CITY OF CAPE TOWN
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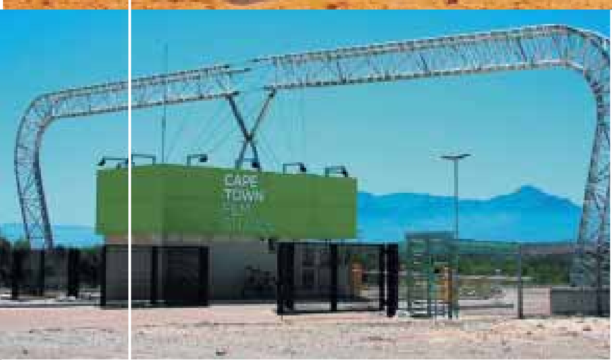

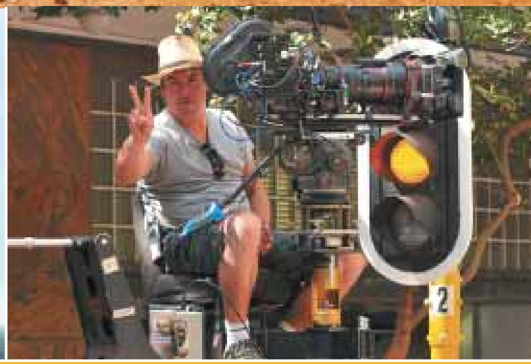

EPIC

Economic Performance Indicators for Cape Town

Quarter 1 (January–March) **2015**

Sector focus: The Film Industry

Making progress possible. Together.

Document navigation shortcuts

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

Foreword

Over the last six months, as the implications of the national electricity crisis have become clear, the importance of energy security in contributing to a growing economy for our City and a better quality of life for our citizens has been brought to the fore. As a consequence of a shortage of national generation capacity, many of the City's businesses have been forced to invest in generators and similar equipment in order to keep their lights on and their production processes running. This additional investment, as this eighth issue of *EPIC* – Economic Performance Indicators for Cape Town – points out, is being made in an environment of low growth, uncertain currency and volatile key commodity markets, putting business in the City under further commercial pressure.

The fact that we are able to keep a finger on the pulse of our economy and how it is changing means that we are able to respond quickly and decisively to the challenges posed by the national electricity crisis and the weak economy to ensure that we can give our businesses the support they need. In so doing we can assist our citizens in obtaining access to the jobs, goods and services they require.

In addition to providing an update on the state of the economy, this issue of *EPIC* looks at the film industry in Cape Town. From humble beginnings this sector is increasingly making its presence felt on the City's economic landscape and holds great promise for the future development of the economy, the City and its people.

As I have said previously, the quarterly *EPIC* publication provides a platform for addressing the issues facing our City in a way that has lasting impact. I would encourage you to engage with its contents as the basis for this critical conversation on our City's economic future, enabling us to make progress possible. Together.

P. de Lille

Patricia de Lille
Executive Mayor

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Cover photographs: *Mad Max: Fury Road* (2015), filmed on location in Namibia and at Cape Town Flm Studios; Cape Town Film Studios; *Black Sails,* an American dramatic adventure television series filmed at Cape Town Film Studios.

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Introduction

This is the eighth edition of the *EPIC* publication, which presents and analyses economic (and related) trends in Cape Town on a quarterly basis. This edition focuses on the first quarter of 2015, covering the period 1 January to 31 March 2015.

Rationale for a quarterly economic publication

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

Aim of publication, and key principles

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

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

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

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

Acknowledgements

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

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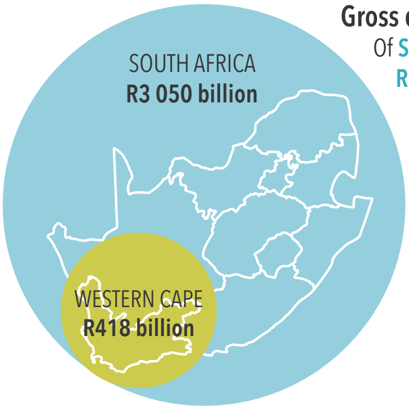
A multiplicity of other data and information sources were used in the publication, including Statistics South Africa, the Reserve Bank, Quantec, IHS Global Insight and the International Monetary Fund. These, along with other sources, are reflected in the list of references at the end of this publication.

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

wesgro
cape town & western cape
tourism, trade & investment

EDP Western Cape Economic Development Partnership



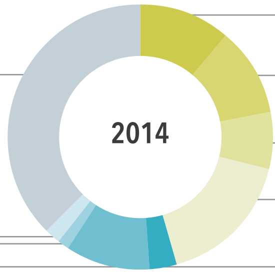
Gross domestic product (GDP)

Of South Africa's R3 050 345 000 000 gross domestic product [1] generated in the first quarter of 2015, the Western Cape accounted for R418 265 000 000.

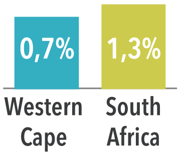
Source: Quantec, June 2015.

13,7%

Gross geographic product (GGP) contributions



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

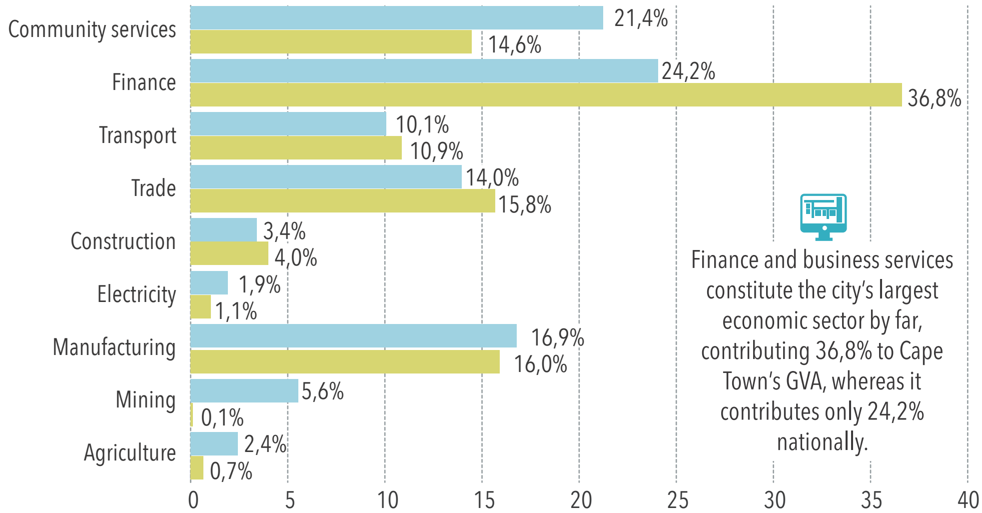


GDP growth

During the first quarter of 2015, the Western Cape had a quarter-on-quarter GDP growth rate of 0,7%, against a national rate of 1,3%.

Source: Quantec, June 2015.

Cape Town's gross value added (GVA) versus national GVA 2013



Finance and business services constitute the city's largest economic sector by far, contributing 36,8% to Cape Town's GVA, whereas it contributes only 24,2% nationally.

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

Inflation

During the first quarter of 2015, the Western Cape had a higher rate of inflation – 4,5% – than the rest of South Africa at 4,0%.

Source: Stats SA, May 2015.

Passenger vehicle sales

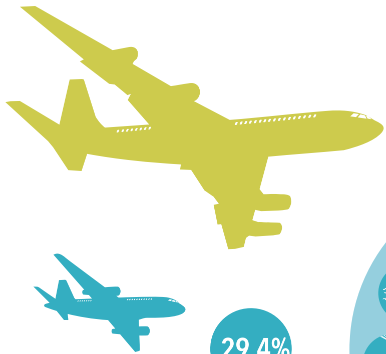
Of the 103 959 new passenger vehicles sold in South Africa during the first quarter of 2015, 12 508 were sold in the Western Cape.

Source: NAAMSA, May 2015.

Air passenger movements

Of the 8 120 000 passenger movements through South Africa's three international airports[2] during the first quarter of 2015, 2 383 640 were through Cape Town International Airport.

Source: ACSA, May 2015.



29,4%

Cargo tonnage handled at ports

During the first quarter of 2015, 61 800 000 tons of cargo were handled at South Africa's ports, of which the Port of Cape Town handled 1 040 000 tons.

Source: Transnet, National Ports Authority, May 2015.

Containers handled at ports

During the first quarter of 2015, 1 182 000 containers were handled at South Africa's ports, of which the Port of Cape Town handled 241 000.

Source: Transnet, National Ports Authority, May 2015.

20,3%

Visitor attractions

In the first quarter of 2015 , tourists and residents made

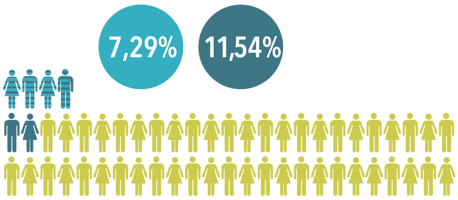
7 225 000

visits to Cape Town's six major attractions.

Source: Wesgro, May 2015.

1. Seasonally adjusted and annualised at constant 2005 prices.

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



Population

South Africa has 52 982 000 people:[3]
6 116 300 live in the Western Cape and, of those, 3 861 000 are resident in Cape Town.
Source: Stats SA, City of Cape Town.

Gini coefficient

In 2013, South Africa had a Gini coefficient[4] of 0,64, while Cape Town had a slightly lower value of 0,61.
Source: IHS Global Insight, June 2015.

0,73

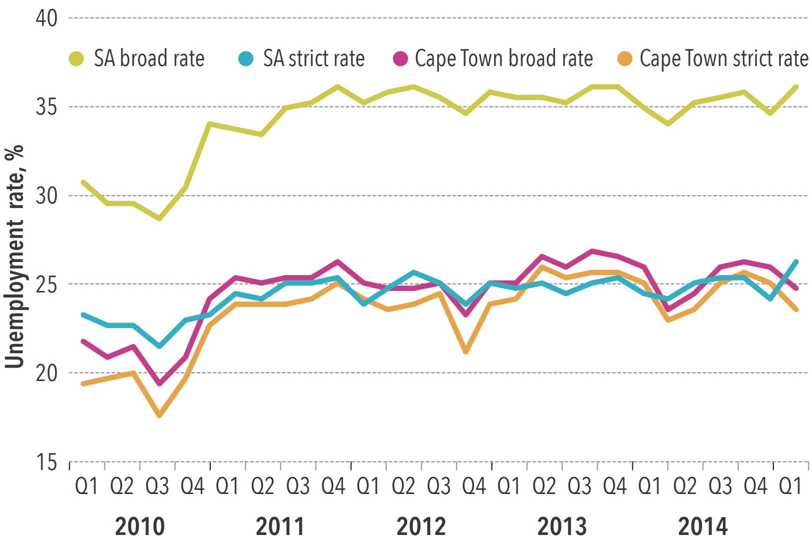
Human development index

In 2013, South Africa had an HDI[5] of 0,64, while Cape Town's was 0,73.
Source: IHS Global Insight, June 2015.

Functional literacy

South Africa has a functional literacy rate of 82,3%, while Cape Town has a rate of 92%.
Source: IHS Global Insight, March 2015.

Strict vs broad unemployment rates (Q1, 2010 – Q1, 2015)



Source: Stats SA, June 2015.

7,58%

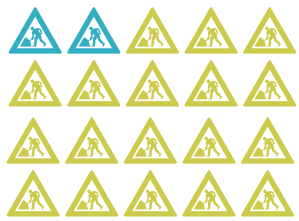
Working-age population

Of the 35 799 000 people aged 15–64 in South Africa, 2 716 000 are resident in Cape Town.
Source: Stats SA, Quarterly Labour Force Survey (QLFS), June 2015.

7,8%

Unemployment

Of the 5 535 000 unemployed people in South Africa in the first quarter of 2015, 436 000 live in Cape Town.
Source: Stats SA, QLFS, June 2015.



8,85%

Labour force

Of South Africa's 20 994 000 labour force participants, 1 859 000 live in Cape Town.
Source: Stats SA, QLFS, June 2015.

Expanded unemployment rate

While South Africa had a 36,1% unemployment rate during the first quarter of 2015, Cape Town had a lower rate of 24,68%.
Source: Stats SA, QLFS, June 2015.

Labour absorption rate

South Africa had a 43,2% absorption rate – the percentage of the working-age population in employment – in the first quarter of 2015, while Cape Town had a higher rate of 52,4%.
Source: Stats SA, QLFS, June 2015.

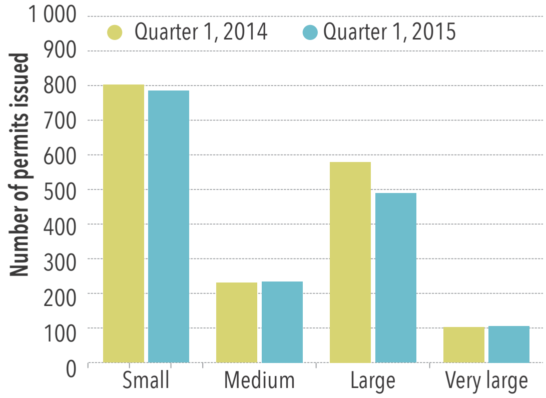
SECTOR FOCUS – THE FILM AND ANIMATION INDUSTRY

Activities in the film sector include film production and documentary production, TV commercials, stills photography as well as contemporary new media platforms such as animation and gaming.

Benchmarking of a film and TV sector profile in 16 cities

Location	Overall	Quality			Cost		Rank
		Rating	Rank	Score	Rank	Index	Total cost (R)
Beijing	1	100	3	162,36	4	62,77	10 770 936
New York City (NY)	2	89,63	1	216,59	16	163,35	28 026 849
London	3	87,8	2	200,76	15	136,32	23 390 294
Cape Town	**4**	**75,31**	**16**	**39,72**	**1**	**46,58**	**7 991 939**
Johannesburg	5	72,96	15	45,05	2	49,88	8 558 203
Mexico City	6	70,93	10	72,91	3	61,92	10 624 604
Quebec (city level)	7	66,54	5	115,09	8	102,16	17 528 913
Paris	8	66,19	4	133,65	13	132,66	22 761 707
Hong Kong	9	65,42	7	93,8	7	84,41	14 482 972
Rio de Janeiro	10	61,6	13	63,85	5	71,61	12 287 082

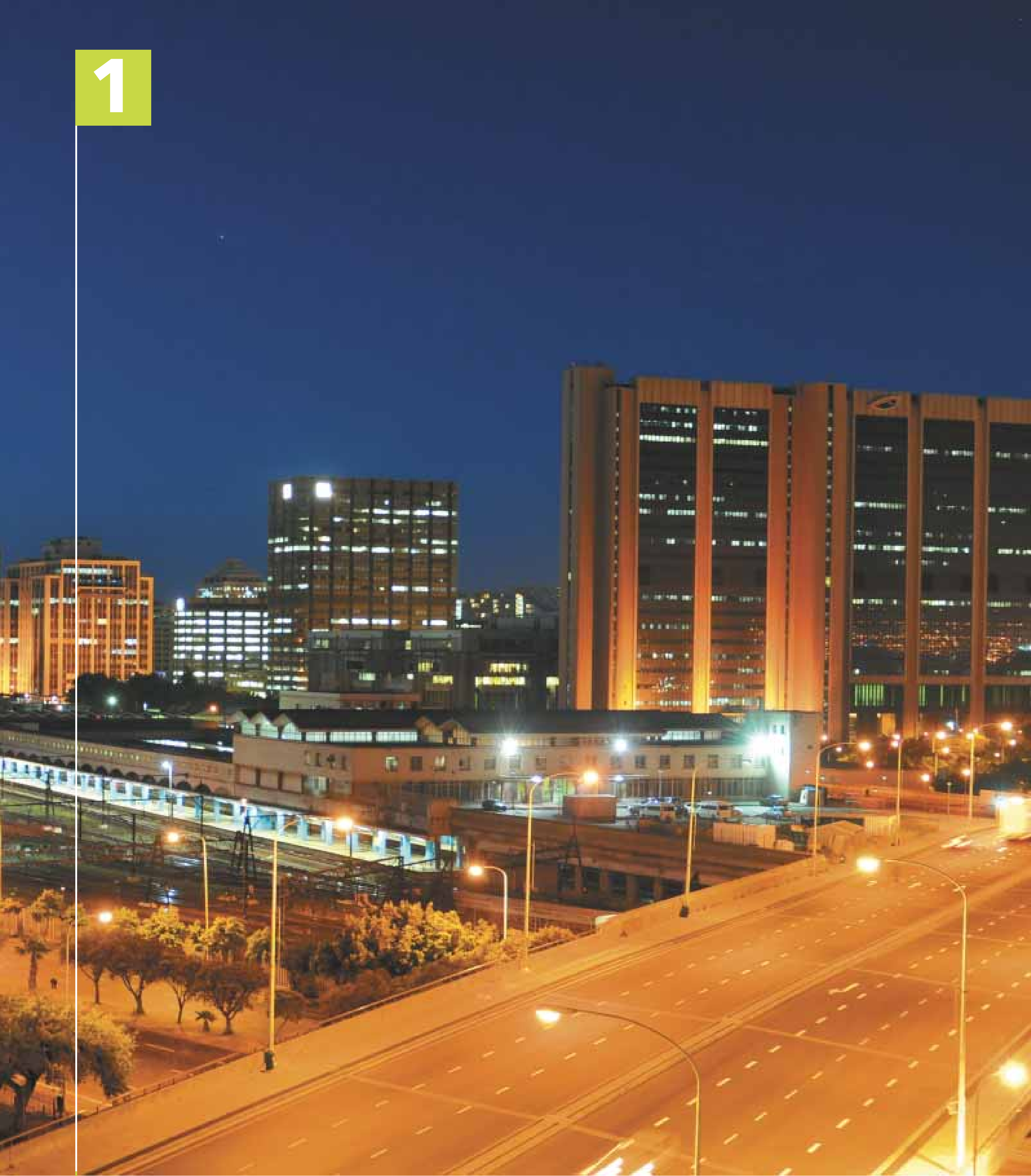
Film permits issued in Cape Town by size of shoot



Source: Tourism Events and Economic Development Department

3. Mid-year estimates, 2014.
4. The Gini coefficient measures inequality in levels of income. Lower values represent greater equality. Values are for 2013.
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.


FNB



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.

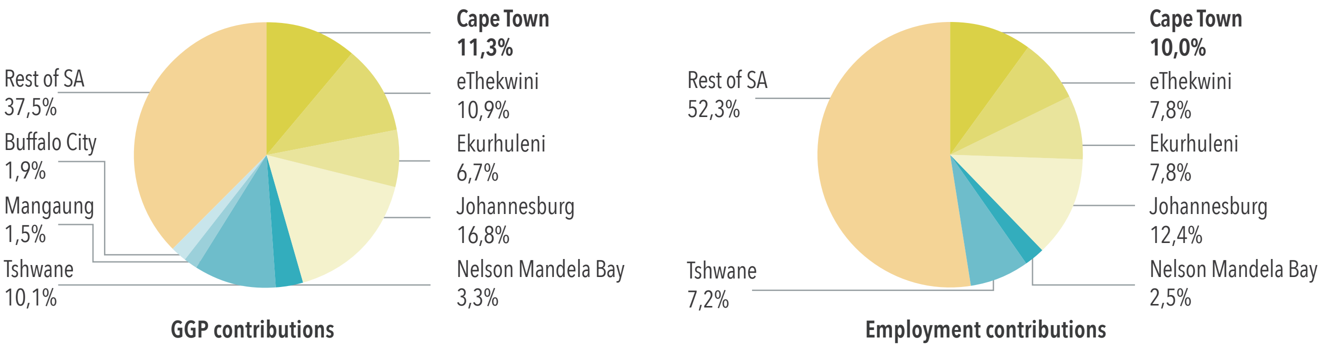
The four largest metropolitan municipalities accounted for almost half (49,2%) of the country's economic output in 2013.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 11,3% to national gross domestic product in 2013) is the second-largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 16,8% to national GDP in 2013), while eThekwini (10,9%) and Tshwane (10,1%) closely follow behind Cape Town. Together, these four metropolitan municipalities accounted for almost half (49,2%) of the country's economic output in 2013.

Metropolitan areas are also major employers in the national economy, although they tend to be less labour-intensive than non-metro areas, where activities such as agriculture dominate employment. While the four largest municipalities contribute almost half of the country's output value, they account for only 37,4% 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, 2013

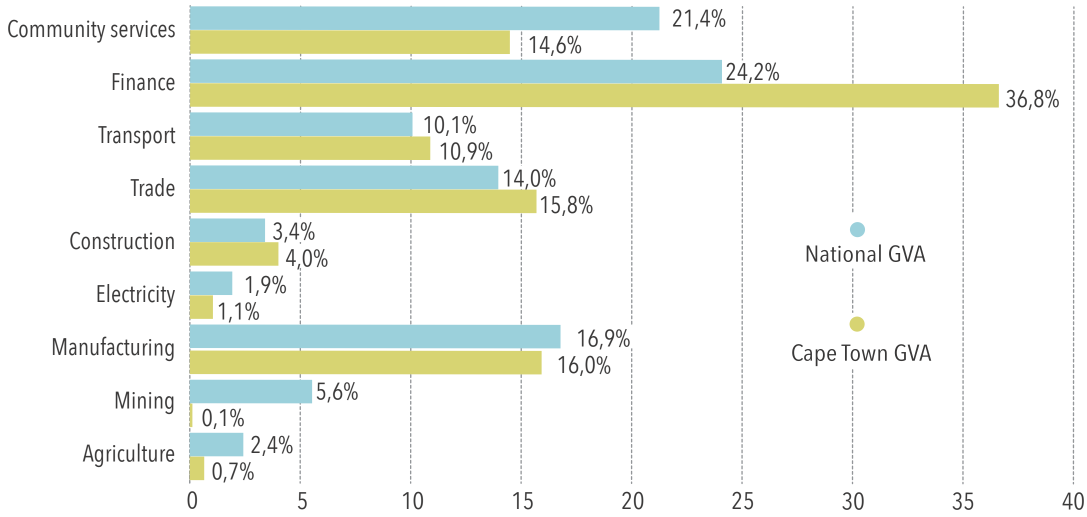


Source: Own calculations based on IHS Global Insight ReX regional data 2014.

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 36,8% to Cape Town's GVA, whereas it contributes only 24,2% nationally. At the other end of the scale, mining and quarrying contribute only 0,1% in Cape Town, as compared to 5,6% nationally.

Figure 2: Cape Town's gross value added (GVA) versus national GVA, 2013



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

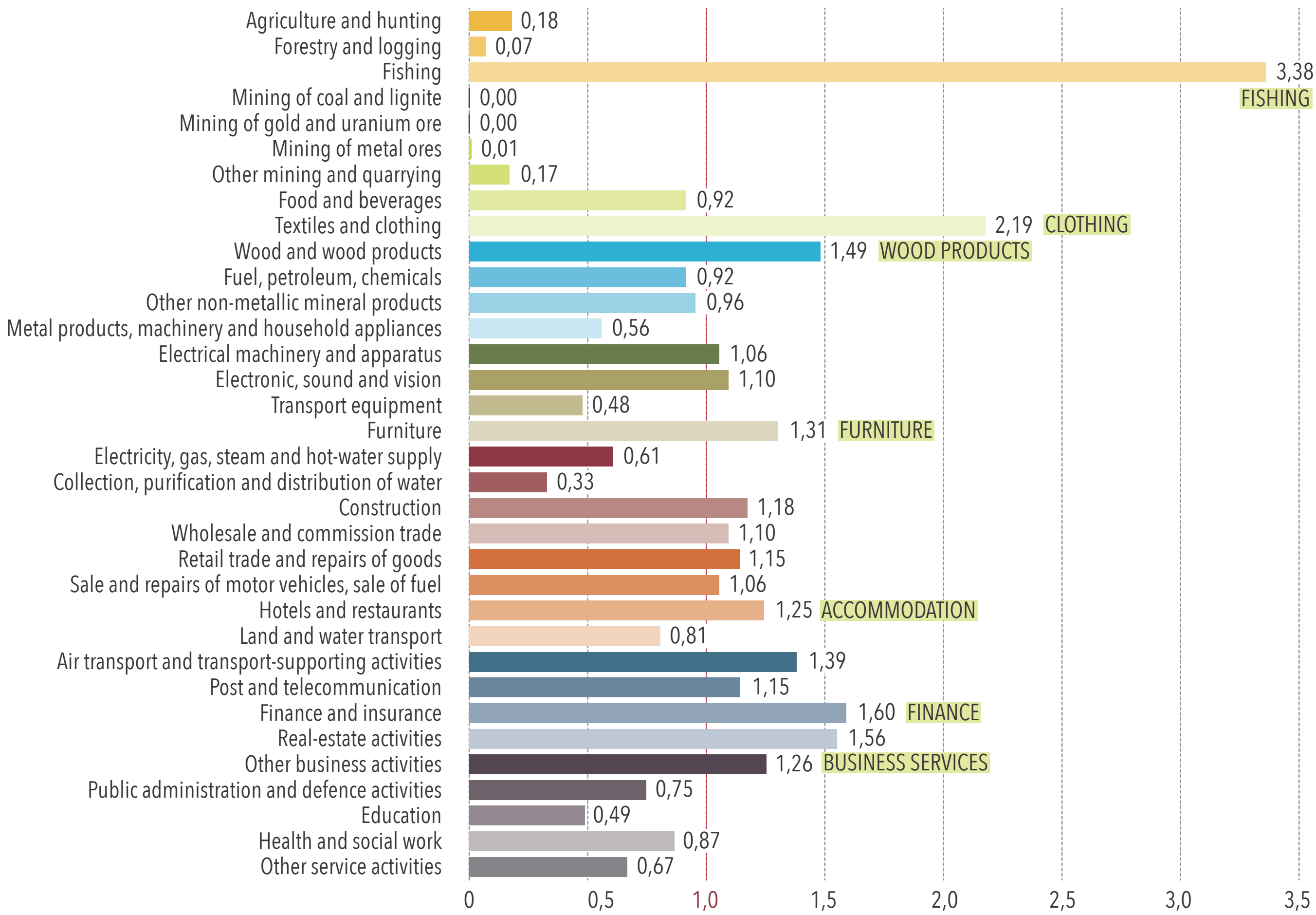
CAPE TOWN'S COMPARATIVE ADVANTAGES

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

The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, clothing and textiles, wood-product manufacturing, electronics, furniture, hospitality, finance and business services

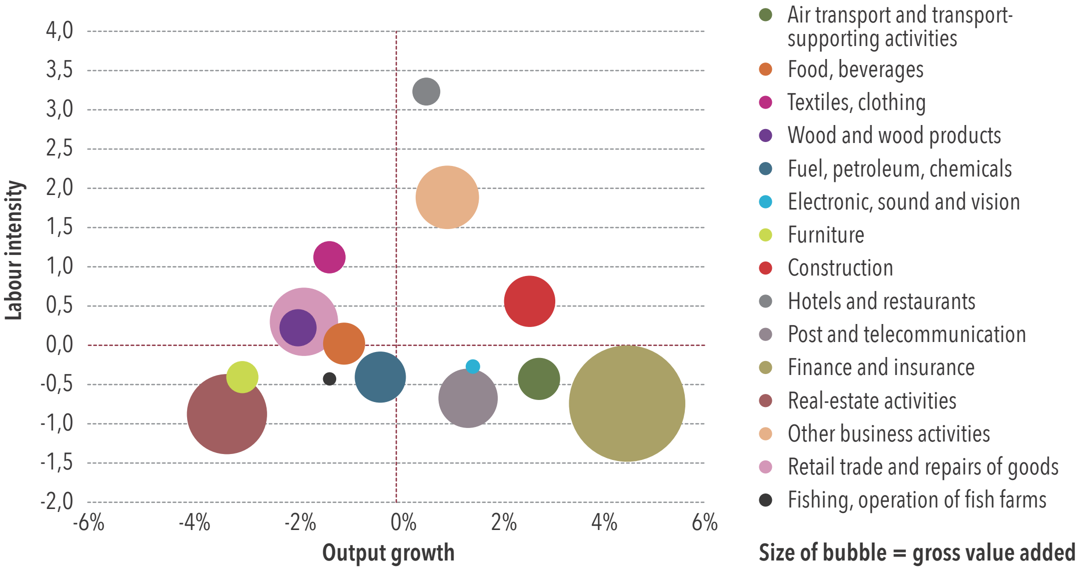
The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, clothing and textiles, wood-product manufacturing, electronics, furniture, hospitality, finance and business services industries.

