



CITY OF CAPE TOWN
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INVEST CAPE TOWN

EPIC

Economic Performance Indicators for Cape Town

2019: QUARTER 2 (APRIL - JUNE)

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FOREWORD



A NEW ECONOMIC GROWTH DIRECTORATE FOR CAPE TOWN

It makes business sense:

This is my first opportunity to provide the foreword in my role as Mayoral Committee Member for Economic Opportunities and Asset Management.

The newly established Economic Opportunities and Asset Management Directorate has been dubbed the “growth” directorate, as it gives effect to our intention to build on the economic successes of Cape Town and take them to a much higher level.

The unique combination of the Enterprise and Investment Department with those of the City’s extensive asset management departments which includes property and fleet management, as well as strategic assets, allows us to find important synergies and levers in driving economic growth in Cape Town. Our goal is a simple and vital one, especially when viewed within the context of the second quarter economic indicators, namely to achieve growth, optimise our efforts and through this synergised cluster ensure Cape Town is open for business.

Part of our focus is to increase the support to a number of key economic sectors through our funding of special purpose vehicles which undertake skills training, investor promotion and facilitation, as well as sector development activities. Some of our high growth sectors include the tech sector, where Cape Town has more tech start-ups than any other city in Africa, and the business process outsourcing (BPO) sector which includes international call centres servicing a global market.

The BPO sector truly holds massive employment and investment opportunities as it currently employs almost 60 000 individuals and attracts investment worth R4.7 billion for our city. For sectors like these to grow to their full potential though, we need to make sure that the skills pipelines are in place. These results demonstrate that our efforts to support key sectors and aggressively position Cape Town as the ideal place to live, work, play, study and invest in is showing positive results for our economy and our residents.

The success of the Cape Town economy is, in my mind, largely testament to the power of partnerships and it is our objective of this new directorate to strengthen our networks with the private sector so that together we can remove the constraints for growth and build an inclusive economy that can deliver the job creation we all aspire to. We invite you to support and be part of our growth trajectory, after all, it makes business sense.

James Vos.

ALDERMAN JAMES VOS

MAYORAL COMMITTEE MEMBER FOR ECONOMIC
OPPORTUNITIES AND ASSET MANAGEMENT



INTRODUCTION

This is the 25th edition of the Economic Performance Indicators (EPIC) publication, which presents and analyses economic (and related) trends in Cape Town every quarter. This edition focuses on the second quarter of 2019, covering the period 1 April to 30 June 2019.

In the second quarter of 2019, Cape Town's economy, as proxied by Western Cape Gross Domestic Product figures, experienced a significant rebound. GDP growth in the second quarter was recorded at 2,2% (almost the mirror image of its - 2,7% contraction in the preceding quarter). An increase in the year-on-year growth rate (from 1,0% to 1,3%) would suggest that this strong turnaround was not just as a result of a base effect but rather indicative of a real improvement in the level of economic activity in the province and, by extension, the city. Driving the improved growth performance in the second quarter of 2019, were the finance (4,1% growth), trade (3,9%) and manufacturing (2,1%) sectors, the latter two having reversed contractions in the first quarter.

These three sectors were also responsible for the largest increases in employment in the city during this period (creating 34 683 net jobs between them). Overall (net) employment in Cape Town increased by 5 191 in the second quarter resuming a positive trajectory in employment growth, after two consecutive quarters of employment losses following nine previous quarters of growth. While unemployment, in line with national trends, continued to grow in Cape Town in the second quarter this was not as a result of job losses but rather as a result of employment growth not being able to keep pace with increased labour force participation in the city. This is reflected in the decreased number of discouraged work-seekers in the second quarter and an increased labour force participation rate.

Increased labour force participation is an important component in building a more inclusive economy in Cape Town, an economy where residents do not experience marginalisation from the labour market and the economic opportunities therein. While this increased level of participation is positive, it only increases the urgency for a faster rate of job creation to absorb new labour market entrants in Cape Town.

