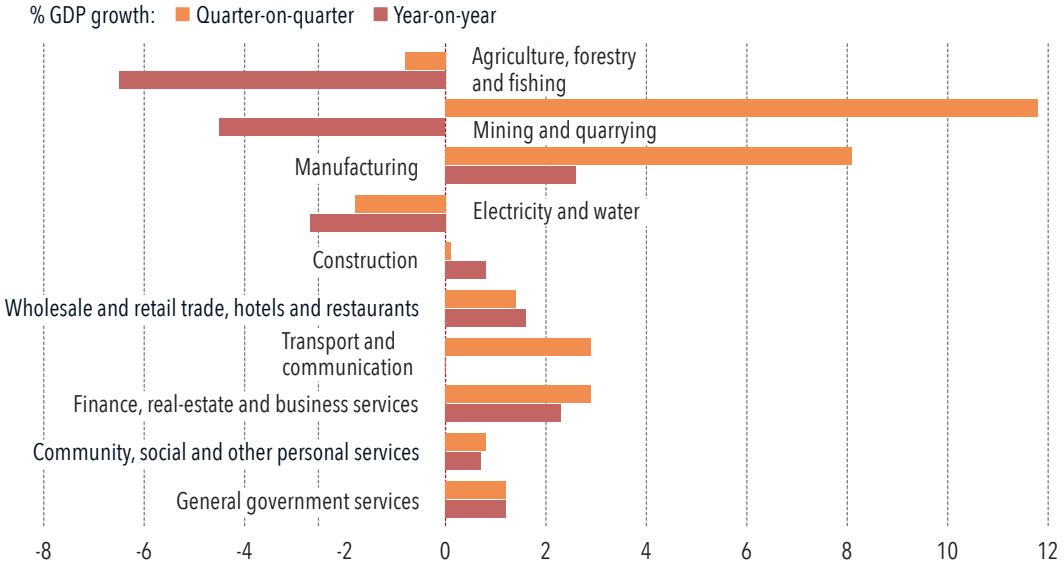
The positive performance of the South African economy in the second quarter of 2016 was driven by considerable improvements in the manufacturing and mining sectors in particular. The primary sector observed a notable increase in output of 8,8% quarter on quarter, driven by a substantial upswing in mining output in the platinum group metals (Stats SA, 2016). The mining sector observed a quarter-on-quarter growth rate of 11,8%, up markedly from its 18,1% contraction in the first quarter of 2016. Although the agricultural sector continued to decline in the second quarter of 2016, it did so at a slower pace (-0,8%) than in recent quarters. The BER suggests that the primary sector's second-quarter recovery was unsurprising given that mining output in the first quarter of 2016 was heavily weighed down by intervening safety stoppages in the platinum mining sector.

The secondary sector's output expanded by 5,3% in the second quarter of 2016, resulting from a rise in manufacturing output of 8,1% quarter on quarter. Stats SA reports that much of this increase in manufacturing output was the result of higher production in the petroleum and motor vehicle manufacturing industries. In contrast, the electricity, gas and water industry continued its negative trend of the previous quarter, contracting by 1,8% due to a drop in the consumption of electricity and in the amount of water distributed because of drought conditions and related water restrictions.

The tertiary sector grew by 2% quarter on quarter, which is still below its 10-year average rate (2,7%), reflecting low levels of consumer and business confidence. The largest gain made in the tertiary sector was in transport, storage and communication, which expanded by 2,9% compared to its 2,7% contraction in the first quarter due to increased land freight transportation and communication (Stats SA, 2016). The finance, real estate and business services sector grew by 2,9%, fuelled by an increase in real estate services in particular. Wholesale and retail trade, hotels and restaurants observed the third-largest increase in the tertiary sector, growing by 1,4%, a mild improvement from its 1,3% growth in the first quarter.

Figure 10 shows that the electricity and water as well as the agriculture, forestry and fishing sectors experienced quarter-on-quarter and year-on-year contractions in the second quarter. This was substantially mitigated by expansions in the manufacturing, finance, real estate and business services sector as well as the wholesale and retail trade sectors, which ex-

Figure 10: Sectoral GDP growth rates for South Africa (Quarter 2, 2016)



Source: Stats SA, September 2016.

perienced the highest year-on-year and quarter-on-quarter growth rates. The strong quarter-on-quarter growth rate in the mining sector also served to negate the quarter-on-quarter contractions in the poor performing sectors.

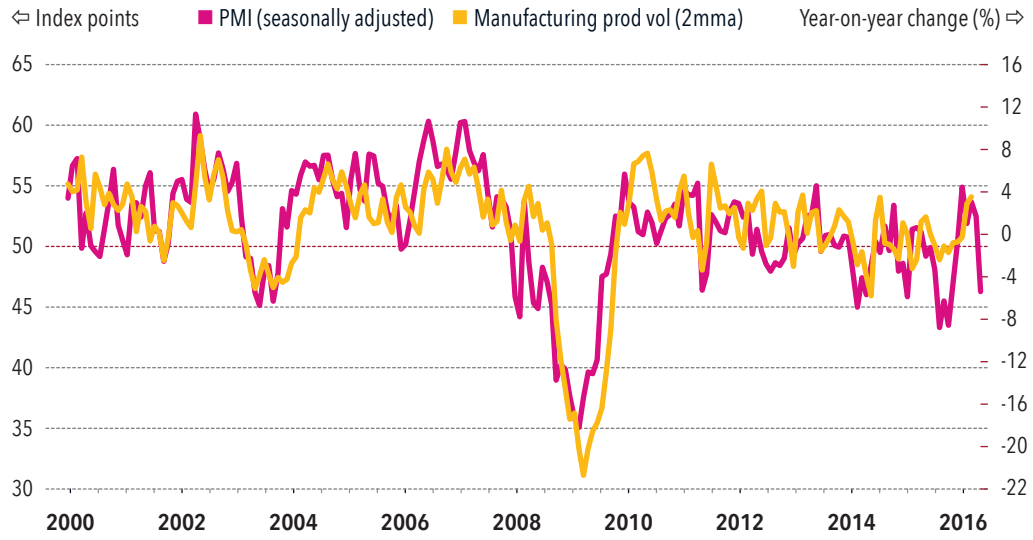
The largest gain made in the tertiary sector was in transport, storage and communication, which expanded by 2,9% compared to its 2,7% contraction in the first quarter due to increased land freight transportation and communication (Stats SA, 2016).

Economic growth outlook for South Africa

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

The South African economy was able to evade a technical recession in the second quarter of 2016. It remains to be seen whether this upward trend in growth can be sustained into the third and fourth quarters of 2016. The poor economic performance of the primary sector in the first quarter of 2016 seems to weigh heavily on the minds of investors and consumers, with consumer and business confidence indices pointing towards depressed sentiments of economic prospects in the third quarter. The mining sector recovered from the knock it took from safety stoppages in the first quarter, and the agricultural sector finally seems to be inching towards a rebound from the negative growth path it has been on since the first quarter of 2015. However, the BER is still cautious in its expectations of growth for the rest of 2016. For the third quarter of 2016, the BER anticipates moderate quarter-on-quarter economic growth.

Figure 11: Purchasing Managers' Index for South Africa



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

The Barclays Purchasing Managers' Index (PMI) evidenced that the manufacturing sector managed to hold its own over the second quarter, reaching a peak of 54,9 index points in April and remaining above 50 index points until the end of June 2016.

The Barclays Purchasing Managers' Index (PMI)[8] evidenced that the manufacturing sector managed to hold its own over the second quarter, reaching a peak of 54,9 index points in April and remaining above 50 index points until the end of June 2016. While the PMI reached a robust 52,5 index points in July, it experienced a significant, 6,2 index point decline to 46,3 by August 2016. This regress was a function of a steep fall from July 2016 in the new sales orders index (11,9 index point decline) and the business activity index (4,7 index point decline). According to the BER, these declines correspond to flattened sales orders and output levels in August 2016, rather than declines in these activities. The fact that the employment index remained above 50 index points could signal that purchasing managers anticipate positive manufacturing activity in the forthcoming period, and thus have maintained steady employment levels. The expected business conditions in six months' time index rose to 61,5 index points from its previous 55,4 index point level, suggesting purchasing manager optimism (BER, 2016).

Manufacturers saw relief in the price index, which made a second consecutive decline in August 2016, likely facilitated by the weaker performance of the rand and a substantial decline in the fuel price that, combined, led to slower cost increases (BER, 2016). The BER anticipates that if the rand's weakness resurfaces, this will place upward pressure on manufacturing costs in the forthcoming months.

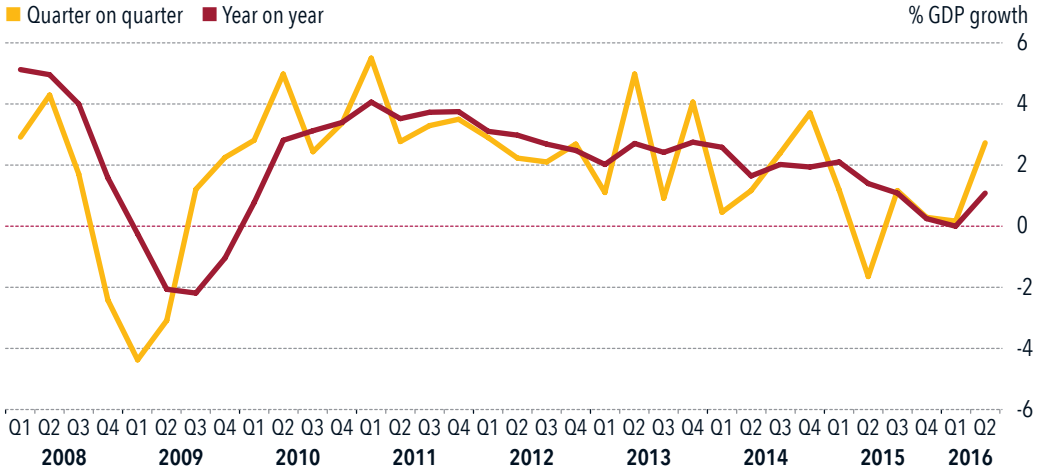
ECONOMIC GROWTH IN THE WESTERN CAPE

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

The Western Cape economy contributes around 14% of national GDP, and is strongly influenced by national economic conditions (Quantec, 2015). In line with the recovery at a national level, the Western Cape's economy grew by 2,7% quarter on quarter in the second quarter. The slower pace of growth can be attributed to the comparative lack of mining in the Western Cape compared to the country as a whole. On a year-on-year basis the Western Cape economy grew slightly faster (1,1%) than the national economy (0,67%).

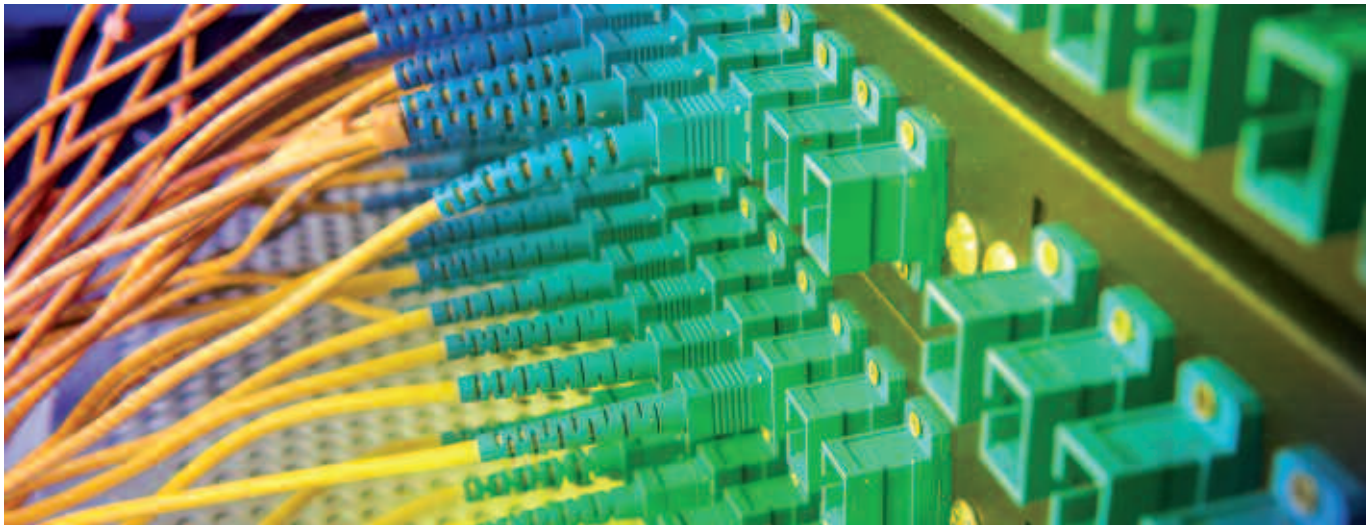
In line with the recovery at a national level, the Western Cape's economy grew by 2,7% quarter on quarter in the second quarter. The slower pace of growth can be attributed to the comparative lack of mining in the Western Cape compared to the country as a whole.

Figure 12: Real GDP-R growth for the Western Cape (Quarter 1, 2008 to Quarter 2, 2016)



Source: Quantec, September 2016.

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



While GDP-R statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to typically mirror that of the provincial economy. This is because the metro contributes about 72% of the provincial economic output (IHS Global Insight, 2016). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate has been 0,1 percentage points.

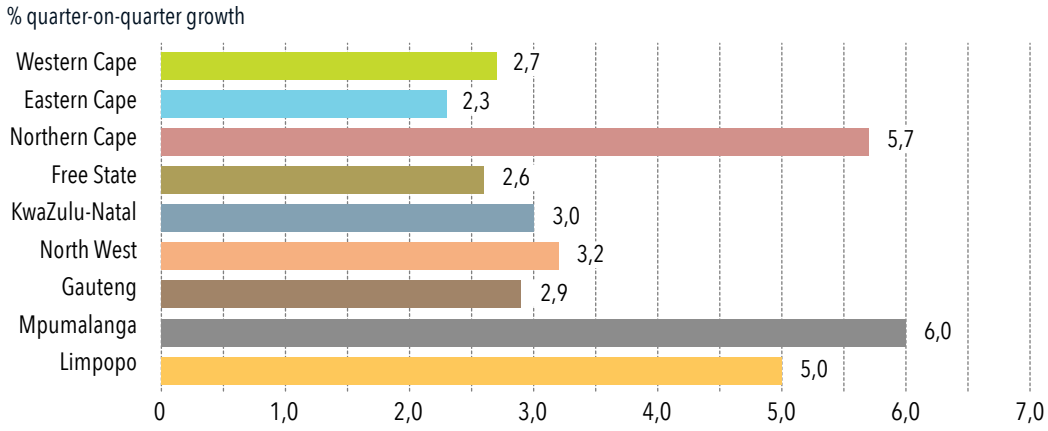
Provincial economic growth comparisons

All provincial economies experienced positive growth in the second quarter of 2016, a dramatic shift from the first quarter of 2016, which saw all but two provinces experience negative growth. Mpumalanga, the Northern Cape and Limpopo provinces experienced the largest economic quarter-on-quarter growth of 6,0%, 5,7% and 5,0% respectively, reflecting the upswing in the mining sector that dominates the sectoral composition of these provinces.

Cape Town is not significantly affected by changes in the primary sector but the city is strongly affected by the performance of the tertiary sector, which accounts for 81% of its GDP (IHS Global Insight, 2016). As the largest quarter-on-quarter increase in provincial output came from sectors that are strongly represented in Cape Town (manufacturing, wholesale trade and retail, transport and financial services sectors), one can expect the city's economy to have outperformed the provincial economy in the second quarter of 2016.

All provincial economies experienced positive growth in the second quarter of 2016, a dramatic shift from the first quarter of 2016, which saw all but two provinces experience negative growth.

Figure 13: Provincial comparisons of real GDP-R growth rates (Quarter 2, 2016)



Source: Quantec, September 2016.

Sectoral drivers of economic growth in the Western Cape

The Western Cape's manufacturing sector saw quarter-on-quarter growth of 7,9% while the transport and communication and financial services sectors both saw growth of 2,9% and wholesale and retail trade saw growth of 1,6%. Of these, the largest gains on the previous quarter were witnessed in the manufacturing and transport and communication sectors, which saw a 7,5 percentage point and 5,6 percentage point increase, respectively, in growth from the first quarter of 2016.

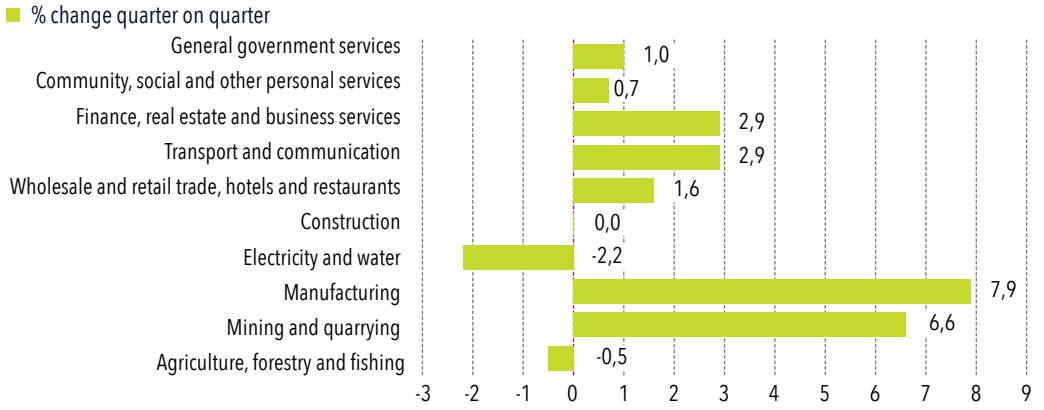
Similar sectoral growth rates can be expected for Cape Town, as the city is the major contributor to most economic sectors in the province. In particular, 85% of the Western Cape's finance and business services, 76% of wholesale and retail trade, and 63% of manufacturing can be attributed to the metropolitan area (IHS Global Insight, 2016). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the second quarter. However,

The Western Cape's manufacturing sector saw quarter-on-quarter growth of 7,9% while the transport and communication and financial services sectors both saw growth of 2,9% and wholesale and retail trade saw growth of 1,6%.

these sectors' greater contribution to the city's economy means that they would have had a larger effect on the city's economic growth rate.

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 11% (IHS Global Insight, 2016). Thus, it is difficult to make inferences about the performance of the city's primary sector based on primary sector GGP growth in the Western Cape. However, even if Cape Town's primary sector (agriculture, in particular) did mirror provincial trends, it is unlikely that this would have had a large impact on the overall growth rate, as the primary sector contributes less than 1% to Cape Town's GGP. The performance of the city's economy in the second quarter would have been more driven by positive strides in the city's manufacturing, transport and communication, financial services, and trade, retail and tourism sectors.

Figure 14: Sectoral real GDP-R growth rates in the Western Cape (Quarter 2, 2016)



Source: Quantec, September 2016.

Growth outlook for Cape Town and the Western Cape

The main sources of growth for both the Western Cape and Cape Town in the second quarter of 2016 were improvements in the manufacturing, transport and communication, financial and business services and wholesale and retail trade sectors. Growth in the finance and business services sector seemed to have returned to its average in 2014 and 2015. The largest ground in the second quarter was made by the manufacturing sector, which returned to quarter-on-quarter growth levels last witnessed in the fourth quarter of 2014. The recent downturn in the Barclays PMI, however, suggests that the sector's strength may not be sustained.

The main sources of growth for both the Western Cape and Cape Town in the second quarter of 2016 were improvements in the manufacturing, transport and communication, financial and business services and wholesale and retail trade.

Despite the strides made in growth in the quarter, economists are cautioning that consumer, business and investor confidence remains low. This could also be a function of the fact that two of the three major sovereign credit rating agencies have put South Africa on a negative outlook (Trading Economics, 2016). The country's credit rating as of mid-September was BBB- with a negative outlook according to Standard & Poor's, BBB- with stable outlook according to Fitch while Moody's rating was the most optimistic at Baa2 with negative outlook. Economists suggest that the economic growth in the second quarter of 2016 may not suffice to avoid a credit rating downgrade. External economic affairs will also have implications for South Africa, including the possible interest rate hike by the US Federal Reserve Bank and the yet-to-be-seen impacts of the Brexit from the European Union.

Domestically, the Finance Minister will present his Medium Term Budget Policy Statement (MTBPS) on 26 October 2016, which will propose the landscape of revenue allocation at the national, provincial and local government scale. This will provide an indication of the state's funding priorities for the next Medium Term Expenditure Framework (MTEF) and will be watched with interest by the ratings agencies.

Cape Town's location, aesthetics and accessibility present it with a special opportunity to take advantage of international demand. While the rand's recent weakness places upward cost pressure on manufacturers (BER, 2016), it also provides those manufacturers the opportunity to expand their exports. This is a prospect which Cape Town's manufacturing industry should be encouraged to harness. Further, on 10 June 2016 the Southern African Development Community (SADC) signed a new Economic Partnership Agreement with the European Union, presenting a potential avenue for Cape Town's export-oriented sectors, such as offshore business process outsourcing and tourism, to expand. The ability of the city's economy to realise these opportunities will determine whether the city can move onto a sustained higher growth path in 2016.