Figure 3: Location quotients for industries in Cape Town



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

Figure 4: Industry performance for Cape Town



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

The finance, business services, hospitality, and post and telecommunication sectors are growing above the average rate.

industries. These industries contribute relatively more to the city's economic output than they do at a national level to South Africa's economic output. While this analysis provides some idea of specific industries in which Cape Town has a comparative advantage, it is a static and one-dimensional analysis that fails to take into account the dynamic nature of the city's economy and the extent to which individual sectors contribute to employment creation. In this respect, figure 5 provides a more nuanced, dynamic picture of the performance of some of Cape Town's sectors with a comparative advantage.

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

The importance of the tertiary sector is strongly reflected in figure 4, with the four largest bubbles being finance and insurance, business services, retail trade, and real-estate activities. A number of these tertiary sectors are also the fastest-growing industries in the city, with finance, business services, hospitality, and post and telecommunication growing above the average rate. Unfortunately, a number of these industries are below 0 on the y-axis, indicating that they are capital- as opposed to labour-intensive. This is true of post and telecommunication as well as finance and insurance. Industries that are growing fast and are labour-intensive, therefore offering good opportunities for employment creation, are construction, business services, and hotels and restaurants (a good proxy for tourism).

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

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

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

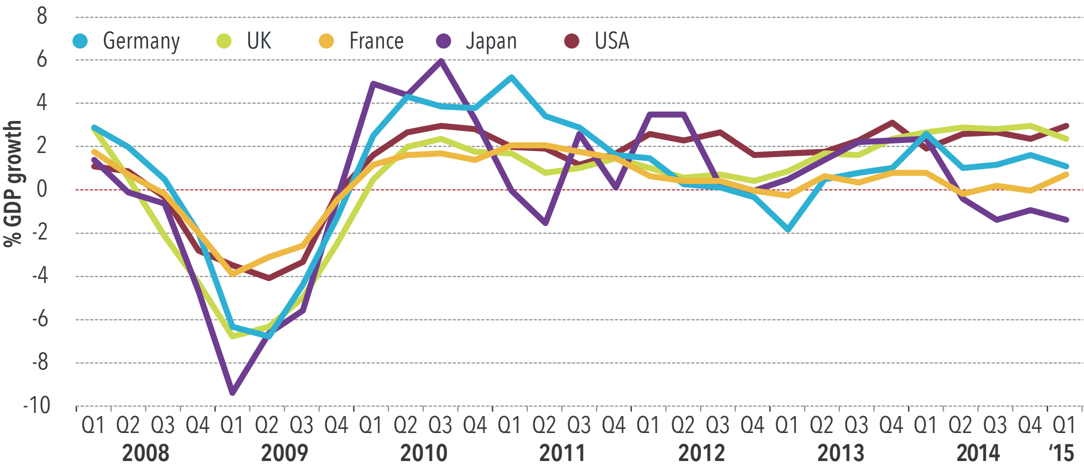
RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

The first-quarter GDP growth figures reflect a mixed performance by developed countries. While the economies of the United States (3,0%) and France (0,7%) showed slight improvement in the first quarter of 2015, the United Kingdom (2,4%), Japan (-1,4%) and Germany (1,1%) recorded declining year-on-year growth rates (as compared to the previous quarter). The growth figures were largely in line with the respective local expectations, with the German and United Kingdom's weaker growth rates driven by weaker export volumes. Revised data indicates that Japan experienced a fourth consecutive negative year-on-year growth rate, in part reflecting the lingering impact of the sales tax on consumption.

In the first quarter of 2015, South Africa's year-on-year economic growth rate increased from 1,3% to 2,0%, whilst Russia and China's growth rates declined to -1,9% and 7,0%, respectively.

Figure 5: Economic growth trends in developed countries



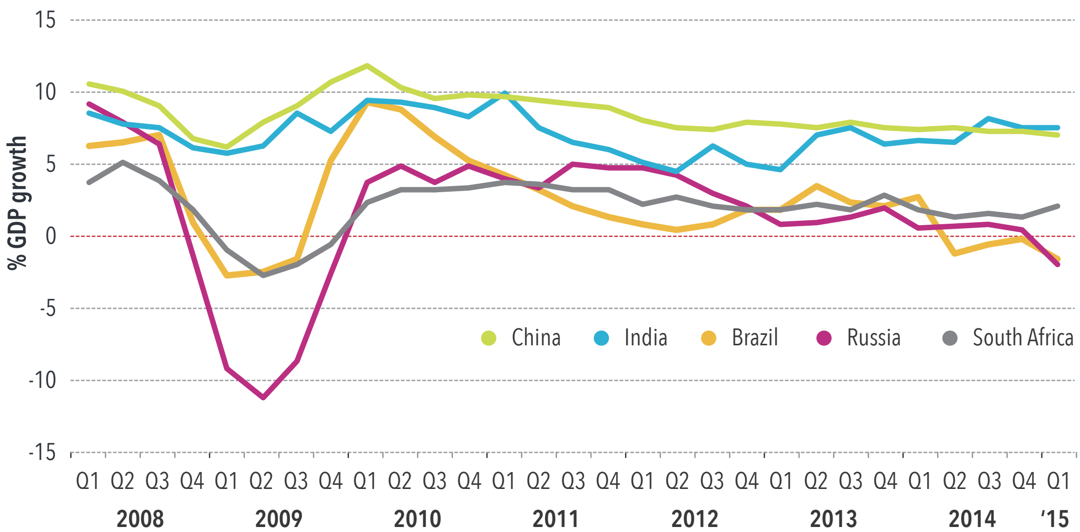
Source: Trading Economics, May 2015.

Emerging economies

Growth trends in emerging economies present a different picture from those in developed economies, as figure 6 indicates. BRICS countries (Brazil, Russia, India, China and South Africa) have achieved much higher growth rates, with an average rate of 4,7% since the beginning of 2010, compared with 1,6% for developed countries in the same period. While emerging economies have, on average, largely outperformed developed economies in this period, more recent indications are that economic growth in a number of these countries is beginning to slow.

In the first quarter of 2015, South Africa's year-on-year economic growth rate increased from 1,3% to 2,0%, whilst Russia and China's growth rates declined to -1,9% and 7,0%, respectively. The sluggish performance of these countries may in part be a negative consequence of economic recovery in developed economies but is also reflective of challenging domestic conditions. In particular, the significant decline in Russia's economic performance can be attributed to the sharp drop in oil prices and sanctions imposed over the Ukraine crisis, while lower levels of property investment and weak industrial production

Figure 6: Economic growth trends in emerging economies



Source: Trading Economics, May 2015.

volumes have hindered economic growth in China. Growth in India's economy (7,5%), however, remained upbeat and exceeded China's GDP growth in the first quarter.[6]

Global economic outlook

The International Monetary Fund's (IMF) World Economic Outlook Update (2015c), published in April 2015, shows that global economic activity improved throughout 2013 and 2014, with a completed-year global growth rate of 3,4% for both years. Whilst 2014 saw a significant decline in oil prices, there were marked growth divergences amongst major economies - the United States' recovery was stronger than anticipated, whilst growth in the Eurozone was moderately weaker than expected. In its April update, the IMF leaves its global growth forecast for 2015 unchanged at 3,5% but revises its projection for 2016 up to 3,8% from 3,7%.

Following an improvement from -0,5% growth in 2013 to 0,9% growth in 2014, the IMF has adopted a more positive outlook for the Eurozone. Its forecast was revised upward, projecting growth of 1,5% for 2015 and 1,6% in 2016. This recovery is however expected to be uneven, as lower oil prices, monetary policy easing and a more neutral fiscal policy stance are expected to be offset by weaker investment projections (IMF 2015c:3).

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

The IMF (2015c) has revised sub-Saharan Africa's economic growth projection for 2015 further downward to 4,5% from an earlier projection of 5,8%, with 5,1% projected for 2016. The forecasts for South Africa were revised to 2,0% for 2015 and 2,1% for 2016 (previously 2,0% and 2,5%, respectively). This downward revision reflects deteriorating domestic economic conditions in 2014. The reasons for South Africa's lower growth prospects compared to those in neighbouring countries are unpacked in more detail in chapter 4. In general, developing countries are expected to continue to lead global economic growth, with a rate of 4,3% predicted in these countries for 2015. Developed countries, however, are expected to close this gap slightly in 2015, with an expected growth rate of 2,4%.

The IMF (2015c) has revised sub-Saharan Africa's economic growth projection for 2015 further downward to 4,5% from an earlier projection of 5,8%, with 5,1% projected for 2016. The forecasts for South Africa were revised to 2,0% for 2015 and 2,1% for 2016 (previously 2,0% and 2,5%, respectively).

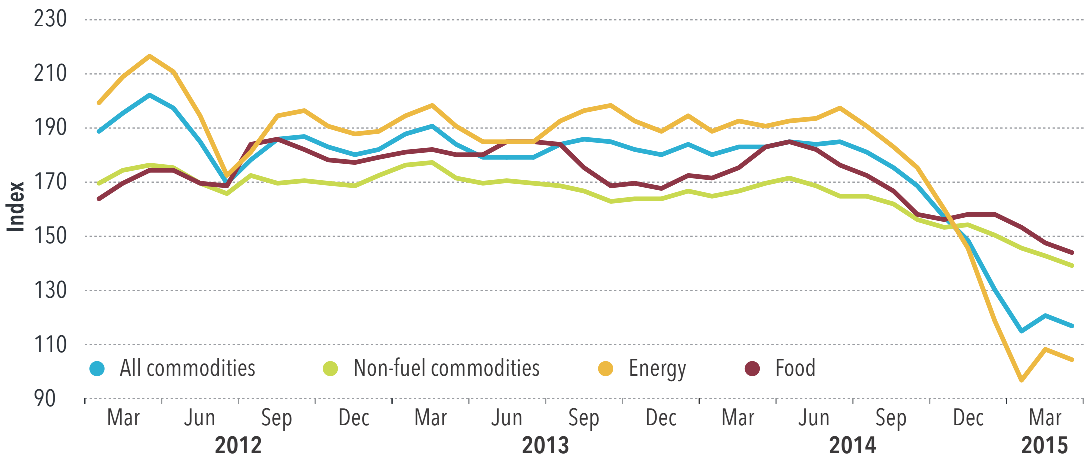
COMMODITIES

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

The all-commodities index continued its decline, falling from 130,35 index points at the end of the fourth quarter of 2014 to 114,81 index points at the beginning of the first quarter of 2015. Thereafter it increased to 120,88 index points at the end of February and subsequently fell to 117,15 index points at the end of the first quarter. The initial decline can be attributed to the continued drop in oil prices and weak demand in China, while the subsequent gain in prices can be attributed to the sharp rebound in the oil price. The slowing thereafter could be due to the strengthening of the US dollar against a broad group of currencies.

Removing the impact of the falling fuel price by looking at the non-fuel commodities index reveals a significantly different

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



Source: IMF, May 2015a.

6. India's GDP is now measured in market prices instead of factor cost and the base year was changed to 2011/12 from 2004/05. This has resulted in significant revisions to its historic growth rates.

The price of Brent crude oil dropped from $62,16 per barrel at the end of the fourth quarter of 2014 to $48,42 per barrel at the start of the first quarter of 2015. This was due to increasing supply and excess stock, as well as OPEC's decision to maintain market share.

pattern, with a less sharp decline. The non-fuel commodities index declined from 150,47 index points at the end of the fourth quarter of 2014 to 145,71 index points in January. This declining trend continued through to the end of the first quarter of 2015, closing at 139,14 index points. This steady fall can be attributed to the decline in the price of metals and agricultural products and the appreciation of the US dollar.

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

Source: IMF, May 2015a.

Brent crude oil

The price of Brent crude oil dropped from $62,16 per barrel at the end of the fourth quarter of 2014 to $48,42 per barrel at the start of the first quarter of 2015. This was due to increasing supply and excess stock, as well as OPEC's decision to maintain market share. Thereafter, a decline in upstream investment and production in the industry and increased demand led to the oil price increasing for the first time in eight months, from $48,42 per barrel in January to $57,93 per barrel at the end of February. The price subsequently dropped slightly to $55,79 per barrel at the end of March, which could be attributed to the slowdown in demand due to milder weather and refinery maintenance as well as surplus supply.

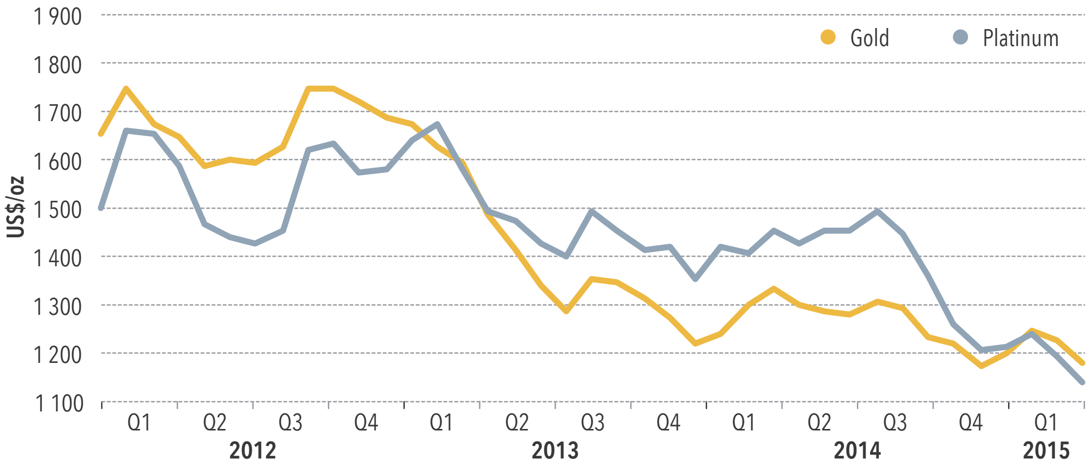
Gold and platinum

The gold price continued its increase into the first quarter of 2015 and ended January at $1 250,75/oz, up from $1 200,62/oz at the end of the fourth quarter of 2014. Gold prices then fell for the remainder of the quarter dropping to $1 227,08/oz in February and to $1 178,63/oz in March. The initial increase can be attributed to the increase in demand due to the Chinese New Year. Thereafter the fall in prices can be attributed to the slowdown in economic activity and rallying stock market prices in China (World Gold Council, 2015).

The platinum price followed a similar pattern to the gold price, increasing to $1 242,45/oz in the first month of 2015 and thereafter dropping by $103,81/oz to close March at $1 138,64/oz. The initial increase in the price of platinum can be attributed to Chinese jewellers restocking after the Chinese New Year, while the subsequent decline can be partly attributed to the slowdown in China's GDP growth in the latter part of the quarter (World Platinum Investment Council, 2015). The South African production of platinum increased in the first quarter as mining output continued to recover from the 2014 strike.

The metals' price index continued its downward trend in the first quarter of 2015, largely due to slowing demand growth in China.

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



Source: World Bank, May 2015.

Non-precious metals

The metals' price index continued its downward trend in the first quarter of 2015, largely due to slowing demand growth in China. The index fell from 148,7 index points at the end of December to 140,32 index points at the end of January. The largest price decline for January was copper which fell by 10%, and nickel which fell by 7%. The price index then dropped to 137,29 index points at the end of February and further to 134,60 index points by the end of the quarter. Iron ore prices fell by 7% in February and 9% in March – this is largely due to low-cost iron ore supplies from Australia. (IMF, 2015b)

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

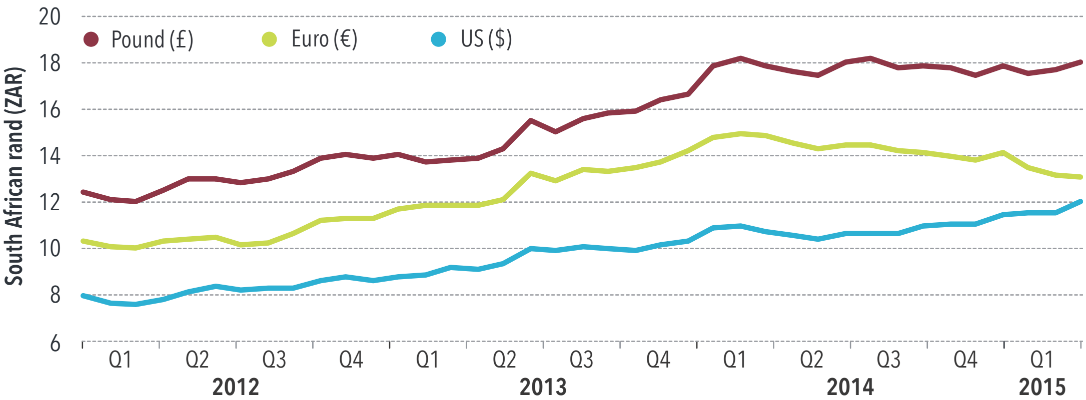
Source: IMF, May 2015a.

3 Exchange rates

While cities do not influence the country's exchange rate, the strength or weakness of the rand has a direct impact on local consumers and exporters.

To measure the performance of the South African rand, its exchange rate is compared to seven other currencies, namely the United States dollar ($), the British pound (£), the euro (€), the Brazilian real, the Russian rouble, the Indian rupee and the Chinese yuan. Figure 11 illustrates the performance of the rand against the three major developed-economy currencies for the period January 2012 to March 2015.

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

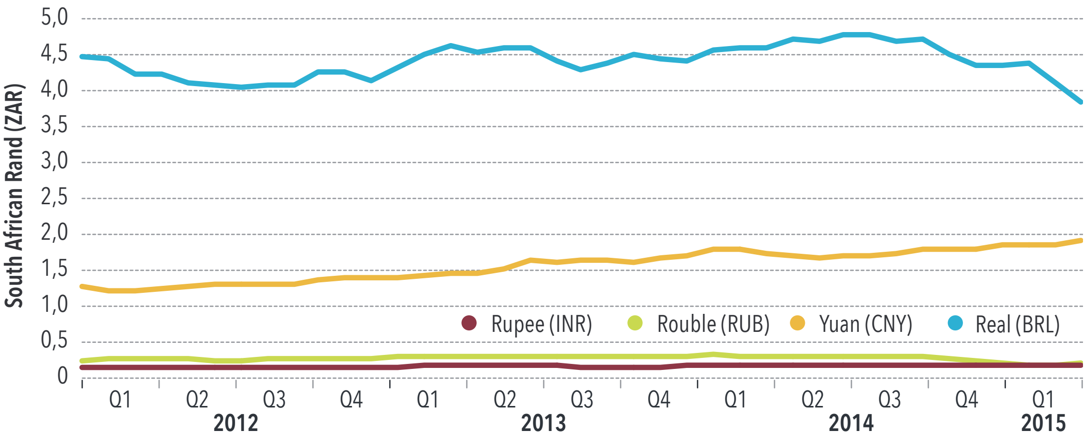


Source: South African Reserve Bank, May 2015.

In February 2014, the rand hit a more-than-10-year low against the dollar with a rate of R10,98 to the dollar. After a slight ease in the rand/dollar exchange rate to R10,96 at the end of the third quarter 2014, the rand weakened in the fourth quarter 2014 to R11,46 and further to R12,01 per dollar at the end of the first quarter of 2015. This was as a result of a rise in domestic headline and core inflation, and also due to the normalisation of US monetary policy that is expected to result in a rate hike later in the year. Weaker growth and looser monetary policy in the European Union has resulted in the rand strengthening against the pound and the euro.

Other factors influencing the performance of the rand exchange rate may be slow domestic economic growth and low commodity prices, as well as electricity shortages and their effect on investor confidence.

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



Source: South African Reserve Bank, May 2015.

The rand's first quarter performance against two of the BRICS currencies, the rupee and yuan, was relatively stable but there was an appreciation of the rand against both the real and rouble in the quarter. During the past three quarters, the rouble has depreciated, resulting in it being rated one of the worst performing exchange rates in 2014. The depreciation of the rouble against the rand continued into the first quarter of 2015, with Russia also experiencing an economic contraction of 1,9% with a further contraction of more than 3% expected for the rest of the year. This can be attributed to the declining value of Russia's oil exports as the oil price plummeted at the beginning of the first quarter, as well as the ongoing trade sanctions placed on Russia as a result of its military involvement in Ukraine. The modest increase in the oil price at the end of the quarter did see a slight strengthening of the rouble.