Critical to moderating the increase in the unemployment rate (which remained the lowest of all the metros on both definitions of unemployment), was the growth of employment in the informal sector in the second quarter. The City is increasingly realising the importance of the informal sector, or perhaps, more broadly, micro-entrepreneurship, in providing viable employment opportunities for its residents. The returns to these opportunities tend to disproportionately accrue to the poorest segments of society, further enhancing the sector's critical role in poverty alleviation in Cape Town. This realisation has led to the sector being highlighted in the City's Resilience Strategy and targeted for support in the City's forthcoming new Inclusive Economic Growth Strategy (IEGS).

Despite the ongoing lethargy of employment creation in the formal sector, there is reason to believe that some of the factors that have been weighing down on consumer and business confidence in the last two years have eased in the second quarter of 2019. The resurgence of the retail sector (where the greatest degree of informality exists) points to an increased (albeit still fairly low) level of consumer confidence. This is likely bolstered by low and, in some cases, decreasing rates of inflation in the province. Food price inflation, for instance, was only 3,4% in the Western Cape in the second quarter, compared to 3,8% nationally.

There is also emerging evidence that the lingering negative impacts of the drought, particularly as related to perceptions and their impact on business and consumer confidence, is beginning to fade. The tourism industry, one

of the industries most affected by the drought and related water restrictions, enjoyed increased airport arrivals as well as increased visits to the City's top attractions in the second quarter of 2019. While the occupancy rates of accommodation establishments in the city remain lower than in the previous year, average revenues per room have increased - possibly suggesting a move toward a lower volume, higher price approach in the accommodation segment of the tourism industry. The work of Provincial Government, Wesgro and the City on the Air Access Programme, has helped to stimulate international arrivals at Cape Town International, with the growth rate in these type of arrivals (9,48%) far outstripping growth in domestic arrivals (2,48%).

Increases in consumer confidence, while possibly evidenced in the performance of the retail and wholesale trade sector (tourism inclusive) in the second quarter, were not uniform across all industries. Even within retail trade, the number of new vehicle sales in the Western Cape remains lower than at the same time last year. Similarly, while confidence in the construction industry, as proxied by the FNB/BER Building Confidence Survey has increased, the index remains well below the 50-point mark, suggesting ongoing contraction in the industry. This is corroborated by negative economic growth figures for the construction industry for the quarter. These trends point to the fact that much more still needs to be done to reverse the lingering impacts of the poor growth performance of previous quarters.

The national Finance Minister's recently proposed Economic Strategy, looks to address some of the systemic issues that underpin low levels of business and investor confidence in the South African economy. If the strategy finds political muster, it will be an important step toward a more sustainable economic recovery for the South African economy and, by implication, Cape Town's economy. However such is the scale of the country's economic challenges, that what is required is not merely a recovery or reversal of recent economic fortunes, but rather a major step-change in the long-term growth trajectory of the South African and Cape Town economies.

To create meaningful economic change and a more inclusive economy more generally, Cape Town cannot be content with a simple recovery to mediocre levels of economic growth and employment creation. This realisation is at the heart of the City's forthcoming new Inclusive Economic Growth Strategy and is also at the heart of the Economic War Room Initiative, established by the Premier of the Western Cape. Both of these processes are underpinned by the simple principle of 'economic collaboration' - which acknowledges that the solution to our shared economic challenges must come from the broadest spectrum of stakeholders in our economy.

PAUL COURT

HEAD: ECONOMIC RESEARCH



ACKNOWLEDGEMENTS

The EPIC quarterly publication is a collaboration between the Enterprise and Investment, and Policy and Strategy Departments of the City of Cape Town.

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Design and Distribution by Invest Cape Town

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SUCCESS STORIES





SOLVING CRITICAL POWER PROBLEMS

WITH A COMPETENT TEAM, BACKED BY A WEALTH OF EXPERIENCE

Andrew Pigott, Business Development Manager at UK based AJ Power Limited, tells us about their experience and reasons for investing in the Cape Town based FGW Generators.