4 Inflation

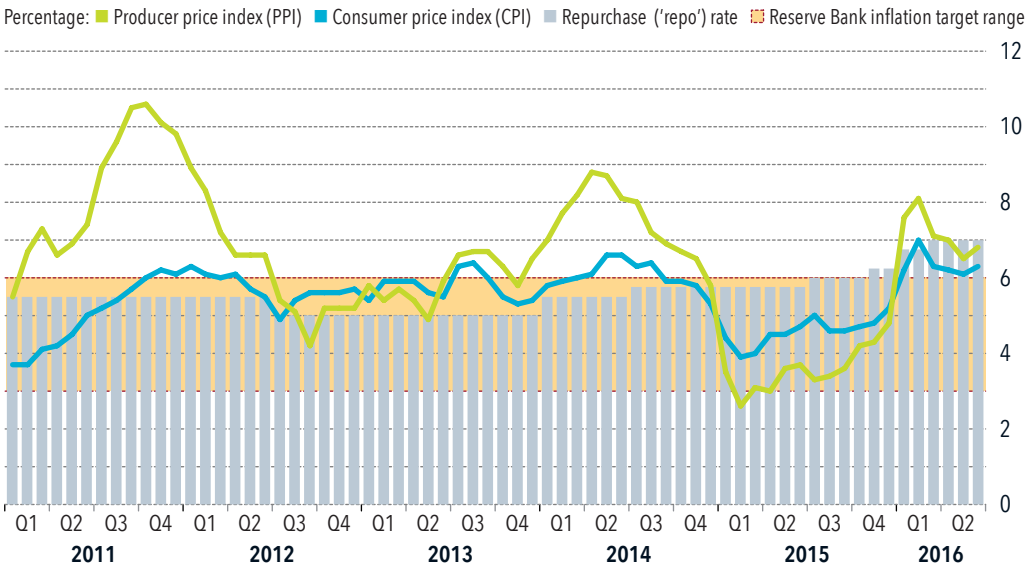
Both the consumer price index and producer price index inflation rate decreased in the second quarter of 2016.

SOUTH AFRICA'S INFLATION OVERVIEW

The headline consumer price index (CPI) inflation rate has decreased slightly since the recent peak in February 2016 (7%). However, it continued to hover above the upper end of the inflation target range in the second quarter with recordings for April at 6,2% decreasing to 6,1% in May and increasing marginally to 6,3% in June 2016. The downward movement in the headline CPI inflation in the second quarter reflects the impact of an improving exchange rate as well as the consecutive increases in the repurchasing rate (repo rate) during November 2015 and March 2016, which was specifically targeted at managing the upward drive in the inflation rate.

The producer price index (PPI) followed a similar trend to the CPI, decreasing significantly to 6,5% in May 2016 from a previous high in February (8,1%) and thereafter increasing slightly to 6,8% at the end of June 2016. The main contributors to the 6,8% PPI inflation rate recorded in June were food products, beverages and tobacco products (contributing 3,2 percentage points to PPI), metals, machinery, equipment and computing equipment (contributing 1,0 percentage points to PPI) and transport equipment (contributing 0,8 percentage points to PPI).

Figure 15: CPI and PPI trends for South Africa (January 2011 to June 2016)



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

The downward movement in the headline CPI inflation in the second quarter reflects the impact of an improving exchange rate as well as the consecutive increases in the repurchasing rate (repo rate) during November 2015 and March 2016, which was specifically targeted at managing the upward drive in the inflation rate.

Figure 15 also illustrates changes in the repo rate. As indicated on the graph, the repo rate remained at 7% throughout the second quarter of 2016. At the time of the Monetary Policy Committee's (MPC) statement in July 2016, there was no clear indication of a recovery in the agricultural sector as the impact of the drought was still evident. There were, however, some encouraging long-term indications that food prices may be on the way down, as the futures price of grain has declined significantly. Additionally, the strengthening of the rand provided some price relief on imported products and intermediate goods. The above factors all contributed to the Monetary Policy Committee's (MPC) decision to keep the repo rate unchanged. The weak economic growth outlook and the decrease in inflation expectations also added weight to the MPC's decision.

Table 1 indicates how different expenditure groups are affected by inflation. In the second quarter of 2016, inflation

Table 1: Inflation levels by household expenditure groups

Quintiles	Level	Monthly expenditure	Inflation rate as at June 2016
	Average		*6,3%*
1	Very low	R0 to R1 213/month	8,1%
2	Low	R1 214 to R1 939/month	7,5%
3	Middle	R1 940 to R3 062/month	7,0%
4	High	R3 063 to R6 596/month	6,2%
5	Very high	R6 597 and more	6,1%

Source: Stats SA, August 2016.

Inflation increased across the first three household expenditure quintiles whereas the fourth quintile decreased and the fifth remained unchanged when compared with March 2016.

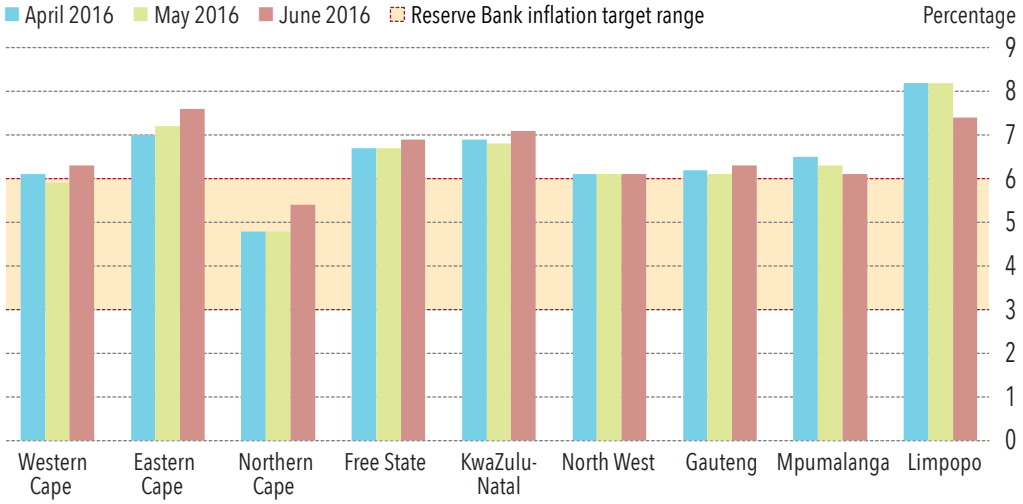
remained above 6% across all quintiles. Noticeably, inflation increased across the first three household expenditure quintiles whereas the fourth quintile decreased and the fifth remained unchanged when compared with March 2016. The first quintile, the household quintile with the lowest level of monthly expenditure, experienced the highest quarter-on-quarter increase (0,4 of a percentage point) in inflation whilst the household quintile with the highest level of monthly expenditure experienced no change. A reason for this disparity could be that the lowest quintile was severely affected by the increase in food price inflation as well as the total increase of 147 cents in the petrol price between April and June 2016.

GEOGRAPHICAL INFLATION

Food price inflation in the Western Cape was 11,5% (having increased from 8,6% in May), while nationally it was higher at 12,2% (having decreased from 12,4%).

TThe Western Cape recorded the same inflation rate (6,3%) as the national inflation rate at the end of the second quarter of 2016. Most of the provinces experienced an increase in inflation over the three-month period whilst Mpumalanga and Limpopo were the only provinces to experience a decrease. As illustrated in figure 16, the Northern Cape recorded the lowest inflation rate (5,4%) at the end of June 2016 and it was the only province to remain within the target range. The highest inflation rate at the end of the second quarter was recorded by the Eastern Cape (7,6%) followed by Limpopo (7,4%) and KwaZulu-Natal (7,1%). Food price inflation in the Western Cape was 11,5% (having increased from 8,6% in May), while nationally it was higher at 12,2% (having decreased from 12,4%). Non-alcoholic beverages price inflation in the Western Cape was 8,4% in June 2016 (having increased from 7,3% in May), while nationally it was lower at 8,1% (having increased from 7,2% in May). Higher inflation was recorded in clothing and footwear (5,7% compared to 5% nationally) for the Western Cape whereas lower inflation was experienced in water (9% compared to 9,9% nationally) and electricity (10,3% compared to 11,2% nationally) costs.

Figure 16: CPI inflation rate at provincial level (April 2016 to June 2016)



Source: Stats SA, August 2016.

INFLATION OUTLOOK

Overall, in the second quarter of 2016 inflation fluctuated but remained above the SARB's inflation target level of 6%. Even though the CPI and PPI increased slightly at the end of June 2016, the inflationary pressure eased somewhat across the three-month period. This downward movement in the inflationary pressure could be as a result of increases in the repo rate.

Apart from the repo rate, the strengthening of the rand has played a vital role with regards to import costs. In particular, the appreciation of the rand combined with a lower than average oil price has brought about a recovery in the petrol price, hence, the significant reduction (99 cents) in petrol price during August 2016. These factors have adjusted the expectations positively in terms of the inflation outlook. The BER kept the average inflation expectations unchanged for 2017 at 6,2% whilst adjusting it marginally down to 5,9% for 2018.

The BER kept the average inflation expectations unchanged for 2017 at 6,2% whilst adjusting it marginally down to 5,9% for 2018.

Despite the encouraging signs, upward pressure on the inflation rate still remains as was seen in the increase from May to June 2016. The looming upside factors are a potential ratings downgrade, an increase in the US interest rate and the continued impact of the drought. The MPC will continue to monitor all of these factors. With lingering potential upward risks, the MPC is unlikely to cut the repo rate and will probably keep it unchanged.

5

Labour market trends

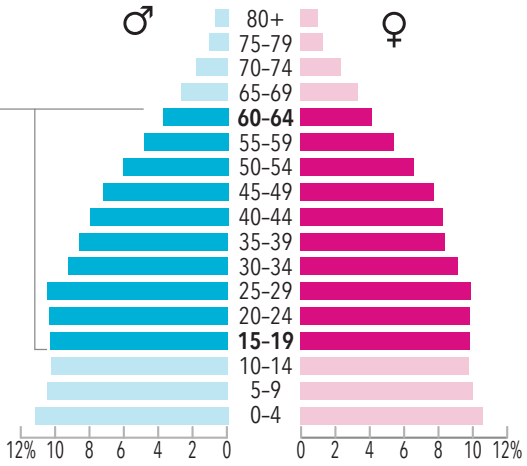
The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic 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 **2 785 871** 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.

2 785 871
working-age population



Age distribution in the Western Cape

The dependency ratio
This refers to how many people depend on those of working age.
In Cape Town **45,7%** 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 **2 785 871** people who make up the **working-age population**, **1 467 777** – 52,7% – are **employed**. This percentage is also known as the labour absorption rate.

1 467 777
employed people

52,7% labour absorption rate

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

Of the **1 467 777 employed Capetonians**, the majority are employed in the formal sector, with 9,95% in the informal sector.

Agriculture
11 447
(0,78%)

Private households
90 893
(6,19%)

Informal sector
146 165
(9,95%)

Formal sector
1 219 272
(83,1%)

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 **437 656 unemployed people** – 23,0% of the strict 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.*

Strict rate

Searching unemployed / Labour force (employed + searching) =

23%

Broad rate

Searching + non-searching unemployed / Broad labour force (employed + searching + non-searching) =

24%

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 **462 442 unemployed people** – 24,0% of the broad labour force.

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

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

↑SEARCH CRITERIA

The youth unemployment rate

50,2% This refers to people between the ages of 15 and 24 who are not employed. The strict youth unemployment rate is 50,2%, while the broad youth unemployment rate is 50,2%. **50,2%**

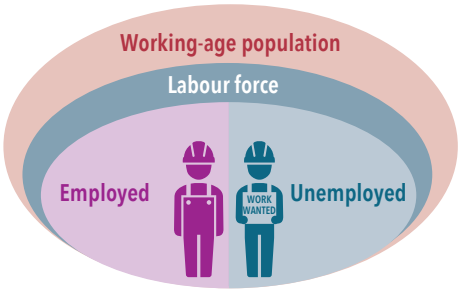
Some unemployed youth are meaningfully engaged in education or training. The NEET (not in employment, education or training) indicator captures those youth not actively participating in the economy in any way.

29,1% **The youth NEET rate in Cape Town is 29,1%.**

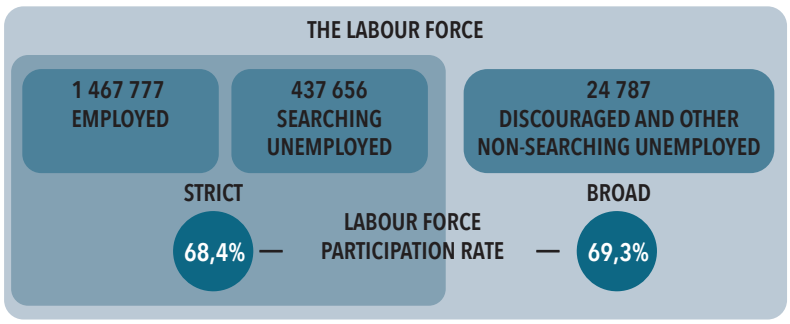
THE LABOUR FORCE

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

Strict labour force = 1 905 433
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 1 905 433 strong, being made up of **1 467 777 employed people** and **437 656 job seekers**.



Broad labour force = 1 930 219
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 1 930 219 strong, being made up of **1 467 77 employed people, 437 656 job seekers, 8 063 discouraged** and **16 724 other non-searching unemployed**.



Labour force participation rate

Labour force / 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.

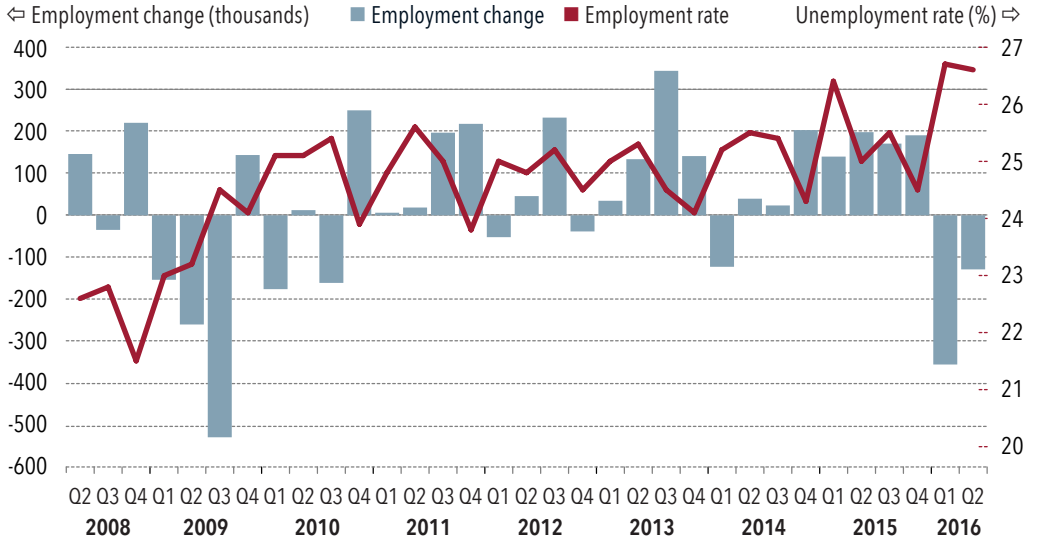
In the second quarter of 2016, South Africa's labour force decreased by 198 000 individuals compared to the first quarter of 2016. The majority of the sectors displayed negative growth.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

In the second quarter of 2016, South Africa's labour force decreased by 198 000 individuals compared to the first quarter of 2016. The number of employed people decreased by 118 000 to 15,55 million from a previous figure of 15,66 million. Overall, the majority of the sectors displayed negative growth. The only sectors that added significantly to quarterly employment growth were manufacturing (67 000), private households (39 000) and construction (25 000) whilst community and social services (-127 000), agriculture (-44 000) and transport (-39 000) were amongst the sectors that led the negative contributions.

By contrast, on a year-on-year basis, 292 000 more people were added to the labour force when compared to the second quarter of 2015, while the number of employed individuals decreased by 129 000. Year-on-year growth fared poorly compared to quarter-on-quarter growth as only two sectors added notably to employment, namely, finance and other business services (56 000) as well as trade (18 000). Transport (-60 000), manufacturing (-45 000) and agriculture (-44 000) were the largest contributors of job losses for the second quarter.

Figure 17: Employment trends vs strict unemployment rate in South Africa (Q2, 2008 to Q2, 2016)



Source: Stats SA, August 2016.

In the second quarter of 2016, unemployment in South Africa decreased by 90 000 quarter on quarter to a total of 5,63 million people. As such, the official unemployment rate decreased marginally to 26,6% from a previous rate of 26,7%. The number of discouraged work-seekers, who are only included in the expanded measure of unemployment, increased by 92 000 to a total of 2,53 million individuals. The above figure illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, negative employment growth typically leads to an increase in the unemployment rate.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the second quarter of 2016, the working-age population of Cape Town increased by approximately 14 000 individuals compared to the first quarter of 2016, and by nearly 56 000 individuals on a year-on-year basis. On a quarter-on-quarter basis Cape Town's labour force decreased by 16 000 individuals to a total of 1,90 million in the second quarter, and its labour force participation rate decreased by 0,9 percentage points to 68,4%. This, however, remains significantly higher than the national rate of 57,9%, pointing to the greater inclusiveness of Cape Town's labour market rate of 57,9%, pointing to the greater inclusiveness of Cape Town's labour market.

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

Indicator	South Africa			Cape Town		
Unit: Thousands ('000s)	**Q2:2016**	**Q1:2016**	**Q2:2015**	**Q2:2016**	**Q1:2016**	**Q2:2015**
Working age population	36 591	36 431	35 955	2 786	2 772	2 730
Labour force	21 179	21 398	20 887	1 905	1 921	1 841
Employed	15 545	15 675	15 657	1 468	1 516	1 425
Employed by the formal sector	10 917	10 983	10 835	1 219	1 236	1 152
Employed by the informal sector	2 507	2 565	2 661	146	171	161
Unemployed	5 634	5 723	5 230	438	405	416
Not economically active	15 412	15 033	15 068	880	850	889
Discouraged work-seekers	2 526	2 434	2 434	8	5	12
Other	12 886	12 599	12 633	872	846	877
Unemployment rate (%)	26,6	26,7	25	23	21,1	22,6
Youth unemployment rate (%) (15-24)	53,7	54,5	49,9	50,2	50,4	47,8
NEET** as % of working age population	40,3	40,4	39,2	34,2	32,7	33,8
Absorption rate (%)	42,5	43	43,5	52,7	54,7	52,2
Labour force participation rate (%)	57,9	58,7	58,1	68,4	69,3	67,4

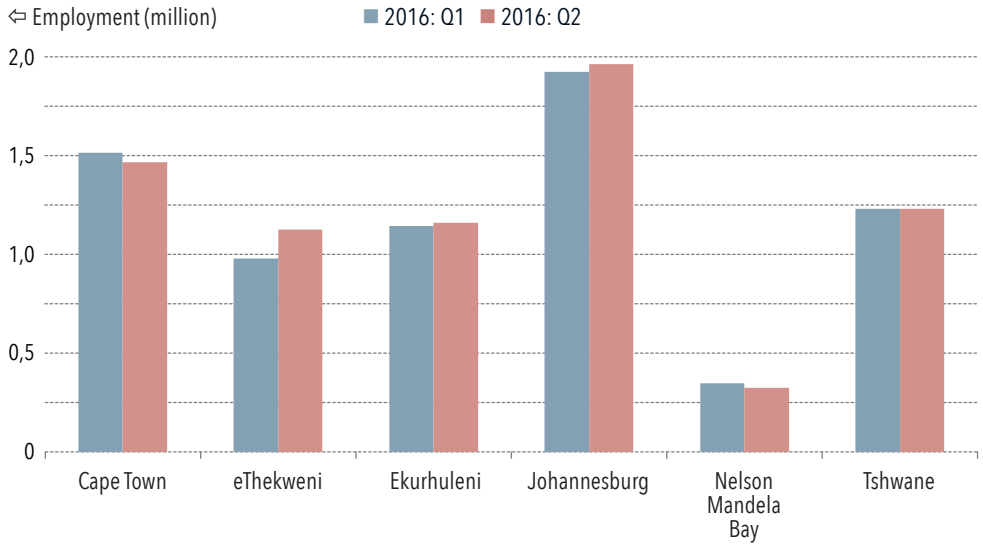
*Source: Stats SA, August 2016. * Figures in tables may not exactly add up due to rounding off. ** Not in employment, education or training.*

The number of people employed in Cape Town in the second quarter of 2016 decreased by 48 000 individuals on a quarterly basis and increased by approximately 43 000 individuals on a year-on-year basis.

The number of people employed in Cape Town in the second quarter of 2016 decreased by 48 000 individuals on a quarterly basis and increased by approximately 43 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and recorded a decrease of 17 000 in the second quarter. Likewise, employment decreased in the informal sector by 25 000 on a quarter-on-quarter basis and by 15 000 individuals on a year-on-year basis. The share of total employment contributed by the informal sector decreased to 10% from a previous 11,2%. Further, private households reflected negative employment growth for the second quarter of 2016.

To measure Cape Town's job creation performance, a comparison with the other metros in the country is helpful. From a static point of view, Cape Town has the second largest number of people employed in the country, with 1,47 million people employed

Figure 18: Employment comparison with other metros (Quarter 1, 2016 to Quarter 2, 2016)



Source: Stats SA, August 2016.

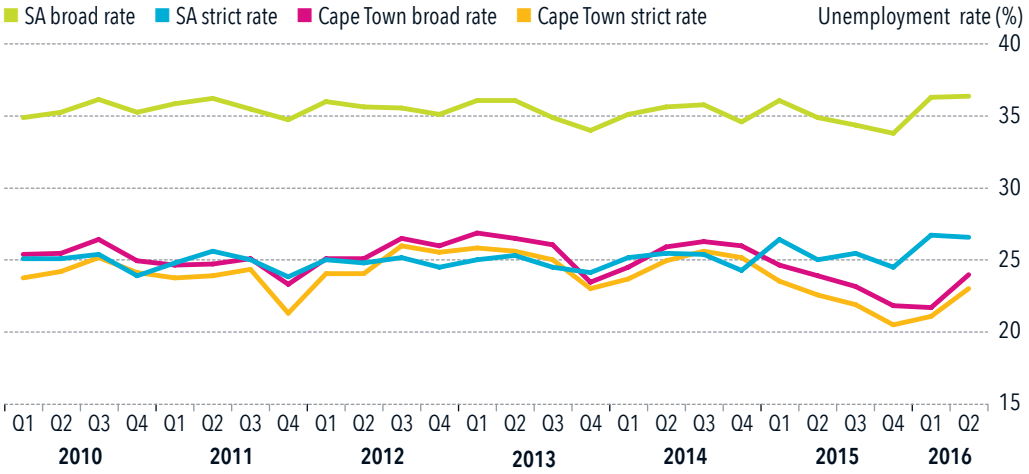
The majority of the metros displayed positive growth in employment. The metros which experienced an increase in employment were Johannesburg (38 116), Ekurhuleni (15 456), eThekwini (145 681) and Tshwane (559).

in the city compared to Johannesburg's 1,96 million. This is to be expected as Johannesburg has a significantly larger population. Turning attention to employment creation in the second quarter, as measured by the difference between the first-quarter and second-quarter employment levels, the majority of the metros displayed positive growth in employment. The metros which experienced an increase in employment were Johannesburg (38 116), Ekurhuleni (15 456), eThekwini (145 681) and Tshwane (559). Metros experiencing declines in employment included Cape Town (-47 148) followed by Nelson Mandela Bay (-21 467). On a year-on-year basis, Nelson Mandela Bay shed jobs at the fastest rate (-6,6%), while employment in Cape Town grew fastest (3%), despite its recent performance.