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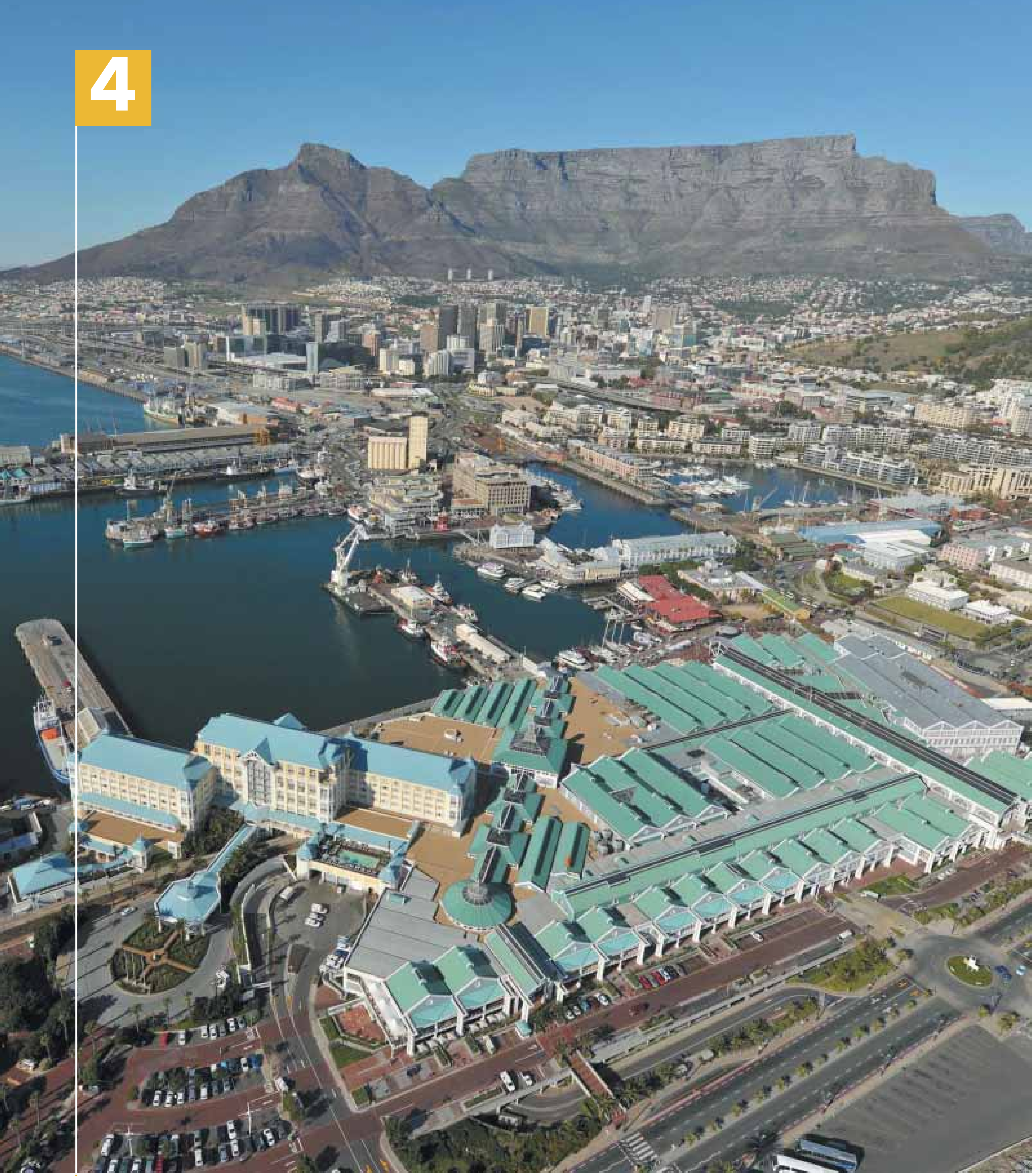


Domestic economic performance

Gross domestic product (GDP) growth is one of the most widely used measures of economic performance in a country or region. It provides an indication of the level of value-added production that takes places 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

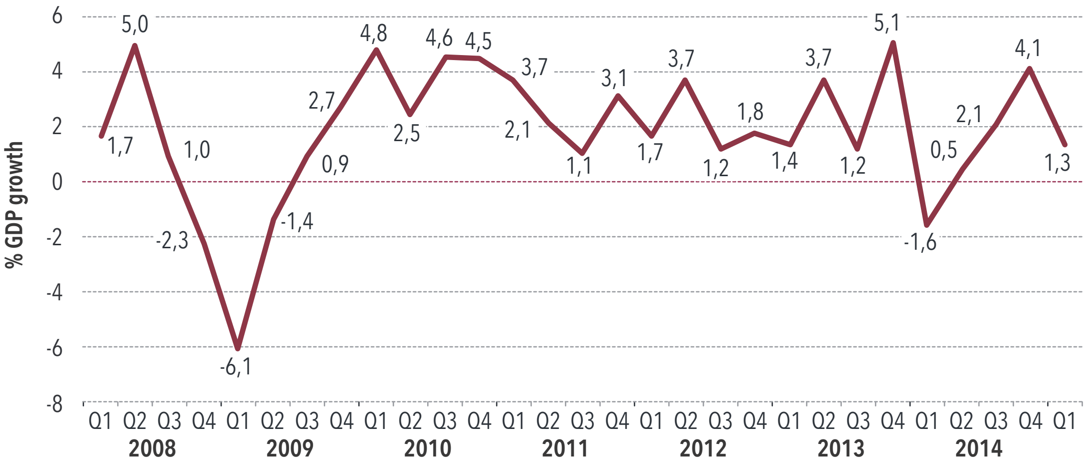
Quarter-on-quarter gross domestic product (GDP) growth rate

Economic growth (as measured by changes in GDP) in South Africa increased to 1,3% quarter on quarter in the first quarter of 2015. This was largely in line with market expectations that the economy's robust performance in the fourth quarter of 2014 would be short-lived as it mainly reflected temporary production recoveries following strikes. The secondary sector was the worst performing sector, recording a 1,4% quarter-on-quarter decline. Manufacturing contracted by 2,4%, as was predicted by the findings of the Kagiso Purchasing Managers' Index (PMI).

Economic growth (as measured by changes in GDP) in South Africa increased to 1,3% quarter on quarter in the first quarter of 2015, largely in line with market expectations.

Shorn of some of the short-term vicissitudes of quarterly data, South Africa's year-on-year economic growth rate in the first quarter of 2015 was 2,0%, up by 0,7 percentage points from the previous quarter's year-on-year rate. However, this may simply reflect growth off last year's low base, which reflected the impact of industrial action in the platinum mining sector. Having posted a modest annual growth rate of 1,5% in 2014, the rather subdued performance in the first quarter provides little to suggest that the South African economy has shifted onto a higher growth path. Indeed the Reserve Bank's growth forecast for the country in 2015 is 2,2% while the IMF has revised its forecast to 2,0%. In the context of an annual GDP growth target of 5% to 7%, as contained in government's New Growth Path and the National Development Plan (NDP), this relatively low annual growth rate undermines South Africa's ability to meaningfully reduce the country's unemployment rate.

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



Source: Stats SA, May 2015.

Sectoral determinants of GDP growth in South Africa

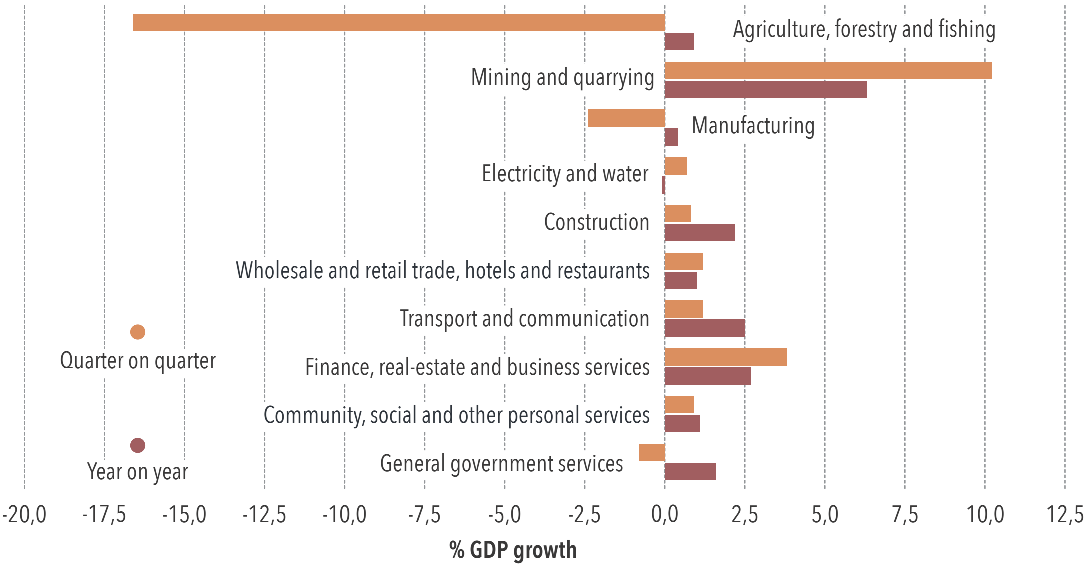
Primary-sector growth slowed sharply in the first quarter of 2015, increasing by a modest 3,3% quarter-on-quarter, down from the strong 13,3% quarter-on-quarter increase in the fourth quarter of 2014. While slower growth in the mining sector (10,2% from 15,2% in the previous quarter) contributed to this, a substantial decline (-16,6%) in agricultural production provided the largest negative impact on primary-sector growth and indeed on GDP growth as a whole, decreasing GDP growth by 0,4 percentage points. The poor performance of the sector can be attributed to the impact of drought conditions in the northern provinces, where maize production is the main contributor to agricultural output. In contrast, while output in the mining sector slowed, it was one of the largest positive contributors to economic growth in the first quarter, contributing 0,7 percentage points to GDP growth.

Primary-sector growth slowed sharply in the first quarter of 2015, increasing by a modest 3,3% quarter on quarter, down from the strong 13,3% quarter-on-quarter increase in the fourth quarter of 2014. While slower growth in the mining sector contributed to this, a substantial decline in agricultural production provided the largest negative impact on primary-sector growth.

After having grown by 7,2% in the fourth quarter of 2014, the secondary sector declined by 1,4% in the first quarter of 2015. This was driven by a 2,4% decline in the manufacturing sector. This supports the assertion made in the previous edition that the recovery in the sector in the fourth quarter of 2014 was a superficial and short-term one. The reduced manufacturing output in the first quarter of 2015 reflected lower production in the petroleum, chemicals and plastic sub-industry, as well as radio, television and communication equipment, wood products and paper, publishing and printing. The electricity and water sector also continued to grow slowly (0,7%) during the quarter while growth in the construction industry eased notably to 0,8% quarter on quarter in the first quarter, down from 3,8% in the fourth quarter of 2014.

The tertiary sector grew at 1,5% and was largely characterised by the better-than-expected performance of the finance and business service sector and the poorer performance of the wholesale and retail trade sector. The finance and business services sector's 3,8% increase contributed 0,7 percentage points to overall economic growth. This can mainly be attributed to increased banking transactions, which were driven by financial market activities. The trade sector recovered with a 1,2% growth rate, up from the 0,3% contraction in the previous quarter. This recovery was, however, more modest than what was seemingly indicated by the monthly retail and wholesale sales numbers released by Stats SA. At the other end of the scale in the tertiary sector, government services recorded a 0,8% contraction.

Figure 14: Sectoral GDP growth rates for South Africa (Quarter 1, 2015)



Source: Stats SA, May 2015.

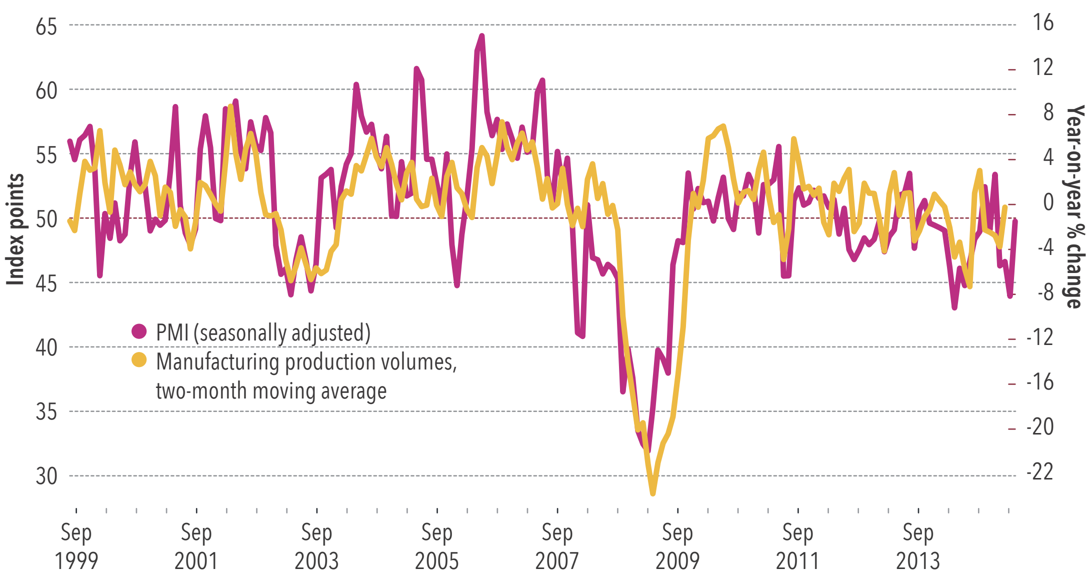
Figure 14 shows that the year-on-year growth rates are less variable than their quarterly counterparts. According to year-on-year rates, electricity was the only sector to record negative growth. This is reflective of the current infrastructure issues prevalent in the sector, which are having a negative effect on the production of electricity. This, in turn, has had ripple effects through a number of industries and highlights the need for government to urgently address these infrastructural issues.

Economic growth outlook for South Africa

The tertiary sector has been the main source of growth in the South African economy since 2008, and has often counterbalanced the volatility of the mining and manufacturing sectors. However, the dampened performance of the tertiary sector over the last year has exposed the country to the volatility of the primary and secondary sectors. In the fourth quarter of 2014, the tertiary sector's low growth rate was counterbalanced by a strong performance in both the mining and manufacturing sectors. In the first quarter of 2015, however, with relatively little improvement in the tertiary sector's performance, the opposite has occurred as the contractions in the manufacturing and agricultural sectors dragged GDP growth down to around the 1% mark. If the tertiary sector had grown at its historical five-year average during this period, the poor performance of these two, typically volatile, sectors would have been better masked, and a positive overall growth rate would have been achieved. As it is, South Africa's growth performance has become increasingly exposed to the risks emanating from the primary and secondary sectors. A dampened consumer climate, depressed by a weak rand and increasing electricity prices, means that this may continue to be the case in the short to medium term.

South Africa's growth performance has become increasingly exposed to the risks emanating from the primary and secondary sectors. A dampened consumer climate, depressed by a weak rand and increasing electricity prices, means that this may continue to be the case in the short to medium term.

Figure 15: Kagiso Purchasing Managers' Index for South Africa



Source: Kagiso Tiso Holdings/Bureau for Economic Research, February 2015. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

The short-term forecast for the mining sector remains gloomy especially as wage negotiations in the gold and coal mining sectors are currently underway and the risk of renewed mining sector strikes remains. The outlook for the agricultural sector is also little better as grain farmers in the winter grain-planting areas (Western Cape) have expressed concern about the lack of rain to date.

The short-term outlook for the manufacturing sector, as conveyed by the Kagiso Purchasing Managers' Index (PMI),[7] is also relatively bleak. The PMI dropped further below 50 index points in April to 45,4, an 11-month low. There was, however, a strong recovery in May that brought the index above the neutral 50-point mark, albeit only slightly at 50,3 points. The biggest driver of the increase in the PMI in May was the solid recovery in the new sales orders index, which rose by 9,9 index points to 52,2. The Bureau of Economic Research (BER) explains this could be the result of a sustained recovery in the Eurozone (where the flash manufacturing PMI rose to a 13-month high), and a slight improvement in China. The improvement in demand filtered through to the business activity index, which rose to 49,6,up from a dismal 40,6 index points. The significant recovery in the index in May suggests an improvement in business conditions from the poor performance in April. However, this will have to be sustained over more than just one month for manufacturing production to meaningfully recover from the contraction recorded in the first quarter of 2015.

Energy security remains the biggest obstacle for sustained growth in the manufacturing industry, despite efforts to alleviate electricity-related production constraints through the implementation of a loadshedding programme.

Energy security remains the biggest obstacle for sustained growth in the manufacturing industry, despite efforts to alleviate electricity-related production constraints through the implementation of a loadshedding programme. While measures put in place to deal with electricity supply constraints have introduced some predictability, they have reduced the availability of supply and resulted in an increase in manufacturing costs, which has had the effect of reducing the appetite for investments in the sector. From an input cost point of view, the Kagiso PMI's price index rose for the third consecutive month and can be expected to rise further due to increasing fuel and electricity prices in the coming months. Despite some of the short-term weakness in the outlook for the manufacturing sector, the PMI's six-month expected business conditions index rose to 61,8 from 56,3 index points previously. This is largely due to the weak level of the rand exchange rate, as well as the anticipated demand for exports, particularly from the Eurozone. This can be expected to positively influence South Africa's manufacturing output as the weakness of the rand enhances competitiveness in increasingly confident international markets.

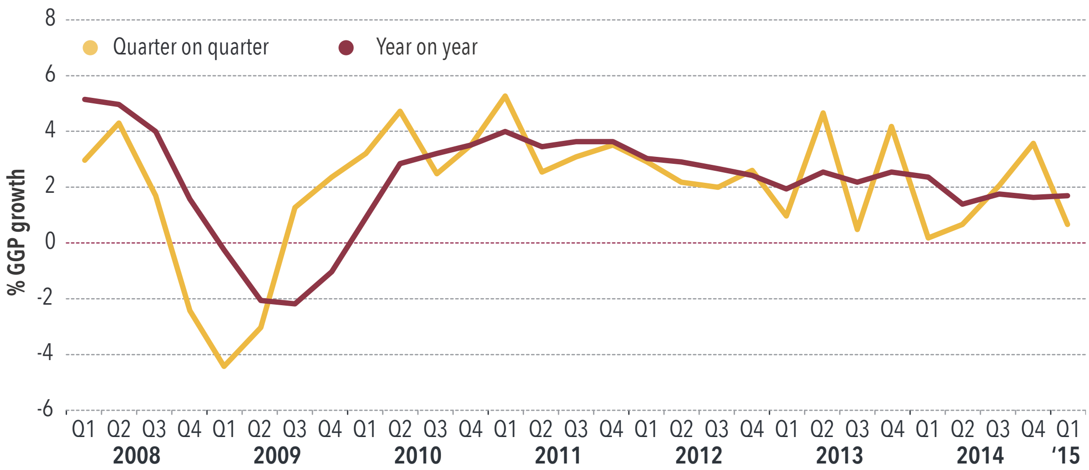
The BER (2015) believes that the subdued growth performance of the national economy will continue throughout 2015 and, as such, have stuck with their 'below-consensus' forecast of 1,7% annual economic growth for 2015.

ECONOMIC GROWTH IN THE WESTERN CAPE

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

The Western Cape economy contributes around 15% of national GDP, and is strongly influenced by national economic conditions (Quantec, 2014). As expected, given the performance of the national economy, the Western Cape's economic growth rate slowed in the first quarter of 2015. The provincial economy grew by 0,7% quarter on quarter in the first quarter; this was below the national rate of 1,3%. This discrepancy in growth rates is due to the differing structure of the national and provincial economy. The Western Cape's limited mining industry activity meant that it did not benefit as strongly from the ongoing recovery in that industry, which despite slowing in the first quarter of 2015 still recorded an increase of 10,2%. On

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



Source: Quantec, May 2015.

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

the other end of the spectrum, the Western Cape economy is strongly impacted by the wholesale and retail trade sector, which grew more slowly than expected.

The differing structure of the Western Cape economy – less invested in mining and more invested in tertiary sectors – also means that it does not experience the same extent of fluctuations as the national economy. The Western Cape's year-on-year economic growth rate increased to 1,7% in the first quarter from 1,6% in the previous year, whereas the national rate, reflecting the impact of severe mining strike-related stoppages in the first quarter of 2014, increased from 1,3% to 2,0%. The Western Cape's weak economic performance can largely be explained by a major contraction in agricultural output and continued insipid growth in the trade sector.

While GGP statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to largely mirror that of the provincial economy. This is because the metro contributes about 75% of the provincial economic output (Global Insight, 2014). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate was 0,5 percentage points. If this were to hold in the first quarter of 2015, the city's growth rate would be in the region of 0,2% to 1,2%.

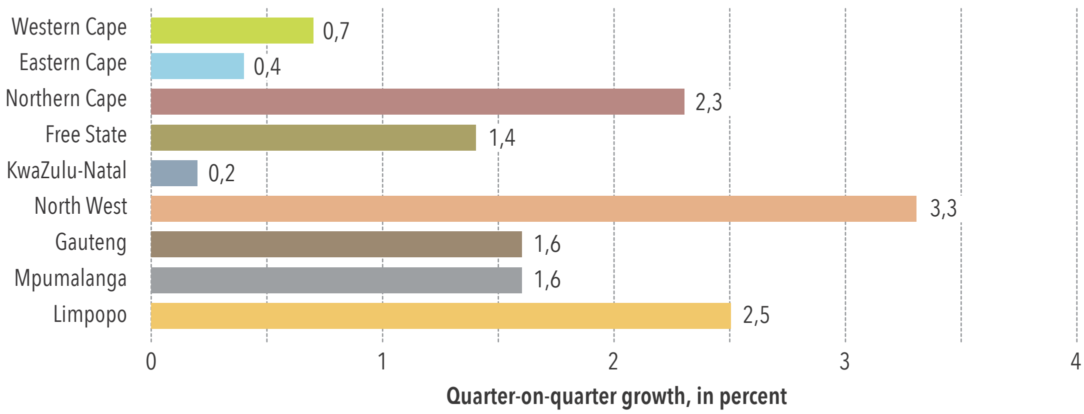
Provincial economic growth comparisons

A comparison of economic growth rates between provinces reveals that the smaller, mining-based economies experienced the largest growth rates, as the mining sector recorded the highest growth rates during its continued recovery from strikes. In particular, the North West and Limpopo recorded GGP growth rates of 3,3% and 2,5% respectively. Mpumalanga was more subdued with a growth rate of 1,6%, as the coal mining sector remained more stable than other mining sectors. The larger, more diversified economies, KwaZulu-Natal, Gauteng and the Western Cape, did not enjoy the benefit of mining production normalisation to the same extent and were subject to the poor performance of the manufacturing sector. In this regard, KwaZulu-Natal, which proportionately has the largest manufacturing sector of the three, grew the slowest, recording a rate of 0,2%, compared to Gauteng's rate of 1,6% and the Western Cape's rate of 0,7%. These economies, particularly the Western Cape, were also constrained by the poor performance of the tertiary sector, which failed to counterbalance the contractions in agriculture and manufacture.

Cape Town is not significantly affected by the mining sector and would not have benefitted from positive mining growth rates like the North West or Limpopo. Similarly, the agricultural sector, which is one that declined massively in the province, is not strongly represented in the city. On the other hand, Cape Town is more affected by the performance of the manufacturing sector as it is by far the province's largest manufacturing hub. Considering that the largest decline in provincial output came from a sector (agriculture) that is not strongly represented in Cape Town and that the highest increase in production came from a sector (finance and business services) that is strongly represented, it can be expected that the city's economy may have performed slightly better than the provincial economy in the first quarter of 2015.

Considering that the largest decline in provincial output came from a sector (agriculture) that is not strongly represented in Cape Town and that the highest increase in production came from a sector (finance and business services) that is strongly represented, it can be expected that the city's economy may have performed slightly better than the provincial economy in the first quarter of 2015.

Figure 17: Provincial comparisons of real GGP growth rates (Quarter 1, 2015)

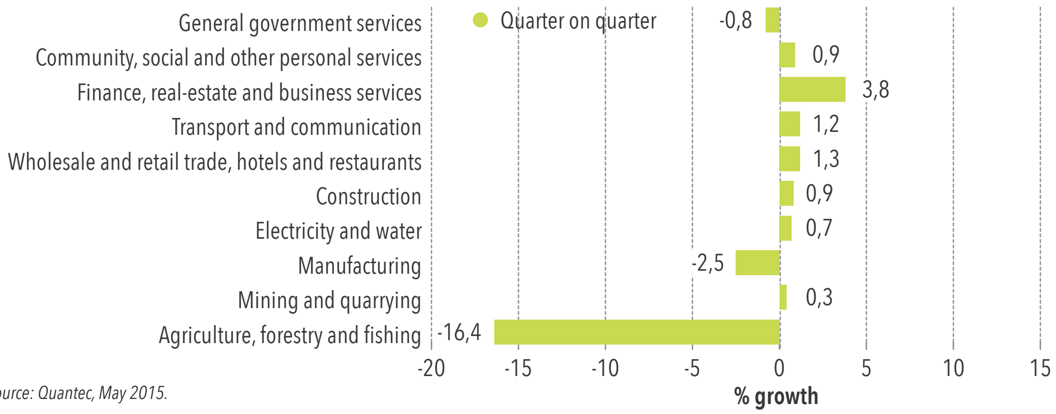


Source: Quantec, May 2015.

Sectoral drivers of economic growth in the Western Cape

The Western Cape's growth performance by sector largely mirrors the trends in the national economy. In the first quarter of 2015 there was, however, a sharp disparity between the rate recorded for mining in the Western Cape (0,3%) and that recorded at a national level (10,2%). This can be explained by the different types of mining – with platinum and gold mining dominating the national industry and quarrying predominantly dominating the industry in the Western Cape. The largest contributor to economic growth in the Western Cape was the finance and business services sector, recording a growth rate of 3,8% – exactly the same as the sector's growth rate nationally in the first quarter. The second largest contributor to the provincial economic growth in the first quarter was the wholesale and retail sector, which also grew at a similar rate to the national sector

Figure 18: Sectoral real GGP growth rates in the Western Cape (Quarter 1, 2015)



Source: Quantec, May 2015.

(1,3% compared to 1,2%). The sectors that contracted at a national level also contracted provincially. The agricultural sector recorded the largest contraction for the Western Cape, declining by 16,4% compared to 16,2% nationally. The other contractions experienced by the provincial economy were in the manufacturing sector (-2,5%) and government services (0,8%).

The performance of the city's economy in the first quarter would have hinged on the ability of growth in the finance and business services and the trade sectors to counterbalance the impact of the decline in the manufacturing sector.

Similar sectoral growth rates can be expected for Cape Town, as the city is the major contributor to most economic sectors in the province. In particular, 80% of the Western Cape's finance and business services, 74% of wholesale and retail trade, and 69% of manufacturing can be attributed to the metropolitan area (Quantec, 2014). As such the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the first quarter. However, the greater contribution of these industries to the city's economy means that they would have 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, the primary sector contributes only 29% to the province's total primary-sector GGP. Thus, it is difficult to make inferences about the performance of the city's primary sector based on primary-sector GGP growth in the Western Cape. However, even if Cape Town's primary sector (agriculture in particular) did mirror provincial trends, it is unlikely that this would have had a large impact on the overall growth rate, as the primary sector contributes less than 1% to Cape Town's GGP. The performance of the city's economy in the first quarter would have hinged on the ability of growth in the finance and business services and the trade sectors to counterbalance the impact of the decline in the manufacturing sector.

Growth outlook for Cape Town and the Western Cape

The main sources of growth for both the Western Cape and Cape Town in the first quarter of 2015 were the finance and business services, and trade sectors. This was partly due to a recovery from weak sales figures in the previous quarter in the trade sector and increased banking transactions in the finance sector. Growth in these sectors is expected to remain moderate as a weakening exchange rate, increasing inflation and the likelihood of an interest-rate hike weigh down consumer confidence. While growth in the manufacturing industry is likely to remain low in the short term, the latest findings of the Kagiso Purchasing Manager's Index, which rose above 50 points in May from an 11-month low in April, suggests that the manufacturing sector may strengthen more appreciably in the next six months. This is largely due to the weak level of the rand exchange rate, as well as the anticipated demand for exports, positively influencing South Africa's manufacturing output. While a potential upturn in the manufacturing sector may increase economic growth in the city, the relative unimportance of mining in the city's economy means that the city will not be as affected by further slowing in this sector in the next quarter. With the returns from increased manufacturing confidence likely to be more relevant in the longer term, the city will predominantly rely on a better performance of the tertiary sector to effect a higher sustained growth rate in the second quarter.