Please give us a brief background on AJ Power and the company's current operational footprint.

Having spent four decades travelling the world solving some of the most challenging critical power problems, five directors decided to put their wealth of experience to good use and start AJ Power in 2003. Sixteen years and 25,000 generators later the company is continuing to expand.

We are an innovative and dynamic mechanical and electrical engineering company focused on the design and supply of diesel-fuelled electric power generating sets from 10kVA to 3630kVA, 230V - 13.8KV.

An international company, which is privately owned, we have grown organically over the past sixteen years. Exporting to over 85 countries worldwide, with offices in England, Dubai and Australia as well as a subsidiary business in Sweden and South Africa, we currently employ 121 staff worldwide.

How would you rate the business potential for AJ Power in sub-Saharan Africa?

Sub-Saharan Africa provides a lot of potential for the AJ Power Group and its subsidiary FGW Generators. It is our belief that world growth is going to come from Africa and Asia over the next 20 years or so, which naturally necessitates certain power requirements.

AJ Power looked at the market in 2014/15. It was at this time we analysed the market and took the decision to invest in a base in South Africa.

When did AJ Power decide to expand its operations into sub-Saharan Africa and can you tell us a bit about the strategy?

The strategy was simple. South Africa is a solid market for power generation and it has a great deal of competency in its people, which provides a gateway into sub-Saharan Africa.

How did it come about that AJ Power decided to invest in the South African company FGW Generators?

AJ Power has known of the company for years as the directors of the business have been in the industry a long time. The opportunity presented itself and after doing some analysis, the company decided it would be a good strategic fit for the Group.

Was the company's location also an important factor?

For sure, Cape Town is the first port of call for shipping lines into South Africa. Therefore our lead times from the UK are short. We are beside Cape Town airport, which provides a number of advantages from a logistics perspective.

We also occupy a fantastic, state of the art facility that enables us to do everything we need under one roof. We hold a lot of product across the power nodes – all the commonly used parts – and we also have a training room, so we can educate customers on our products. This is all geared towards providing speed of delivery to the customer.

What has your experience been like in terms of investing in South Africa?

Overwhelmingly positive. The success of any business comes down to people. We employ great people and have very knowledgeable advisors. All of them are from South Africa. It also goes without saying that it is a wonderful place to come and visit.

Of course there are issues to be overcome, but if you look around the world, where are there not issues? It is how you deal with them and move forward that matters.

Please tell us about some of FGW Generators' successfully completed projects/contracts?

In the 2018/19 financial year, we completed some technically challenging projects. The biggest by far was a data center in the Cape Town area.

Two AJ2500s, were successfully installed and commissioned in June 2019. The project included rigging the 13.5 tonne sets into the generator room, along with completing electrical connections, fuel connections and the exhaust installation. The job was completed in a short time from order placement, which was key as a data centre is only viable once it has installed back-up power. Uptime is critical, hence the need for back-up and most importantly reliable back-up.

We have also completed a number of jobs for large banks and businesses, both in the low and high voltage segments. The latter requires serious competency due to the risks involved with high voltage.

As the distributor for AJ Power in South Africa, does FGW Generators also distribute into the rest of Africa?

FGW Generators is the exclusive distributor of AJ Power generating sets in South Africa. It also supports other AJ Power distributors in the sub-Saharan region, due to its close proximity in terms of staff and product.





AN INTERVIEW WITH JANET TAYLOR-HALL, THE CEO AND FOUNDER OF COGNIA LAW IN CAPE TOWN, SOUTH AFRICA.



The company is headquartered in the United Kingdom and maintain a blended shoring network, operating offshore legal support teams in South Africa and the EU. The South African operation is its largest offshore hub, with their largest operation based in Cape Town.

Invest Cape Town caught up with Janet Taylor-Hall, the CEO and Founder of Cognia Law at their offices in Cape Town, from where they have been running a successful operation for more than 6 years.

Many people may misunderstand the kind of work that your company do. Is Cognia Law a law firm?