Unemployment in Cape Town

Cape Town experienced an increase (33 000) in the number of unemployed people in the second quarter of 2016 compared to the previous quarter and by 22 000 compared to the corresponding period in the previous year. As a result of increasing unemployment on a quarterly basis, Cape Town's strict unemployment rate increased by 1,9 percentage points to 23% in the second quarter of 2016. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 50,2% in the second quarter of 2016, having decreased from 50,4% in the previous quarter. While this is below the national rate of 53,7%, it is nonetheless remarkably high by developing-country standards, and poses a key challenge to economic policymakers in the city.

Figure 19: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 2, 2016)



Source: Stats SA, August 2016.

By excluding discouraged work-seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals wishing to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by figure 19, over the last few years the two rates of unemployment for Cape Town have remained relatively close and were nearly identical at the end of the second quarter of 2016, although the city's unemployment rates started to deviate from South Africa's strict unemployment rate from the first quarter of 2015. On average, the expanded unemployment rate in Cape Town is only 0,96% higher than the city's strict rate. Although Cape Town's strict unemployment rate increased in the second quarter of 2016, it remained 3,6 percentage points lower than the national rate. However, it is important to consider the expanded definition of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 19). South Africa's expanded unemployment rate in the second quarter of 2016 was 36,4%, compared to Cape Town's expanded rate of 24%. Importantly, this is the first increase in Cape Town's expanded unemployment rate since the third quarter of 2014. On this basis, Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

From a static point of view, Ekurhuleni had the highest expanded unemployment rate (38,2%) and the highest official/strict unemployment rate (34,6%), while Cape Town had the lowest expanded unemployment rate (24%) and eThekwini the lowest strict rate (19,7%).

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

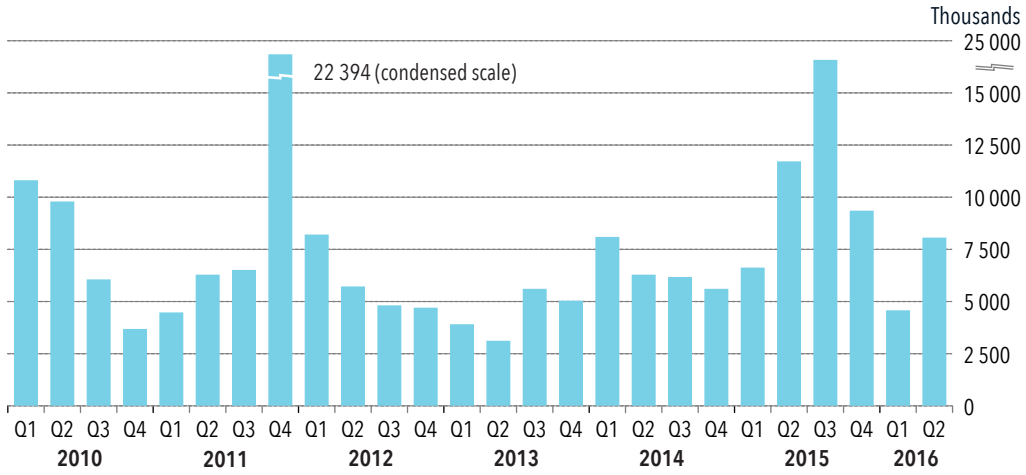
Table 3: Official vs expanded unemployment rates

Metro	Official			Expanded		
	2016:Q2	2016:Q1	2015:Q2	2016:Q2	2016:Q1	2015:Q2
Cape Town	23,0	21,1	22,6	24,0	21,7	23,9
eThekweni	19,7	18,8	16,5	28,0	27,2	26,3
Ekurhuleni	34,6	34,4	29,4	38,2	37,4	34,4
Johannesburg	28,4	29,8	26,2	29,9	31,1	28,7
Nelson Mandela Bay	32,0	33,2	33,2	32,9	33,2	33,2
Tshwane	25,1	26,0	24,6	28,9	29,6	29,6

Source: Stats SA, August 2016.

to compare these trends to other metros that have similar labour market dynamics. In the second quarter of 2016, the performance was evenly spread with three metros experiencing an increase and three metros a decrease in both unemployment rates. The metros that recorded increases in both the official and expanded unemployment rates were Cape Town, Ekurhuleni and eThekwini. Contrastingly, the metros that experienced a decrease in these rates were Johannesburg, Nelson Mandela Bay and Tshwane. From a static point of view, Ekurhuleni had the highest expanded unemployment rate (38,2%) and the highest official/strict unemployment rate (34,6%), while Cape Town had the lowest expanded unemployment rate (24%) and eThekwini the lowest strict rate (19,7%). What is also notable from table 3 is that for Cape Town and Nelson Mandela Bay there is minimal difference between the expanded and official unemployment rates, especially compared to metros such as eThekwini, where the expanded rate is almost 10 percentage points higher than the strict rate.

Figure 20: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 2, 2016)



Source: Stats SA, August 2016.

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.

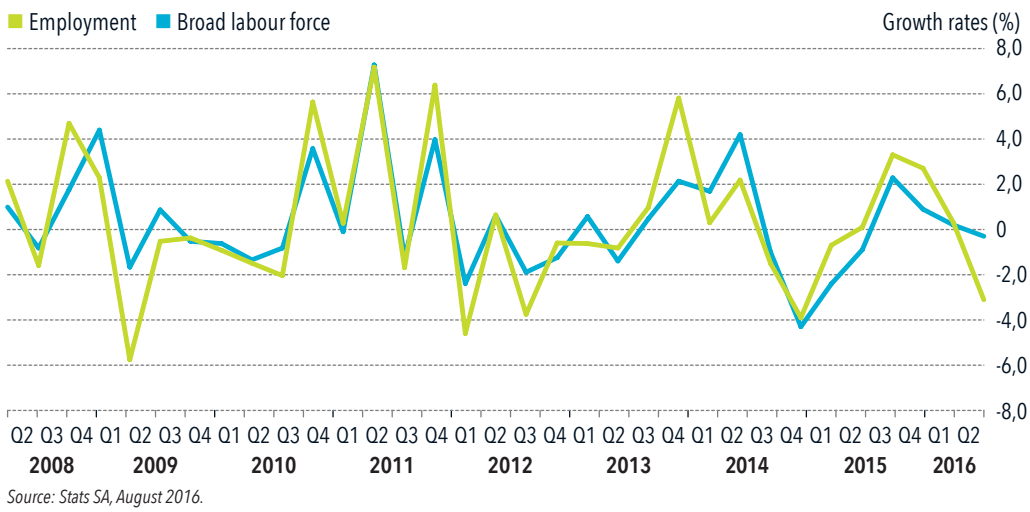
The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work-seekers in Cape Town. Discouraged work-seekers are included in the expanded unemployment figure, which explains why this is slightly higher than the strict unemployment figure. The number of discouraged work-seekers in Cape Town increased to 8 063 in the second quarter of 2016 from 4 582 in the first quarter of 2016.

Apart from the outliers in the fourth quarter of 2011 and third quarter of 2015, figure 20 shows that the number of discouraged work-seekers has been below 12 000 individuals. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,32%) of the country's total number of discouraged work-seekers. The reasons for this remain largely unclear and require further research.

Labour force and employment

Two factors determine whether the expanded rate of unemployment increases or decreases: a change in the expanded labour force and a change in the level of employment. When the rate of employment growth is exceeded by the rate at which the

Figure 21: Broad labour force and employment growth rates for Cape Town (Q2, 2008 to Q2, 2016)



Source: Stats SA, August 2016.

expanded labour force grows, the expanded unemployment rate increases. Figure 21 shows that in the second quarter of 2016, the percentage decrease in Cape Town's broad labour force was lower than the percentage decrease in employment. This resulted in an increase in the expanded unemployment rate for the period under review.

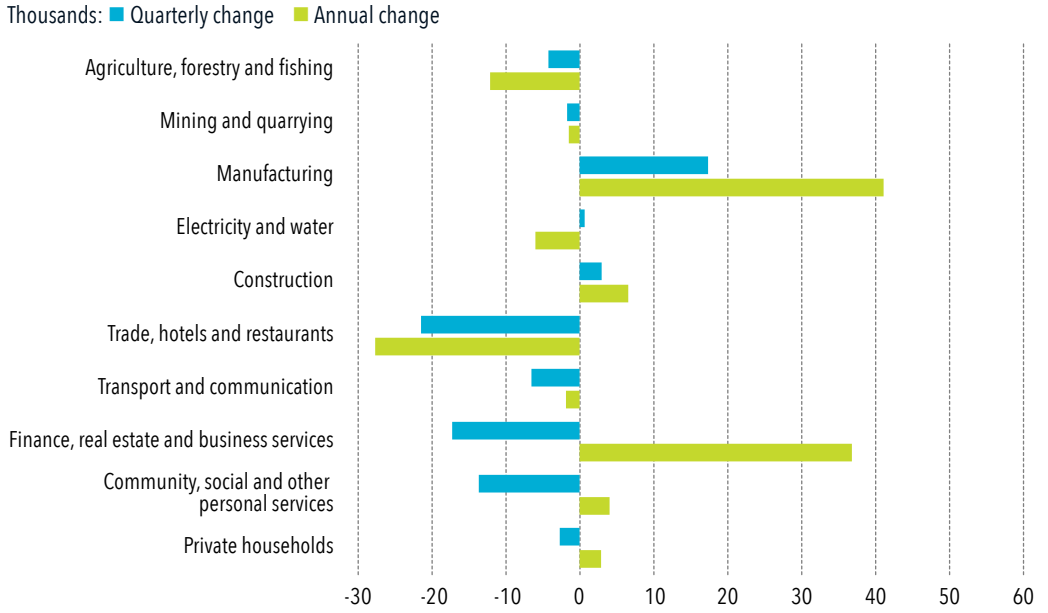
Sector employment trends in Cape Town

Figure 22 displays the change in the level of employment by sector within Cape Town. Overall, the majority of the sectors displayed a negative contribution towards employment creation when compared to the previous quarter. The only sectors that added to job creation were manufacturing (17 354), utilities (646) and construction (2 963). The sectors that recorded the largest job losses for this quarter were trade (-21 506), finance and other business services (-17 269) as well as community and social services (-13 710).

On a year-on-year basis, the sectors performed slightly better compared to the quarterly performance with the majority adding to employment growth. Similar to its performance on a quarterly basis, manufacturing (41 119) and construction (6 536) added positively to employment growth.

On a year-on-year basis, the sectors performed slightly better compared to the quarterly performance with the majority adding to employment growth. Similar to its performance on a quarterly basis, manufacturing (41 119) and construction (6 536) added positively to employment growth. In contrast to its year-on-year contribution, the finance and other business services sector made a positive quarter-on-quarter contribution of 36 772 to job creation. The poorest performers included trade (-27 694), which continued its poor performance recording the largest negative contribution, followed by agriculture (-12 118). Although utilities added to job creation on a quarterly basis, it displayed a negative contribution (-6 002) on an annual basis.

Figure 22: Quarterly and annual change per sector for Cape Town (Quarter 2, 2016)



Source: Stats SA, August 2016.

Labour market outlook

Cape Town's labour market deteriorated slightly when compared to its previous quarters' performances. It recorded negative employment growth, with the number of unemployed increasing, which led to an increase in the strict and expanded unemployment rates. Further, discouraged work-seekers and the youth unemployment rate increased when compared to the first quarter of 2016. The city's relatively poor labour market performance in the second quarter follows a number of quarters of strong employment growth and could be a result of seasonality, the impact of the drought and poor overall economic growth. It could also possibly reflect the lagged impact of poor economic conditions in the country. Even though the overall performance was poor, some positive points can be made. While Cape Town's expanded unemployment rate increased, it still remained the lowest of all the metros. Similarly, although the labour absorption rate and labour force participation rates increased marginally in the second quarter of 2016 they were both still below the equivalent national rates.

The observed upswings in economic growth of the manufacturing and transport and communications sectors in the second quarter, combined with the sustained economic growth in the finance and business services sector, might induce employment growth in forthcoming quarters.

The South African labour market will potentially continue to face challenges despite the avoidance of a technical recession in the second quarter of 2016. Whether the labour market will be able to navigate its downward turn in the latest quarter will hinge on whether economic growth will sustain into the third and fourth quarters of 2016. Low consumer and business confidence may dampen the willingness of businesses to upscale employment in the short term. The observed upswings in economic growth of the manufacturing and transport and communications sectors in the second quarter, combined with the sustained economic growth in the finance and business services sector, might induce employment growth in forthcoming quarters. Historically, Cape Town's labour market has weathered much of the severe economic challenges which have plagued the macro-economy in the past and is expected to hold its own in the short to medium term.

5 Trade and investment

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

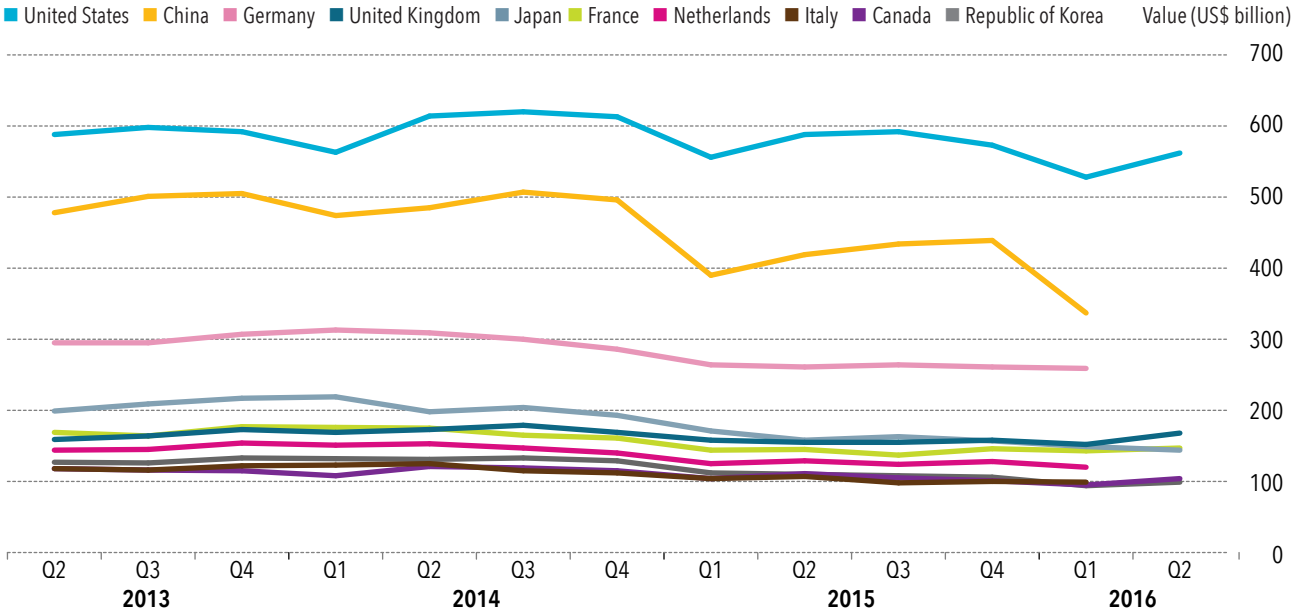
TRADE

Global trade

The weakness of trade in 2015 was due to a number of factors, including an economic slowdown in China, a severe recession in Brazil, falling prices for oil and other commodities, and exchange rate volatility.

Based on the most recently available trade estimates, the world's largest importer of goods remains the United States[9]. Overall annual global imports decreased by 13% from 2014 to 2015. However, the volume of world trade in 2015 grew by 2,7%. The weakness of trade in 2015 was due to a number of factors, including an economic slowdown in China, a severe recession in Brazil, falling prices for oil and other commodities, and exchange rate volatility (World Trade Organisation, 2016). A year-on-year assessment of the top importers in the second quarter of 2016 indicates that in dollar terms, imports by the United Kingdom and France increased by 8,2% and 1,5%, respectively. In contrast, decreased imports were reported for the United States (-4,4%), Japan (-8,8%), Canada (-6,1%) and the Republic of Korea (-10,5%).

Figure 23: Global imports of goods (Quarter 2, 2013 to Quarter 2, 2016)



Values in US$ bn	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16
United States of America	588	598	592	563	614	620	613	556	588	592	573	528	562
China	478	501	505	474	485	507	496	390	419	434	439	337	–
Germany	295	295	307	313	309	300	286	264	261	264	261	259	–
United Kingdom	159	164	173	169	173	179	169	158	155	155	158	152	168
Japan	199	209	217	219	198	204	193	171	158	163	157	149	144
France	169	164	177	176	175	165	161	144	145	137	146	143	147
Netherlands	144	145	154	151	153	147	140	125	129	124	128	120	–
Italy	118	116	122	123	125	115	112	104	107	98	100	99	–
Canada	118	116	115	108	121	119	115	104	111	105	101	95	104
Korea, Republic of	127	126	133	132	131	133	129	112	110	108	106	94	99

Source: International Trade Centre, August 2016.

South African trade

The trade balance for South Africa recorded a trade surplus of R23 billion in the second quarter of 2016, increasing the trade balance by R49 billion from the previous quarter.

South African exports experienced a quarter-on-quarter increase of 18% in the second quarter of 2016 in rand terms. Similarly, exports increased by 16% from the second quarter of 2015 to the second quarter of 2016. The trade balance for South Africa recorded a trade surplus of R23 billion in the second quarter of 2016, increasing the trade balance by R49 billion from the previous quarter. This is the only trade surplus recorded over the period analysed, mainly as a result of a strong increase in exports.

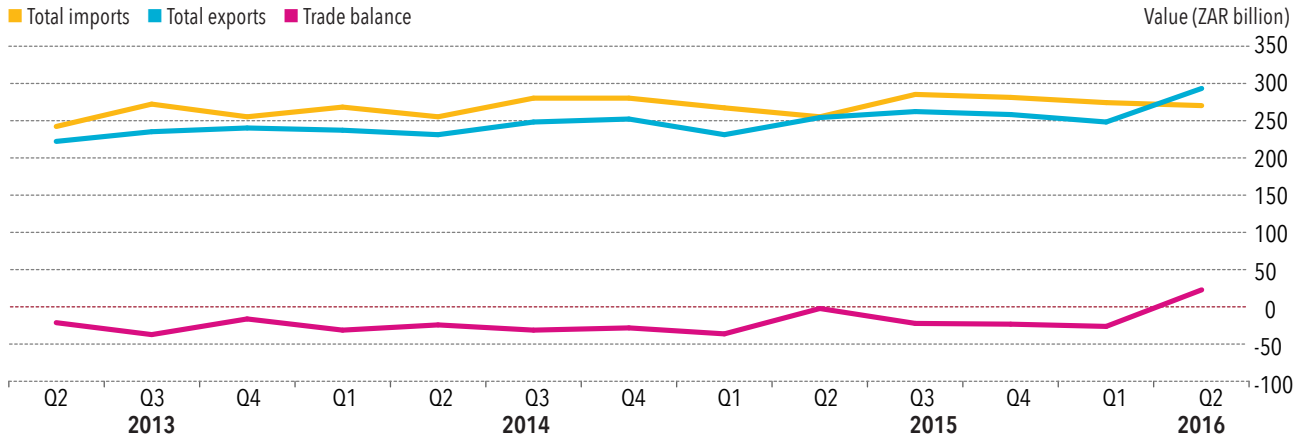
China was South Africa's largest export destination, with exports reaching R26,5 billion in the second quarter of 2016. Germany was South Africa's second-largest export market, followed by the United States, the United Kingdom and Botswana.

The United Kingdom, China, and Namibia were the three fastest growing export markets among the top 10 export markets for South Africa, growing by 93%, 33% and 15% respectively from the first quarter of 2016 to the second quarter of 2016. South Africa's exports to the United Kingdom were in particular driven by the demand for citrus fruit, watches, unwrought aluminium, precious metal ores, platinum and transportation vehicles. Exports to China were stimulated by a growth in demand for machinery, prepared food stuffs, raw hides, vegetables and photographic and medical equipment.

Namibia, Botswana and Mozambique were South Africa's top export markets in Africa. South African exports to Africa are

9. Note, however, that trade data for the second quarter of 2016 for China, Germany, the Netherlands and Italy have not yet been reported.