5

Inflation

In the first quarter of 2015, the headline inflation rate was lower than the 5,4% recorded in December 2014.

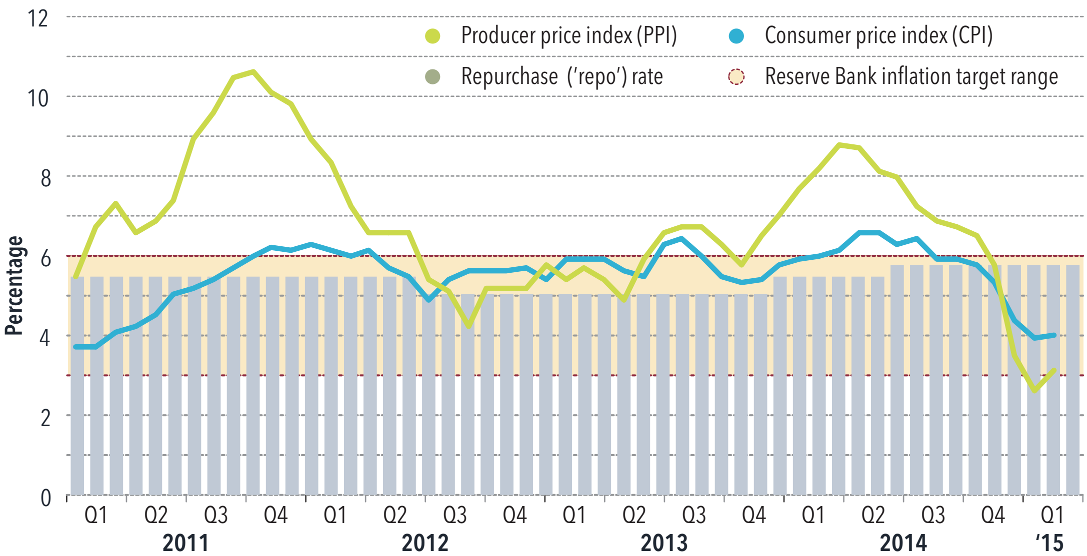
SOUTH AFRICA'S INFLATION OVERVIEW

In the first quarter of 2015, inflation was lower than in the fourth quarter of 2014. The headline consumer price index (CPI) decreased to a low of 4,0% in March 2015, compared to 5,4% in December 2014. The headline CPI remained below 5% for the entire three-month period, dropping below 4% for February 2015. This recording for the first quarter of 2015 is the lowest it has been since the first quarter of 2011. On an annual basis, the headline CPI was considerably lower than the 6% recorded in March 2014.

Similar to the CPI, the headline producer price index (PPI) for the first quarter of 2015 decreased when compared to the fourth quarter of 2014. The PPI has declined at a faster rate than the CPI. At the end of December 2014 the PPI recorded a rate of 5,8%, and has since dropped by 2,7 percentage points to a figure of 3,1% in March 2015. During this period the PPI recorded its lowest rate of 2,6% in February 2015. This slowing of producer price inflation was mainly driven by the impact of the decreasing oil price. Key drivers of the subsequent increase in PPI in March 2015 were food products, beverages and tobacco products (6,0%) as well as coke, petroleum, chemical, rubber and plastic products (5,2%).

It is expected that the inflation outlook will remain below 6% for 2015. In accordance with these expectations, the Monetary Policy Committee decided to keep the repo rate unchanged at 5,75% in the first quarter.

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



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

Figure 19 also illustrates the movement of the repurchase rate (repo rate). As indicated on the graph, the repo rate has remained unchanged at 5,75% since the last increase in July 2014. According to the Monetary Policy Committee's (MPC) statement, it is expected that the inflation outlook will remain below 6% for 2015. In accordance with these expectations, the MPC decided to keep the repo rate unchanged at 5,75% in the first quarter.

Table 1: Inflation levels by household expenditure groups

Quintiles	Level	Monthly expenditure	Inflation rate as of March 2015
	Average		4,0%
1	Very low	R0 to R1 213/month	5,4%
2	Low	R1 214 to R1 939/month	5,0%
3	Middle	R1 940 to R3 062/month	4,7%
4	High	R3 063 to R6 596/month	3,8%
5	Very high	R6 596 and more	3,9%

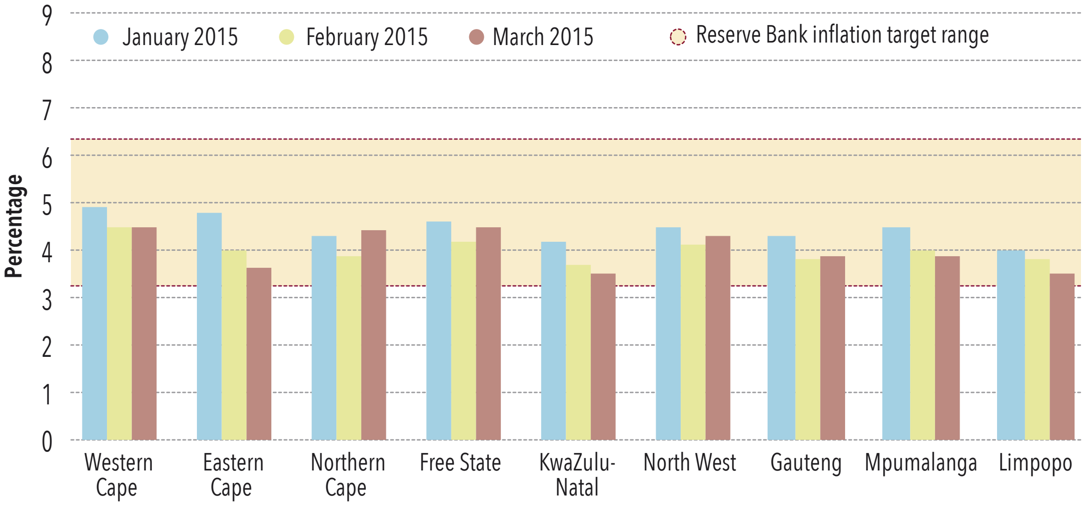
Source: Stats SA, May 2015.

Table 1 indicates how different expenditure groups are affected by inflation. Overall for the first quarter of 2015, each expenditure group experienced an inflation rate decrease (all to below 6%) from the fourth quarter of 2014. The population quintile with the highest level of monthly expenditure was subject to an inflation rate of 4,7% in March 2015, while the population quintile with the lowest monthly expenditure was subject to an inflation rate of 5,4%. The main reason for this is that the highest quintile benefitted more significantly from substantially reduced petrol price inflation, while the lowest quintile was more severely impacted by continued high (albeit reduced) food price inflation.

GEOGRAPHICAL INFLATION

The Western Cape recorded a slightly higher inflation rate (4,5%) than the national inflation rate (4,0%) at the end of the first quarter of 2015. As illustrated by figure 20, the majority of provinces, including the Western Cape, experienced an inflation rate decrease over the three-month period and remained significantly below 6%. The Western Cape and Free State recorded the highest inflation rates for March 2015, while KwaZulu-Natal as well as Limpopo recorded the lowest rates at 3,5%. Food price inflation in the Western Cape was 7% in March 2015 (having decreased from 7,5% in February), while nationally it was lower at 5,3% (decreasing from 6,1% in February). Transport cost inflation (-7,1% compared to -4,7% nationally) as well as inflation in alcoholic beverages and tobacco (8,4% compared to 8,9% nationally) was lower in the Western Cape but higher

Figure 20: CPI inflation rate at provincial level (January 2015 to March 2015)



Source: Stats SA, May 2015.

inflation rates were recorded in the price of housing and utilities (6,4% compared to 5,5% nationally).

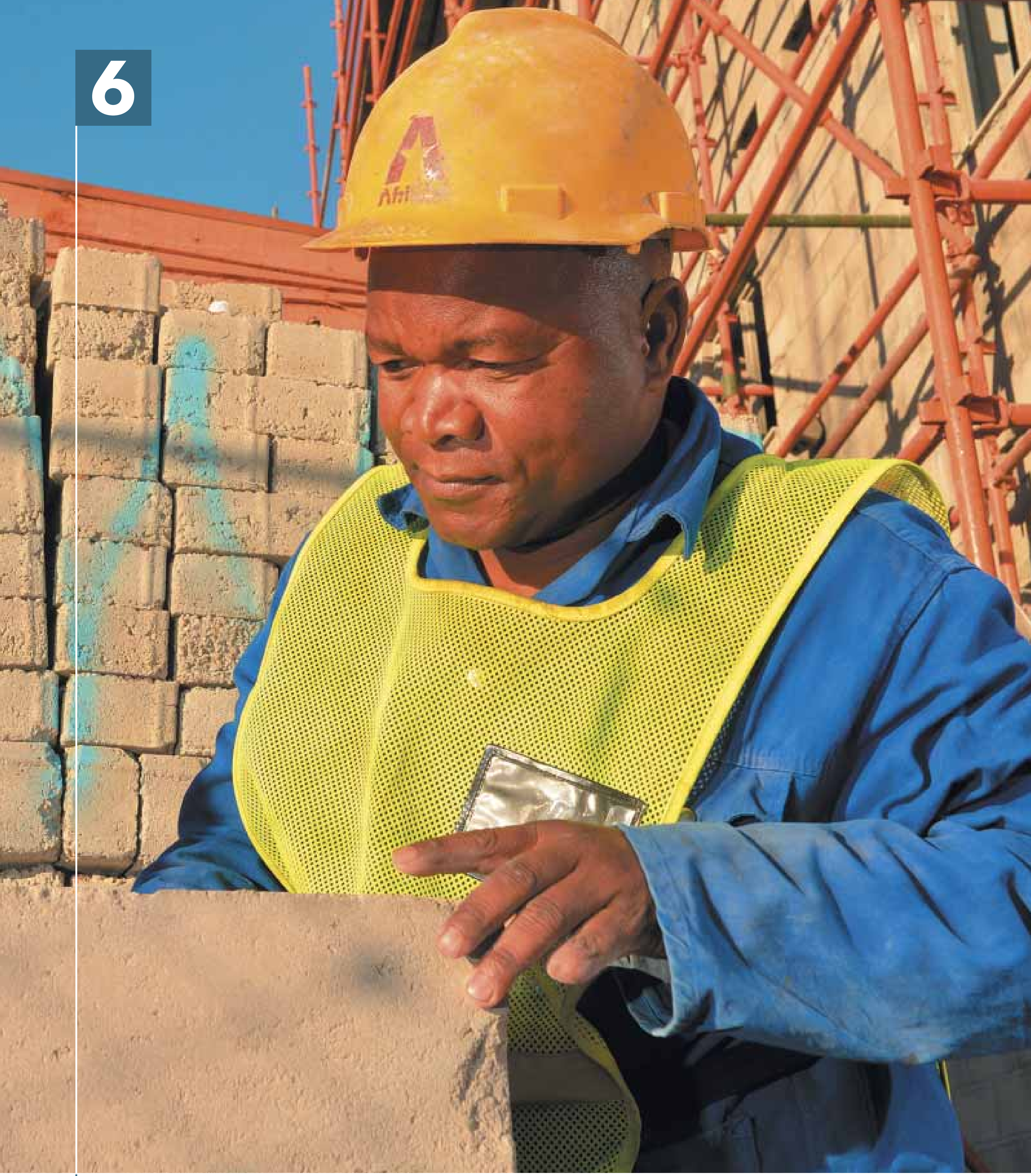
The MPC (May 2015) expects inflation to breach the upper end of the inflation target range in early 2016, in part due to an expected electricity price hike. Although the MPC has kept the repo rate unchanged, they have suggested that this stance may not be maintained much longer.

INFLATION OUTLOOK

From September 2014 to the end of the first quarter of 2015 the inflation rate decreased to below 6%, hovering close to the bottom of the target range and recording the lowest rate in four years in February 2015. According to the MPC's March 2015 statement, this particular downward trend in inflation was mainly driven by lower petrol prices during the fourth quarter of 2014 and the beginning of the first quarter of 2015. Petrol prices decreased by 26,6% year on year in February 2015 and by 21,7% in March. Overall, South African petrol prices were influenced by the substantial drop in oil prices during the previous quarters. The MPC expects that the decline in petrol prices will be reversed in the coming months as a result of increasing oil prices and a depreciating exchange rate.

With the current electricity situation and the sensitivity of the rand overshadowing economic activity, some of the positive outcomes from low inflation were not fully realised. Accordingly, the Reserve Bank kept the repo rate unchanged at 5,75% at the last MPC meeting. The MPC stated in its bulletin that there are factors looming that will place upward pressure on inflation. Factors such as above-inflation wage settlements, an increase in electricity prices, uncertainty surrounding the oil price and volatility of the rand are expected to put upward pressure on inflation and will be closely monitored.

For April 2015, the inflation rate increased to 4,5%. While the inflation rate still remained below 5%, it reflected a significant upward trend. The MPC (May 2015) expects inflation to breach the upper end of the inflation target range in early 2016, in part due to an expected electricity price hike. Although the MPC has kept the repo rate unchanged, they have suggested that this stance may not be maintained much longer.



6

Labour market trends

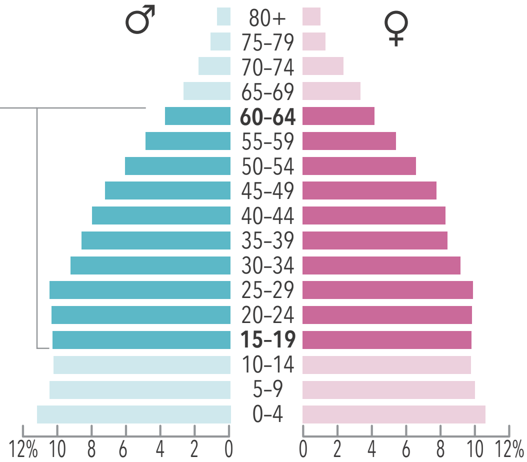
The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic 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 **2 715 892** 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.

2 715 892
working-age population



Age distribution in the Western Cape

The dependency ratio
This refers to how many people are dependent on those of working age.
In Cape Town 46,3% of those of non-working age are dependent 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)'.*

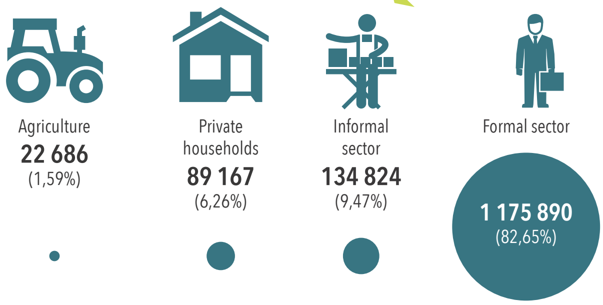
Of the **2 715 892** people who make up the **working-age population**, **1 422 568** – 52,4% – are **employed**. This percentage is also known as the labour absorption rate. T

1 422 568
employed people

52,4% labour absorption rate

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

Of the **1 422 568 employed Capetonians**, the majority are employed in the formal sector, with 9,5% in the informal sector.



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 acccommodate 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 s eekers.

Strict unemployment
The 'strict' definition of unemployment includes only people who are actively seeking work. By that definition Cape Town has **436 431 unemployed people** – 23,5% of the strict labour force.

Strict rate

$$\frac{\text{Searching unemployed}}{\text{Labour force (employed + searching)}} = 23{,}5\%$$

Broad rate

$$\frac{\text{Searching + non-searching unemployed}}{\text{Broad labour force (employed + searching + non-searching)}} = 24{,}7\%$$

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 **466 047 unemployed people** – 24,7% of the broad labour force.

***Unemployed persons** are those aged 15–64 years and **actively searching** for work who:*
- *were not employed in the reference week; and*
- *actively looked for work or tried to start a business in the four weeks preceding the survey interview; and*
- *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.*

↑SEARCH CRITERIA *e*

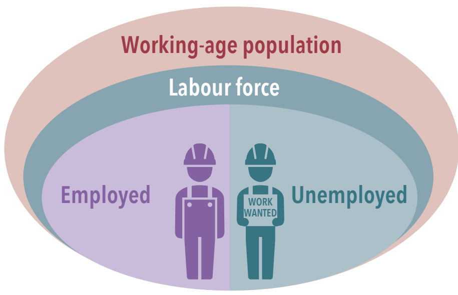
*A **'discouraged job seeker'** is a person who was not employed during the reference period, wanted to work, was available to work or start a business, but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: 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 workseekers** are the searching unemployed and those who have not fulfilled the search criteria:*
- *They had not actively looked for work or tried to start a business in the four weeks preceding the survey interview but were willing and able to work.*

↑SEARCH CRITERIA *e*

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 = 1 858 998
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 **1 916 957** strong, being made up of **1 422 568 employed people** and **436 431 job seekers**.



Broad labour force = 1 888 614
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 **1 888 614** strong, being made up of **1 422 568 employed people, 436 431 job seekers, 6 620 discouraged** and **22 996 other non-searching unemployed**.

THE LABOUR FORCE

1 422 568 EMPLOYED	436 431 SEARCHING UNEMPLOYED	29 616 DISCOURAGED AND OTHER NON-SEARCHING UNEMPLOYED

STRICT: 68.4% — LABOUR FORCE PARTICIPATION RATE — BROAD: 69.5%

Labour force participation rate

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

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

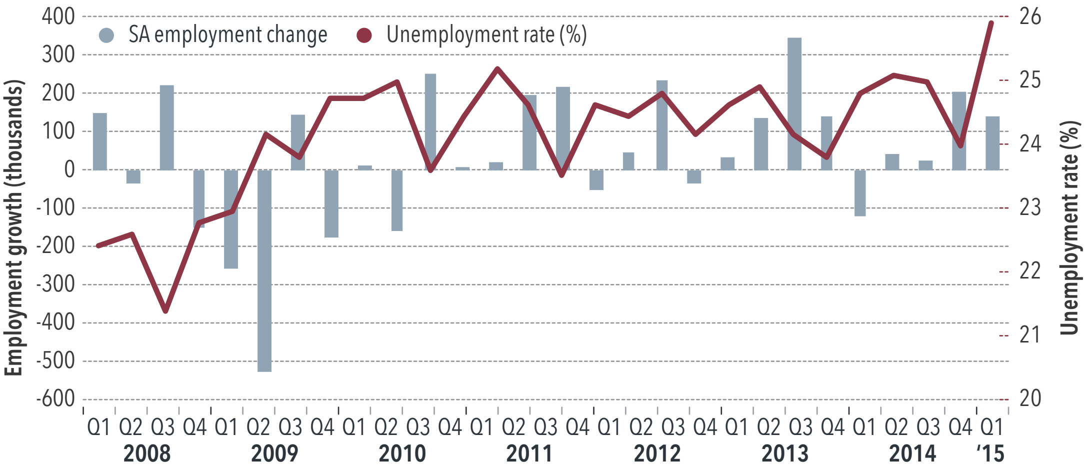
Sources: Stats SA Quarterly Labour Force Survey (QLFS), City of Cape Town.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

In the first quarter of 2015, South Africa's labour force increased by 766 000 individuals compared to the fourth quarter of 2014. The number of employed people increased by 140 000 to 15,46 million in this period. Employment was largely driven by agriculture (150 000), finance and other business services (156 000) as well as private households (69 000). Whilst these three industries experienced particularly strong employment growth, others experienced substantial declines in employment. Employment losses were led by trade (-201 000) and transport (-53 000).

Annually, 405 000 more people were employed when compared to the first quarter of 2014 and 872 000 individuals were added to the labour force. The largest contributor to annual employment growth was the agricultural sector (183 000), with the second-largest contributor being finance and other business services (149 000). These two sectors have outperformed the others on both a quarterly and annual basis. The manufacturing sector performed poorly year on year while experiencing positive growth on a quarterly basis. In contrast, the trade sector performed poorly on both a quarterly and year-on-year basis (-140 000).

Figure 21: Employment trends vs SA unemployment rate (Quarter 2, 2008 to Quarter 1, 2015)



Source: Stats SA, June 2015.

While employment in South Africa grew in the first quarter, the rate at which it did was clearly slower than the rate at which the labour force grew, forcing an increase in the unemployment rate.

For the first quarter of 2015, unemployment in South Africa increased by 626 000 quarter on quarter to a total of 5,54 million people. This resulted in a 2,1 percentage point increase in the official unemployment rate to 26,4%. Discouraged work seekers, who are only included in the expanded measure of unemployment, decreased by 6 000 to a total of 2,4 million individuals.

The above figure illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, faster employment growth typically leads to decreases in the unemployment rate. While employment grew in the first quarter, the rate at which it did was clearly slower than the rate at which the labour force grew, forcing an increase in the unemployment rate. The unemployment rate in the first quarter was the highest recorded in South Africa since the introduction of the Quarterly Labour Force Survey (QLFS).

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the first quarter of 2015, the working-age population of Cape Town decreased by approximately 116 000 individuals compared to the fourth quarter of 2014 and by nearly 114 000 individuals on an annual basis. Cape Town's labour force decreased by 57 000 individuals to a total of 1,859 million in the first quarter although its labour force participation rate increased by 0,7 percentage points to 68,4%. This remains significantly higher than the national rate of 58,6%, pointing to the greater inclusiveness of Cape Town's labour market.

The number of people employed in Cape Town in the first quarter of 2015 decreased by 9 000 individuals on a quarterly basis and by 57 000 individuals on an annual basis. The formal sector absorbs the bulk of the individuals who are employed in Cape Town, but reflected decreased employment in the first quarter (-48 000). Employment in the informal sector increased by 4 000 quarter on quarter in the first quarter as well as by 1 000 individuals on a year-on-year basis. This resulted in the informal sector's share of employment increasing to 9,5% from a previous 9,1%. Employment gains, however, were predominantly experienced in the agricultural and private household sectors.

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

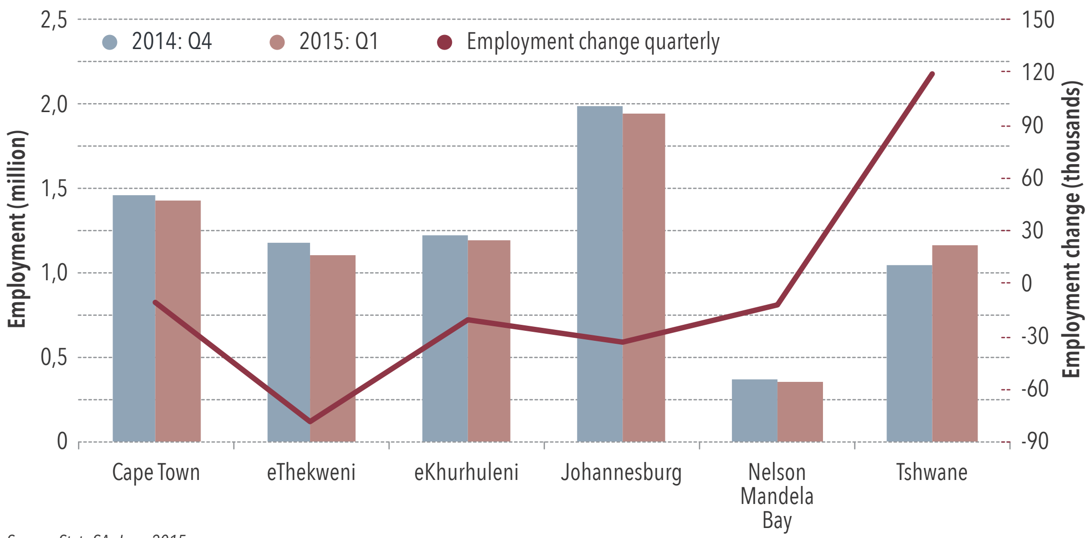
Table 2: Labour market indicators: South Africa and Cape Town*

Indicator	South Africa			Cape Town		
	Q1:2015	Q4:2014	Q1:2014	Q1:2015	Q4:2014	Q1:2014
Working-age population (000s)	35 799	35 643	35 177	2 716	2 832	2 830
Labour force	20 994	20 228	20 122	1 859	1 916	1 939
Employed	15 459	15 320	15 055	1 423	1 432	1 480
Employed by the formal sector	10 796	10 911	10 780	1 176	1 224	1 253
Employed by the informal sector	2 483	2 448	2 336	135	131	134
Unemployed	5 535	4 909	5 067	436	484	459
Not economically active	14 809	15 415	15 055	857	915	882
Discouraged work seekers	2 397	2 403	2 355	6	5	8
Other	12 408	13 012	12 700	850	909	874
Unemployment rate (%)	26,4	24,3	25,2	23,5	25,2	23,7
Youth unemployment rate (%)	50,3	51,3	53,2	48,0	53,7	55,2
NEET** as % of working-age population	40,4	39,3	39,8	34,4	36,0	34,4
Absorption rate (%)	43,2	43,0	42,8	52,4	50,6	52,3
Labour force participation rate (%)	58,6	56,8	57,2	68,4	67,7	68,5

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

Turning attention to employment creation in the first quarter, as measured by the difference between the fourth- and first-quarter employment levels, one observes a general negative trend. Tshwane (119 299) was the only metro that created jobs in the first quarter, while all the other metros shed jobs. eThekwini (-78 453) and Johannesburg (-21 167) shed the most jobs in the quarter. On a year-on-year basis, eThekwini shed jobs at the fastest rate (-13,0%).

Figure 22: Employment comparison with other metros (Quarter 4, 2014 to Quarter 1, 2015)



Source: Stats SA, June 2015.