Cognia Law is not a law firm, rather it is a law company. The distinction is that the company does not provide legal advice or legal opinion. The company supports law firms, and supports the in-house legal function of corporations and banks.

Why did you select South Africa as the offshore location of Cognia Law?

We specifically selected South Africa as the offshore location of the company because South Africa sits in quite a unique position compared to other offshore destinations.

The offshoring world, and particularly the legal outsourcing world, tend to either have operations in low-cost onshore areas, such as Birmingham, Leeds, etc. in the UK and the Midwest region in the US, or you get what is called near-shore operations such as Northern Ireland, Eastern Europe, etc. for the UK, with countries like Mexico or the South American region as the US equivalent. And then you have off-shore locations like the Philippines, India and South Africa which technically falls into that bracket. The unique thing about South Africa is that the quality of service that you can provide from here is similar to what you can provide from a near-shore or onshore location, whereas if you go to India or the Philippines - while there is nothing wrong with the work that is being done there - is not as sophisticated an offshore location as South Africa.

So you get great value and significant benefits outsourcing to South Africa. We find that we can do more complex types of work from South Africa than we'd be able to do from the other locations. Once again, the reason for that has nothing to do with intellect or work ethic. People from locations such as the Philippines or India are perfectly capable intellectually; it is just that the cultural alignment and communication skills and ability to work off script make South Africa unique as an offshore location and uniquely able to perform certain types of work that is high in the judgement call and communications spectrum. Our teams do a lot of contract negotiation, which is either done verbally over the phone or it is done via email, so there is a lot of communication that goes on.

Was there a specific reason for choosing Cape Town as the preferred location in South Africa for Cognia Law's offshore operations?

Cape Town has a very strong pool of legal resource. It is also a lot more competitive than some of the other cities like Johannesburg, because you can source really good lawyers in Cape Town who want to live and work here and who find the international dimension of the type of work they do with us very attractive. An added benefit is that all our clients love visiting us in Cape Town! As a destination, Cape Town is not hard to sell.

The quality and value you get from the individuals that you find working in Cape Town is great. In addition to that, it's a great location for finding and attracting foreign nationals. For example, every now-and-again we will have an individual come in to lead a team for a period of time, or to up-skill our teams here in South Africa in a certain legal work type. In another example we may have to have a team headed up by a UK qualified real estate lawyer. It's a great location to attract people to.

What has your experience been like operating in Cape Town?

We are very actively 'pro' the experience that we've had operating here in Cape Town. It's been a great success story for us. There is no shortage of the skills and the talent that we need. In certain areas where the expertise doesn't necessary reside here, such as for some of our banking and finance teams, we've invested in building up those particular skill sets with very competent individuals that we've hired, or in some cases individuals who have returned from the UK or moved here from Johannesburg. But Cape Town has proven to be an extremely good location.

Can you tell us more about the quality of the talent pool in Cape Town?

Our experience has been very positive in terms of access to talent. We hire from the graduate level all the way up to the more experienced lawyers and we find good quality individuals and good quality lawyers across the spectrum. The graduates coming out of all three of the universities in the region – Stellenbosch, UCT and UWC – are excellent.

We tend to have to do training in the areas of management skills, project management skills and communication style. For example, South African lawyers are very formal in their communication style, whereas internationally, lawyers have moved to a much more business-like language. But these are more soft-skills which can be trained, and the core competencies of the individuals are really excellent. We've had a number of occasions where our teams have been complimented as being as good as London based teams.

The challenge around team leadership and management skills however, is a challenge that everyone in our sector has to a certain degree. Lawyers tend to be trained less to manage people and more to practice law, so that's not a uniquely South African challenge.

I would put skills and access to the skills pool in the top bracket for the South African BPO sector, especially in our industry vertical.