Figure 24: South Africa's exports, imports and trade balance (Quarter 2, 2013 to Quarter 2, 2016)[10]

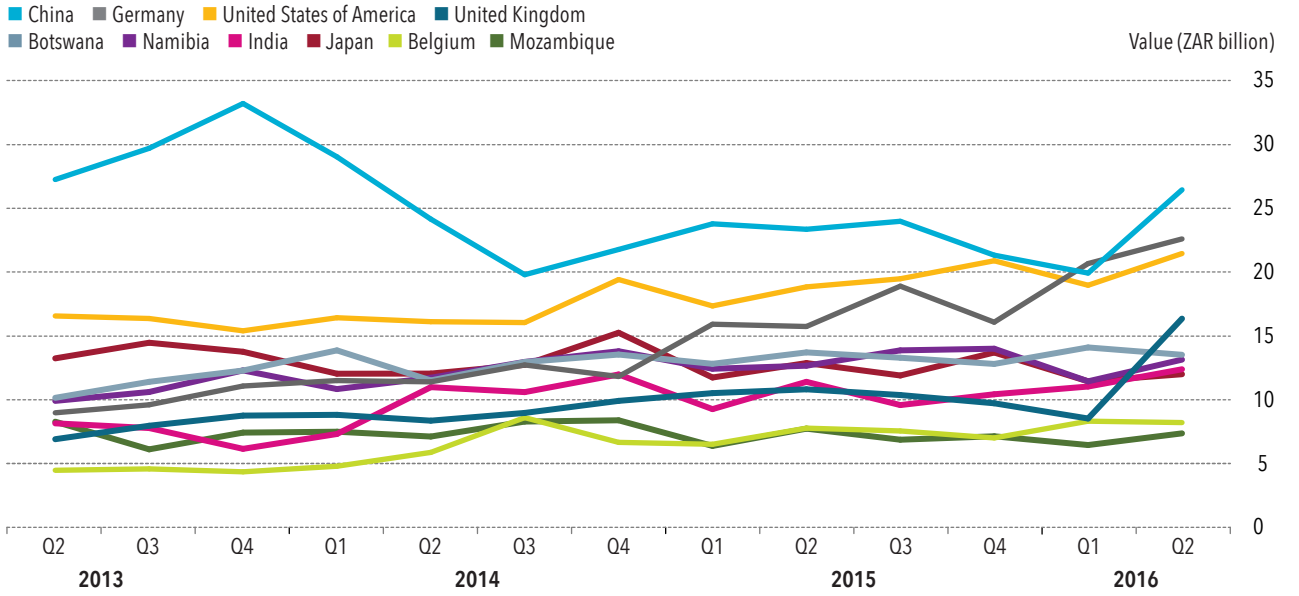


Values in ZAR bn	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16
Exports	222	235	240	237	231	248	252	231	254	262	258	248	293
Imports	242	272	255	268	255	280	280	267	255	285	281	274	270
Trade balance	-21	-37	-16	-31	-24	-31	-28	-36	-2	-22	-23	-26	23

Source: Quantec, August 2016.

second only to exports to Asia, with a much greater propensity for diversification in Africa. In the second quarter of 2016, except for North Africa, South African exports to all African sub-regions increased: SACU excluding South Africa (6,1%); Southern African Development Community (SADC) excluding SACU (12,3%); Western Africa (20,4%); Eastern Africa Rest (32,2%) and Middle Africa Rest (33,5%).

Figure 25: South Africa's export markets (Quarter 2, 2013 to Quarter 2, 2016)



Values in ZAR bn	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16
China	27,30	29,76	33,29	29,09	24,18	19,80	21,79	23,81	23,38	24,01	21,34	19,93	26,49
Germany	8,92	9,55	11,03	11,46	11,36	12,69	11,78	15,90	15,72	18,90	16,06	20,68	22,62
United States of America	16,55	16,35	15,38	16,41	16,10	16,03	19,42	17,34	18,84	19,48	20,90	18,97	21,47
United Kingdom	6,84	7,90	8,70	8,76	8,30	8,91	9,86	10,47	10,77	10,32	9,67	8,47	16,34
Botswana	10,10	11,36	12,25	13,84	11,47	12,92	13,51	12,78	13,68	13,26	12,77	14,07	13,49
Namibia	9,86	10,56	12,26	10,79	11,68	12,93	13,77	12,39	12,63	13,84	13,97	11,40	13,11
India	8,09	7,72	6,08	7,25	10,94	10,55	11,94	9,21	11,36	9,53	10,38	10,99	12,35
Japan	13,21	14,44	13,73	12,00	12,01	12,70	15,23	11,70	12,84	11,86	13,67	11,40	11,96
Belgium	4,39	4,50	4,27	4,71	5,80	8,54	6,59	6,44	7,71	7,49	6,94	8,26	8,15
Mozambique	8,22	6,04	7,36	7,43	7,05	8,23	8,33	6,31	7,67	6,80	7,07	6,38	7,30

Source: Quantec, August 2016.

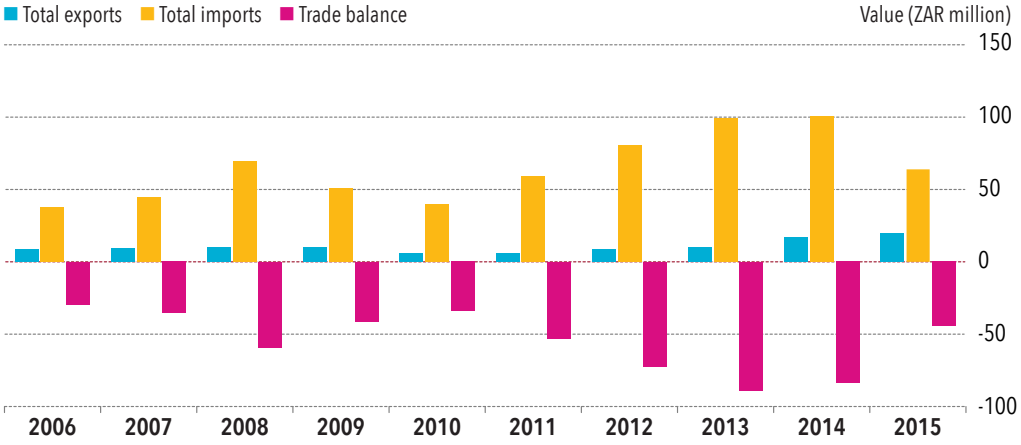
10. Please note that the trade figures in this edition may differ from previous editions as the values may have been adjusted for any previous errors as well as additional delayed country information.

Cape Town's oil and gas exports have shown growth from 2014 to 2015 in nominal rand terms. This was driven by exports of refined petroleum, oils and other products of the distillation of high temperature coal, bituminous mixtures, petroleum jelly, paraffin wax and tar distilled from coal.

Cape Town trade in oil and gas

Cape Town's oil and gas exports have shown growth from 2014 to 2015 in nominal rand terms, growing by 14% from R17,2 billion to R19,6 billion. This was driven by exports of refined petroleum, oils and other products of the distillation of high temperature coal, bituminous mixtures, petroleum jelly, paraffin wax and tar distilled from coal. However, oil and gas imports to Cape Town have declined by 37% to reach R63,8 billion in 2015. This can be attributed to the decrease in the production of crude oil driven by the lower oil prices experienced globally. The sharp growth in exports compared to imports has resulted in a decrease in the trade deficit to R44,2 billion in 2015 from R83,5 billion in 2014.

Figure 26: Cape Town trade in oil and gas[11] (2006 to 2015)



Values in ZAR m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Exports	8 484	9 081	10 128	9 659	6 014	5 981	8 332	9 980	17 173	19 628
Imports	37 798	44 347	69 358	50 623	39 878	59 081	80 577	98 920	100 688	63 834
Trade balance	-29 314	-35 266	-59 230	-40 964	-33 864	-53 100	-72 246	-88 940	-83 514	-44 206

Source: Quantec, 2016.

Cape Town's largest mineral oil export in 2015 was petroleum oils and oils obtained from bituminous minerals, other than crude at R18,2 billion, accounting for 73% of the Western Cape's exports of this product and growing by 14% from the 2014 figure. Other top mineral oil products were oils and other products of the distillation of high temperature coal tar (R934 million); petroleum gases and other gaseous hydrocarbons (R185 million) and coal, briquettes, ovoids and similar solid fuels manufactured from coal (R151 million).

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

Cape Town imported R35,3 billion in crude petroleum oils in 2015, down by 44% in the preceding year.

Cape Town imported R35,3 billion in crude petroleum oils in 2015, down by 44% in the preceding year. Other top mineral fuel product imports were petroleum oils and oils obtained from bituminous minerals, crude (R28,4 billion) and oils and other products of the distillation of high temperature coal tar (R17 million).

Table 4: Top 10 export and import mineral oil products for Cape Town (2015)

	Top 10 exports of mineral fuels and oils from Cape Town, 2015			Top 10 imports of mineral fuels and oils to Cape Town, 2015		
Rank	**Product**	**Value 2015 (ZAR m)**	**% growth 2015**	**Product**	**Value 2015 (ZAR m)**	**% growth 2015**
1	Petroleum oils and oils obtained from bituminous minerals, other than crude	18 235	14,02%	Petroleum oils and oils obtained from bituminous minerals, crude	35 316	-44,00%
2	Oils and other products of the distillation of high temperature coal tar	934	110,23%	Petroleum oils and oils obtained from bituminous minerals, other than crude	28 461	-24,21%
3	Petroleum gases and other gaseous hydrocarbons	185	-1,55%	Oils and other products of the distillation of high temperature coal tar	16,9	-42,25%
4	Coal; briquettes, ovoids and similar solid fuels manufactured from coal	150,5	-44,75%	Petroleum jelly paraffin wax, micro-crystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax	12,9	-2,05%
5	Petroleum coke, petroleum bitumen and other residues of petroleum oils or of oils obtained from bituminous minerals	67,1	-2,98%	Peat (including peat litter), whether or not agglomerated	12,6	7,89%
6	Bitumen and asphalt, natural bituminous or oil shale and tar sands; asphaltites and asphaltic rocks	31,6	-77,23%	Petroleum gases and other gaseous hydrocarbons	7,2	25,70%
7	Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated; retort carbon	18,7	-69,32%	Coal gas, water gas, producer gas and similar gases, other than petroleum gases and other gaseous hydrocarbons	6,4	17,89%
8	Bituminous mixtures based on natural asphalt, on natural bitumen, on petroleum bitumen, on mineral tar or on mineral tar pitch	3,6	446,23%	Coal briquettes, ovoids and similar solid fuels manufactured from coal	0,6	1 071,86%
9	Petroleum jelly paraffin wax, micro-crystalline petroleum wax, slack wax, ozokerite, lignite wax, peat wax	2	89,07%	Tar distilled from coal, from lignite or from peat, and other mineral tars	0,3	-55,52%
10	Petroleum oils and oils obtained from bituminous minerals, crude	0,4	-87,83%	Bituminous mixtures based on natural asphalt, on natural bitumen, on petroleum bitumen, on mineral tar or on mineral tar pitch	0,01	-
TOTAL		**19 627,84**	**14,29%**		**63 834,24**	**-36.60%**

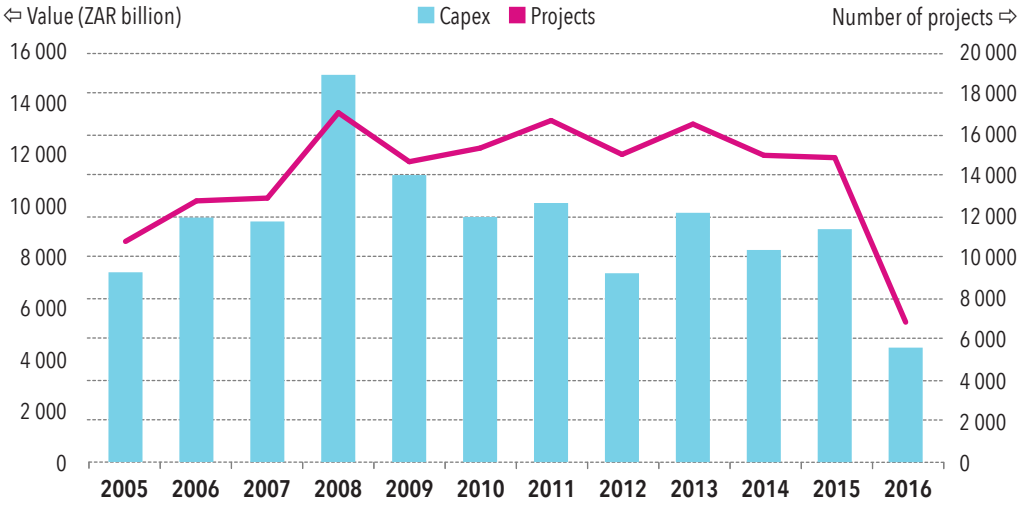
Source: Quantec, 2016.

INVESTMENT

Global foreign direct investment (FDI)

Global foreign direct investment (FDI) grew by 9,8% (by capex) in 2015 from 2014 to reach R9,13 trillion. Project numbers declined by 0,8% from 2015 with 115 fewer projects than the previous year. The value of investment in 2015, although increasing from 2014, had not reached the levels seen from 2006 to 2011. Over the past three years the trend line for projects indicates that the number of investments taking place globally is beginning to decrease, however, capex values over the past few years have indicated that the FDI projects are of a greater value. Both capex and projects have not recovered to 2011 values.

Figure 27: Global FDI (2005 to June 2016)[12]



Values in ZAR bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capex	7 435	9 579	9 428	15 176	11 249	9 606	10 155	7 403	9 773	8 317	9 133	4 491
Projects	10 815	12 827	12 966	17 200	14 773	15 449	16 817	15 136	16 642	15 094	14 979	6 826

Source: Financial Times, August 2016.

The top sub-sectors globally for FDI (in terms of projects) in the second quarter of 2016 were software and information technology with a 14,3% share of total projects, followed by business services and textiles at 9,4% each. Despite services dominating in terms of the number of projects attracted globally, real estate (22%) and oil and gas (14%) have received the bulk of capex.

Global FDI reached R4,49 trillion in the second quarter of 2016. If the trend in this quarter is repeated throughout the year, total FDI for 2016 will reach around R8,98 trillion. In terms of projects, there were 6 826 projects recorded in the second quarter of 2016 which would amount to 13 652 projects if the trend was to continue until year end.

The US attracted the highest number of projects (735) and China attracted the largest capex value of FDI (R336 billion) in the second quarter of 2016. This was followed by the United States, Germany and Japan. In terms of the largest number of projects received, the US is followed by Germany, the United Kingdom, and France.

The top sub-sectors globally for FDI (in terms of projects) in the second quarter of 2016 were software and information technology with a 14,3% share of total projects, followed by business services and textiles at 9,4% each. Despite services

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.

dominating in terms of the number of projects attracted globally, real estate (22%) and oil and gas (14%) have received the bulk of capex. This is followed by alternative energy (8,8%), communications (5,4%) and metals (4%).

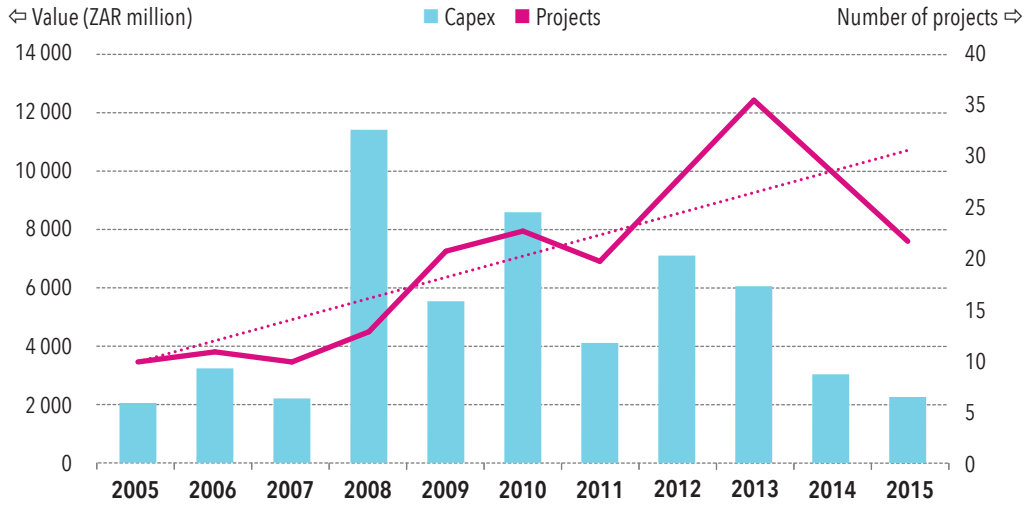
Cape Town foreign direct investment (FDI)

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

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

The number of FDI projects received into Cape Town increased from 10 projects in 2005 to a record 36 projects in 2013.

Figure 28: Foreign direct investment (FDI) flows into Cape Town (2005 to December 2015)



Values in ZAR m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capex	2 074	3 276	2 233	11 569	5 612	8 705	4 165	7 201	6 137	3 077	2 290
Projects	10	11	10	13	21	23	20	28	36	29	22

Source: Financial Times, August 2016.

Investment facilitation

Between April and June 2016, Wesgro facilitated three expansion projects into Cape Town. The investments were as follows:

- R50 million in an infrastructure and real estate project, creating 46 jobs;
- R900 million in an infrastructure and real estate project, creating 206 jobs; and
- R175 million in a film expansion project, creating 75 jobs.

6

Sector focus:
Oil and gas

Cape Town has become a prominent service hub for the oil and gas industry on the African continent. The city has an active rig repair industry and also offers ancillary services such as engineering, fabricating and geological and seismic surveying to the upstream oil and gas industry. Cape Town also has one of only five oil refineries in South Africa and is a major exporter of refined petroleum.

Oil remains the largest energy source, accounting for 30% of global primary energy consumption, while gas accounts for nearly 25% (IMF, 2016).

A reliable, affordable and sustainable supply of energy is critical to the development of any economy, especially economies targeting the creation of jobs through the manufacturing sector. While renewable energy sources have steadily increased their market share in the past decade, the global economy remains highly dependent on fossil fuels for its ever-growing energy needs. Oil remains the largest energy source, accounting for 30% of global primary energy consumption, while gas accounts for nearly 25% (IMF, 2016). The past two years have been a turbulent time for the oil and gas industry as supply booms in shale oil and gas have reduced both commodities' prices to record lows. Despite this, the IMF (2016:42) estimate that global oil demand growth in 2015 was 1,6 million barrels a day, constituting the largest increase in five years. The industry remains a major economic force, perhaps more capable than any other of transforming a country's economy.

South Africa is richly endowed with mineral resources but, with the exception of the relatively small and rapidly depleting PetroSA offshore wells, is oil (and gas) scarce and has traditionally been a large net importer of crude oil. With extensive onshore and offshore blocks under exploration, this status quo has the potential to change in the future. Further down the value chain, however, South Africa is more active in the sector, and Cape Town in particular has become a prominent hub for the industry on the African continent. The city has an active rig repair industry and also offers ancillary services such as engineering, fabricating, and geological and seismic surveying to the upstream oil and gas industry.

The city also has one of only five oil refineries in South Africa and is a major exporter of refined petroleum. While the depressed oil price (combined with other factors) has, in the short term at least, put pressure on the upstream servicing industries, it has opened up a number of other opportunities. These relate principally to imports of both refined oil and especially Liquefied Natural Gas (LNG), the latter expected to have major implications for Cape Town's energy security.

THE NATURE OF CAPE TOWN'S OIL AND GAS INDUSTRY

A typical industry-level analysis is not necessarily the most appropriate frame of reference for the oil and gas industry. This is because the popular understanding of the 'oil and gas' sector includes multiple activities along a vertical value chain as opposed to a horizontally clustered set of activities. Business services (including geological surveying), metals manufacturing and logistics are considered as much a part of the industry as actual oil and gas extraction and refining.

The presence of the 110 000 barrels per day Chevron Refinery in Montague Gardens means that the city is a large producer of refined petroleum.

Table 5 indicates that Cape Town companies are, for the most part, well represented across the value chain of the oil and gas industry. As with any international city of a similar size, Cape Town has a well-developed downstream oil and gas industry, with a relatively strong outbound logistics network and established wholesalers and retailers of oil and gas products. In terms of its midstream capacity, the presence of the 110 000 barrels per day Chevron Refinery in Montague Gardens means that the city is a large producer of refined petroleum. This creates a comparative advantage (with a location quotient of 1,04) for the city in the broader fuel and chemicals industry.

The relative strength in the midstream value chain is, however, almost entirely attributable to the Chevron refinery, which is currently up for sale, and there is a distinct lack of competition in the manufacture of oil and gas products in the Western Cape. There has also historically been a lack of facilities (including terminals and tankers) for the storage and importation of refined oil and refined gas. The ongoing construction of the new fuel terminal, storage and distribution facilities in the Port of Cape Town by Burgan will, however, greatly enhance the City's capacity to import refined petroleum.