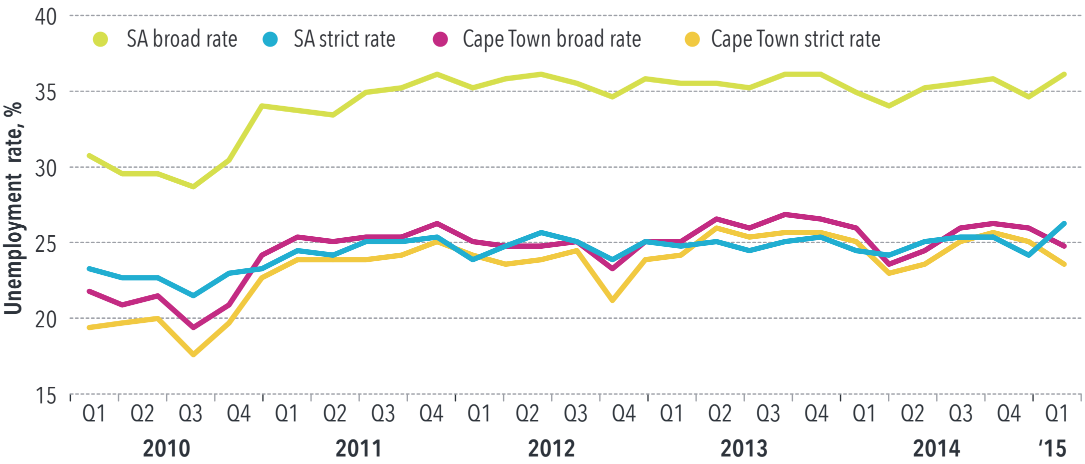
In contrast with the national unemployment trends, Cape Town experienced a decrease (-48 000) in the number of unemployed people in the first quarter when compared to the previous quarter.
As a result of decreasing unemployment on a quarterly basis, Cape Town's strict unemployment rate decreased by 1,7 percentage points to 23,5%.

Unemployment in Cape Town

In contrast with the national unemployment trends, Cape Town experienced a decrease (-48 000) in the number of unemployed people in the first quarter when compared to the previous quarter. The number of unemployed people in the city also decreased by approximately 77 000 individuals year on year. As a result of decreasing unemployment on a quarterly basis, Cape Town's strict unemployment rate decreased by 1,7 percentage points to 23,5%. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 48% in the first quarter of 2015, having decreased from 53,7% in the previous quarter. While this is not much lower than the national rate of 50,3%, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

By excluding discouraged work seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals desiring to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by figure 23, the two rates of unemployment for Cape Town have remained relatively close over the last three years, with the expanded rate on average 1,04% higher than the strict rate. Cape Town's strict unemployment

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



Source: Stats SA, June 2015.

What is also notable is how similar Cape Town's expanded and official unemployment rates are, especially as compared to metros like eThekwini, where the expanded rate is almost 10 percentage points higher than the strict rate.

rate decreased in the first quarter of 2015 and it was 2,90 percentage points lower than that of the national rate. It is, however, important to consider the expanded definition of unemployment as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 23). South Africa's expanded unemployment rate in the first quarter of 2015 was 36,1%, compared to Cape Town's expanded rate of 24,68%. On this basis, Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

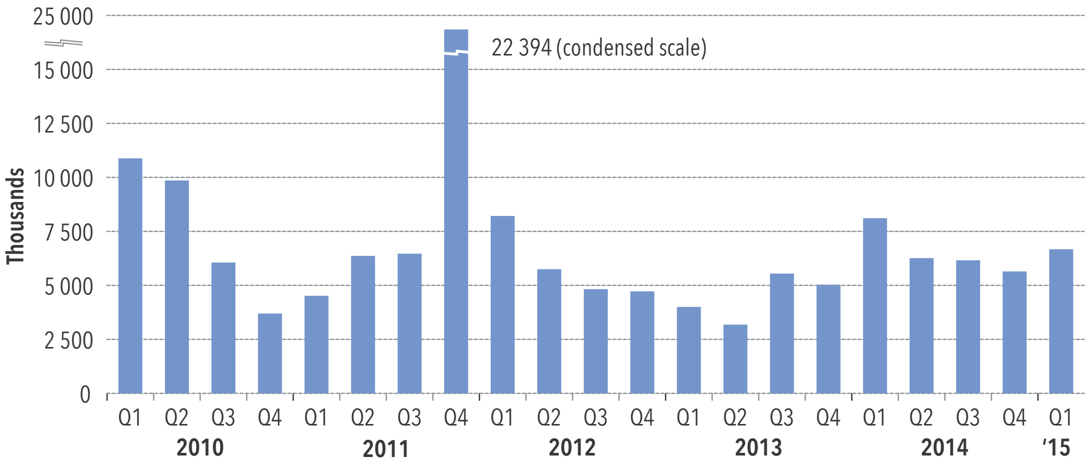
While comparing Cape Town's unemployment trends with South Africa as a whole is important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics. Cape Town, Ekurhuleni and Nelson Mandela Bay experienced decreases in both their unemployment rates on a quarter-on-quarter basis in the first quarter. The other metros all experienced increases in both rates for the quarter. From a static point of view, Nelson Mandela Bay had the highest expanded unemployment rate (33,15%) and the highest official/strict unemployment rate (33,08%) while Cape Town had the lowest expanded unemployment rate (24,68%) and eThekwini had the lowest strict rate (19,62%). What is also notable from table 3 is how similar Cape Town's expanded and official unemployment rates are, especially as compared to metros like eThekwini, where the expanded rate is almost 10 percentage points higher than the strict rate.

Table 3: Official vs expanded unemployment rates (Quarter 4, 2014 to Quarter 1, 2015)

Metro	Official			Expanded		
	2015:Q1	2014:Q4	2014:Q1	2015:Q1	2014:Q4	2014:Q1
Cape Town	23,48	25,25	23,67	24,68	25,97	24,50
eThekweni	19,62	16,66	16,39	28,49	25,95	24,99
eKhurhuleni	30,63	31,56	30,60	35,33	35,38	34,33
Johannesburg	26,66	22,06	24,73	29,69	25,03	26,74
Nelson Mandela Bay	33,08	33,67	38,51	33,15	33,92	38,56
Tshwane	27,63	20,47	19,33	33,02	27,78	25,77

Source: Stats SA, June 2015.

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



Source: Stats SA, June 2015.

The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work seekers in Cape Town. According to Stats SA (2014), a discouraged work seeker 'is a person who was not employed during the reference period, wanted to work, was available to work/start a business but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work'. Discouraged work seekers are included in the expanded unemployment figure, which explains why this figure is slightly higher than the strict unemployment figure. The number of discouraged work seekers in Cape Town increased from 5 650 in the fourth quarter of 2014 to 6 619 in the first quarter of 2015.

Figure 24 shows that the number of discouraged work seekers has (except for the outlier of the fourth quarter of 2011) consistently been below 10 000 individuals. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,28%) of the country's total number of discouraged work seekers. The reasons for this remain largely unclear and require further research.

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.

Labour force and employment

There are two factors that determine whether the expanded rate of unemployment increases or decreases. These are a change in the expanded labour force and a change in the level of employment. When the rate of employment growth is exceeded by the rate at which the expanded labour force grows, the expanded unemployment rate increases. Figure 26 shows that employment growth (though negative) in the first quarter of 2015 decreased at a slower rate than that which the expanded labour force decreased at. This, then, led to a decrease in the expanded unemployment rate for the period under review. The impact of the negative growth in employment creation in the first quarter of 2015 was countered by the shrinking of the labour force as the working-age population in Cape Town shrunk. This may be, in part, a reflection of the rebasing of the Quarterly Labour Force Survey's labour market statistics to the 2011 Census figures.

Figure 25: Broad labour force and employment growth rates for Cape Town (Q2, 2008 to Q1, 2015)

Source: Stats SA, June 2015.

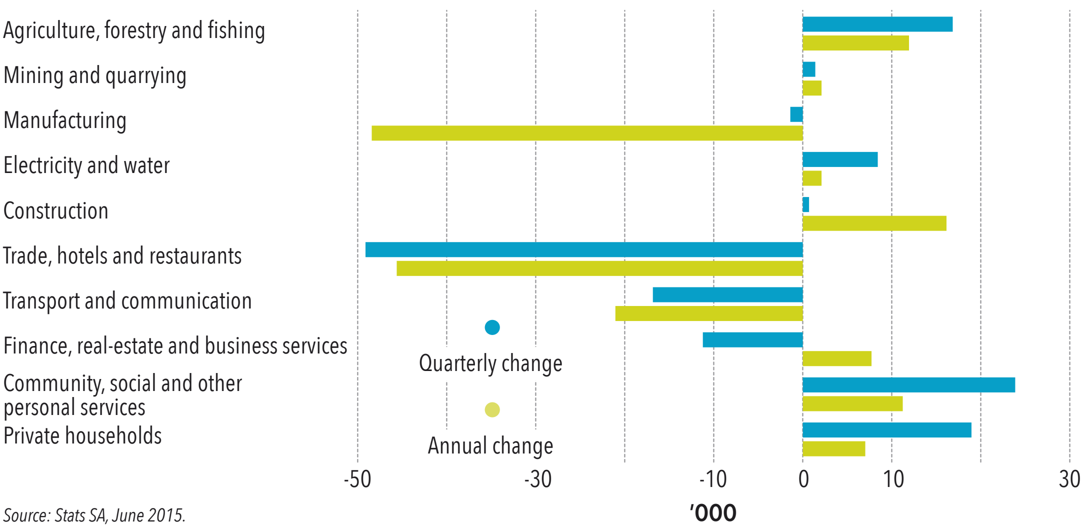
On an annual basis, the strongest contributing sectors in respect of employment growth were construction as well as agriculture, which grew employment by 16 240 and 12 176 respectively.

Sector employment trends in Cape Town

Figure 26 displays the level of employment by industry/sector within Cape Town. Overall, most sectors reflected positive growth for the first quarter of 2015 when compared to the previous quarter. The largest contributors to employment were community and social services as well as private households, with 24 154 and 18 672 respectively. In line with the national trend, agriculture was also a strong contributor to total employment growth in the first quarter, with employment growth of 16 660 jobs. The sectors with the highest job losses were trade (-49 454) and transport (-16 725). Once again, reflecting a similar trend as to the national employment figures by industry.

On an annual basis, the strongest contributing sectors in respect of employment growth were construction as well as agriculture, which grew employment by 16 240 and 12 176 respectively. Further contributions came from community and social services as well as finance. The sector that experienced the most year-on-year job losses in the first quarter of 2015 was manufacturing (-48 824), followed by trade (-45 480).

Figure 26: Quarterly and annual change per sector for Cape Town (Quarter 1, 2015)



Source: Stats SA, June 2015.

Labour market outlook

For the first quarter of 2015, Cape Town's unemployment rate (both the strict and expanded) experienced a decrease when compared to the fourth quarter of 2014. Unfortunately this cannot be ascribed to job creation as Cape Town shed jobs during the quarter but can rather be explained by a decrease in the size of labour force as the working-age population experienced a substantial decline. While this could be indicative of migration trends, it may also simply be a reflection of technical changes in the data. Importantly, in this quarter, StatsSA revised the QLFS data to incorporate the Census 2011 population figures. This revision may have been a major factor in the large increases in the national unemployment rates and most of the metro unemployment rates. While the revision makes historical comparisons a bit more difficult to interpret, the actual rates and figures are expected to be more accurate than the previous figures. In this light, it is heartening that Cape Town has been found to have the lowest expanded unemployment rate of all the metros.

7

Trade and investment

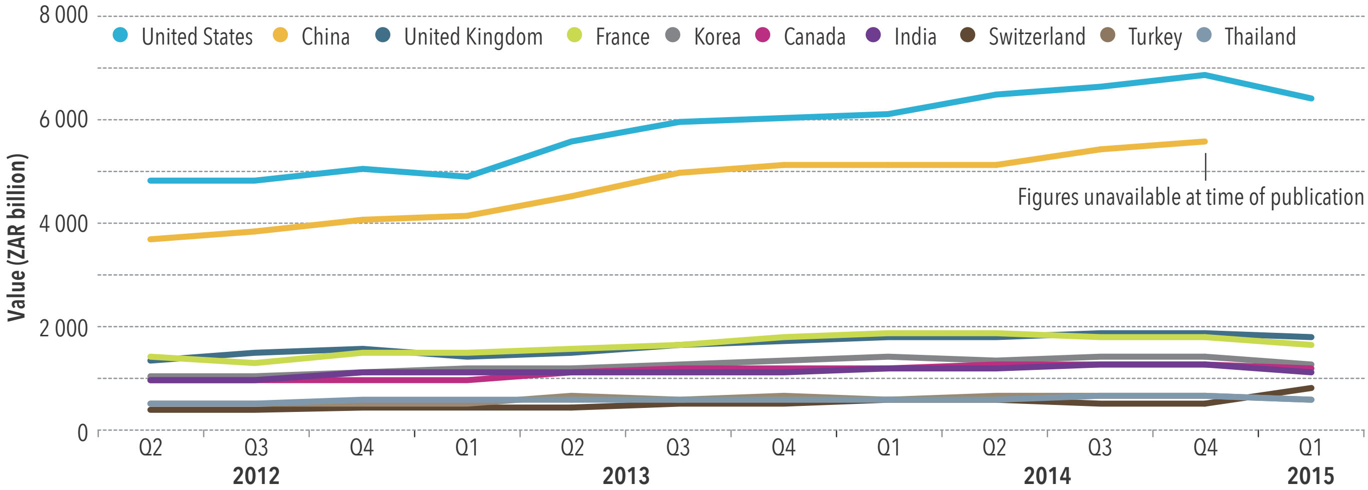
Cape Town is an open economy, which embraces trade and investment with the rest of the world. Globally, economies that have typically grown strongly are those that have promoted value-added exports and attracted high levels of foreign direct investment. A key challenge for South Africa and Cape Town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

TRADE
Global trade

The world's largest importer of goods remains the United States, followed by China (although China has not reported its trade data since December 2014). Viewed from an annual perspective the first quarter experienced a slowdown in international trade after seasonal surges from August through to December. Consequently, all of the top import markets shown in the figure below experienced negative import growth rates from quarter three to quarter four with the exception of Switzerland, which experienced a 42,9% increase in imports.

A year-on-year assessment of the first quarter imports indicated that Switzerland (38,2% growth), the United States (5,4%) and India (1,4%) demonstrated growth in imports. Increases by the United States can be attributed to growth in imports of pharmaceuticals as well as consumer goods. Switzerland experienced a surge in imports of unwrought gold, while India increased its imports of electronics and machinery.

Figure 27: Global imports of goods (Quarter 2, 2012 to Quarter 1, 2015)



	2012			2013				2014				2015
Values in ZAR bn	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
United States of America	4 814	4 853	5 085	4 929	5 551	5 966	5 996	6 099	6 468	6 665	6 867	6 426
China	3 687	3 809	4 092	4 161	4 519	4 996	5 117	5 141	5 104	5 446	5 564	-
United Kingdom	1 340	1 467	1 533	1 437	1 502	1 632	1 749	1 814	1 807	1 904	1 865	1 797
France	1 384	1 296	1 474	1 531	1 598	1 637	1 792	1 894	1 835	1 761	1 799	1 668
Republic of Korea	1 062	1 034	1 129	1 158	1 197	1 257	1 349	1 435	1 379	1 428	1 451	1 295
Canada	954	950	1 000	1 003	1 118	1 157	1 163	1 175	1 272	1 277	1 287	1 192
India	930	991	1 129	1 139	1 147	1 097	1 104	1 210	1 199	1 300	1 306	1 107
Switzerland	395	393	438	441	471	482	544	564	552	539	545	779
Turkey	497	491	518	525	634	617	649	623	656	645	700	605
Thailand	510	517	557	585	604	604	596	604	601	643	626	604

Source: International Trade Centre; June 2015.

South African trade

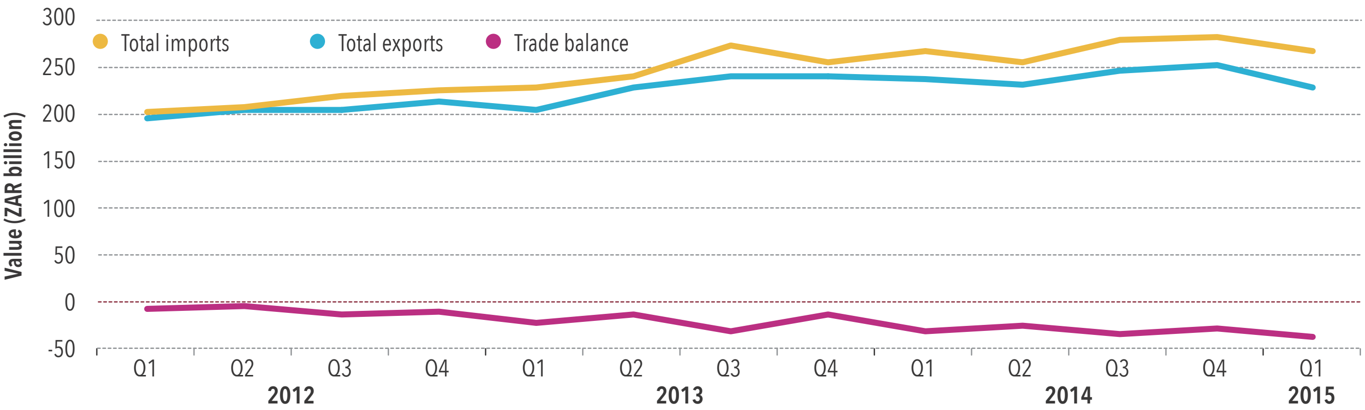
South African trade experienced strong and consistent growth from the first quarter of 2012, with exports exceeding R230 billion each quarter until the fourth quarter 2014. In the first quarter of 2015, both exports and imports decreased by 9,5% and 4,7% respectively. This is in line with global trends. The trade deficit deepened as a result of the stronger decrease in exports than imports. Assessing trade data for the first quarter from the previous year, it is evident that there was a smaller decrease in exports and imports of 2,8% and 0,4% respectively. The decline in exports was primarily as a result of decreased demand for metals such as platinum and gold, as well as coal and iron ore. There was also a decline in the exports of both passenger and goods vehicles. The decline in imports was primarily due to the R14 billion decrease in imports of crude petroleum.

The trade deficit continued to be a cause for concern as the recovery in the fourth quarter of 2014 was lost in the first quarter of 2015 with the deficit increasing by 40,6% quarter on quarter and 16,8% year-on-year.

China is South Africa's largest export destination, with exports reaching R23 billion in the first quarter of 2015. South Africa's exports to China are influenced by the Chinese appetite for South African mineral commodities, especially iron ore and concentrates, which continues to drive exports. There was a strong increase in exports to China in the first quarter of 2015, which grew by 10,8% from the fourth quarter of 2014. It is important to continue to stimulate the Chinese demand for South African manufactured products so as to limit the impact on exports when the demand for mineral commodities declines.

There was a strong increase in exports to China in the first quarter of 2015, which grew by 10,8% from the fourth quarter of 2014.

Figure 28: South Africa's exports, imports and trade balance (Quarter 1, 2012 to Quarter 1, 2015)



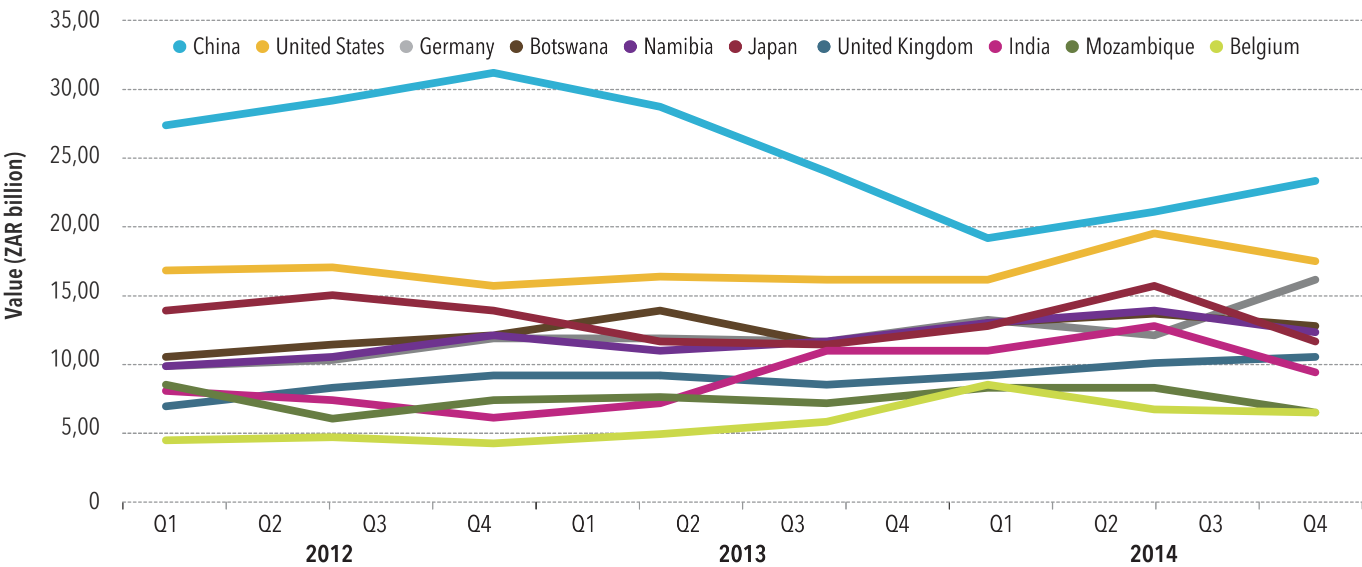
	2012				2013				2014				2015
Values in ZAR bn	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Exports	194,4	203,2	205,2	212,3	205,7	227,3	239,2	240,4	235,8	230,2	246,1	253,4	229,2
Imports	202,3	206,3	219,7	224,1	227,7	241,8	271,7	254,7	268,6	255,8	279,4	280,6	267,5
Trade balance	-7,9	-3,1	-14,5	-11,9	-22,0	-14,5	-32,5	-14,3	-32,8	-25,6	-33,4	-27,2	-38,3

Source: Quantec, June 2015.

South Africa's second-largest export market is the United States, followed by Germany. Botswana and Namibia have displaced Japan from fourth position into sixth. Exports to the United States are driven by platinum exports, which nearly doubled in value terms in the first quarter of 2015 with growth at 74,5%.

Botswana and Namibia joined Mozambique as South Africa's top export markets in Africa. Growth in exports to Africa has resulted in the continent playing a very important part in South Africa's global trade. Increased exports to Africa will further diversify South Africa's export markets and hedge against external shocks to the economy from the Eurozone as well as the United States.

Figure 29: South Africa's export markets (Quarter 1, 2012 to Quarter 1, 2015)



	2012				2013				2014				2015
Values in ZAR bn	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
China	21,40	22,36	19,33	21,60	25,40	27,41	29,08	31,12	28,80	23,94	19,18	20,99	23,26
United States	15,26	14,41	15,93	18,80	16,68	16,90	16,94	15,71	16,47	16,11	16,06	19,43	17,41
Germany	9,01	8,90	9,86	9,53	9,80	9,81	10,25	11,79	11,95	11,65	13,19	12,15	16,18
Botswana	10,33	9,24	10,19	11,89	10,74	10,57	11,36	12,11	13,95	11,44	12,96	13,62	12,83
Namibia	8,09	8,20	8,22	9,03	8,24	9,87	10,57	12,19	10,92	11,74	12,99	13,87	12,42
Japan	9,87	12,18	13,41	11,29	10,43	14,02	15,10	13,87	11,64	11,45	12,70	15,65	11,64
United Kingdom	7,26	7,09	6,68	6,40	7,28	7,06	8,31	9,09	9,20	8,50	9,20	10,11	10,50
India	7,79	7,10	6,92	8,70	7,00	8,06	7,46	6,13	7,26	10,96	10,99	12,88	9,48
Mozambique	4,16	4,61	5,38	5,07	4,67	8,45	6,16	7,49	7,55	7,12	8,32	8,38	6,46
Belgium	3,76	3,91	3,50	3,64	3,85	4,50	4,68	4,31	4,95	5,77	8,53	6,71	6,45

Source: Quantec, June 2015.

Western Cape trade: United States

In the absence of quarterly trade data for the Western Cape, this section will focus on different selected trade and investment themes as they pertain to the province each quarter. In this particular edition, the section focuses on the Western Cape and Cape Town's trade with the United States, the world's largest importer and exporter, according to 2013 figures.

The United States is one of the largest economies in the world, boasting the world's largest manufacturing sector and representing a fifth of the global manufacturing output. Furthermore, 133 of the world's 500 largest companies are headquartered in the United States.

The Western Cape's exports to the United States increased by 4,3% to reach R3,5 billion in 2013 while imports increased by 13,7% to reach R4,7 billion. The Western Cape accounted for 5,3% of South Africa's total exports to the United States and 7,4% of South Africa's total imports from the United States. Despite the strong growth in exports, the Western Cape's trade deficit with the United States exceeded R1,2 billion. This is no different to the rest of the country, which also experienced a trade deficit with the global giant. Wine is by far the largest export to the United States, reaching R562 million and growing by 45,7% in 2013. This was followed by jewellery at R327 million (67,6% growth) and citrus fruit at R291 million (1,6%).

Wine is by far the largest export to the United States from the Western Cape, reaching R562 million and growing by 45,7% in 2013.

Cape Town trade: United States

Cape Town's trade with the United States has reflected that country's W-shaped economic growth curve, with peaks experienced in 2008 and 2011. Exports from Cape Town grew by 17,9% in 2013 to reach R2,7 billion, while imports grew by 15,3% to reach R4,3 billion. The trade deficit with the United States is showing a strong growth trajectory, which is likely to continue into the future as more Cape Town companies rely on machinery for manufacturing and as the city continues to import petroleum oils from the United States.