OVERVIEW



CAPE TOWN

OVERVIEW: 2019 QUARTER 2

GROSS DOMESTIC PRODUCT (GDP)

R3 161 239 MILLION
SOUTH AFRICA



R439 048 MILLION
WESTERN CAPE

Of **South Africa's R3 161 239 million** gross domestic product (GDP) generated in the second quarter of 2019, the **Western Cape** accounted for **R439 048 million^a**. Whilst GDP data is not available at the city-level on a quarterly basis, annually, **Cape Town** typically contributes around **71%** of the provincial GDP^b.

a. At constant 2010 prices. Source: Quantec, 2019.
b. At current prices. Source: IHS Markit, 2019.

GDP PER CAPITA

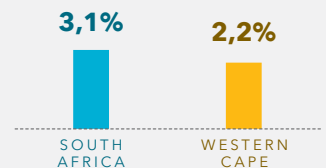
In 2018, **South Africa** had a GDP per capita, of **R84 976**, while the **Western Cape's** GDP per capita was **R100 824** and **Cape Town's** was **R110 137^d**.

d. At current prices. Source: IHS Markit, 2019.

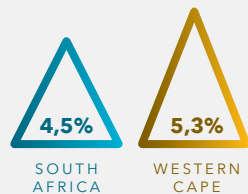
GDP GROWTH RATE

During the second quarter of 2019, the **Western Cape** had a quarter-on-quarter GDP growth rate of **2,2%**, compared to a **national** growth rate of **3,1%^c**.

c. At constant 2010 prices. Source: Quantec, 2019.



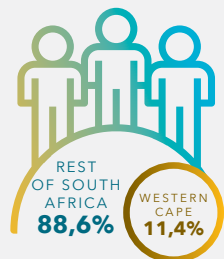
INFLATION



At the end of the second quarter of 2019, **South Africa** had a lower rate of inflation of **4,5%**, compared to the **Western Cape** which had a rate of **5,3%^e**.

e. Source: Statistics South Africa, 2019.

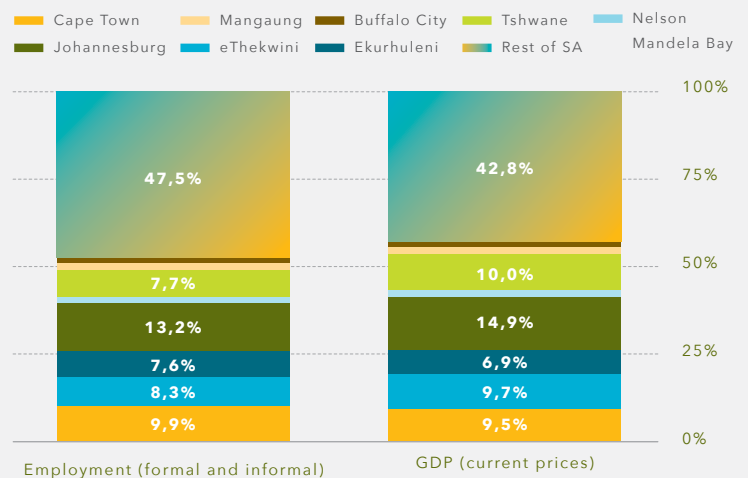
POPULATION



South Africa has **57 725 606** people: **6 621 103** (11,4%) live in the **Western Cape** and, of those, **4 322 031** are resident in **Cape Town^f**.