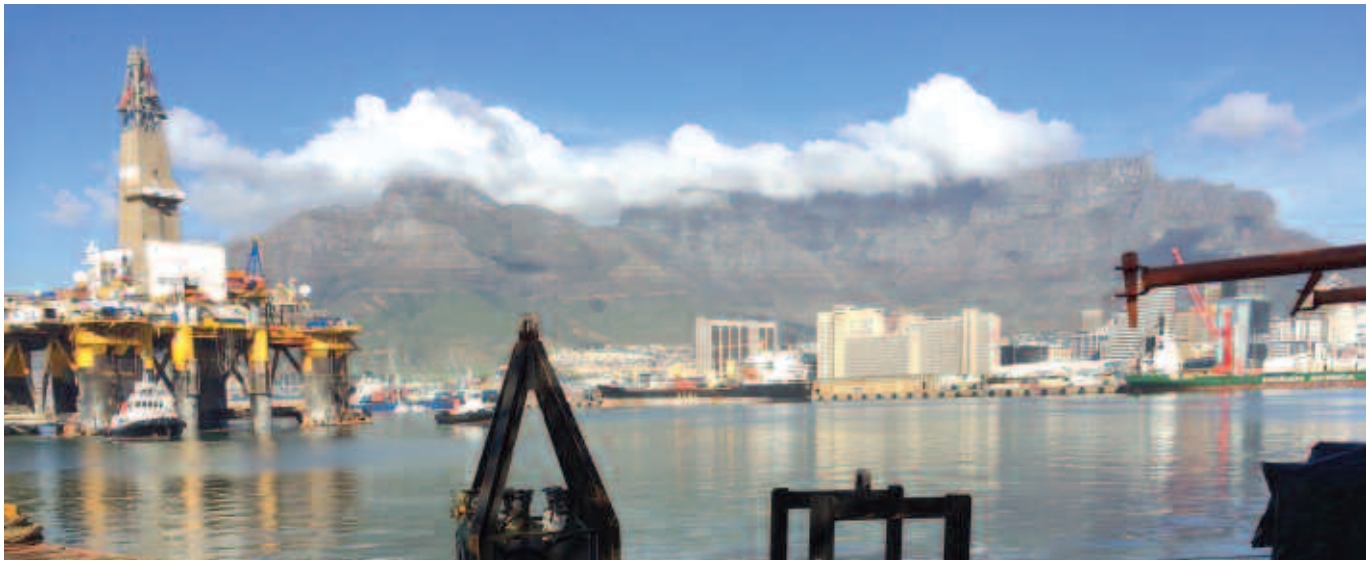


Table 5: Sector classification of activities in the oil and gas value chain

	Main division	Sub-divisions	Examples of Cape Town companies	Examples of relevant products/services in Cape Town[13] and the Western Cape
Upstream	06 Extraction of crude petroleum and natural gas	061 Extraction of crude petroleum	Shell, Exxon, PetroSA, Rhino Oil and Gas, Sunbird	Offshore exploration, operation of oil rigs off the West Coast of Africa
		062 Extraction of natural gas	Shell, Eni, Exxon, PetroSA	Onshore shale gas exploration, offshore gas exploration, active rigs
	09 Mining support services	091 Support services for petroleum and natural gas extraction	Ensco, Halliburton	Drilling test drilling or re-drilling, cementing oil and gas well casings, cleaning and draining, liquefaction and regasification
Mid-stream	19 Manufacture of coke and refined petroleum products	192 Manufacture of refined petroleum products	Chevron, FFS	Refined petroleum for wholesale and export, recycling and conversion of used oil
	52 Warehousing and support activities for transportation	5221 Service activities incidental to land transportations	Strategic Fuel Fund, Sunrise Energy, Burgan, Remistar, Sunrise Energy	Storage, terminal activities, depots
	35 Electricity, gas, steam and air conditioning supply	3510 Electric power generation 3520 Manufacture of gas	Ankerlig, Afrox, Denair Compressors	Power generation using diesel, with potential for the use of gas, manufacture of gas products
Downstream	49 Land transport and transport via pipelines	4930 Transport via pipeline 4923 Freight transport by road	Chevron, Transnet Pipelines, Pentagon Freight Services, GasCon	Operation of gas pipelines, maintenance and manufacture of pressure vessels, freight services
	46 Wholesale trade, except motor vehicles and motorcycles	4661 Wholesale of solid, liquid and gaseous fuels and related products	Easigas, Multigas, FFS Refiners, various service stations by the oil majors	Wholesalers of oil and gas products, including gas cylinders, burners etc.
Support services	71 Architectural and engineering activities	71105 Geological and prospecting activities	Geo Africa Petroleum, Field PVT, Puku Africa Limited	Professional scientific, geological and engineering services/consulting
	25 Manufacture of fabricated metal products	251 Manufacture of structural metal products	Bellmett, Javan Fabrications, SA Five Engineering	Structures for rigs, drill ships, high pressure piping, heavy mechanical equipment, general steel fabrication
	30 Manufacture of other transport equipment	301 Building of ships and boats	Damen Shipyards, Nautic Africa	Manufacture of ships servicing oil rigs, oil rigs, tug boats, operation of shipyards
	33 Repair and installation	331 Repair of fabricated metal products, machinery and equipment	Dormac, DCD Marine Cape Town,National Oilwell Varco Rig Systems	Repair and routine maintenance of oil rigs and ships
	24 Manufacture of basic metals	24101 Manufacture of steel pipe and tube mills	Hunting, Hall Longmore (Pty) Ltd	Manufacture of steel pipes for oil rigs

Source: IHS Global Insight, 2016

13. Or emanating from Cape Town in the case of head offices based in the city and operations located elsewhere.

Cape Town's relative proximity to an offshore production region, which at full capacity can produce up to five million barrels of oil per day, together with its first-world infrastructure and liveability, has meant that a number of the world's largest oil companies have established regional head offices in the city.

A STRATEGIC SERVICES HUB FOR THE UPSTREAM OIL AND GAS INDUSTRY

Arguably the most competitive part of Cape Town's oil and gas value chain is its support services industry for upstream oil and gas activities. This includes metal fabrication, steel pipe manufacturing, rig and ship repair, engineering services, hydraulic systems, marine logistics, and geological and seismic surveying. The presence of such a strong cluster of upstream support services in the city is in part due to the strategic geographic positioning of Cape Town on the tip of the west coast of Africa. Cape Town's relative proximity to an offshore production region, which at full capacity can produce up to five million barrels of oil per day, together with its first-world infrastructure and liveability, has meant that a number of the world's largest oil companies have established regional head offices in the city[14]. These companies include Total, Shell, Exxon and PetroSA. The geographic positioning of the city, within range of up to 80 active rigs off the coast of Africa, also means that it is a high-traffic location for passing rigs (TNPA, 2016:2). A relatively small number of these have been serviced in either the Port of Cape Town or Saldanha in the past 10 years but government's Operation Phakisa is aiming to increase these figures.

Another factor underpinning the creation of an upstream cluster in Cape Town is the presence of a range of excellent companies indirectly servicing the industry. These include law firms, international auditors and project management companies. The hosting of major industry events, including Africa Oil Week, has further consolidated the emergence of the upstream cluster in Cape Town.

Providing infrastructure to service the oil and gas industry: Operation Phakisa

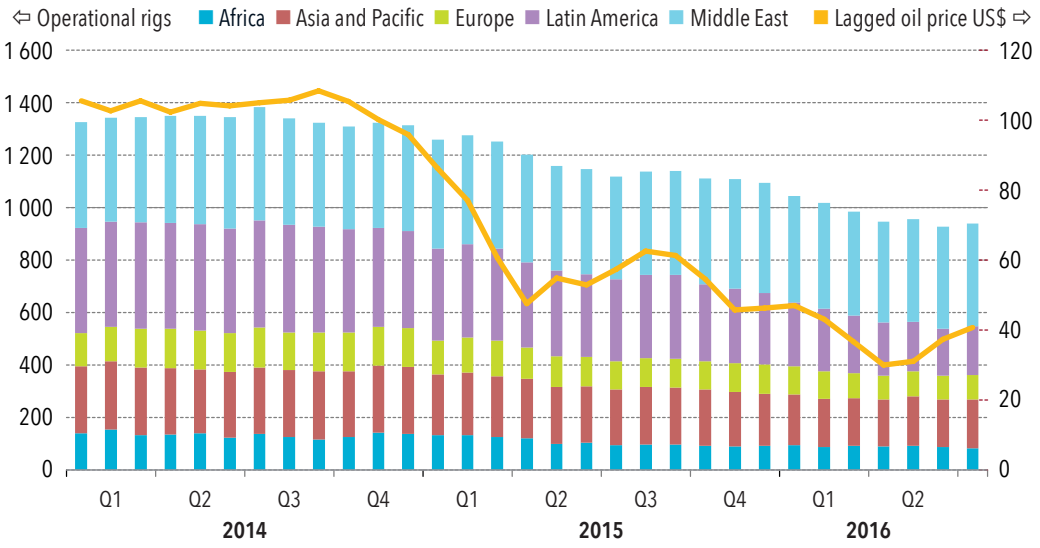
Although the Western Cape's geographical location and strong skill endowment position it favourably in the global oil and gas industry, the specialised infrastructure needed to consolidate its competitive position has been lacking. Through Operation Phakisa, launched by the presidency in 2014, this deficiency is being addressed through extensive capital spend by Transnet on the development of dedicated deep- and shallow-water rig repair facilities at the Port of Saldanha, and on the refurbishment of existing rig- and ship-repair facilities at the Port of Cape Town (TNPA, 2016). The provincial government's Project Khulisa, which identifies the upstream oil and gas industry as a priority sector, aims to work with Transnet to ensure timely implementation of Operation Phakisa's projects and to coordinate the provision of supporting infrastructure, i.e. bulk services and roads.

PERFORMANCE OF THE INDUSTRY – PRESSURE ON UPSTREAM IN THE SHORT/MEDIUM TERM

Both the Brent Crude oil price and the Henry Hub gas price have fallen dramatically since the beginning of 2014 (-57,1% and -40,1% respectively). This is predominantly an outcome of the steep increase in the extraction of shale oil and gas in North America. The Energy Information Administration (EIA) (2016:19) reports that the United States and Canada brought an additional seven million barrels of oil per day onto the global market between 2008 and 2015 causing global supply to outstrip consumption (see figure 30). This has been further exacerbated by the unwillingness of OPEC to cut back on production for fear of losing market share to the US.

14. They have also located in the city because they recognise the potential of South Africa's own unexplored reserves.

Figure 29: International rig count with three-month lagged oil price average (Q1, 2014 to Q2, 2016)

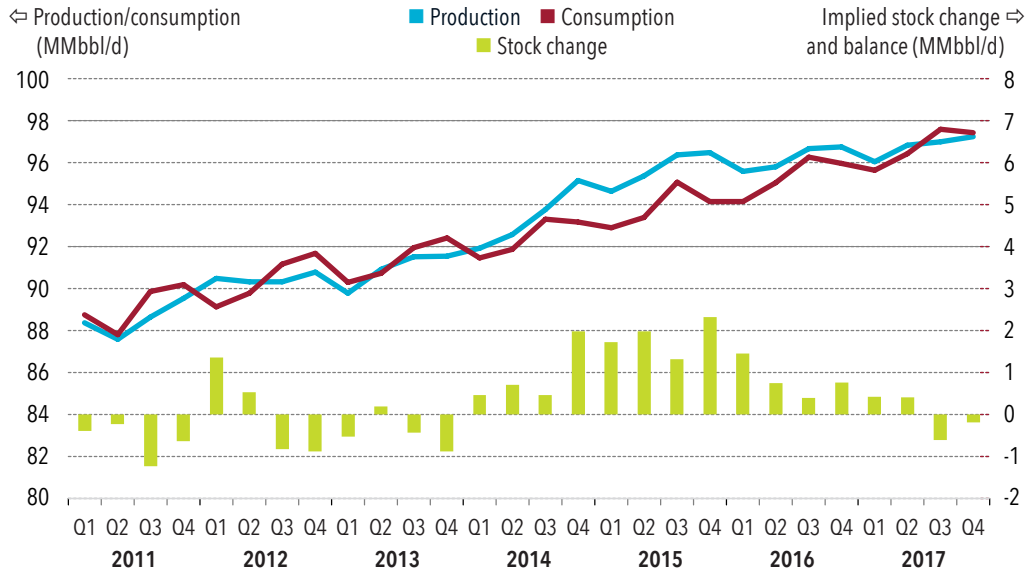


Source: Baker Hughes International, 2016.

The low oil price has reduced the expectation of future profits and has seen the cancelling or delaying of a substantial number of capital expenditure projects – including exploration – as well as seeing the decommissioning of oil rigs at production sites that are not viable at less than $50 a barrel (EIA, 2016:20; Oil Price, 2016:1). This has had a profound impact on the number of rigs that are operational in African waters. Many of these operations are deepwater and, in comparison to fracking for shale oil, relatively costly. There has been a 46,7% decline in the number of rigs that are operational in Africa since the beginning of 2014, compared to a global[15] reduction of 32,1% (Baker Hughes, 2016). This has negatively impacted Cape Town's upstream oil and gas services industry. The rig repair industry has been most affected, with not a single rig being repaired in either the Port of Cape Town or the Port of Saldanha in the last 19 months, compared to six at the Port of Cape Town and seven at the Port of Saldanha in the three years prior to that (TNPA, 2016). While rig repairers have borne the brunt of lower international rig counts, manufacturing companies, such as steel fabricators, have also felt the sting.

There has been a 46,7% decline in the number of rigs that are operational in Africa since the beginning of 2014, compared to a global reduction of 32,1%. This has negatively impacted Cape Town's upstream oil and gas services industry.

Figure 30: Global production and consumption of oil (Quarter 1, 2011 to Quarter 4, 2017)



Source: Derived from data provided by the EIA, 2016.

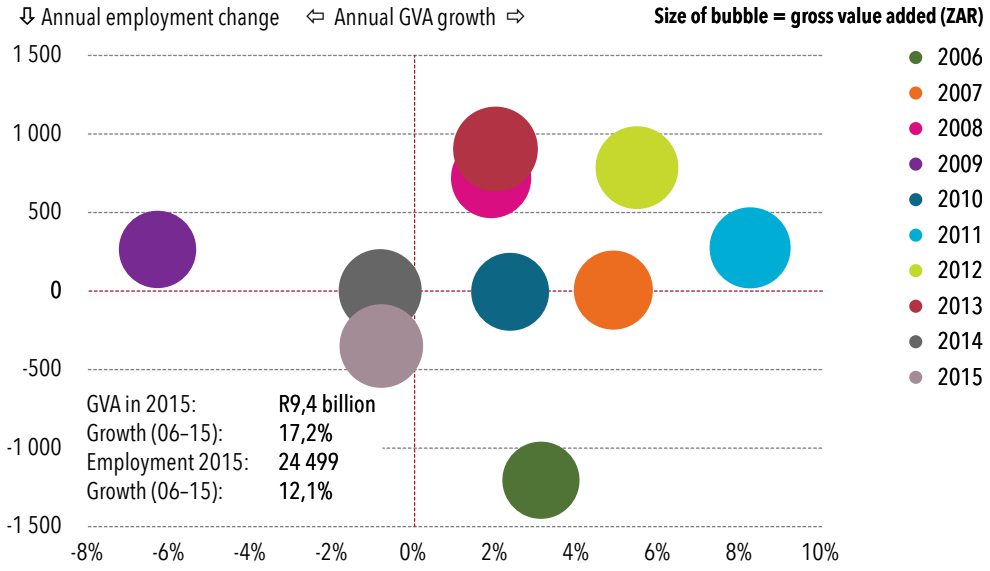
Figure 30 shows the gradual buildup of inventories owing to global production of oil exceeding consumption between 2014 and 2015. Inventory buildup is expected to continue in the short term, until the third quarter of 2017 when consumption is expected to exceed production. The accumulated inventory stock will, however, moderate the increase in the oil price in the short term, leading the EIA (2016:20) to forecast Brent Crude at a relatively modest $58 a barrel in the fourth quarter of 2017. In the longer term (beyond 2017), weak levels of investment are expected to catch up with the industry. 2015 saw the lowest

15. Excluding North American rigs which are much more flexible and see large fluctuations.

level of oil discoveries in almost 70 years, which is likely to lead to an increasing shortfall in oil supply and a sustained increase in price (Oil Price, 2016). The increased price will not lead to an immediate response by producers as large-scale drilling operations have a long lead time. This will place further upward pressure on the oil price. As a result, the EIA (2016) believes prices will reach $90 per barrel by 2025 and $141 per barrel by 2040. It would appear then, that the upstream industry (particularly on the West Coast of Africa) serviced by Cape Town will continue to be under pressure in the medium term, but (assuming no major changes in consumption patterns) will benefit from strong oil price growth in the long term. Options for tiding over the difficult times in the next few years could include becoming more price-competitive in order to capture a higher portion of the existing rig repair market, and offering cold and hot stacking facilities for decommissioned rigs.

In the longer term (beyond 2017), weak levels of investment are expected to catch up with the industry. The EIA (2016) believes prices will reach $90 per barrel by 2025 and $141 per barrel by 2040.

Figure 31: Dynamic performance of Cape Town's fuel, petroleum and chemicals industry



Source: IHS, Global Insight, 2016.

While the low oil price may unequivocally be negatively affecting the upstream segment of the oil and gas value chain, its impact on mid- and downstream activities is more complex. Certainly the low price of refined oil and gas opens up a number of opportunities for the import and storage of refined oil and LNG. Companies such as Burgan and Sunrise Energy stand to benefit from these conditions, while they could also prove positive for consumers.

Certainly the low price of refined oil and gas opens up a number of opportunities for the import and storage of refined oil and LNG.

From a mid-stream perspective, studies (McKinsey, 2015) have indicated that the performance of refineries has been mixed during this low oil price period. European and Asian refineries have increased their margins, while US refineries have experienced reduced margins. Data from Stats SA (2016) and the Industrial Development Corporation (IDC) (2016:42) show erratic refined petroleum production in South Africa (characterised by weakening capacity utilisation) over the last three years, with a clear negative trend in both the rand value of sales and employment levels.

There are no recent output, sales or employment figures available for the Chevron refinery to assess how they may have

responded during this time. However, use can be made of economic figures for the broad 'fuel, petroleum and chemical industry' in Cape Town. Considering the relatively small size of Cape Town's chemical industry, and the interlinkages between the chemical and fuel industries, this data is considered to be a reasonable proxy for the performance of the fuel refining industry in Cape Town. What is apparent from figure 31 is the lack of a clear pattern between jobs and growth or a distinct trend over time. The lack of clear differentiation in the size of the bubbles (size of GVA in a given year), suggests that the industry has not grown substantially over the last 10 years. The 2014-2015 period recorded the first instance of consecutive negative annual GVA growth rates in the broader industry since 2003-2004. Factors such as the lower oil price and the age of the Chevron refinery combined with the push for cleaner fuels are likely contributors to this.

The story is far more encouraging from an export perspective, where the value of petroleum oils exported from Cape Town grew by 14% (current prices) in 2015 compared to 2014. This should, however, also be seen as a reflection of the country's weakening exchange rate over this period, making our exports of petroleum more competitive. From an import perspective controlling for changes in the rand/dollar exchange rate, the value of crude imports decreased by 52% over this period.

The value of petroleum oils exported from Cape Town grew by 14% (current prices) in 2015 compared to 2014. This should, however, also be seen as a reflection of the country's weakening exchange rate over this period, making our exports of petroleum more competitive.

OPPORTUNITIES AND CONSTRAINTS

Through Operation Phakisa, the work of the South African Oil and Gas Alliance (SAOGA) and the Saldanha Bay Industrial Development Zone (IDZ), the Western Cape (and by extension the country at large) has been positioning itself as the leading upstream oil and gas industry hub on the African continent. While this is anticipated to create substantial output and jobs, it pales in comparison with the impact that the large-scale extraction of oil or gas (although gas seems more likely) would have on the economy. PetroSA's most recent estimate is that the country has 183TcF (trillion cubic feet) of shale gas alone, which is more than two hundred times the size of the country's gas reserves currently extracted by PetroSA (PASA, 2016:33). The map overleaf shows that almost all of the South African coastline is under exploration, as well as large areas of the country's interior. There are about 17 companies that have been granted offshore exploration rights by the Petroleum Agency South Africa (PASA) and 14 companies granted onshore exploration rights (PASA, 2016). These include some of the largest oil majors in the world.

While the current level of the fuel price combined with uncertainty over amendments to the Mineral and Petroleum Resource Development Act (MPRDA) has dampened exploration activities – with no drilling currently taking place in South Africa – future projections of a strong oil price rebound will mean that active exploration will gradually resume, albeit with a reasonable time lag. Onshore shale gas exploration, due to its comparatively lower capital costs, would ordinarily be the most likely to see the initiation of active exploration activity the soonest, but lingering environmental concerns may stall this. Government could use the current lull in activity to address regulatory issues, so that when the oil price ticks back up there are no impediments to renewed exploration. In the short term, however, the most viable option for the extraction of natural gas is provided by the iBhubesi gas field off the west coast of South Africa, 400km from Cape Town. The iBhubesi field is the only exploration block along the South African shoreline in which production rights have been granted. These are currently held by PetroSA and Sunbird. The broader iBhubesi Gas Project feeds directly into the next opportunity discussed below.

NIALL KRAMER, CEO OF SAOGA

'SAOGA is driving the use of first LNG, then offshore or onshore gas, to help us reindustrialise South Africa. This is a big regional opportunity. We see gas as one of the energy spines of industrial strategy and SAOGA members can be significant players to help drive natural gas as both a source of power generation and a driver of opportunities across a broad range of member services from shipping, marine, transport, manufacturing and engineering, right through to legal, and the indirect services side, like logistics and accommodation.

This is a first step for building a gas economy. Ironically, we see we can learn from our partners in Green Energy, and are driving a collaborative agenda towards developing a gas economy. Then, once exploration work starts up again, the opportunity for ship, rig and related work is clear, as is the opportunity for the whole economy if indigenous gas is found and exploration and production rise.'

SALDANHA BAY IDZ (SBIDZ)

'The Saldanha Bay Industrial Development Zone (SBIDZ) was designated as South Africa's fifth Special Economic Zone (SEZ), with the Saldanha Bay IDZ Licencing SOC Ltd (SBIDZ-LC) as the official public entity licence holder and operator of the zone in the port. The targeted economic sectors of the SBIDZ are upstream oil and gas services, and marine repair and fabrication, which is a targeted cluster of industries of the DTI's Industrial Policy Action Plan (IPAP). The typical activities of these sectors are focused around five areas, namely repairs and maintenance, ancillary services, exploration and production support, logistics and marine/subsea engineering and fabrication. Investment in these activities is attracted through the development of a competitive local business and skills environment, infrastructure support and a free port.'