The largest export to the United States from Cape Town was jewellery containing precious metals, which accounted for 100% of the Western Cape's exports of this product at R327 million. The second-largest export was grape wines at R303 million, which accounted for 53,7% of the province's exports of this product to the United States. Grape wine exports have also shown strong growth in 2013 at 251%. Other exports included yachts and pleasure vessels as well as crustaceans.

Cape Town imported R345 million of refined petroleum oils in 2013 and this import product experienced a decrease in imports of 26,1%. There were also significant imports of machinery parts and other machinery, which are used in the city's manufacturing sector. Other significant imports are medical equipment and orthopaedic appliances, demonstrating the city's dependence on the United States for these products.

Figure 30: Cape Town trade with the United States (2004 to 2013)

Values in ZAR m	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
• Total exports	1 479	1 357	1 470	1 679	1 917	1 545	1 471	1 692	2 264	2 669
• Total imports	1 674	2 006	3 024	3 595	5 548	3 342	3 852	5 126	3 766	4 341
• Trade balance	-195	-650	-1 553	-1 916	-3 630	-1 797	-2 381	-3 434	-1 502	-1 672

Source: Quantec, 2015.

Table 4: Top 10 export and import products for Cape Town and the United States (2013)

Top 10 exports from Cape Town, 2013				Top 10 imports to Cape Town, 2013			
Rank	Product	Value 2013 (ZAR m)	% growth 2013	Rank	Product	Value 2013 (ZAR m)	% growth 2013
1	Jewellery and parts, containing precious metals	327,2	67,8	1	Oils, petroleum, bituminous distillates, except crude	345,0	-26,1
2	Grape wines (including fortified), alcoholic grape must	302,5	251,5	2	Parts for use with lifting and moving machinery	240,5	181,6
3	Yachts, pleasure, sports vessels, rowing boats, canoes	285,7	30,9	3	Instruments etc. for medical, surgical, dental use, and so on	189,6	15,1
4	Crustaceans	170,0	39,3	4	Liquid, gas centrifuges, filtering and purifying machines	117,5	1,2
5	Parts for radio, TV transmission, receiving equipment	119,7	17,3	5	Orthopaedic appliances	115,2	57,2
6	Machinery to sort, screen, wash, etc. mineral products	92,6	1 807,1	6	Printed reading books, brochures, leaflets etc.	99,1	-3,9
7	Liquid, gas centrifuges, filtering and purifying machines	81,6	99,2	7	Carbonates	91,7	15 933,7
8	Beauty, make-up and skincare preparations	67,4	-18,8	8	Food preparations, NES	91,2	33,7
9	Citrus fruit, fresh or dried	62,3	89,9	9	H8543: Electrical machinery and apparatus, NES	72,6	539,2
10	Sauce, condiments, mixed seasoning and mustard	53,0	65,8	10	H4813: Cigarette paper	67,5	58,3
	Total	**2 669,2**	**17,9**		**Total**	**4 341,32**	**15,3**

Source: Quantec, 2015.

INVESTMENT

Global foreign direct investment

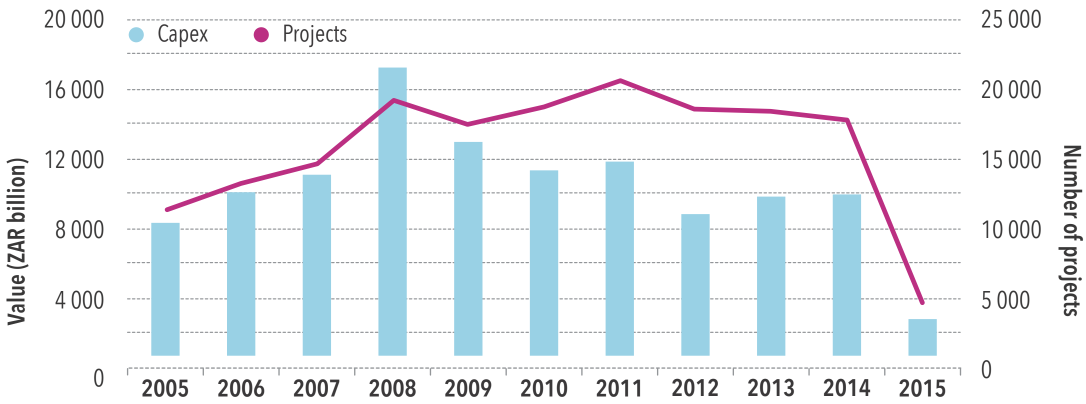
Global FDI reached R9,6 trillion in 2014 with project numbers declining by 4,3% from 2013, with 782 fewer projects than the previous year. The trend lines show that there is a slow convergence towards larger capital value per investment but the decreased number of projects remains a concern when there are high levels of competition between countries to attract investment.

Between January 2015 and March 2015 a total of 3 940 FDI projects were recorded, representing a total capital investment of R2,164 trillion, which is an average investment of R549,53 million per project.

The United States attracted the highest number of projects (1 195) as well as the highest capex value (R552 billion) in this quarter. When using capex as a measure, emerging markets such as India, China and Mexico ranked second, third and fifth respectively. Egypt was the top ranking African country (seventh), receiving 13 projects with a capex value of R56,5 billion, followed by Uganda in ninth, receiving nine projects with a capex value of R47,6 billion. South Africa was the third-highest-ranking African country (13th) in the quarter, receiving R33,4 billion worth of investment.

There is a slow convergence towards larger capital value per investment but the decreased number of projects remains a concern when there are high levels of competition between countries to attract investment.

Figure 31: Global FDI (2005 to March 2015)[8]

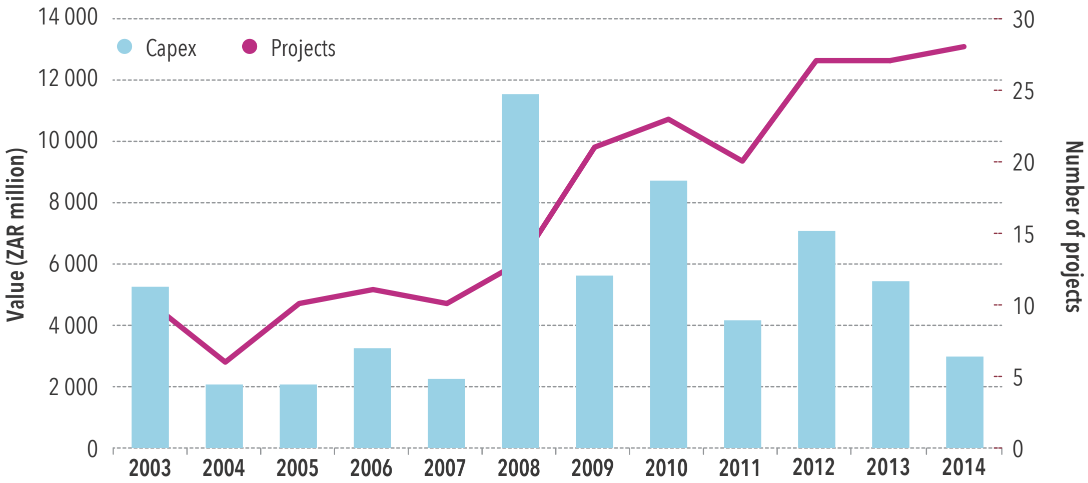


Values in ZAR bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
• Capex	7 950	9 730	10 745	17 178	12 687	10 993	11 597	8 485	9 438	9 652	2 164
• Projects	10 826	12 831	14 297	18 983	17 142	18 486	20 430	18 255	18 232	17 450	3 940

Source: Financial Times, June 2014.

8. Global FDI figures may differ from previous editions as the values may have been adjusted for any previous errors as well as exchange rate fluctuations.

Figure 32: FDI flows into Cape Town (2003 to December 2014)



Values in ZAR m	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Capex	5 261,0	2 086,8	2 073,9	3 276,1	2 233,3	11 569,	5 612,5	8 704,6	4 165,4	7 094,7	5 408,6	3 001,9
Projects	10	6	10	11	10	13	21	23	20	27	27	28

Source: Financial Times, August 2014.

The top sub-sectors globally for FDI (in terms of projects) in the first quarter of 2015 were clothing and clothing accessories, with a 7,6% share of total projects, followed by software publishers and excluding video games (7,4%) and retail banking (4,3%). Despite services dominating in terms of the number of projects attracted globally, construction and energy received the bulk of capex. Commercial and institutional building construction received 9,4% share of capex, followed by solar electric power at 5,7% and fossil fuel electric power at 4,6%.

Cape Town foreign direct investment

The growth in project numbers indicates that more companies are investing in Cape Town than in previous years, despite lower levels of capital investment.

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

In the fourth quarter of 2014 Cape Town attracted five investment projects worth R522,6 million. The largest investment in this quarter, at a value of R79,2 million, was carried out by Botswana-based Air Botswana. The company opened a new office in Cape Town to help the company service its Maun to Cape Town and Gaborone to Cape Town routes. The second-largest investment of R141,8 million was Sunpower, a subsidiary of France-based Total, to establish a new solar panel manufacturing facility in Cape Town.

The investments into Cape Town during this quarter were from different sectors, such as industrial machinery and equipment, business services, electronic components, communications and transportation. However, most of the investments were into projects in support services, such as sales offices.

Investment facilitation

For the first quarter of 2015, Wesgro facilitated seven new investment projects and four expansion projects in Cape Town. The new investments were as follows:

- R55,720 million into manufacturing facilities, creating 125 jobs
- R750 million renewable energy project, creating 70 jobs
- R30 million construction project, creating 120 jobs
- R101 million food and beverage manufacturing facility, creating 25 jobs
- R750 million health-care project, creating 300 jobs
- R15 million information and communications technology project, creating 40 jobs

The expansion projects were as follows:

- R15 million automotive services project, creating 80 jobs
- R15 million retail project, creating 92 jobs
- R30 million film project, creating 30 jobs
- R5 million renewable energy project, creating 30 jobs

'BLACK SAILS' IMAGE COURTESY OF STARZ

Sector focus: The film industry

Activities in the film sector include film production and documentary production, TV commercials, stills photography as well as contemporary new media platforms such as animation and gaming. The film sub-sector generally falls into the creative industries sector, which is defined as those industries that produce tangible or intangible artistic and creative outputs, and which have a potential for wealth creation and income generation through the exploitation of cultural assets and production of knowledge-based goods and services (both traditional and contemporary) (UNESCO, 2006).

Top class:
Cape Town Film Studios at Faure is the first custom-built Hollywood-style film studio complex of its kind in Africa, built at a cost of R306 million.
IMAGE COURTESTY OF CAPE TOWN FILM STUDIOS

"The Western Cape's diverse offerings of locations and highly-skilled crew means we are a compelling destination for film. The dti recently announced that 450 films have been shot in South Africa since 2008 – an average of 64 films a year. Many of the major productions in long and short form have been shot by companies headquartered in Cape Town and the Western Cape."

– Tim Harris, CEO of Wesgro

OVERVIEW OF THE FILM INDUSTRY IN CAPE TOWN

Cape Town has traditionally been recognised by the film industry for its strong locational factors. This means that location scouts looking for a diversity of settings within about one hour's drive of a developed metro would look favourably on Cape Town for the eight months of the year when the city has good weather and lighting conditions.

Cape Town is also known as a price-competitive film-making destination. According to FDI Intelligence (2015), Cape Town ranks fourth out of 16 global cities for both quality and cost. This is primarily due to the low costs of production – South Africa's favourable exchange rate makes it up to 40% cheaper to make a movie here than Europe or the United States, and 20% cheaper than Australia (South Africa Info, 2013). Furthermore, when compared to other cities, Cape Town comes in as the single cheapest destination in terms of production, set, site, utilities and labour costs (FDI Intelligence, 2015).

Table 5: Benchmarking of a film and TV sector profile in 16 cities

Location	Overall		Quality		Cost		
	Rank	Rating	Rank	Score	Rank	Index	Total cost (R)
Beijing	1	100	3	162,36	4	62,77	10 770 936
New York City (NY)	2	89,63	1	216,59	16	163,35	28 026 849
London	3	87,8	2	200,76	15	136,32	23 390 294
Cape Town	**4**	**75,31**	**16**	**39,72**	**1**	**46,58**	**7 991 939**
Johannesburg	5	72,96	15	45,05	2	49,88	8 558 203
Mexico City	6	70,93	10	72,91	3	61,92	10 624 604
Quebec (city level)	7	66,54	5	115,09	8	102,16	17 528 913
Paris	8	66,19	4	133,65	13	132,66	22 761 707
Hong Kong	9	65,42	7	93,8	7	84,41	14 482 972
Rio de Janeiro	10	61,6	13	63,85	5	71,61	12 287 082

Source: FDI Intelligence, 2015

While Cape Town is very price competitive, attention is being focused on improving its quality competitiveness. The widening range of specialist local firms, and the growth in specialist sector associations (detailed towards the end of this chapter) highlights the maturation of the sector and the growing ability to offer services such as film editing, cutting and dubbing.

Since the establishment of the Cape Town Film Studios (rated as one of the top ten film studios globally by the *Hollywood Reporter* in 2013), Cape Town is increasingly also recognized for its 'manufacturing' base: not only does the city have good locations, it also has the skills to manufacture sets, as well as contribute to other aspects of production including sound and post-production. This means that the film sector is deepening its local value chain, and also transitioning from a seasonal to a year-round sector (Wesgro, 2015b).

Growth in the digital components of the film sector – such as animation and game development – has further boosted the overall offering of Cape Town as an international film-sector hub: providing both service work and creating original content.

RECENT PERFORMANCE TRENDS IN THE CAPE TOWN FILM SECTOR

The National Film and Video Foundation (NFVF) estimates that the film industry contributed R3,5 billion to national gross domestic product (GDP) in 2012, and is growing at an annual average rate of 14% per annum.

There are about 150 registered production companies active in South Africa, with about 15 of these commanding over 90% of feature film and television production value. Spatial firm-level data is not available to determine the proportion of these companies based in Cape Town, but according to the NFVF (2013), the Western Cape accounted for over 25% of all film projects

in South Africa in 2012. This is only exceeded by Gauteng, which accounted for 33% of projects in the film sector that year.

The Western Cape outperforms all provinces in terms of co-production. A co-production is a collaboration between two or more producers from different countries. When a project is co-produced, it is eligible for benefits or programmes of assistance available in either country. South Africa has signed co-production treaties with eight countries: Canada, Italy, Germany, the United Kingdom, Australia, France, New Zealand and Ireland. A total of 15 co-produced films were shot in the Western Cape between 2010 and 2013 (NFVF, 2015).

According to Wesgro, South Africa received investments worth R2,2 billion into its film sector from 2003 to 2014, which was further boosted by local investment. The Department of Trade and Industry (dti), for example, offers a film incentive package that resulted in R1,952 billion in Qualifying South Africa Production Expenditure (QSAPE)[9]. This is estimated by the NFVF (2015) to have created 35 786 jobs during the 2013/14 financial year alone. Due to the local expenditure prioritisation of this incentive, the economic multiplier of these projects is estimated at 2,89, resulting in an estimated R5,64 billion in GDP during that financial year. Figures for the most recent year of dti film incentives are not yet available. Since inception of this incentive in 2009, however, QSAPE has increased from R1,328 billion from 44 films to a total QSAPE of R1,952 billion from 83 films in 2014, indicating an average annual growth of 10% in local qualifying expenditure.

Within the Cape Town metro area, the City of Cape Town is responsible for issuing permits to film in public spaces. This excludes any shoots taking place on private property or inside studio spaces. From 1 of January 2014 to 12 June 2015, a total of 7 028 permits were issued. The majority of shoots in public spaces are relatively small commercial and stills projects, constituting 47,9% of all permits, however, permits were also issued to 37 very large TV and film productions.

We are reaching critical mass as producers of original IP and content. We've outgrown our beginnings as a commercials-driven service industry and we're showing the world that we're ready to tell our own stories.

– Nick Cloete, Chair of ASA

Table 6: Film permits issued by the City of Cape Town (1 January 2014 to 12 June 2015)

Production type	Shoot size				Total
	Small	Medium	Large	Very large	
Commercial	452	493	1 764	257	**2 966**
Documentary	59	15	0	1	**75**
Feature film	37	38	174	72	**321**
Music video	35	17	3	1	**56**
Other	50	6	0	1	**57**
Short film	55	7	5	0	**67**
Stills photography	2 263	299	26	3	**2 591**
Student projects	262	52	4	0	**318**
TV films and productions	41	17	29	37	**124**
TV pilot	3	3	1	0	**7**
TV series	106	39	68	233	**446**
	3 363	**986**	**2 074**	**605**	**7 028**

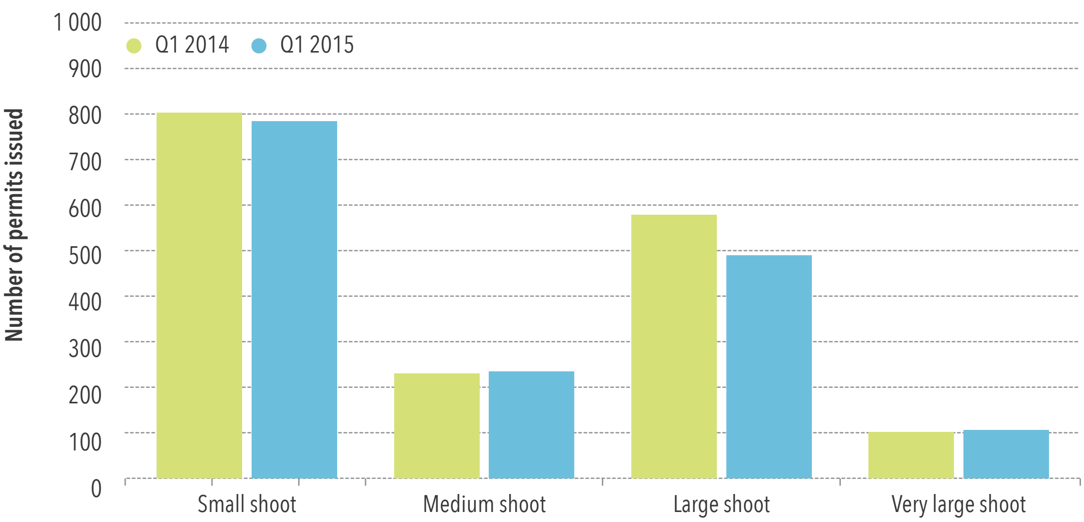
Source: City of Cape Town, 2015

On a year-on-year basis the total number of permits issued in the first quarter of 2015 decreased compared to the first quarter of 2014. This decline in the number of permits issued was as a result of fewer permits being issued for small and large shoots. In contrast the number of permits for very large shoots increased from 103 issued in the first quarter of 2014 to 107 issued in the first quarter of 2015.

9. QSAPE is defined as expenditure on goods/services provided by South African entities and/or services rendered by South African individuals, subject to exclusions specified by the dti Film Incentive, such as entertainment (wrap parties) or the purchase of land/property, amongst others.

Full sail ahead: *Black Sails, an American dramatic adventure television series set on New Providence Island, United States, and a prequel to Robert Louis Stevenson's novel* Treasure Island, *is being filmed at Cape Town Film Studios. The series is now in its third season. Feature films such as* Safe House *and* Mad Max: Fury Road *have also been filmed at the studios.*

Figure 33: Number of film permits issued in Cape Town by size of shoot



Source: Tourism Events and Economic Development Department

> **In terms of technology, South Africa is actually ahead of the curve in many respects. Those sound stages at Cape Town Film Studios are incredibly advanced, and beyond anything I have seen before.**
>
> ***– Kate Beyda, Senior Vice President of Production, Warner Bros.***

> **There are only a few places in the world that can handle this kind of movie. Something that will look like a $100 million for less than half that figure.**
>
> ***– Andrew Macdonald, 'Dredd' producer, quoted in TIME Magazine.***

Focus on Cape Town Film Studios (CTFS)

The CTFS is the first film industry public-private partnership in South Africa, supported by local, provincial and national government. It is also the first custom-built high-tech film studio complex in sub-Saharan Africa. At R306 million total capital expenditure, it is the biggest investment in long-term film infrastructure in South Africa. It is the first black-owned and managed company of its kind, and also applies contract participation goals that prioritises local workers and historically disadvantaged contractors.

Construction of the CTFS took place in 2009, and created an estimated 3 478 direct jobs (dti Report: CTFS Project). An additional 215 direct jobs were created during the construction of the water tanks to enable the shooting of the *Black Sails* series (CTFS, 2015).

In the first four years of operations (2010 to 2014), the CTFS hosted 20 productions, with clients such as Universal Pictures, Warner Brothers, BBC, 20th Century Fox, Videovision and others. The impact of these productions has been reported as:

- A total of 47 044 cumulative FTE jobs created. The manufacturing processes at the studios open the doors to a range of artisans (carpenters, painters, builders, garment workers, metal workers, landscapers, horticulturists, fabricators etc.), who previously had limited access to the film industry.
- QSAPE of R2 billion, with an estimated total GDP contribution of R6 billion when multipliers are included. In the case of studio-based film, overall economic impacts are increased due to an increase in the length of time spent in the region, resulting in further spending on accommodation, personal services, travel and retail, as well as production costs and local

IMAGE COURTESY OF TRIGGERFISH ANIMATION STUDIOS

Earning its stripes: *Triggerfish's* Khumba, *the story of a young zebra born with only half his stripes, has done extremely well worldwide, with more than a million theatre admissions in China alone. Triggerfish also produced* Adventures in Zambezia.

direct jobs (studio employees as well as construction and other temporary jobs).

Thirty-two major productions have been turned away since 2013 due to limited capacity. As such, expansions are being fast-tracked, with two more stages and a workshop to be completed before the end of 2015, an additional three stages and two workshops before the end of 2017 and the creation of studio-related offices and light industrial facilities by 2018. There are also plans for a crew academy and manufacturing hub.

A snapshot of the animation sector

The animation and gaming sub-sector is growing rapidly in Cape Town, spurred by an increase in skills levels, confidence amongst global partners, and the demonstrated success of locally generated content. This sector has important reaches into other sectors of the creative industries, including software development, graphic design, web design and more. Here we highlight the successes of a few local studios, according to information provided by the ASA:

- Triggerfish is an animation studio employing more than 70 people. Their feature film *Khumba* premiered at the Annecy International Animated Film Festival and Market (MIFA) in 2013 before its international release in theatres and has become a significant marker of the progress and maturity of the South African animation industry as a whole. Chinese box office statistics (January 2015) confirm that over one million people viewed *Khumba* in its first month, grossing over $6 million to date. Triggerfish's debut film, *Adventures in Zambezia* was released in 2012 and is the most successful South African-owned film in the last 30 years, grossing in excess of USD34 million at the international box office (ASA, 2015).
- Sunrise is a production company with a full-service animation studio based in Cape Town. Launched in 1998, they released the first ever feature-length stop motion animation to come out of Africa: *The Legend of the Sky Kingdom*. Their flagship animation series, *Jungle Beat,* is a multi-award-winning series of animated shorts that have been broadcast in over 180 countries worldwide, over 27 airlines and on iTunes. Recognition internationally includes nominations at Annecy, and awards at Cartoons on the Bay, Zagreb, Anima Mundi, Chicago and Toronto. *Jungle Beat* is currently in production of season three with more seasons to follow soon. Alongside production, Sunrise is creating a *Jungle Beat* digital strategy that includes a new website, a high-end mobile game, and various social media and promotional initiatives to reach audiences worldwide, speaking to the potential of this sub-sector to reach deeper into the new media and creative industries sector.
- Strika Entertainment was founded in 2001 in Cape Town with the introduction of its soccer comic, *Supa Strikas*. The action-packed soccer-themed comic drew international interest and led to Strika gearing its studio capacity for animation in 2006. In 2008 the first season of the *Supa Strikas* animated series was launched. Now in its fourth season and closing in on 52 episodes, *Supa Strikas* is broadcast in over 60 countries by more than 20 channels, including Disney, Al Jazeera, Nickelodeon and Canal+. With operations in Southeast Asia and West Africa, their Cape Town studio has 30 full-time artists who focus on producing top-quality animation content and comic titles for global audiences.
- Zeropoint Studios was founded in 2010. It specialises in creating and producing youth animated content and IP, actively creating, developing and producing animation TV series, and trans-media and digital content for global youth brands aimed at multiple platforms. They currently have six projects in their slate at various stages of development, having signed co-production agreements on three projects, two of which are SA-original IP.

> **There has been a definite shift in South African perception toward quality and original content generation, which alludes to a sophistication of the growing animation industry.**
> ***– Wendy Spinks, ASA and Zeropoint Studios.***

City services:
The City of Cape Town issued 7 000 film permits over the past 18 months. The City provides various auxiliary services to the industry, such as traffic control.

OPPORTUNITIES AND CHALLENGES IN THE FILM SECTOR

According to the NFVF (2015), South Africa's revenue from motion picture, film, video and TV production is expected to grow by 3,3% from USD977 million in 2012 to USD1,2 billion in 2018. This suggests significant potential for new investments in post-production and film-related manufacturing, in particular. Manufacturing opportunities include set-building, textile- (costume-) related work, as well as potential import-substitution on cinematographic equipment.

There are also a number of opportunities in the legal and finances sector to provide specialist services to the film industry, specifically on the legal and financial contracting work on co-production agreements involving a mixture of local and foreign companies, as well as the support of various film funds and dti incentives.

The recently approved South African visa regulations pose a challenge to the industry, which relies on the frequent and rapid movement of people around the globe. Wesgro and the Western Cape Government are involved in efforts to address the negative impacts of these regulations, while industry professionals have had to adjust by employing visa and travel specialists in their teams.