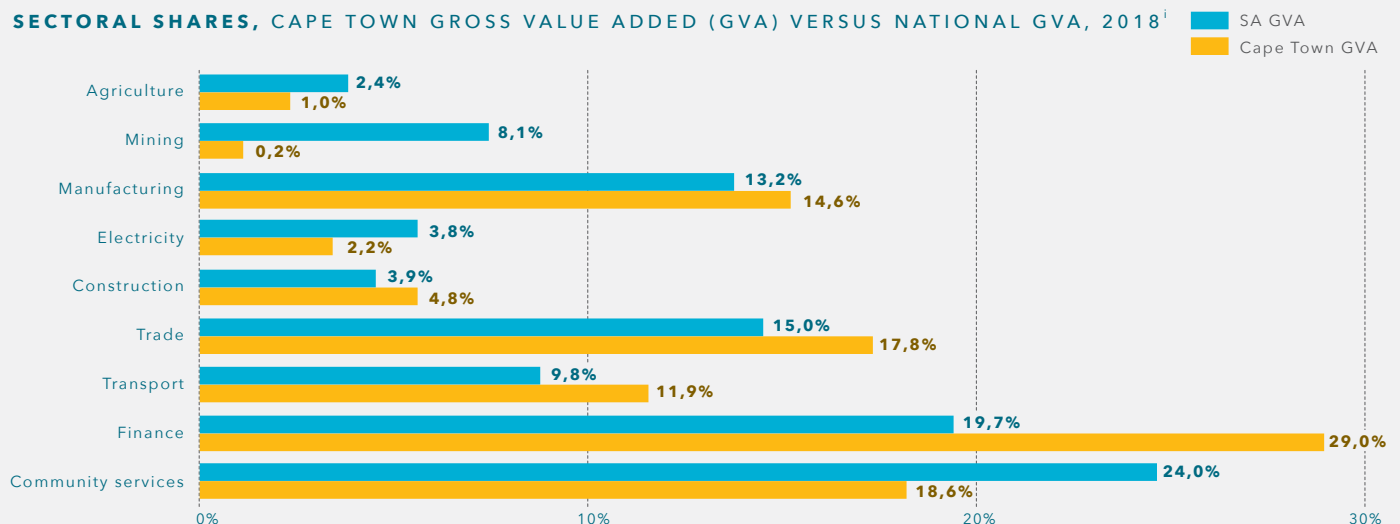
f. Source: Statistics South Africa, 2019.

CAPE TOWN GROSS GEOGRAPHIC PRODUCT & EMPLOYMENT CONTRIBUTIONS TO SA, 2018^h



h. GGP at current prices. Source: IHS Markit, 2019.

SECTORAL SHARES, CAPE TOWN GROSS VALUE ADDED (GVA) VERSUS NATIONAL GVA, 2018ⁱ



i. At current prices. Source: IHS Markit, 2019.



GINI COEFFICIENT

In 2018 **South Africa** had a Gini coefficient of **0,63**, while **Cape Town** had a slightly lower value of **0,62^g**.

^g. Source: IHS Markit, 2019.

AIR PASSENGER MOVEMENTS

Of the **9 253 660** passenger movements through **South Africa's** three international airports^k during the second quarter of 2019, **2 528 204** were through **Cape Town International Airport**^l.

^k. Cape Town, OR Tambo and King Shaka. ^l. Source: ACSA, 2019.