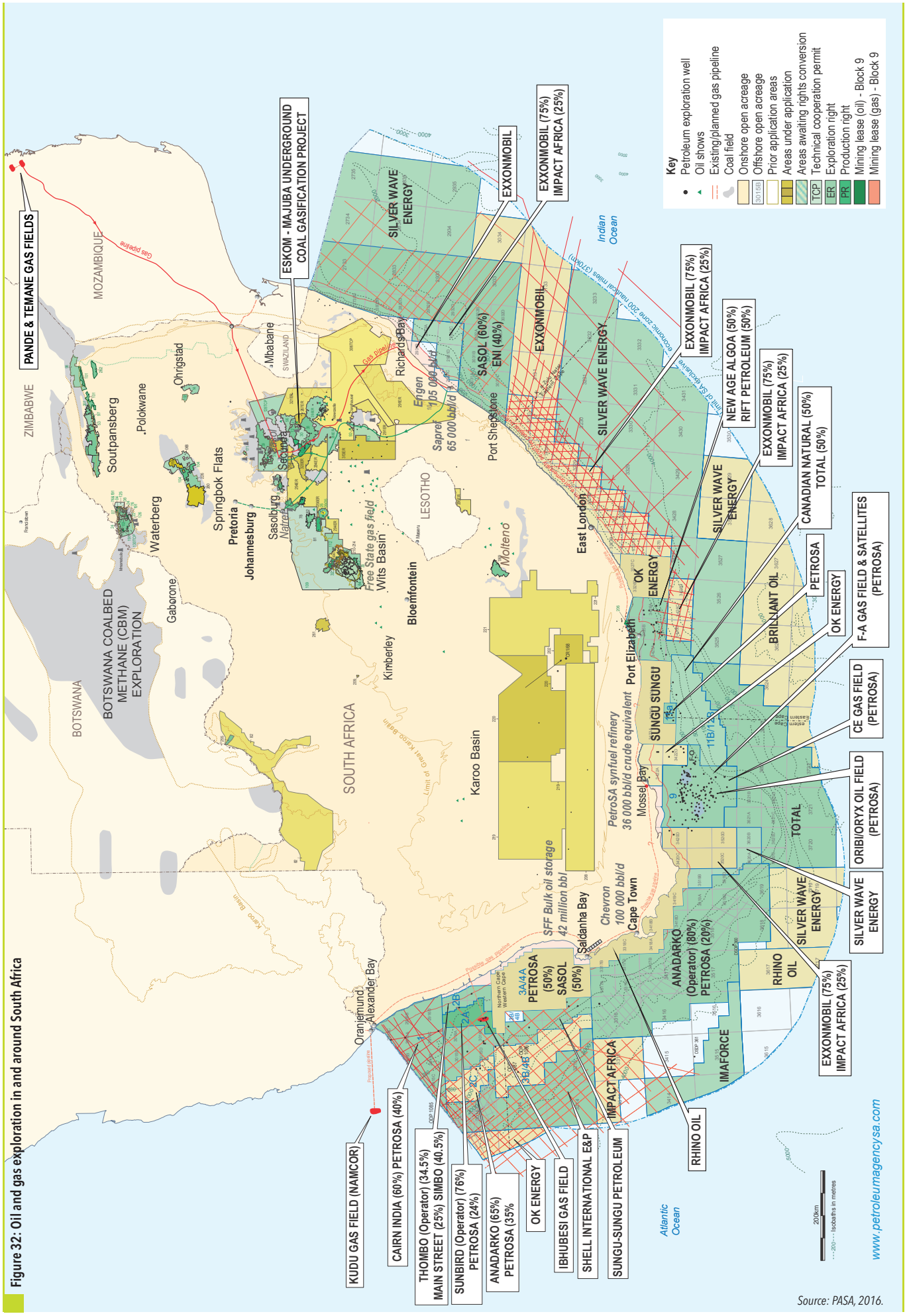


Figure 32: Oil and gas exploration in and around South Africa

Source: PASA, 2016.

The energy generating potential of liquefied natural gas (LNG)

As noted at the beginning of this chapter, renewable energy sources constitute an increasing share of global energy supply. Despite recent technological advancements in storage solutions, the supply of energy from renewables remains somewhat unreliable/erratic in the short term. It is in this context that gas, and in particular Liquefied Natural Gas (or LNG), has come to be seen as a low-carbon transitional energy source. Given the current low price of gas which has created a clear buyers' market, the use of LNG for power generation has gained significant interest in South Africa. Accordingly, the Department of Energy's (DoE) Integrated Resources Plan for Electricity has committed to increasing gas power by 3000MW, predominantly through the importation of LNG (DoE, 2013). The majority of this would feed into the country's existing gas power stations (of which Ankerlig[16] in Cape Town is the largest) but could also be supplied directly to industry. This could have a major positive impact on energy security in Cape Town.

Imports of LNG of the scale required to produce 3000MW of power would necessitate the development of an extensive infrastructure and logistics network. To provide a sense of scale, in order to attain 1000MW of power, one million tons of LNG per annum would need to be imported through one of the country's ports, which equates to one standard LNG tanker every 24 days (SAOGA, 2016). In order to accommodate this, a regasification facility would need to be developed. This would have the following components: offloading berths, storage tanks, vaporisation equipment and a pipeline into the main grid (Price Waterhouse Cooper, 2016). All of which would require a number of large scale construction projects and would provide significant opportunities for the Western Cape's upstream oil and gas services companies. In the short run, the absence of this infrastructure could be provided by a floating storage and regasification unit (FSRU), which would also provide significant opportunities for the maritime cluster servicing the oil and gas industry (SAOGA, 2016).

While the importation of LNG is the most viable option in the immediate short term for the production of additional gas power, the iBhubesi Gas Project (IGP) may be able to provide locally produced gas within five years (PASA, 2016:15). The IGP envisions a pipeline (400km offshore, 15km onshore) connecting Ankerlig Power Station with an offshore processing facility. The field is expected to have a lifespan of 15 years (PASA, 2016:15). If it could meaningfully replace imported LNG as a power feedstock, the supply of indigenous gas would greatly improve the country's trade balance.

While the importation of LNG is the most viable option in the immediate short term for the production of additional gas power, the iBhubesi Gas Project (IGP) may be able to provide locally produced gas within five years (PASA, 2016:15).

Threats to the industry

Undeniably the largest threat to the industry at present is the low oil price. However, three longer term threats can be identified:

- Uncertainty regarding amendments to the MPRDA, especially with regard to royalties paid to the government. The impact of this uncertainty is particularly exacerbated in the current low oil price environment
- The need for refineries to transition to cleaner fuels. None of South Africa's refineries can presently meet the standards for 10 ppm sulphur, which are becoming standard in the automotive sector and may be required by the Cleaner Fuels Act II.
- Weakening demand for oil as consumers become more environmentally conscious and a transition to electric vehicles picks up the pace.

16. Currently uses much more expensive diesel.

8

Infrastructure

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

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

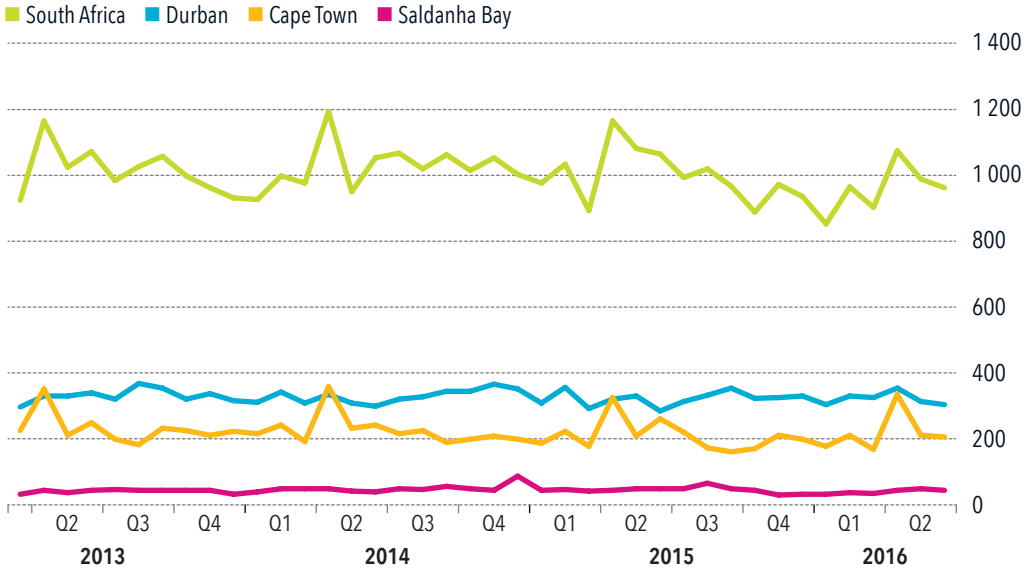
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports increased by 306 vessels from 2 720 in the first quarter of 2016 to 3 026 in the second quarter of 2016. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the second quarter of 2016 was 753 vessels (accounting for 24,9% of total vessels). This represented an increase on the previous quarter's figure of 556 vessels. On a year-on-year basis, vessel arrivals in Cape Town in the second quarter decreased by 43 vessels, while Cape Town's share of national vessel arrivals increased to 24,8% relative to its 24% share in the second quarter of 2015. 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, however Durban had 19 more vessel movements than Cape Town in April 2016.

The total volume of vessels arriving in South African ports increased by 306 vessels from 2 720 in the first quarter of 2016 to 3 026 in the second quarter of 2016.

Figure 33: Total number of vessels (March 2013 to June 2016)



Source: Transnet National Ports Authority, August 2016.

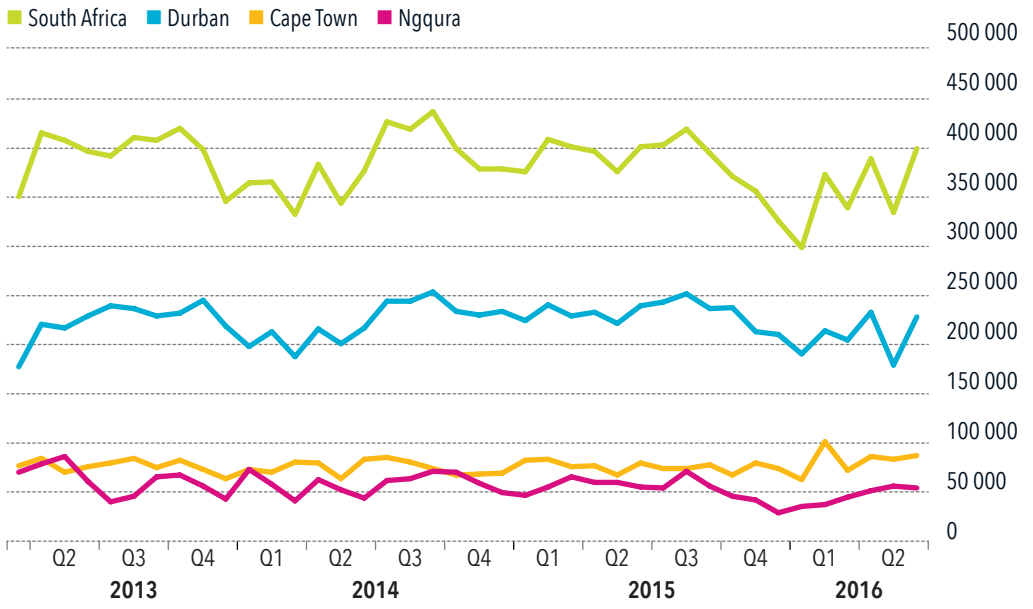
Cargo (gross tonnage) and container handling

In the second quarter of 2016, South African ports handled 57,6 million tonnes of cargo compared to 53,9 million in the first quarter of 2016 and 57,9 million in the second quarter of 2015. The Port of Cape Town experienced an increase in cargo handling, from 1,12 million tonnes in the first quarter of 2016 to 1,20 million tonnes in the second quarter of 2016. There was a year-on-year decrease of 13,9% relative to the 1,4 million tonnes handled in the second quarter of 2015. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike Saldanha and Richards Bay). Therefore, it does not have a significant impact on the national cargo-handling performance. The Port of Durban experienced a quarter-on-quarter decrease in cargo handled of 9,1%, whereas the Port of Saldanha experienced an increase of 12,5% in the second quarter. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed an 8,1% decrease in cargo handled at the Port of Saldanha and a 3,6% decrease for the Port of Durban.

In the second quarter of 2016, South African ports handled 57,6 million tonnes of cargo compared to 53,9 million in the first quarter of 2016 and 57,9 million in the second quarter of 2015.

The Port of Durban is South Africa's main container-handling port and contributed more than three quarters (57%) of the total containers handled in South African ports in the second quarter of 2016. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 23% of all containers handled in South African ports in the second quarter of 2016.

Figure 34: Total containers handled (TEUs[17]) (March 2013 to June 2016)



Source: Transnet National Ports Authority, August 2016.

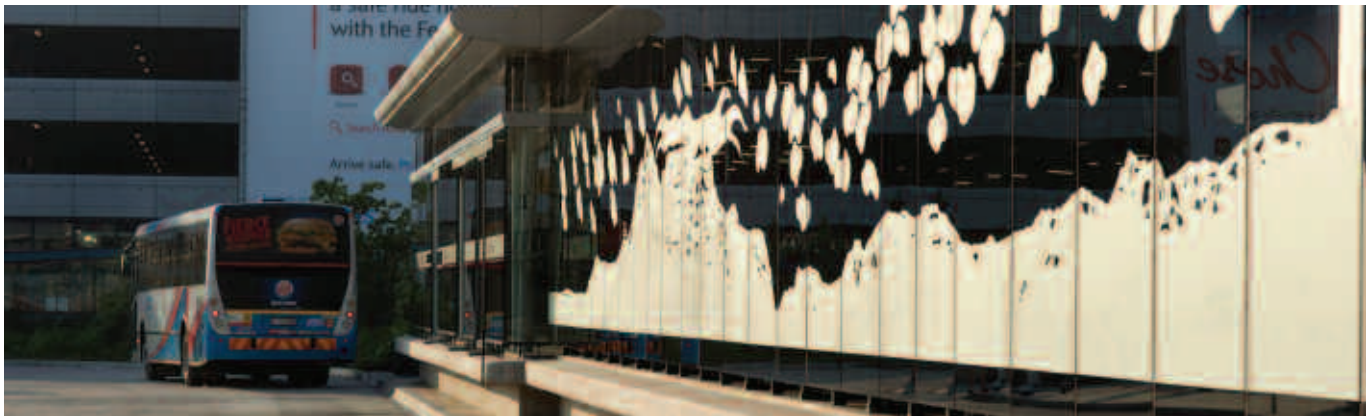
The number of containers handled at the Port of Cape Town increased from 222 843 in the second quarter of 2015 to 256 339 in the second quarter of 2016 – an increase of 15%.

Container traffic is very seasonal, as figure 34 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 increased from 222 843 in the second quarter of 2015 to 256 339 in the second quarter of 2016 – an increase of 15%. In 2013 and 2014, 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 those years. More recently Ngqura has slipped notably behind Cape Town with respect to container handling, recording a year-on-year decline to 161 139 containers handled in the second quarter of 2016 from 173 876 in 2015. While the Port of Ngqura lags behind Cape Town in terms of the volume of containers handled, capacity constraints experienced at the Port of Cape Town mean that Ngqura may in future overtake it as the country's second-largest container-handling port. That being said, however, Transnet has approved plans for a multibillion-rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

CAPE TOWN AIRPORT STATISTICS

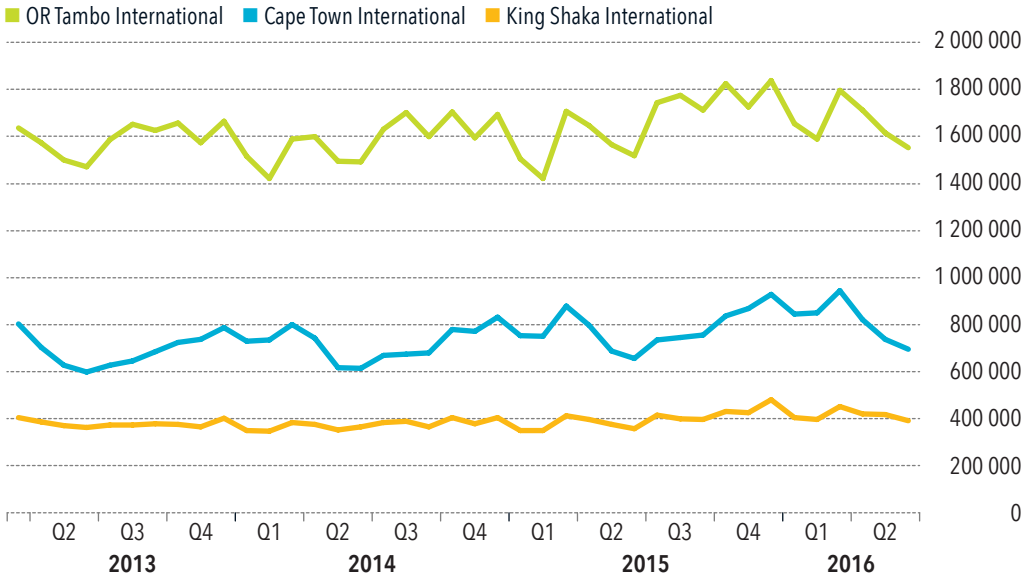
Total passenger movements

Cape Town International Airport is South Africa's second-busiest airport. It recorded 2,25 million total passenger movements in the second quarter of 2016 compared to 4,88 million passenger movements at OR Tambo and 1,23 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the second quarter of 2016 were higher compared to the second quarter of 2015, when 2,14 million passenger movements were recorded. OR Tambo International and King Shaka International also recorded increases in passenger numbers in the second quarter compared to the same period in the previous year.



17. 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 35: Total passenger movements at South Africa's major airports (March 2013 to June 2016)



Source: ACSA, August 2016.

A quick glance at figure 35 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with these declining in the second quarter when the city enters its winter months. In contrast, OR Tambo International shows a more erratic distribution with a less-defined seasonal trend. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

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

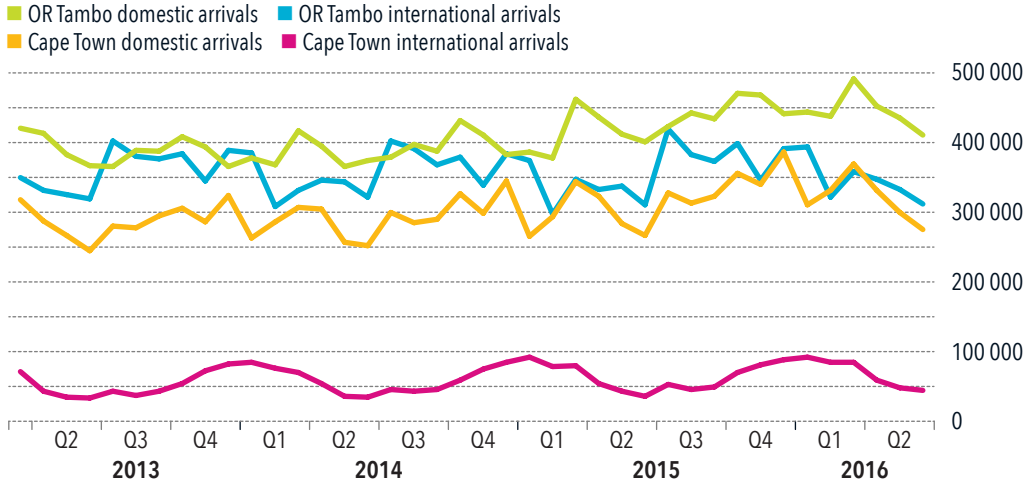
The direct international proportion of passenger arrivals to Cape Town International for the second quarter of 2016 constituted 14,3% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 43,3% of its total passenger arrivals. This reflects the fact that Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. The figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight.

Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with the summer months of December to March being the peak period for travel to the city. Cape Town's domestic arrivals, however, show far more variation, with peaks and troughs dispersed throughout the year (clearly visible in figure 36). The total number of passenger arrivals to Cape Town International in the second quarter of 2016 increased by 5,2% year on year, with international arrivals increasing by 13,8%.

The total number of passenger arrivals to Cape Town International in the second quarter of 2016 increased by 5,2% year on year, with international arrivals increasing by 13,8%.

While some of the growth in international arrivals can simply be attributed to increased occupancy on existing flight

Figure 36: International and domestic passenger arrivals for Cape Town and OR Tambo International airports



Source: ACSA, August 2016.

routes, the efforts of Cape Town International Airport, Wesgro, provincial government and the City of Cape Town to attract more direct international flights also appear to be paying off. This is evident in the growth of the number of international aircraft movements at Cape Town International, which, while recording a decline of 36% quarter on quarter, reported an increase of 5,8% year on year in the second quarter 2016. These figures capture the new launches of direct flights from Addis Ababa, Gatwick, Istanbul and Zurich at the end of 2015.

Although Cape Town International received the Best Airport in Africa award for 2016 by SkyTrax (SkyTrax World Airports Awards, 2016), if it is to continue being able to accommodate increased tourist numbers it needs to expand its capacity. In line with this, ACSA has proposed to realign the runway at Cape Town International to make room for larger aircraft and accommodate greater passenger numbers. The proposal, which includes extending the runway length by 300 metres, would allow between 10 and 14 additional aircraft to land and take off each hour, as well as enable larger aircraft to land at the airport (SRK Consulting, 2014). The project is critical to Cape Town's strategic goals of attracting multinational investment and enhancing its global business and tourist appeal.

ELECTRICITY

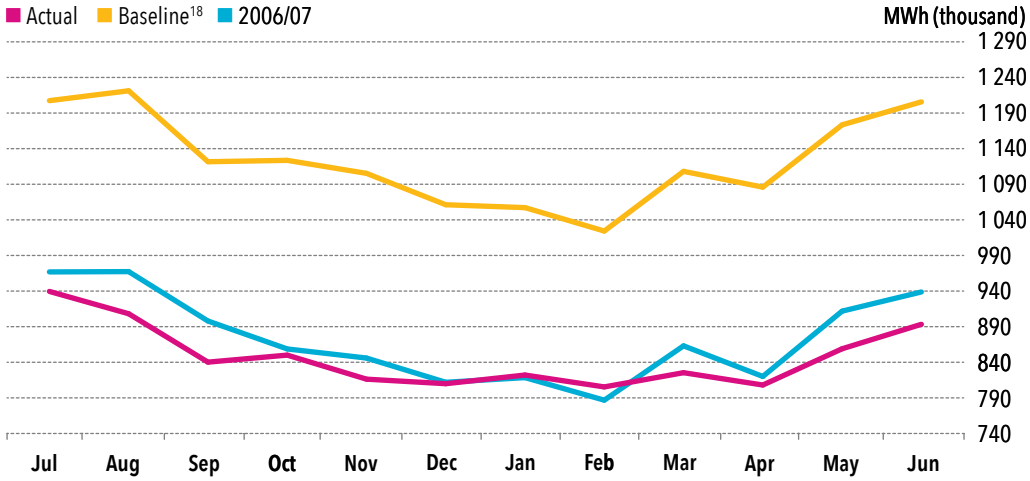
South Africa generates two-thirds of Africa's electricity and is one of the four cheapest electricity producers in the world (Department of Energy, Republic of South Africa, 2016). Eskom generates approximately 95% of the electricity used in South Africa. A review of the country's energy mix reveals that almost 90% of the country's electricity is generated in coal-fired power stations and the rest through nuclear, hydropower and renewable energy sources. Economic growth and the use of energy, particularly the use of electricity, are positively linked and thus it is important to ensure the availability, reliability and affordability of electricity supply.