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STRATEGIC INTERVENTIONS

There are a number of initiatives to support the film sector. Many of these apply a QSAPE measure, which encourages the use of local contractors and suppliers in order to maximise the incentive to the filmmaker while ensuring local economic benefits are retained.

The NFVF is a strategic policy driver for the sector. They conduct research to support industry players, and offer strategic support and guidance in accessing various funding opportunities – their own, as well as those of the dti and others.

The list of incentives is long, but includes, inter alia:

- ECA Location Film and Television Production Incentive, for foreign-owned films with QSAPE of R12 million and above
- ECA South African Film and Television Production and Co-production incentive, for locally owned productions of R2,5 million and above
- South African Film and Television Production and Co-production Incentive, for qualifying productions of R2,5 million and above
- South African Emerging Black Filmmakers Incentive, offering a rebate of up to 50% for the first R6 million of the QSAPE and 25% thereafter
- Foreign Film and Television Production and Post-production Incentive
- NFVF fund for South African-owned film production companies (various funds)

In addition, the Industrial Development Corporation (IDC) Media and Motion Pictures offers a financial assistance programme (primarily in the form of loans), while the South African Revenue Services (SARS) offers various tax exemptions including the ECA film rebate subsidies, and Section 120 of the Income Act. The latter 'provides for an incentive in the form of a tax allowance to stimulate film production'.

The local sector is promoted by Wesgro, which has a dedicated unit focusing on trade and investment promotion, as well as sector research and development. Wesgro works closely with at least 12 sector bodies, associations and chambers relating to the film and media sector.

9

Infrastructure

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

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

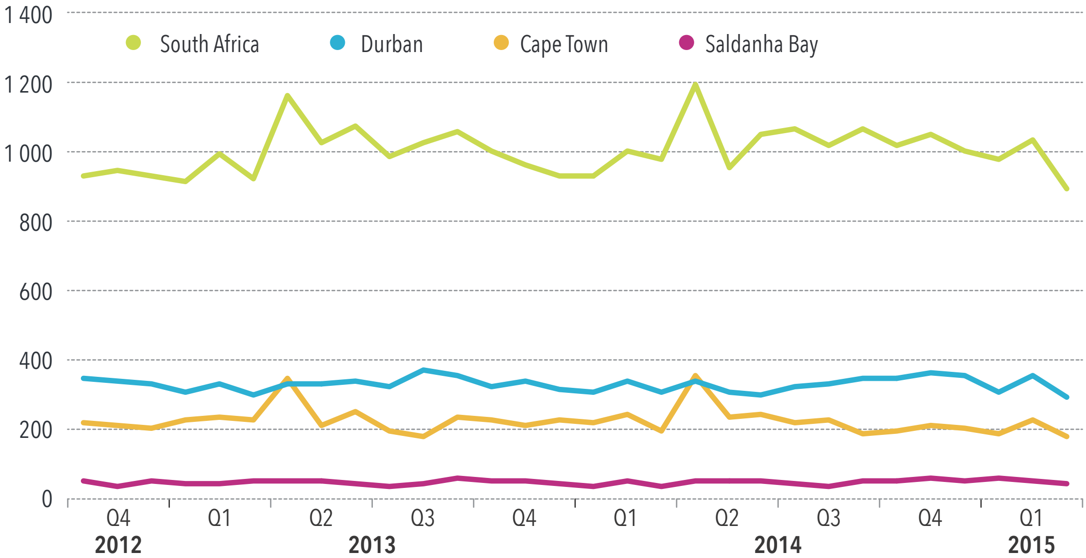
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports decreased by 166 vessels from 3 070 in the fourth quarter of 2014 to 2 904 in the first quarter of 2015. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the first quarter of 2015 was 589 vessels (accounting for 20% of total vessels). This represented a slight decrease on the previous quarter's figure of 607 vessels, but constituted the same share of national vessel movements. On a year-on-year basis, vessel arrivals in Cape Town in the first quarter decreased by 62 vessels, and its share of South Africa's vessel arrivals decreased from 22,4% to 20%. The Port of Saldanha, the closest port to the Port of Cape Town, sees far fewer vessel arrivals per month. This is because the Port of Saldanha currently focuses on the shipment of bulk cargo, predominantly steel and iron ore, and does not 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 that handled at the Port of Cape Town. On average, the Port of Durban has more vessel movements than the Port of Cape Town, with the exception being the peak fishing month of April.

The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the first quarter of 2015 was 589 vessels (accounting for 20% of total vessels).

Figure 34: Total number of vessels (October 2012 to March 2015)



Source: Transnet National Ports Authority, May 2015.

Cargo (gross tonnage) and container handling

In the first quarter of 2015, South African ports handled 61,8 million metric tonnes of cargo, compared to 59,5 million in the fourth quarter of 2014, and 52,1 million in the corresponding period in 2014.

Cape Town experienced an increase in cargo-handling activity, from 0,76 million tonnes in the fourth quarter of 2014 to 1,04 million tonnes in the first quarter of 2015. However, contrary to the national trend, there was a substantial 3,6% decrease from the 1,07 million tonnes handled in the corresponding period in 2014. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike Saldanha or Richards Bay). Therefore, it does not have a significant impact on the national cargo-handling performance. The Port of Cape Town concentrates more on container handling than cargo handling. The ports of Durban and Saldanha, which are much larger cargo handlers than the Port of Cape Town, experienced similar quarter-on-quarter results. Cargo handling at the Port of Durban increased by 1% and by 4,3% at the Port of Saldanha. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, saw contrasting results. Cargo handling for the Port of Saldanha increased robustly by 33%, while it decreased by 1% at the Port of Durban in the first quarter of 2015.

The Port of Durban is South Africa's main container-handling port and contributed more than half (58%) of the total containers

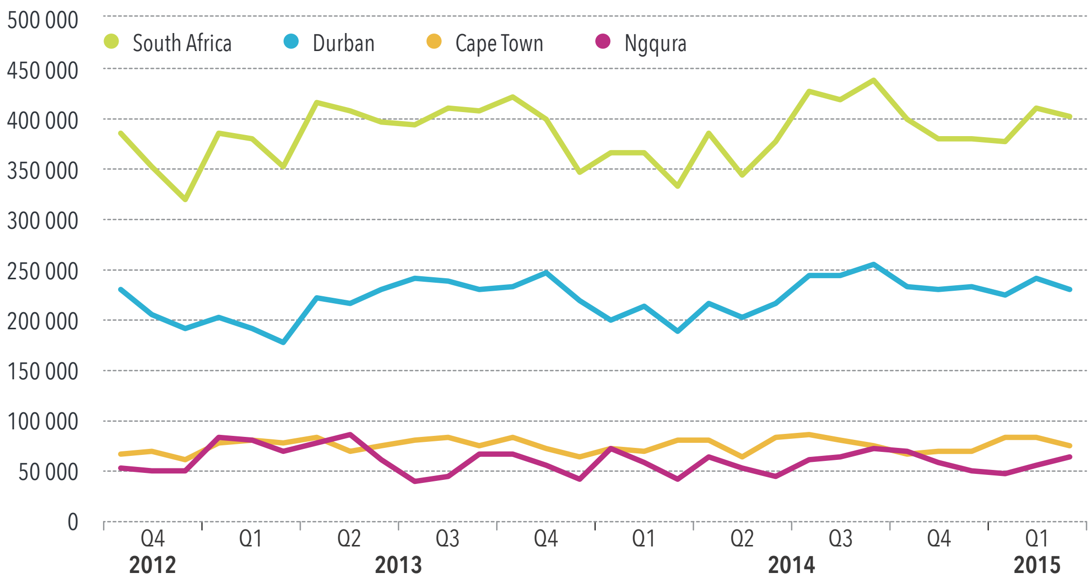
handled in South African ports in the first quarter of 2015. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 20% of all containers handled in South African ports in the first quarter of 2015.

Container traffic is very seasonal, as figure 35 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 222 472 containers handled in the first quarter of 2014 to 241 039 containers handled in the first quarter of 2015 – an increase of 8%.

In 2013, the Port of Cape Town appeared to be losing ground to the Port of Ngqura in terms of container handling, as the latter port recorded a large increase in containers handled in that year. However, in 2014 the Port of Ngqura recorded a decrease in containers handled for the year. Following on in the first quarter of 2015 the Port of Ngqura recorded a decrease in containers handled year on year (172 149 for the first quarter 2014 and 166 700 in the first quarter 2015). While the Port of Ngqura still remains behind Cape Town in terms of the volume of containers handled, capacity constraints experienced by the latter mean that in the future it could overtake the Port of Cape Town as the country's second-largest container handling port. This said, Transnet has approved plans for a multibillion rand upgrade to the Port of Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

While the Port of Ngqura still remains behind Cape Town in terms of the volume of containers handled, capacity constraints experienced by the latter mean that in the future it could overtake the Port of Cape Town as the country's second-largest container handling port.

Figure 35: Total containers handled (TEUs[10]) (October 2012 to March 2015)



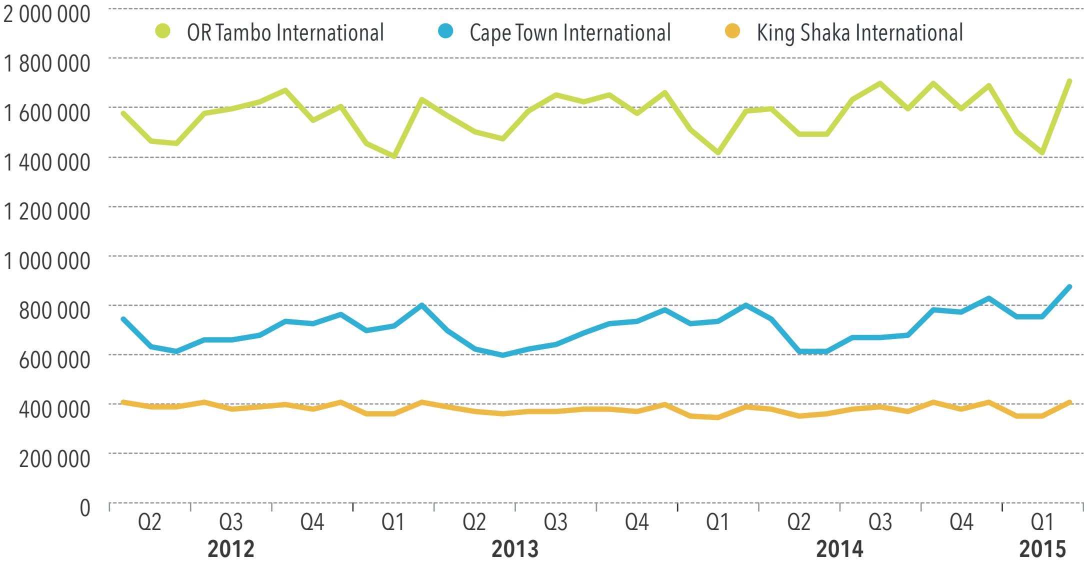
Source: Transnet National Ports Authority, May 2015.

10. 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.

CAPE TOWN AIRPORT STATISTICS

Total passenger movements

Figure 36: Total passenger movements at South Africa's major airports (April 2012 to March 2015)



Source: ACSA, May 2015.

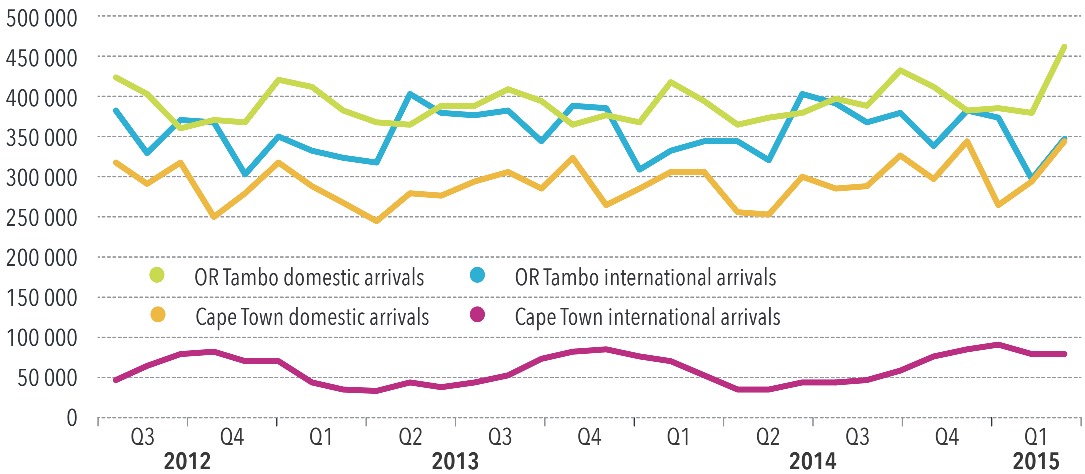
Total passenger movements at Cape Town International for the first quarter of 2015 (2,38 million) were slightly higher than in the first quarter of 2014, when 2,26 million passenger movements were recorded.

Cape Town International Airport is South Africa's second busiest airport. It recorded 2,38 million total passenger movements in the first quarter of 2015, compared to 4,63 million passenger movements at OR Tambo and 1,11 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International for the first quarter of 2015 were slightly higher than in the first quarter of 2014, when 2,26 million passenger movements were recorded. Similarly, OR Tambo International Airport and King Shaka International recorded increases in passenger numbers in the first quarter. A quick glance at figure 35 indicates a pronounced degree of seasonality in Cape Town's passenger movements, while OR Tambo shows a more erratic distribution. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

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

The direct international proportion of passenger arrivals to Cape Town International for the first quarter of 2015 constituted 22% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 45% of its total passenger arrivals. This reflects the fact that the Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. While Cape Town

Figure 37: International and domestic passenger arrivals for Cape Town and OR Tambo International airports



Source: ACSA, May 2015.

International hosts 15 international airlines with 89 international flights a week, the figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many international tourists take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight.

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 first quarter of 2015 increased by 5,9% year on year, with international arrivals increasing by 8,3%.

While Cape Town International remains behind OR Tambo International in terms of passenger movements and number of flights available, Cape Town is an increasingly popular tourist destination. In order to respond to increasing tourist visits, the airport needs to expand its capacity. In line with this, ACSA has proposed to realign the runway at Cape Town International to make room for larger aircraft and accommodate greater passenger numbers. The proposal, which includes extending the runway length by 300 m, would allow between 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

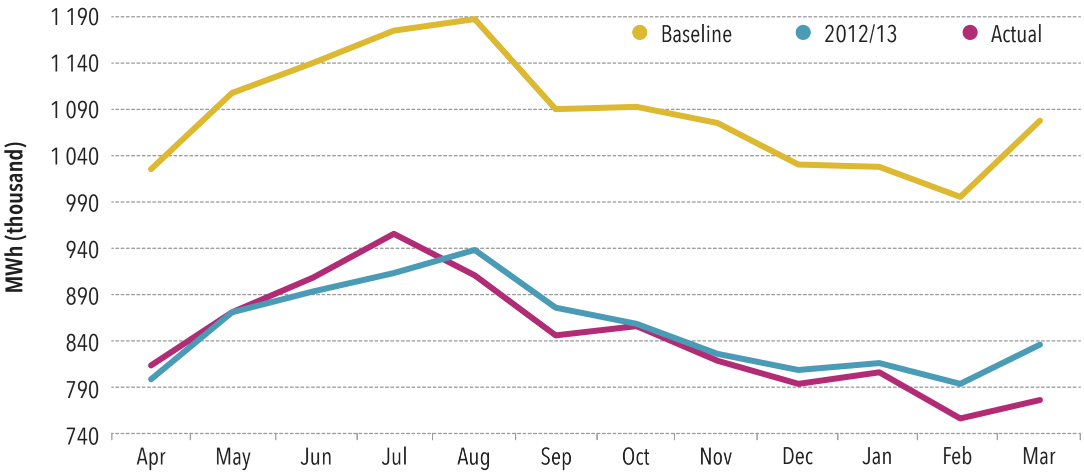
A review of South Africa's energy mix reveals that it is largely reliant on coal with some nuclear, hydro and renewables also contributing to the national grid. As is the case in most economies, the availability, reliability and affordability of electricity supply are key considerations in the location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

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

Figure 38 depicts the City's baseline consumption forecast as well as the actual consumption of electricity over the past two years. There has been a fluctuating, yet increased, rate in energy saving practices, with 21,6% savings for January, 24,0% savings for February and 27,9% savings for March.

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.

Figure 38: City of Cape Town actual, historical and baseline[11] electricity consumption (April 2014 to March 2015)



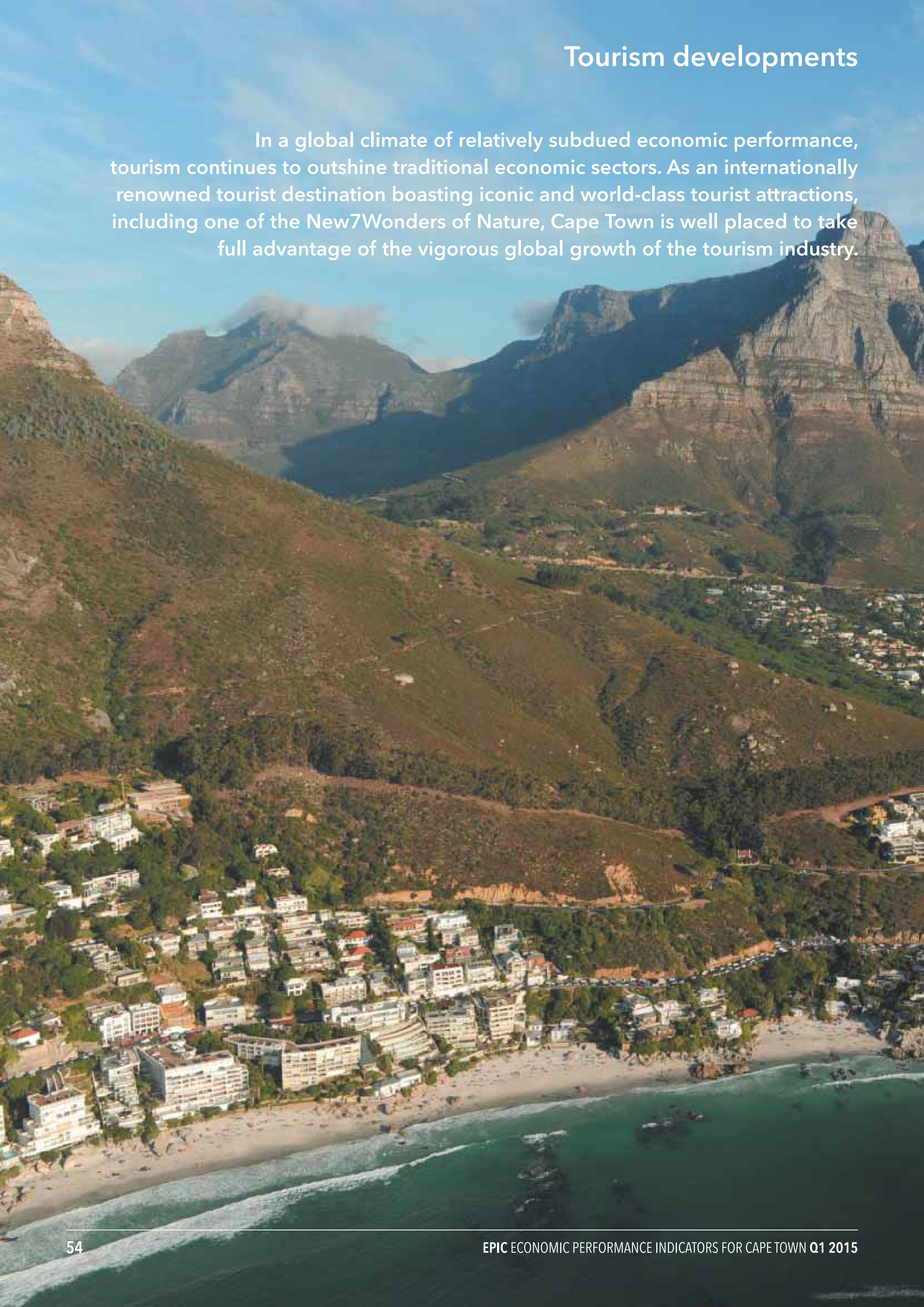
	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15
Baseline	1 025	1 108	1 139	1 175	1 188	1 090	1 092	1 074	1 031	1 027	995	1 077
Actual	814	870	909	955	910	845	857	820	795	805	756	777
2013/14	799	871	894	914	937	877	860	826	809	816	794	835
% Saving	20,5%	21,4%	20,2%	18,8%	23,4%	22,5%	21,6%	23,7%	22,9%	21,6%	24,0%	27,9%

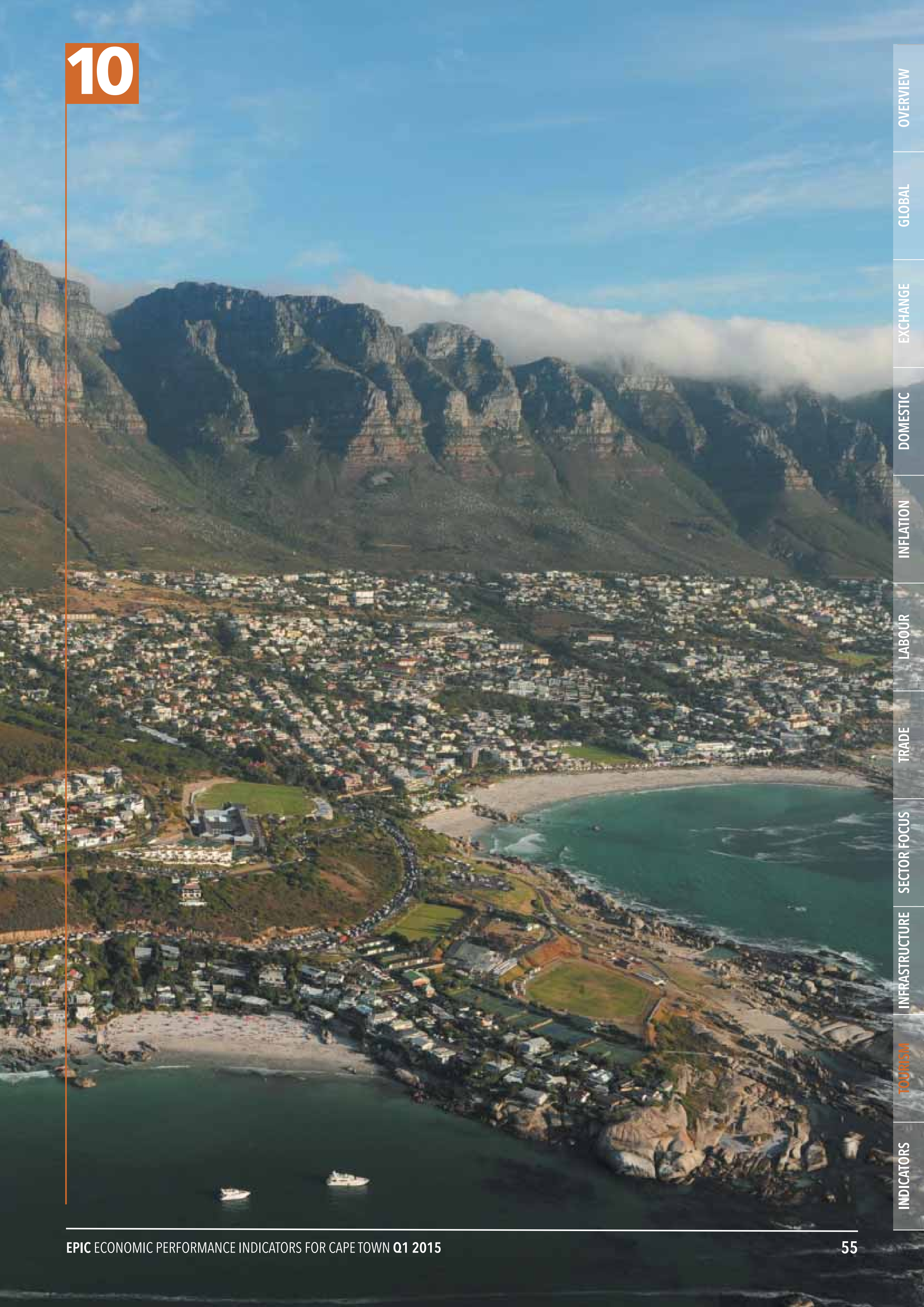
Source: City of Cape Town, Electricity Services Department, May 2015.

11. 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.





10

INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) World Tourism Barometer for April 2015, 1 135 million global tourist arrivals were recorded for the completed year 2014. This constituted an increase of 48 million (or 4,4%) tourist arrivals compared to 2013. Tourism receipts increased by USD48 billion to reach a record USD1 245 billion in 2014 and together with the USD221 billion generated from international passenger transport, contributed to a total of R1,5 trillion US dollars in export earnings for international tourism in 2014. International tourism receipts grew in all regions, with Europe leading with USD17 billion receipts, followed by USD16 billion for Asia and the Pacific, USD10 billion for the Americas, USD4 billion for the Middle East and USD1 billion for Africa. Europe remains the largest recipient of tourism receipts accounting for 41% (USD 509 billion) of the global total.