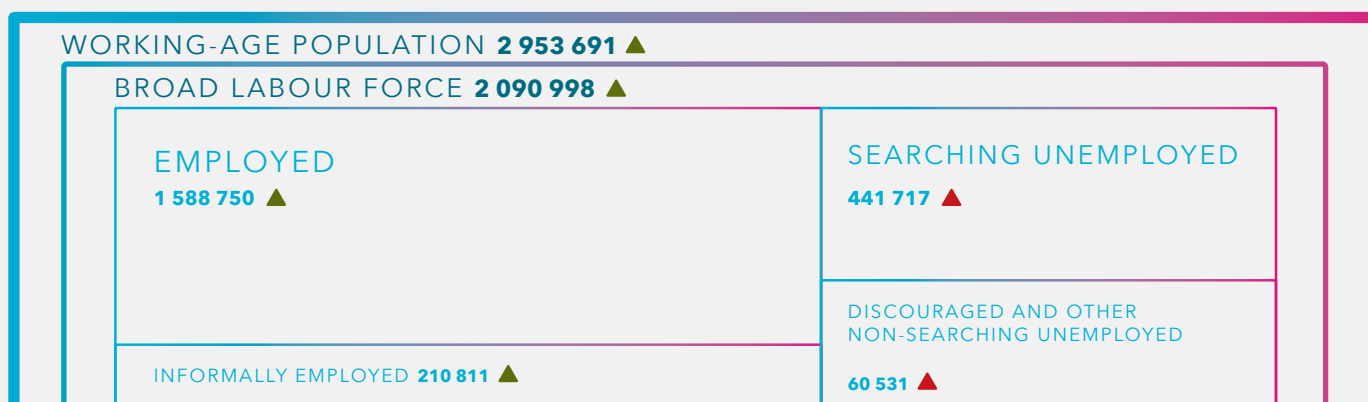
VISITOR ATTRACTIONS

In the second quarter of 2019, tourists and residents made **863 781** visits to Cape Town's five major attractions^j. ^j. Source: Cape Town Tourism and Wesgro, 2019.



LABOUR

OVERVIEW: 2019 QUARTER 2



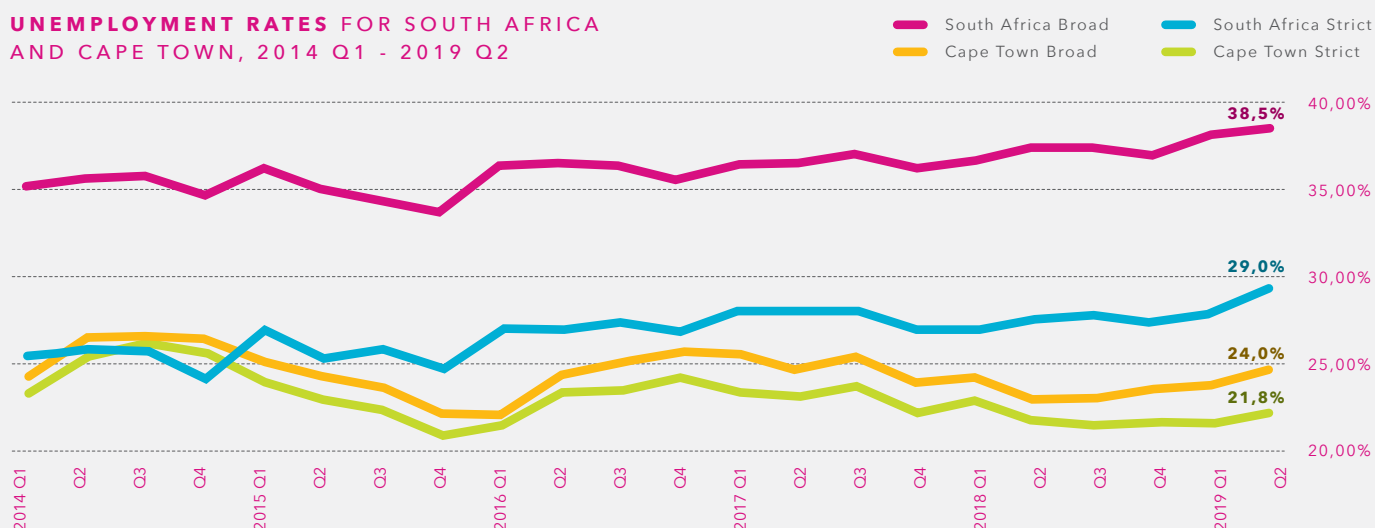
Labour force participation rate (Strict) = **68,7%**

Absorption rate = **53,8%**

Dependency ratio = **44,2%**

Source: Statistics South Africa, Quarterly Labour Force Survey, 2019 Quarter 2, August 2019.