Eskom's primary mandate is to ensure the security, efficiency and sustainability of energy supply in South Africa. However, in 2015 energy security became a pressing economic issue as Eskom battled to match the demand for electricity from businesses and households with existing sources of supply, which either required significant maintenance and renewal or were still under construction. This led to the implementation of a load-shedding programme and upward pressure on electricity prices as Eskom sought to provide a reliable and predictable electricity supply. For the 2016/17 financial year Eskom does not anticipate load-shedding. As of 1 July 2016, the City of Cape Town implemented an average tariff hike of 7,78%. Domestic users, however, only experienced a 6,6% electricity tariff rise as the City decided not to implement a tariff increase across all consumer categories.

Figure 37 illustrates the City's baseline electricity consumption forecast if it had 3% year-on-year growth in consumption relative to the actual electricity consumption over the last year, as well as electricity consumption during the period of 2006/7 as the benchmark (being the period before the country started experiencing power shortages). The difference between the baseline forecast and actual consumption is reflected as the rate of energy savings achieved for the period as a result of active energy-saving and energy-efficiency measures. In the second quarter of 2016, the rate of electricity savings continued to fluctuate, going from 25,9% in April, up to 27,1% in May and dropping to 26,2% in June. Electricity consumption in the second quarter of 2016 was on average 1,4 percentage points higher than during the same period in the previous year.

In the second quarter of 2016, the rate of electricity savings continued to fluctuate, going from 25,9% in April, up to 27,1% in May and dropping to 26,2% in June.

Figure 37: City of Cape Town electricity consumption (July 2015 to June 2016)



	Jul-'15	Aug-'15	Sep-'15	Oct-'15	Nov-'15	Dec-'15	Jan-'16	Feb-'16	Mar-'16	Apr-'16	May-'16	Jun-'16
Actual	938 458	906 671	**837 773**	847 784	813 528	807 084	**819 412**	802 506	822 758	805 188	**856 790**	891 640
Baseline	1 210 047	1 224 122	**1 123 118**	1 125 074	1 106 550	1 061 854	**1 057 755**	1 024 431	1 109 395	1 086 915	**1 175 603**	1 208 353
2006/7	966 230	966 673	**896 343**	856 572	843 598	809 106	**815 724**	783 623	860 967	817 387	**910 370**	937 688
% saving	22,4%	25,9%	25,4%	24,6%	26,5%	24,0%	22,5%	21,7%	25,8%	25,9%	27,1%	26,2%

Source: City of Cape Town, 2016a.

18. 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.

8

INTERNATIONAL TOURISM DEVELOPMENTS

In terms of regional year-on-year performance, growth in international arrivals for the period of January to April 2016 was driven by strong growth of arrivals in Asia and the Pacific (9%), followed by Africa (7%), the Americas (6%) and Europe (4%).

According to the United Nations World Tourism Organisation's (UNWTO) World Tourism Barometer for July 2016, 348 million global tourist arrivals were recorded in the first four months of 2016. This constituted an increase of 18 million (or 5,3%) in tourist arrivals compared to the same period in 2015. This growth follows the previous year's increase of 4,6%, potentially making 2016 the seventh consecutive year in which tourist arrivals grew at above the average growth rate of 4%. Results point to a positive outlook in the global tourism industry, indicating a high demand for travel which is stimulating tourism growth.

In terms of regional year-on-year performance, growth in international arrivals for the period of January to April 2016 was driven by strong growth of arrivals in Asia and the Pacific (9%), followed by Africa (7%), the Americas (6%) and Europe (4%). While growth in tourist numbers was spread relatively evenly across the globe, the Middle East was the one outlier with negative growth in arrivals. In Asia and the Pacific, Southeast Asia and Oceania were the leading sub-regions, both recording 10% growth. The Americas recorded a 6% rise in tourist arrivals, principally driven by Central America (7%) and South America (7%), which benefited from strong growth (9%) in outbound tourism expenditure by the US.

Europe continued to enjoy strong year-on-year growth of 4% in tourist arrivals for the period of January to April 2016, with the sub-regions of Northern Europe as well as Central and Eastern Europe recording growth rates of 6%. International arrivals to Africa rebounded to 7%, led by a strong growth in arrivals to sub-Saharan Africa (13%) but moderated by an 8% decline in arrivals to North Africa. The decline in tourist arrivals to North Africa is due to safety concerns in that region and mirrors the 7% decline in arrivals to the Middle East during the same period[19]. Conversely, the robust growth in arrivals to sub-Saharan Africa is likely reflective of the strong performance of the South African tourism industry.

The UNWTO predicts that close to 500 million tourists would have travelled abroad in the peak summer holiday season of the northern hemisphere between May and August 2016, accounting for 41% of annual tourist arrivals and recording similar growth rates to those recorded during January to April.

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS IN SOUTH AFRICA

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. As table 6 shows, in May 2016, 760 749 foreign tourists visited the country. Tourist arrivals to South Africa increased by 11% year on year for the period, notably more than the average global growth rate in international tourist arrivals. Arrivals from other parts of Africa (South Africa's largest tourist source market) increased by 9,7% with arrivals from the overseas market increasing by 16,2%, reversing the decline seen in 2015. The growth in tourist arrivals can be attributed to the weakened rand, the easing of the onerous regulatory measures relating to visas in 2015, the strong performance in the country's leading overseas tourist source markets and continuous security concerns in many other parts of the world making South Africa a more favourable tourist destination.

Tourist arrivals to South Africa increased by 11% year on year for the period, notably more than the average global growth rate in international tourist arrivals.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market and accounted for 74 360 tourist arrivals in May 2016, having grown by 12,1% year on year. Within the European region, the UK, Germany, France and the Netherlands were South Africa's largest source markets. Of these, arrivals from Germany and France grew more strongly (by 24,9% and 11,8%, respectively) than arrivals from the UK (7,2%) and the Netherlands (8,0%). While these countries were the largest source markets in terms of absolute tourist arrivals, Sweden (48,7%), Austria (47,3%) and Belgium (27,6%) posted the highest growth rates. The second largest overseas source market for South Africa in May 2016 was the United States, with tourist arrivals from that country increasing by 10,9%.

Table 6: International tourist arrivals in South Africa

Region	May 2016	May 2015	% change	% change Jan–May 2015 to Jan–May 2016
Europe	74 360	66 340	12,1%	15,0%
Russia	535	479	11,7%	10,8%
North America	35 872	32 259	11,2%	17,6%
Central and South America	4 445	3 834	15,9%	17,1%
Brazil	2 339	2 434	-3,9%	-0,9%
Australasia	9 325	8 516	9,5%	10,7%
Asia	31 641	23 914	32,3%	38,7%
China	8 256	5 519	49,6%	59,1%
India	14 237	10 414	36,7%	25,5%
Middle East	4 984	3 395	46,8%	41,4%
Overseas total	160 627	138 258	16,2%	18,5%
Africa	598 997	545 955	9,7%	14,9%
Total	**760 749**	**685 407**	**11,0%**	**15,7%**

Source: South African Tourism, August 2016.

19. The UNWTO advises that readers view the estimated tourist arrivals for Africa and the Middle East with caution given that these are based on limited information.

Tourist arrivals from most emerging markets increased year on year in May 2016 with the exception of Brazil (-3,9%), Malaysia (-36,5%) and the Republic of China (Taiwan) (-13,9%). The decline in tourist arrivals from Brazil, in particular, the largest tourist source market amongst these, can be attributed to the recession in the country which continued into the second quarter of 2016. In contrast, tourist arrivals from China and India experienced strong growth (49,6% and 36,7% respectively) with these countries capturing an increasing share of South Africa's international tourist market. The growth in Indian tourist arrivals has led to it being South Africa's third biggest overseas tourist market in May 2016 and can be linked to the strong performance of the Indian economy. Growth in Chinese tourist arrivals to South Africa equated to over 2 000 new arrivals relative to May 2015. This positive outcome is the result of systems that have been put in place to improve visa and immigration regulations, with additional visa processing centres operating in both China and India. For this reason, Chinese and Indian tourist arrivals are expected to increase further in the years ahead.

The South African tourism industry has performed positively in the second quarter of 2016, reflecting increasing confidence in the sector. This is predominantly attributable to the weakening of the rand, the comparative stability of the country, and the implementation of reviewed visa regulations and the setting up of additional visa processing centres in many parts of the world to facilitate better travel arrangements to South Africa.

The South African tourism industry has performed positively in the second quarter of 2016, reflecting increasing confidence in the sector.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourist accommodation in Cape Town

Accommodation spending typically constitutes the largest portion of total visitor spending at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in table 7 were derived from a survey of approximately 66 tourism accommodation establishments in the Cape Town metro area for the second quarter of 2016.

Occupancy rates at city accommodation establishments increased by an average of 3,7 percentage points in the second quarter

Table 7: Income derived from tourist accommodation – Cape Town

Indicator	April		May		June		Second-quarter average	
	2016	2015	2016	2015	2016	2015	2016	2015
Occupancy rate	68,3%	62,1%	56,3%	53,4%	47,9%	45,9%	57,5%	53,8%
Average room rate	R1 238	R1 129	R1 304	R1 191	R1 354	R1 212	R1 299	R1 177
Revenue per room	R845	R701	R734	R636	R649	R556	R743	R631

Source: Cape Town Tourism, August 2016.

Most establishment types experienced average occupancy rate increases compared to the second quarter of 2015, except for self-catering and backpacker establishments, which recorded declines of 6,1 and 6,2 percentage points, respectively.

of 2016 compared to the same period in 2015. The month of April recorded the highest occupancy rate (68,3%) with a year-on-year increase of 6,2 percentage points. The average room rate and revenue per room increased in the second quarter, by R121 and R112, respectively. Overall, tourist accommodation in Cape Town did very well in the second quarter of 2016, compared to the corresponding period in 2015, as all three accommodation performance indicators reported positive growth rates.

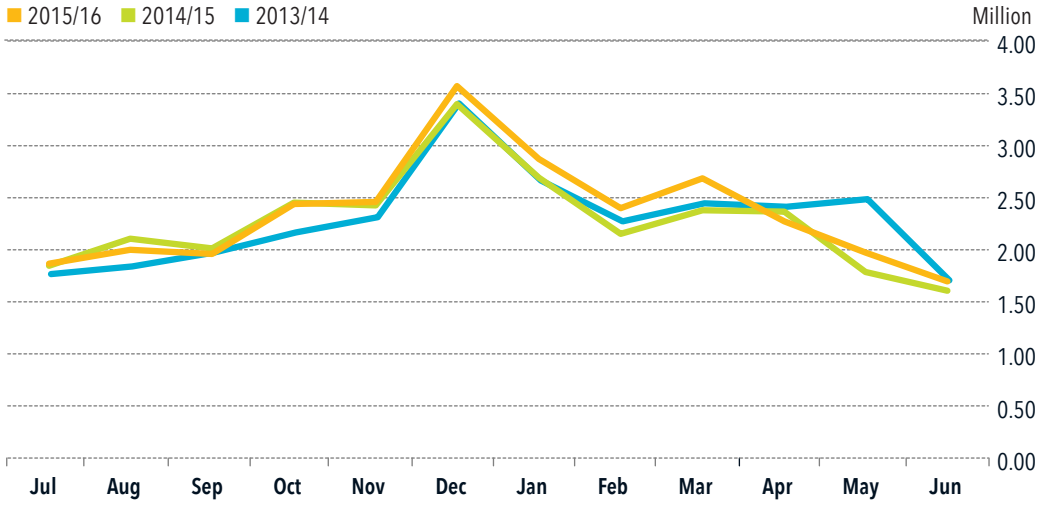
In terms of an occupancy breakdown by type of establishment, the highest average occupancy rate in the second quarter of 2016 was achieved by hotels (58,9%), up by 4,7 percentage points from the same period in 2015. Most establishment types experienced average occupancy rate increases compared to the second quarter of 2015, except for self-catering and backpacker establishments, which recorded declines of 6,1 and 6,2 percentage points, respectively. Bed and breakfast establishments achieved the highest average increase in occupancy rate (6,0 percentage points) in the quarter while guesthouses recorded the highest growth rate in average revenue per room (23,97%). By geographic location, the Southern Suburbs experienced the highest average occupancy rate in the second quarter of 2016 at 63,77%.

Cape Town Tourism's accommodation performance review showed that approximately 49,4% of room nights sold in the second quarter of 2016 were sold to the domestic market followed by the international market (44,23%). The regional (African) market only accounted for approximately 6,37% of room nights sold during this period. A further analysis revealed that visitors preferred travelling in pairs (52%), mainly for holiday purposes (88%) and that five to six nights (25%) was the most popular duration of stay.

Performance of Cape Town's top visitor attractions

For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These include the city's most popular tourist attractions for which visitor information is available, and encompass a diverse set of sights and sounds. The six attractions are the world-famous Table Mountain (specifically the Table Mountain Aerial Cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 38 illustrates the cumulative number of visits by tourists to these attractions since July 2013. While all of them are open to everyone – resident or non-resident, domestic, regional or international – they attract large proportions of tourists, and are used in this section as a proxy for tourism demand in Cape Town.

Figure 38: Total visits to Cape Town's major (top six) tourist destinations (2013 to 2016)



Source: Derived from Wesgro data, August 2016.

Due to unfavourable weather conditions, the second quarter of 2016 reported a 36,77% quarter-on-quarter decline in the number of visits to the six attractions. When the impact of seasonality is removed, the figure shows that visits to Cape Town's top attractions performed well relative to the corresponding period in 2015, with a 3,14% year-on-year increase in the number of visits.

From figure 38, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality as higher tourist volumes are experienced in the summer period between November and March, followed by a decline during winter months and increasing slightly during the third quarter as weather conditions start improving. Due to unfavourable weather conditions, the second quarter of 2016 reported a 36,77% quarter-on-quarter decline in the number of visits to the six attractions. When the impact of seasonality is removed by comparing the visitor statistics on a year-on-year basis, the figure shows that visits to Cape Town's top attractions performed well relative to the corresponding period in 2015, with a 3,14% year-on-year increase in the number of visits.

It is important to note that the visitor attraction data are strongly skewed to the V&A Waterfront. The V&A contributed approximately 87% of the total number of visits to the six attractions analysed in the second quarter of 2016. 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 Waterfront figure is removed, the number of visits to the five attractions decreases to 793 739 in the second quarter of 2016, representing a year-on-year increase of 16,36%.

The second quarter of 2016 saw a strong recovery from the same period last year. The weak rand, the relaxation of visa

rules as well as the elimination of health fears surrounding the Ebola outbreak in West Africa continued to contribute to the growing number of tourist visits. This can also be attributed to the hosting of the Cape Town International Jazz Festival, which attracts around 40 000 people, in April. A large proportion of those who attended the event are likely to have visited Cape Town's top tourist destinations, too.

Most-visited tourist attractions

Table 8 indicates that, in terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town. However, for reasons described above, a more accurate reflection of the performance of major tourist attractions in Cape Town can be derived from the performance of the other five attractions. In this respect, Table Mountain Aerial Cableway recorded the second-highest number of visits (218 129) while the Cape of Good Hope had the third-highest number of visits (190 486) for the period under review.

Table 8: Ranking of the most-visited tourist attractions in Cape Town

Rank*	Quarter 2, 2016	Quarter 1, 2016	Quarter 2, 2015	Year-on-year growth rate (%)
V&A Waterfront	5 142 779	6 700 140	5 073 436	1,37%
Table Mountain National Park: Cape of Good Hope	190 486	311 368	157 061	21,28%
Table Mountain National Park: Boulders Beach	139 454	241 988	111 857	24,67%
Table Mountain Aerial Cableway	218 129	318 401	178 220	22,39%
Kirstenbosch National Botanical Garden	170 608	268 913	176 449	-3,31%
Robben Island	75 062	114 648	58 526	28,25%
Total	**5 936 518**	**7 955 458**	**5 755 549**	**3,14%**
Total (excluding V&A Waterfront)	793 739	1 255 318	682 113	16,36%

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

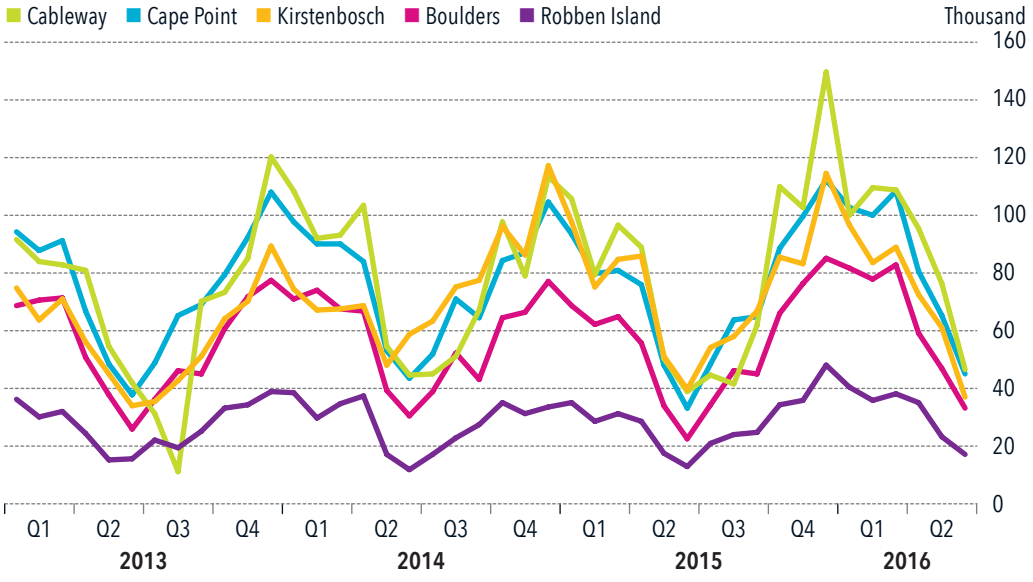
Source: Wesgro, August 2016.

All attractions reported negative quarter-on-quarter growth rates and this can be attributed to the unfavourable weather conditions as the second quarter represents Cape Town's winter season. On an annual basis, all attractions recorded an increase in the year-on-year growth rate except for Kirstenbosch National Botanical Garden (-3,31%). Robben Island continued to benefit from its improved ferry service and the increased number of tourist guides, reporting the highest year-on-year growth figure of 28,25%, with the number of visits increasing by 16 536 (from 58 526 to 75 062) from the same period last year.

As figure 39 shows, all attractions are subject to strong seasonality, with peak visitor activity occurring in the summer period from November to March. The lowest tourist visit numbers are seen during the period May to July, which are the Cape Town winter months. Although Kirstenbosch National Botanical Garden reported a decrease, tourist visits to the top five tourist destinations in the second quarter of 2016 outperformed the second quarter of 2015, as other attractions reported positive annual growth rates in tourist visits. Overall, Cape Town's top tourist destinations performed strongly in the second quarter of 2016 compared to the same period last year and this is reflective of an overall improvement in the tourism industry in South Africa.

On an annual basis, all attractions recorded an increase in the year-on-year growth rate except for Kirstenbosch National Botanical Garden (-3,31%). Robben Island continued to benefit from its improved ferry service and the increased number of tourist guides, reporting the highest year-on-year growth figure of 28,25%.

Figure 39: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Derived from Wesgro data, August 2016.

10 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, commercial propery developments and passenger vehicle sales are three 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.


FNB
ABSA
SUMITOMO

BUILDING DEVELOPMENTS

This section focuses on building developments recorded by the City of Cape Town for the second quarter of 2016. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, building plan submissions and building plans completed are key indicators of the level of economic development occurring within the city.

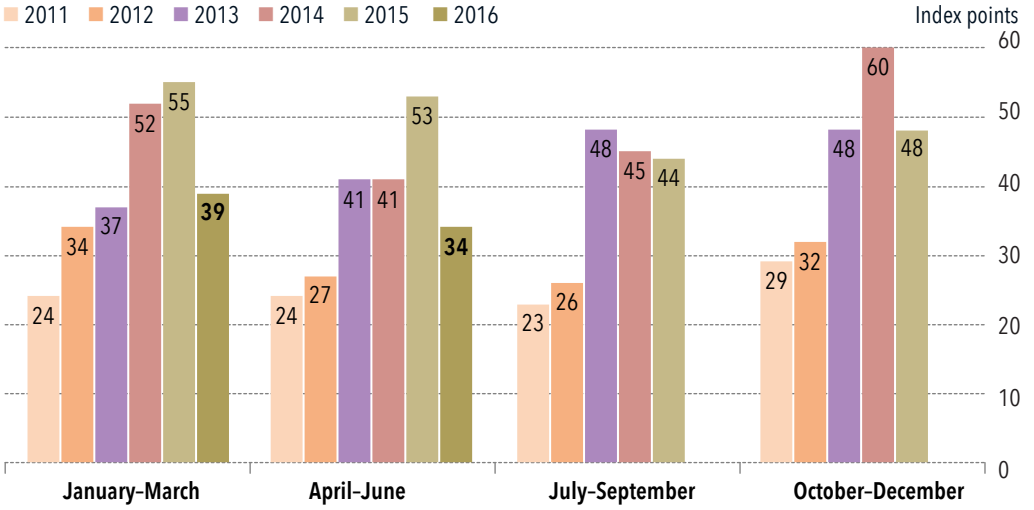
Construction industry overview

The economic growth chapter showed that output in the national construction industry grew by 0,1% quarter on quarter in the second quarter of 2016. The industry recorded a year-on-year growth rate of 0,8%, making it the fifth-fastest-growing industry in South Africa on a year-on-year basis. The Western Cape construction industry grew at exactly the same rate as the national industry on a year-on-year basis. However, on a quarter-on-quarter basis the provincial construction industry seemed to have suffered a mild downturn experiencing a 0,01% contraction.

The building confidence index dropped from 39 points in the first quarter of 2016 to 34 points in the second quarter of 2016. Confidence declined by 19 index points on a year-on-year basis.

The First National Bank (FNB)/BER (2015b) composite Building Confidence Index (BCI) captures the percentage of architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions. The building confidence index dropped from 39 points in the first quarter of 2016 to 34 points in the second quarter of 2016. Confidence declined by 19 index points on a year-on-year basis.