In terms of regional performance, growth in international arrivals in 2014 was driven by strong arrivals growth of 7% (equivalent to 13 million more arrivals) in the Americas and 5% (equivalent to 13 million more arrivals) in the Asia and Pacific region. Within the Americas region, the leading sub-region in terms of arrivals growth was North America (8,2%), where Mexico posted a double-digit increase, while within the Asia and Pacific region, the leading sub-region was South Asia and North-East Asia (arrivals to both regions increasing by 7,1%). Europe, the world's leading tourist destination region, grew at 3,9% in 2014, which equated to a 22 million increase in arrivals, with the sub-regions of Southern Mediterranean Europe and Northern Europe recording growth rates of 7%. Africa's international tourist arrivals for the completed year 2014, however, grew at a disappointing 2,3%, led by growth of 3,3% in arrivals to sub-Saharan Africa. These low growth rates are likely to be linked to the outbreak of Ebola in West Africa at the beginning of 2014, and the subsequent misconceptions surrounding the safety of travel to other African countries. The UNWTO (2015:5) reports that data for Africa and the Middle East should be read with caution as it is based on limited and volatile data.

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS IN SOUTH AFRICA

In spite of poor performance for the overseas market in the fourth quarter, the full-year growth for tourist arrivals to South Africa was 1,9% for the overseas market and 6,6% for all tourist arrivals, which was higher than the 2,5% arrivals growth rate recorded for sub-Saharan Africa as a whole during that period.

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. In December 2014, 934 699 foreign tourists visited the country. Tourist arrivals increased by 6,1% year on year for the period. Tourist arrivals from Africa (South Africa's largest tourist source market) increased by a healthy 9,4% year on year, however, the overseas market underperformed as it decreased by 3,5% for the same period. The negative growth rate is corroborated by the figures for OR Tambo International Airport, which showed a 2% year-on-year decrease in international arrivals for December and a 1,5% year-on-year decrease for the fourth quarter of 2014. The low growth rates can also be explained by the Ebola outbreak as explained in the preceding section.

In spite of this poor performance for the overseas market in the fourth quarter, the full-year growth for tourist arrivals to South Africa was 1,9% for the overseas market and 6,6% for all tourist arrivals, which was higher than the 2,5% arrivals growth rate recorded for sub-Saharan Africa as a whole during that period. This is impressive, considering the size of South Africa's tourist market. Tourist arrivals to the country continue to grow much faster than the economy as a whole, which only recorded an annual growth rate of 1,5% – pointing to the resilience of the tourism industry even in a depressed economic climate.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market and accounted for 147 555 tourist arrivals in December 2014, having grown at 2,5% year on year. Within the European region, the United Kingdom, Germany and the Netherlands were South Africa's largest source markets. While arrivals from the United Kingdom grew by 2,6%, arrivals from Germany only increased by 0,6% and arrivals from the Netherlands decreased by 1,0%. However, looking at the full-year performance, arrivals from the Netherlands grew by a healthy 14,5%, placing it just behind France in

Table 7: International tourist arrivals in South Africa

Region	December 2014	December 2013	% change	% change Jan–Dec 2013 to Jan–Dec 2014
Europe	147 555	144 013	2,5%	6,8%
Russia	875	1 469	-40,4%	-9,6%
North America	32 640	33 336	-2,1%	4,0%
Central and South America	5 253	8 180	-35,8%	-16,4%
Brazil	3 525	5 406	-34,8%	-15,4%
Australasia	14 916	14 442	3,3%	3,2%
Middle East	3 964	4 043	-2,0%	0,1%
Asia	17 020	25 431	-33,1%	-16,0%
China	3 391	7 154	-52,6%	-23,3%
India	6 250	7 662	-18,4%	-9,2%
Overseas total	221 348	229 445	-3,5%	1,9%
Africa	711 769	650 844	9,4%	8,1%
Total	**934 699**	**881 226**	**6,1%**	**6,6%**

Source: South African Tourism, May 2015.

terms of the highest growth in arrivals recorded for the year from European source markets. Arrivals from France grew at 16,8% in 2014, overtaking the Netherlands as South Africa's third biggest European source market on an annual basis. Germany and the United Kingdom grew by 8,7% and 1,9% for the year respectively.

Despite the low increase in tourist numbers for December 2014, Europe and Australasia were the only source markets that recorded an increase in tourist arrival numbers. All the other regions recorded massive decreases in tourist arrivals. Arrivals from Central and South America decreased by 35,8%, arrivals from Asia decreased by 33,1%, the Middle East by 2,0% and North America by 2,1%.

Tourist arrivals from emerging markets followed the broader negative trend in December 2014. Although these countries had been the key contributors to arrivals growth in South Africa, with China, India and Brazil leading the way, arrivals from all three dropped significantly in December 2014. However, even though arrivals growth from these countries may have dipped in December and to a lesser extent throughout 2014, South Africa needs to continue to target these countries in the future, as they remain the world's fastest-growing tourist source markets – a trend that is likely to continue as sustained high economic growth rates raise income levels in these countries. At the same time, tourism promotion is a balancing act, as the country's traditional tourist markets, such as the United Kingdom, need to be maintained, while the African leisure-tourism market needs to be more intentionally exploited.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourism accommodation in Cape Town

Accommodation spend typically constitutes the largest portion of total visitor spend at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in table 8 were derived from a survey of 65 tourism accommodation establishments in the Cape Town metro area.

Building on the strong performance recorded in 2014, occupancy rates at city accommodation establishments increased by an average of 1,27 percentage points in the first quarter of 2015 as compared to the first quarter of 2014. Dissecting the statistics presented in table 8 in greater detail, occupancy rates clearly tend to be the highest in February. This is largely because the domestic festive season ends in January, and is followed by a substantial increase in business and foreign tourists, who are both more likely to stay in accommodation establishments rather than with family and friends. The average revenue per room is highest in February at R1 368. Overall the occupancy rates, average room rates and the revenue per room all increased from the first quarter in 2014 and point to the continued health of the tourism industry in Cape Town.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in February were achieved by bed and breakfasts (87,7%). The type of establishments that experienced the greatest increase in occupancy rates, however, were self-catering establishments (13,3%); similarly self-catering establishments experienced the largest increase in revenue per room (83,3%). Spatially, the highest occupancy rates in the city in February were found on the Atlantic Seaboard (89,7%).

Building on the strong performance recorded in 2014, occupancy rates at city accommodation establishments increased by an average of 1,27 percentage points in the first quarter of 2015 as compared to the first quarter of 2014.

Table 8: Income derived from tourist accommodation – South Africa

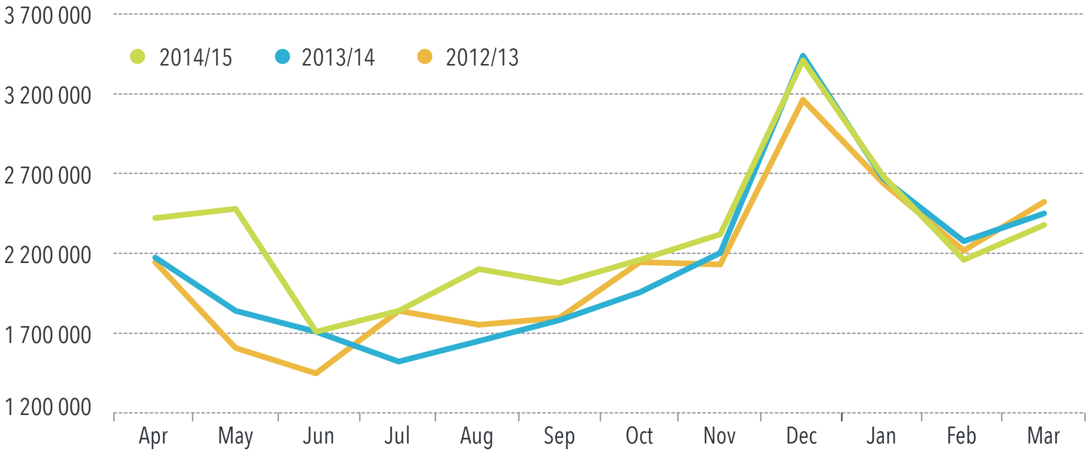
Indicator	January		February		March		First-quarter average	
	2015	2014	2015	2014	2015	2014	2015	2014
Occupancy rate	69,6%	67,40%	84,1%	83,10%	80,3%	79,70%	78,00%	76,73%
Average room rate	R1 647	R1 612	R1 626	R1 530	R1 436	R1 303	R1 570	R1 481
Revenue per room	R1 147	R1 086	R1 368	R1 271	R1 153	R1 038	R1 223	R1 132

Source: Cape Town Tourism, May 2015.

Performance of Cape Town's top visitor attractions

For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These six attractions include the city's most popular tourist attractions for which visitor information is available, and encompass a diverse set of sights and sounds. The six attractions are the world-famous Table Mountain (specifically the Table Mountain Aerial Cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 39 indicates the cumulative number of visits by tourists to these six tourist attractions since April 2012. While all of these attractions are open to everyone – resident or non-resident, domestic or international – they attract large proportions of tourists and are used in this section as a proxy for tourism demand in Cape Town.

Figure 39: Total visits to Cape Town's major (top six) tourist destinations (2012 to 2015)



Source: Derived from Wesgro data, May 2015a.

In terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town.

From figure 39, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality. The first quarter of 2015 showed a 12,7% quarter-on-quarter decrease in the number of visits to these attractions. This typifies the seasonal nature of tourism activity in Cape Town, as higher tourist volumes are experienced in the summer months of November to March. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, the first quarter of 2015 yielded a 2,1% decrease in visits compared to the corresponding period of 2014.

It is important to note, however, that the visitor attraction data are strongly skewed by the V&A Waterfront. The V&A contributes more than 85% of the total number of visits to the six attractions analysed for the period under review. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends. If the V&A is removed, the number of visits to the five attractions decreases to 1 094 948 in the first quarter of 2015. The year-on-year growth rate for these five attractions, at -1%, stabilised somewhat when the V&A figures were removed but still represents an overall decline in visits to these attractions.

Most-visited tourist attractions

Table 9 indicates that, in terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town. However, for reasons described above, a more accurate reflection of the performance of major tourist attractions in Cape Town can be derived from the performance of the other five attractions. In this respect, the Table Mountain Aerial Cableway managed to record the second-highest visitor numbers for the first quarter of 2015, with

Table 9: Ranking of the most-visited tourist attractions in Cape Town

Rank	Q1 2015	Q4 2014	Q1 2014	Year-on-year growth rate % (Q1 2014–Q1 2015)
V&A Waterfront	6 141 114	7 100 002	6 286 886	-2,32%
Table Mountain National Park: Cape of Good Hope	253 818	275 832	277 685	-8,59%
Table Mountain National Park: Boulders Beach	195 748	207 906	212 392	-7,84%
Table Mountain Aerial Cableway	281 908	289 967	293 426	-3,93%
Kirstenbosch National Botanical Garden	257 460	299 373	208 797	23,31%
Robben Island	94 585	99 649	102 648	-7,85%
Total	7 224 633	8 272 729	7 381 834	-2,13%
Total (excluding V&A Waterfront)	**1 083 519**	**1 172 727**	**1 094 948**	**-1,04%**

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

Source: Wesgro, May 2015a.

281 908 visits, while Kirstenbosch National Botanical Garden recorded the third-highest number of visits (257 460).

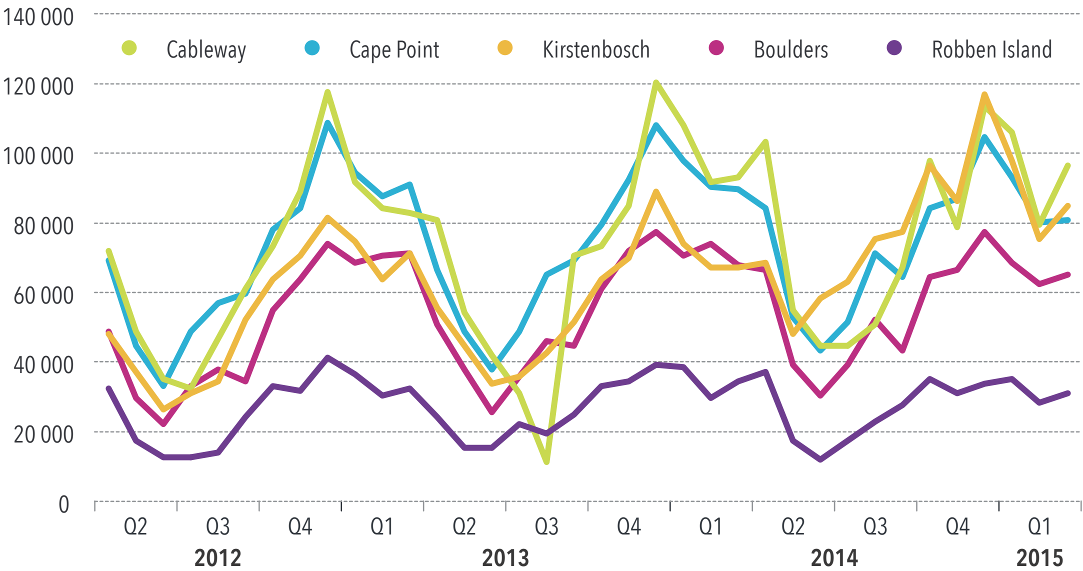
Kirstenbosch National Botanical Garden was the only attraction to record a positive year-on-year growth rate, 23,31% for the first quarter. Negative year-onyear growth rates were recorded for the Table Mountain National Park: Cape of Good Hope (-8,59%), Robben Island (-7,85%), Boulders Beach (-7,84%) and the Table Mountain Aerial Cableway (-3,93%). The record numbers for Kirstenbosch National Botanical Gardens stems from the continuous positive effect that the 'Boomslang' aerial boardwalk, which opened on 17 May 2014, has had on visitor numbers.

The negative growth rate for most of the attractions can partially be attributed to the decrease in international arrivals at OR Tambo International (where the majority of the city's international tourists initially fly to) for the months of January and February (-2,8% and -3,5% respectively). International tourists are the main visitors to these attractions so a decrease in their numbers is likely to weigh down the number of visits to these attractions. For the Table Mountain Aerial Cableway the biggest drop in visitor numbers came in February, which recorded a decrease of 15,9% year on year. At least part of the decline can be attributed to a base effect whereby visitor numbers have not been able to keep pace with the record figures achieved by the cableway in the first quarter of 2014.

All attractions are subject to strong seasonality, with peak visitor activity occurring in the period November to March. The lowest visitor numbers are seen during the period May to July, which are the Cape Town winter months.

Kirstenbosch National Botanical Garden was the only attraction to record a positive year-on-year growth rate, 23,31% for the first quarter.

Figure 40: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Derived from Wesgro data, May 2015a.

11

Additional indicators

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

BUILDING DEVELOPMENTS

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

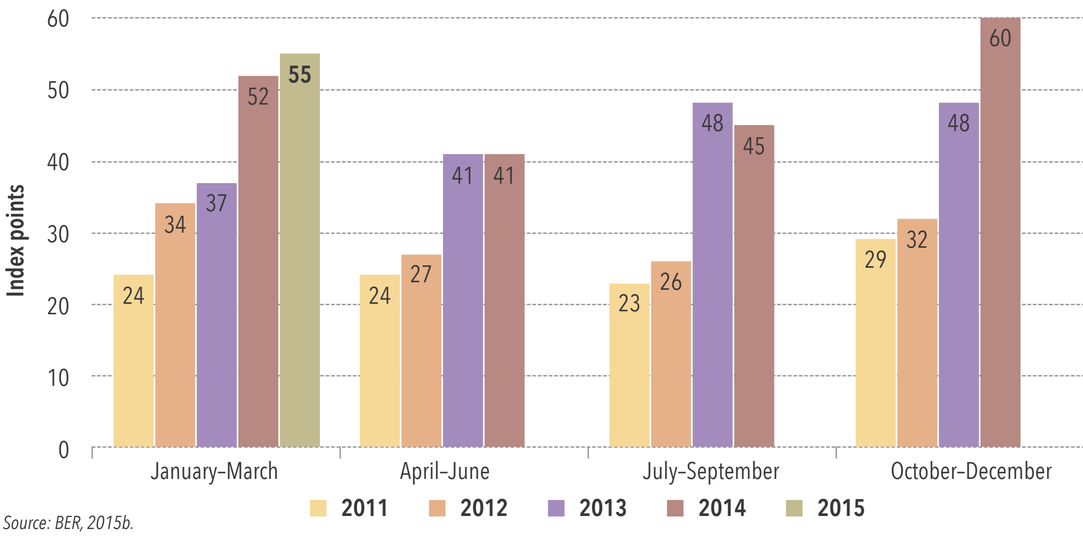
CONSTRUCTION INDUSTRY OVERVIEW

Chapter 4 showed that output in the national construction industry grew by 0,8% quarter on quarter in the first quarter of 2015. The industry recorded a year-on-year growth rate of 2,2%, making it the fourth-fastest-growing industry in South Africa on a year-on-year basis. The Western Cape recorded a 0,9% quarter-on-quarter expansion in the construction industry for the first quarter. The growth of the industry in the Western Cape compared to nationally was also slightly larger on a year-on-year basis – with the Western Cape construction industry growing at 2,3% and South Africa at 2,2%.

The First National Bank (FNB)/BER (2015b) composite building confidence index reveals the percentage of respondents, namely architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions. The building confidence index fell from 60 points in the fourth quarter of 2014 to 55 points in the first quarter of 2015. The decrease in the first quarter came as a result of a sharp fall in residential building activity, which lowered the confidence of main contractors and manufacturers of building material in particular. For this quarter the fall in confidence in manufacturers of building material, main contractors and quantity surveyors was partially offset by the higher confidence of retailers of building material, sub-contractors and architects (FNB/BER (2015b). Despite this quarter-on-quarter drop in confidence, year-on-year building confidence grew from 52 index points in the first quarter of 2014 to 55 index points for the same period in 2015.

Despite a quarter-on-quarter drop in confidence, year-on-year building confidence grew from 52 index points in the first quarter of 2014 to 55 index points for the same period in 2015.

Figure 41: Building confidence index (2011 to 2015)

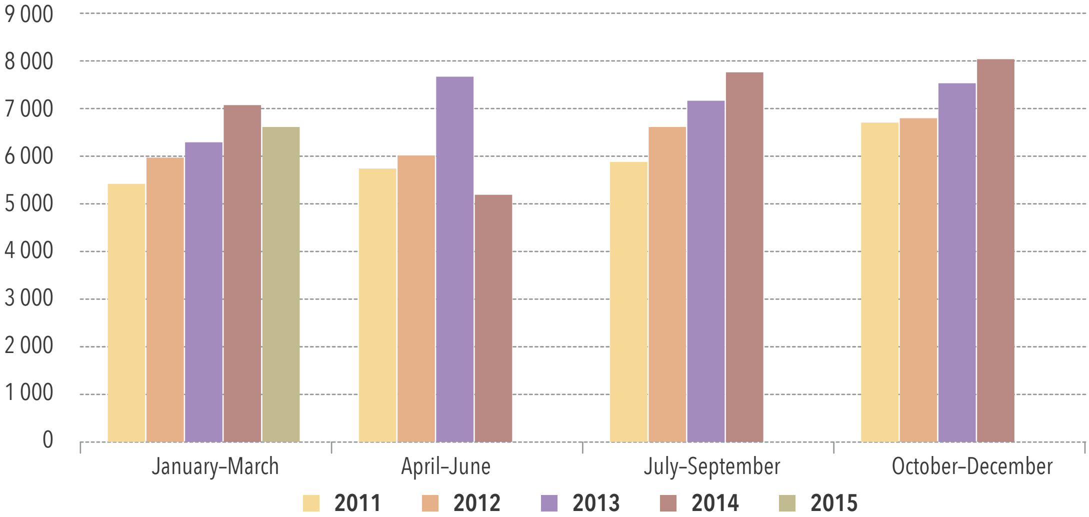


Source: BER, 2015b.

Building plan applications in Cape Town

Building plans submitted to the City of Cape Town in the first quarter of 2015 decreased by 17,51% compared to the previous quarter. Figure 41, however, provides an annual comparison of the number of building plans submitted in each of the quarters over the past four years, thereby accounting for seasonal trends in the building and construction industry. The first quarter of 2015 experienced a decrease when compared to the corresponding period in 2014. This year-on-year decrease in the number of building plans submitted translated into negative growth of 6,4% year on year for the first quarter of 2015.

Figure 42: Building plans submitted



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

Building plans completed

Building plans completed represent actual construction activity, as opposed to building plans submitted, which represent the anticipated level of construction activity in the future.

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

Table 10 compares the number of completed building plans in Cape Town in the first quarter of 2015 to the number of completed building plans in South Africa over the same period. The figures for Cape Town presented in table 10 reflect a downward trend. The same can be said for South Africa as a whole where the value of building plans completed has also decreased.

The value of building plans completed in Cape Town in the first quarter amounted to R2,2 billion, which accounted for 19,84% of the total value (R11,2 billion) of building plans completed in South Africa's larger municipalities. Both Cape Town (-1,02%) and South Africa (-3,13%) recorded a year-on-year decline in the value of building plans completed for the first quarter. In Cape Town, despite increases in the value of residential (20,49%) and non-residential (21,94%) building plans completed, the decline was largely driven by a 29,28% reduction in additions and alterations and a 16,38% decline in minor works.

Table 10: Building plans completed in the first quarter of 2015

	Cape Town		South Africa	
Measure	**Number/value**	**Year-on-year change**	**Number/value**	**Year-on-year change**
Building plans completed	4 424	-28,69%	N/A	N/A
Value of building plans completed	R2 230 million	-1,02%	R11 242 million	-3,13%

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

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, in particular, 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 more than likely in a contraction phase while if sales reflect a sustained growth trend then the economy may be entering an expansion phase.

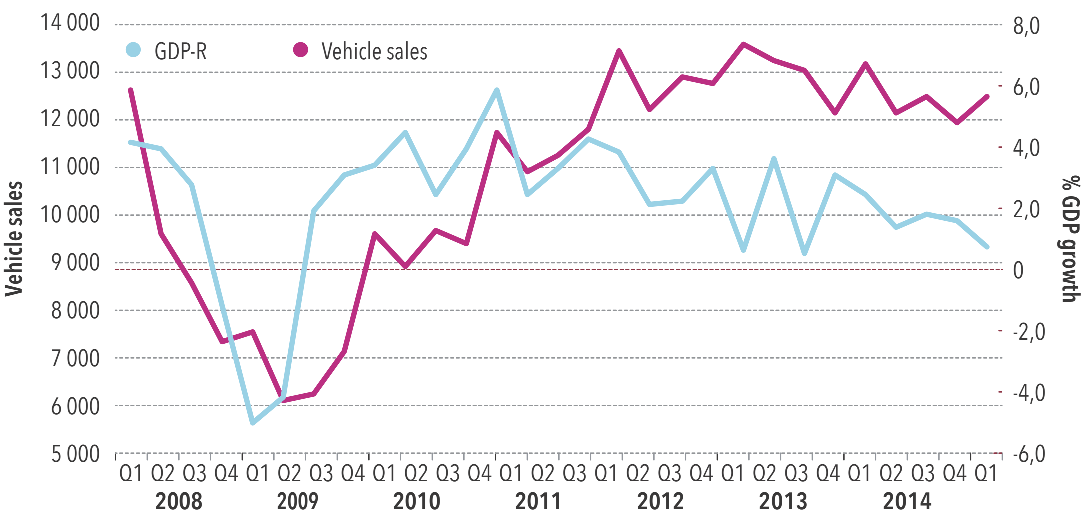
In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). The total vehicle sales in the Western Cape increased from 17 446 vehicles sold in the fourth quarter of 2014 to 18 345 in the first quarter of 2015. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw a decrease of 527 from the 18 872 total vehicle sales in the corresponding period in 2014. Passenger vehicle sales, which is the private consumer segment of the market, saw an increase from 11 933 in the fourth quarter of 2014 to 12 508 in the first quarter of 2015 for the Western Cape.

Year-on-year results saw a decrease of 677 vehicles from the 13 185 passenger vehicles sold in the corresponding period in 2014. Nationally there was a 2% decrease in the number of passenger vehicles sold in the first quarter of 2015 compared to the corresponding period in 2014. The subdued vehicle sales compared to 2014 should be viewed in light of a year-on-year economic growth rate that has been below 2% since the second quarter of 2014, and a higher interest rate (5,75%) as compared to the same period in 2014 (5,50%), both of which would have had a negative impact on consumer confidence and consumers' willingness to make large purchases.

Figure 43 plots the total passenger vehicle sales per quarter alongside the regional gross domestic product (GDPR) 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. Looking at figure 43, however, it would appear that in the Western Cape GDP growth seems to lead passenger vehicle sales growth and not vice versa. 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.

The subdued and, to an extent stagnating, vehicle sales compared to 2014 should be viewed in light of a year-on-year economic growth rate that has been below 2% since the second quarter of 2014, and a higher interest rate as compared to the same period in 2014, both of which would have had a negative impact.

Figure 43: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 1, 2015)



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

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List of abbreviations

ACSA	Airports Company South Africa
BER	Bureau of Economic Research
BRICS	Brazil, Russia, India, China, South Africa
CPI	consumer price index
CTFS	Cape Town Film Studios
dti	Department of Trade and Industry
EIA	US Energy Information Administration
FDI	foreign direct investment
GDP	gross domestic product
GGP	gross geographic product
GVA	gross value added
HDI	human development index
IMF	International Monetary Fund
IPP	Independent Power Producers programme
IRP	Integrated Resources Plan
MPC	Monetary Policy Committee
NAAMSA	National Association of Automobile Manufacturers of South Africa
NDP	National Development Plan
NERSA	National Energy Regulator of South Africa
NPA	National Ports Authority
NFVF	National Film and Video Foundation
OPEC	Organisation of the Petroleum Exporting Countries
PMI	purchasing managers' index
PPI	producer price index
QLFS	Quarterly Labour Force Survey
QSAPE	Qualifying South African Production Expenditure
SADC	Southern African Development Community
SARB	South African Reserve Bank
SEZ	special economic zone
Stats SA	Statistics South Africa
UNWTO	United Nations World Tourism Organisation
WTO	World Trade Organisation

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