Figure 40: Building confidence index (2011–2016)



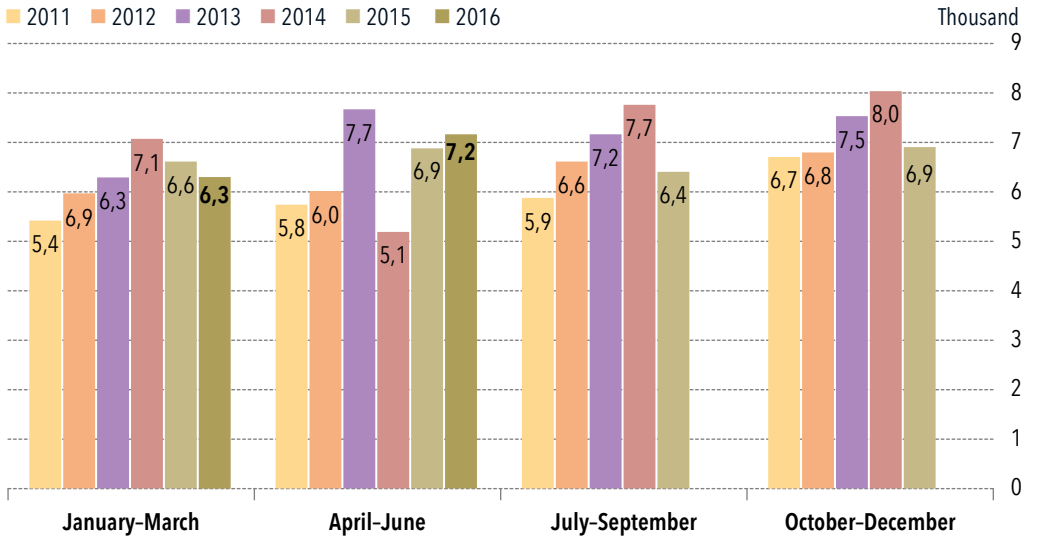
Source: BER, 2016b.

Building plan applications in Cape Town

Building plans submitted to the City of Cape Town in the second quarter of 2016 increased by 14,7% from the previous quarter. Figure 41 provides an annual comparison of the number of building plans submitted in each of the quarters over the past six years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted in the second quarter of 2016 increased by 4,5% compared to the corresponding period in 2015.

Building plans submitted to the City of Cape Town in the second quarter of 2016 increased by 14,7% from the previous quarter, an increase of 4,5% compared to the corresponding period in 2015.

Figure 41: Building plans submitted



Source: City of Cape Town, June 2016c.

Building plans completed

While the number of building plans submitted is certainly an indicator of the level of confidence in the construction industry, and points to its future performance, it does not measure the current actual output of the industry. The better indicator of actual growth in the industry is the number of building plans completed. These represent actual construction activity as opposed to building plans submitted, which represents 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 9: Building plans completed in the second quarter of 2016

	Cape Town		South Africa	
Measure	**Number/value**	**Year-on-year change**	**Number/value**	**Year-on-year change**
Building plans completed	5 389	6,99%	N/A	N/A
Value of building plans completed	R3 736 m	20,33%	R16 582 m	20,28%

Source: City of Cape Town, September 2016c; Statistics South Africa, 2016.

Cape Town recorded a year-on-year increase of 20,33% in the rand value of building plans completed during the second quarter while South Africa recorded a year-on-year increase of 20,28%.

Table 9 reviews the number of completed building plans in Cape Town in the second quarter of 2016. It suggests that Cape Town experienced an upward trend (6,99% increase year on year) in the number of completed building plans in the second quarter of 2016.

The table also compares the value of building plans completed in Cape Town and South Africa in the second quarter of 2016. In Cape Town these completions amounted to R3,7 billion, which accounted for 22,53% of the total value (R16 billion) of building plans completed in South Africa's larger municipalities.

Cape Town recorded a year-on-year increase of 20,33% in the rand value of building plans completed during the second quarter while South Africa recorded a year-on-year increase of 20,28%. The increase in the rand value of building plans completed in Cape Town was driven by quarter-on-quarter completion increases across the board in terms of minor works (53,6%), residential buildings (29,1%), additions and alterations (15,7%) and non-residential building plans (1,8%).

COMMERCIAL PROPERTY DEVELOPMENTS

Cape Town's services industry represents the largest sector of the economy, as measured by Gross Value Add (GVA). Within this broad sector, the finance sector is also the fastest growing sector of the city's economy and comprised 36% of the city's GVA in 2015 (IHS Global Insight, 2016). Considering the importance of the services sector to the city's economy, an understanding of the factors which underpin its performance provides useful insights into Cape Town's economic performance at large. In addition to being the largest sector of the economy, the services industry is also the largest consumer of office space and the uptake thereof is an indication of business confidence in an economy (Rode, 2015). In light of this, this section provides an overview of commercial property trends in Cape Town as a means of understanding trends in business confidence in the city's economy. Commercial property is here understood to encompass two categories of property development, namely office or banking space and shopping or retail space.

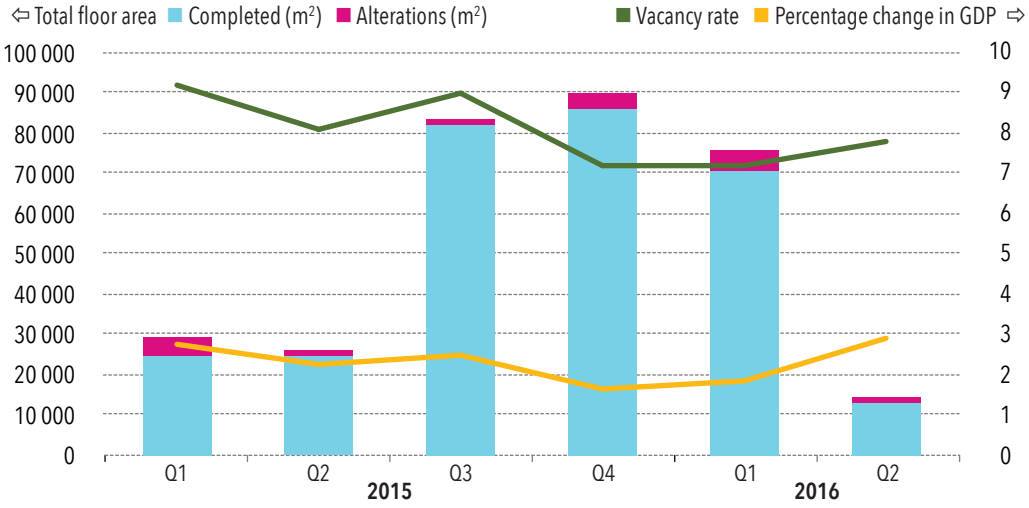
In the second quarter of 2016, 13 045 m² of new office or banking space was reported to have been completed and 1 294 m² of office and banking space alterations were completed.

Performance of Cape Town's office and banking property market

The performance of the commercial property market could be tracked in a number of ways. An indicative trend analysis is provided in figure 42 by review of observed variation in the quarterly office vacancy rate[20], the total floor area of completed office buildings added to the office property stock, the total floor area of completed office building alterations as well as the quarter-on-quarter percentage change in provincial Regional Gross Domestic Product (GDP-R) in the finance and business services sector.

In the second quarter of 2016, 13 045 m² of new office or banking space was reported to have been completed and 1 294 m² of office and banking space alterations were completed. This represents a relatively sharp fall from the previous quarter in which 70 671 m² of office or banking space completions were reported. Less favourable weather conditions in the second quarter (the heart of Cape Town's winter months) could potentially have driven the relatively lower number of building completions compared to the first quarter of 2016 (the warmer months). Over the period analysed (first quarter of 2015 to the second quarter of 2016) there was, on average, a quarter-on-quarter growth of 28% in new office building completions. As a share of all new buildings and alterations completed in Cape Town during this period, office and banking space represents 4% of all such completions.

Figure 42: Office/banking space sector developments (January 2015 to June 2016)



	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16
Total floor area of completed office/banking space (m²)	24 777	24 551	82 139	86 014	70 671	13 045
Total floor area of alterations office/banking space (m²)	4 480	1 605	1 444	4 075	5 203	1 294
Office vacancy rate (%)	9,20%	8,10%	9,00%	7,20%	7,20%	7,80%
Q-on-Q change in finance, real estate and business services, GDP-R	2,76%	2,26%	2,49%	1,65%	1,85%	2,91%

Source: Planning and Building Development Management Department, City of Cape Town, August 2016; Jones Lang LaSalle (JLL), August 2016; and Quantec, September 2016.

The office vacancy rate increased to 7,8% in the second quarter of 2016, up by 0,6 percentage points from the previous quarter's 7,2%.

As figure 42 shows, the office vacancy rate increased to 7,8% in the second quarter of 2016, up by 0,6 percentage points from the previous quarter's 7,2% while the quarter-on-quarter change in GDP of the finance and business services sector was 2,9% compared to the previous quarter's 1,9%. According to the South African Property Owners Association (SAPOA), a sustained improvement in the office vacancy rate (i.e. return to the natural vacancy rate), depends on the strength of key

20. Rode (2015) defines this as the floor area available for leasing at any given time, irrespective of whether there is still a valid lease over the space. Here it is expressed as a percentage of the stock in rentable m².

economic drivers such as economic growth and business confidence. It is likely that the weak economic climate preceding the second quarter, including the weak exchange rate, threats of a sovereign credit rating downgrade and the uncertain impacts of the Brexit, resulted in slower activity in the property market in the second quarter of 2016 as the financial sector cautioned its uptake of new leases or developments. That said, JLL reported that Cape Town had the lowest office vacancy rate relative to Johannesburg and KwaZulu-Natal and a substantially lower rate compared to the national level (10,5%) in the second quarter, reflecting a stable demand in the city's office space market.

While it might prove insightful to contrast economic growth with the evolution of building completions and the office vacancy rate, readers are cautioned that there tends to be a significant lag between these relationships. In the case of GDP and the office vacancy rate in particular, this lag can be up to 12 months. Vacancies are a function of supply meaning that vacancies may still increase with GDP if there happens to be an excess supply of office space. In general, however, vacancies are sticky downwards due to the contractual obligations of rental agreements. Similarly, in terms of the relationship between GDP and building completions, the effects of changes in the former are often lagged by a number of quarters (McGaffin and Viruly, 2016). Overall, these relationships are best assessed through the use of econometric modelling analyses and over a longer (annualised) time series.

Top commercial developments

There were 10 new commercial buildings completed in the second quarter of 2016 with a total rand value of R140 million and a combined total floor area of 20 413 m^2. Office or banking space developments accounted for six of these buildings and shopping space accounted for the remainder.

There were 10 new commercial buildings completed in the second quarter of 2016 with a total rand value of R140 million and a combined total floor area of 20 413 m^2.

Table 10: Top 10 commercial property developments – Cape Town

No.	Area	Commercial property segment	Building work description	Rand value ('000s)	Total floor area (m^2)
1	Kuilsriver	Shopping space	Shopping centre	39 816	5 420
2	Milnerton	Office/banking space	Warehouse	37 681	6 978
3	Cape Town	Office/banking space	Offices	28 843	3 442
4	Strand	Shopping space	Shops	9 754	1 164
5	Cape Town	Office/banking space	Offices	7 114	849
6	Kraaifontein	Office/banking space	Offices	6 418	1 046
7	Grassy Park	Shopping space	Butchery	3 721	477
8	Gugulethu	Office/banking space	Offices	3 690	565
9	Mitchells Plain	Shopping space	Shops	2 686	307
10	Durbanville	Office/banking space	Offices	1 082	165

Source: Planning and Building Development Management Department, City of Cape Town, August 2016.

Future developments

According to JLL's Cape Town Office Market Outlook report for the second quarter of 2016, there are four major ongoing developments which are expected to be completed by the third quarter of 2017, adding approximately 55 500 m^2 of office space to Cape Town's commercial property market. KPMG Place is reported as a major development in the Central Business District (CBD), adding a total of 16 000 m^2 of office space and is expected to be completed in the third quarter of 2017. Other major developments include the Silo District Developments and Waterway House, which are both situated in the Waterfront area, with an additional combined mixed-use development space of 33 000 m^2 expected to be completed in the third quarter of 2016 and the first quarter of 2017, respectively. Citadel Place in Claremont is expected to add office space of 6 500 m^2 in the third quarter of 2016.

Overall, while demand for commercial property is expected to remain stable in Cape Town, the economic slowdown preceding the second quarter of 2016 has started to show influence on business confidence, particularly in the real estate sector (JLL, 2016). Expectations are that due to the uncertain economic outlook for the rest of 2016 overall, the demand for office space will remain low as the pressure to gain and retain tenants mounts. In terms of the retail property market, the risk of rising inflation induced by the continuance of the rand's depreciation threatens retail margins in 2016 and may lead to a drop in retail property prices.

NEW VEHICLE SALES

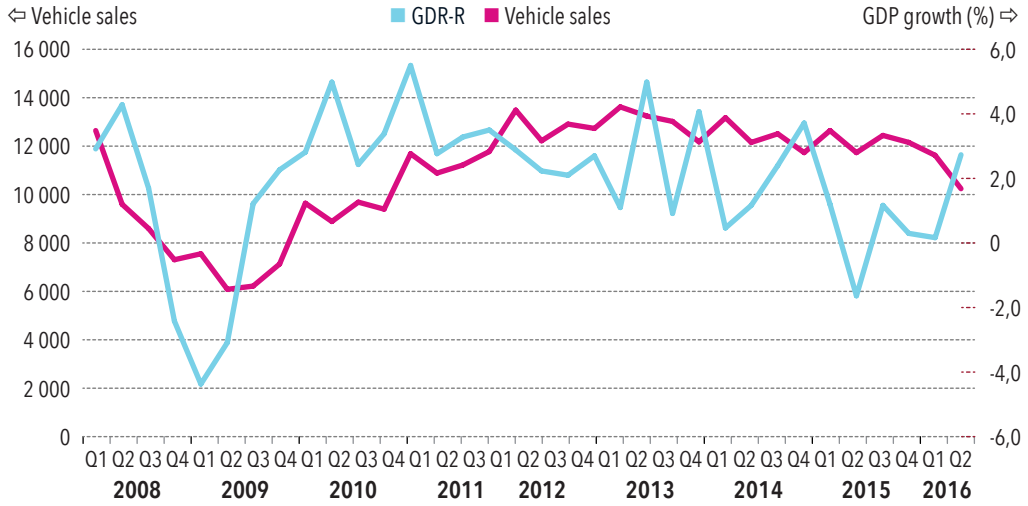
This section tracks new vehicle sales in the province on a quarterly basis. Typically, vehicle sales – especially passenger vehicle sales – are considered to mirror trends in the business cycle and are often regarded as a leading indicator for GDP growth. New vehicle sales are sensitive to changes in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

In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). The total vehicle sales in the Western Cape decreased from 17 070 vehicles sold in the first quarter of 2016 to 15 768 in the second quarter of 2016. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw a decrease of 839 from the 16 607 total vehicle sales in the corresponding period in 2015. Passenger vehicle sales, which are the private consumer segment of the market, decreased from 11 616 in the first quarter of 2016 to 10 250 in the second quarter of 2016 for the Western Cape. Year-on-year results saw a decrease of 1 477 vehicles (-12.59%) from the 11 727 passenger vehicles sold in the corresponding period in 2015. Nationally there was a 12,3% decrease in the number of passenger vehicles sold in the second quarter of 2016 compared to the corresponding period in 2015.

Passenger vehicle sales, which are the private consumer segment of the market, decreased from 11 616 in the first quarter of 2016 to 10 250 in the second quarter of 2016 for the Western Cape. Year-on-year results saw a decrease of 1 477 vehicles (-12.59%) from the 11 727 passenger vehicles sold in the corresponding period in 2015.

The year-on-year decrease in vehicle sales in the Western Cape during the second quarter is seemingly in line with the prevailing macroeconomic conditions in the country. This includes a low GDP growth rate outlook as well as low levels of consumer and business confidence. This has been driven by a number of factors, including contraction across a number of sectors in the first quarter of 2016, increases in new vehicle prices due to the weak rand, higher interest rates and increasing pressure on household budgets as a result of increased costs.

Figure 43: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 2, 2016)



Source: NAAMSA, Stats SA September 2016.

Figure 43 plots the total passenger vehicle sales per quarter alongside the GDP-R for the Western Cape. The South African Reserve Bank (SARB) includes new passenger vehicle sales as one of the variables in its leading indicator for GDP growth, with the assumption that new passenger vehicle sales and GDP growth are positively correlated and that passenger vehicle sales 'lead' GDP growth. This assumption is not unique to the Reserve Bank as passenger vehicle sales have been used as a leading variable in a number of leading indicator models.

It is not immediately clear from figure 43 which indicator leads which, although it would appear that vehicle sales are far less erratic than GDP and respond to long-term trends not short-term movements. This said, the actual nature of this relationship can only be fully appreciated when one isolates the impact that passenger vehicle sales have on GDP through the use of regression analysis. The City of Cape Town is currently working on a composite leading indicator for GDP growth, which will analyse these relationships in more detail.

LIST OF REFERENCES

1. Airports Company South Africa (ACSA), 2016, Passenger Movements, Aircraft Movements.
2. Baker Hughes, 2016, International Rig Count.
3. Barclays and the Bureau of Economic Research, 2016, Barclays Purchasing Managers' Index: 2016.
4. Bureau for Economic Research, 2016, BER Weekly (2016) – GDP data comment.
5. Cape Town Tourism, 2016, Accommodation Performance Review and Forecast and Visitor Profile Snapshot (August 2016).
6. City of Cape Town: Electricity Services Department, 2016, Electricity consumption.
7. City of Cape Town: Planning and Building Development Management Department, 2016, EESP District Performance Report and Commercial Building Completions, Quarter 2: April to June 2016.
8. Department of Energy, 2016, Integrated Resource Plan for Electricity (2010-2030).
9. Energy Information Administration (EIA), 2016, International Energy Outlook 2016.
10. *eProperty News*, 2016, Office rentals in key nodes still offer exciting potential despite the challenges.
11. Eskom, 2016, 2016/17 Tariffs and charges.
12. *Financial Times* Ltd, 2016, Foreign Direct Investment [FDI] Intelligence, London
13. First National Bank (FNB), 2016, Property Barometer – How have the various commercial property segments performed during the past two periods of weakness?
14. FNB/BER, 2016, FNB/BER Building Confidence Index.
15. IHS Global Insight, 2016, ReX Regional Explorer.
16. Industrial Development Corporation (IDC), 2016, Sector trends in the first quarter of 2016.
17. International Monetary Fund, 2016, Commodity market developments and forecasts, with a focus on the energy transition in an era of low fossil fuel prices, in commodity special feature.
18. International Monetary Fund (IMF), 2016, IMF World Economic Outlook: Uncertainty in the aftermath of the UK referendum.
19. International Monetary Fund (IMF), May – August 2016, Commodity Market Monthly, Research Department, Commodities Unit.
20. International Trade Centre, 2016.
21. Jones Lang LaSalle (JLL), 2016, Cape Town Office Market Outlook, Quarter 2, 2016.
22. McGaffin, R and Viruly, F, 2016, Expert inputs provided, September 2016.
23. McKinsey & Company, 2015, Impact of low crude prices on refining.
24. NAAMSA, 2016, New vehicle sales.
25. NAAMSA, 2016, NAAMSA media release: Comment on the July 2016, new vehicle sales statistics, Pretoria.
26. National Department of Tourism, 2016, South Africa enjoys spike in tourist arrivals.
27. National Department of Tourism, 2016, Tourism growth continues.
28. *Oil Price.Com*, 2016, Oil price spike inevitable as new discoveries hit 70-year low.
29. Petroleum Agency South Africa, (PASA), 2016, Update on exploration activities in South Africa.
30. Quantec, 2016, EasyData.
31. Rode & Associates Property Consultants' report, *The Rode Report,* on the South African property market 2015: Quarter 4.
32. Skytrax, 2016, Skytrax World Airport Awards.
33. South African Oil and Gas Alliance (SAOGA), 2016, Interview with CEO: Niall Kramer.
34. South African Reserve Bank, 2016, Monetary Policy Committee Statement, 21 July 2016.
35. South African Tourism, 2016, Tourist arrivals.
36. Statistics South Africa, 2016, Various publications.
37. Trading Economics, 2016, GDP annual growth rate.
38. Transnet National Ports Authority, 2016, Transnet Port Terminals: port statistics.
39. Transnet National Ports Authority, 2016, South African Port Handbook: Upstream Oil and Gas, Third Edition.
40. United Nations World Tourism Organisation, 2016, World Tourism Barometer: July 2016.
41. Wesgro, 2016, Cape Town attractions: August 2016.
42. World Bank, 2016, Measuring inequality.

LIST OF ABBREVIATIONS

ACSA: Airports Company South Africa
BCI: Building Confidence Index
BER: Bureau for Economic Research
BREXIT: British Exit
BRICS: Brazil, Russia, India, China and South Africa
CBD: Central Business District
CPI: consumer price index
DTI: Department of Trade and Industry
EIA: (US) Energy Information Administration
FDI: foreign direct investment
FSRU: floating storage and regasification unit
FNB: First National Bank
GDP: gross domestic product
GDP-R: regional gross domestic product
GGP: gross geographic product
GHS: General Household Survey
GVA: gross value added
HDI: Human Development Index
IDC: Industrial Development Corporation
IDZ: Industrial Development Zone
IGP: iBhubesi Gas Project
IMF: International Monetary Fund
JLL: Jones Lang Laselle
LNG: Liquefied Natural Gas
MPC: Monetary Policy Committee
MPRDA: Mineral and Petroleum Resource Development Act
MTBPS: Medium Term Budget Policy Statement
MTEF: Medium Term Expenditure Framework
NAAMSA: National Association of Automobile Manufacturers of South Africa
NPA: National Ports Authority
OPEC: Organisation of the Petroleum Exporting Countries
PASA: Petroleum Agency South Africa
PMI: (Barclays) Purchasing Managers' Index
PPI: producer price index
QLFS: Quarterly Labour Force Survey
SACU: Southern African Customs Union
SADC: Southern African Development Community
SAOGA: South African Oil and Gas Alliance
SARB: South African Reserve Bank
SAPOA: South African Property Owners Association
Stats SA: Statistics South Africa
TcF: Trillion cubic feet
UK: United Kingdom
UNWTO: United Nations World Tourism Organisation
US: United States
V&A: Victoria and Alfred
WEO: World Economic Outlook

CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

Making progress possible. Together.