UNEMPLOYMENT RATES FOR SOUTH AFRICA AND CAPE TOWN, 2014 Q1 - 2019 Q2



Source: Statistics South Africa, Quarterly Labour Force Survey 2019:Q2, August 2019

ECONOMIC GROWTH

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



ECONOMIC GROWTH

QUARTER-ON-QUARTER GDP-R GROWTH RATE

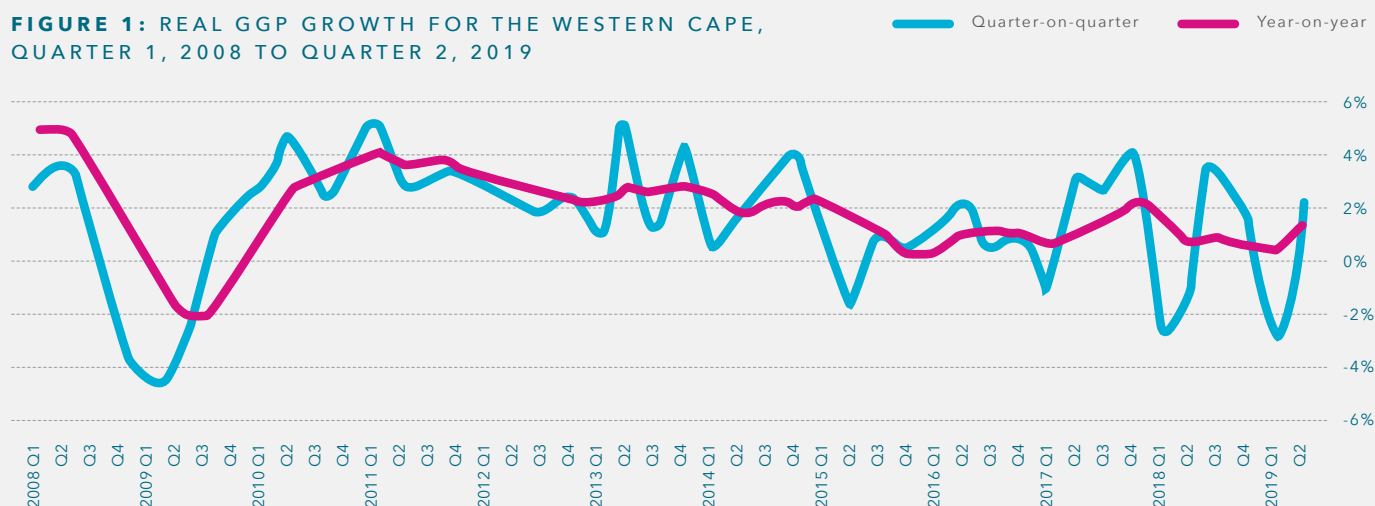
The Western Cape economy grew by 2,2% in the second quarter of 2019, a significant recovery of 5,0 percentage points relative to the previous quarter.

The Western Cape economy contributes around 14% of South Africa's gross domestic product (GDP). The province's economic performance is strongly related to the country's economic performance and, in line with the growth of the national economy (by 3,1%) in the second quarter of 2019, the Western Cape economy grew by 2,2%. As with the economic performance at a national level, the Western Cape's growth in the second quarter was broad based, with seven of the ten sectors recording positive growth on a quarter-on-quarter basis. The largest growth in the second quarter was in the mining sector which grew by 13,1%, followed by the finance and trade sectors (4,1% and 3,9%, respectively). Alongside the positive quarter-on-quarter results, the year-on-year data indicates recovery. As Figure 1 shows, on a year-on-year basis, the province's

economy grew by 2,2% in the second quarter of 2019, an increase of 5 percentage points from the previous quarter.

While GDP-R statistics for Cape Town are not available on a quarterly basis, the performance of the metropolitan municipality's economy can be expected to typically mirror that of the provincial economy. This is because the city contributes around 70% of the provincial economic output (IHS Markit, 2019). On average, in the last 10 years, the variation of the city's gross geographic (GGP) growth rate from the provincial rate has been 0,2 of a percentage point. If this were to hold true for the second quarter of 2019, a plausible range for Cape Town's quarter-on-quarter economic growth is between 2,0% and 2,4%.

FIGURE 1: REAL GGP GROWTH FOR THE WESTERN CAPE, QUARTER 1, 2008 TO QUARTER 2, 2019



Source: Quantec, September 2019.

SECTORAL DRIVERS OF ECONOMIC GROWTH IN THE WESTERN CAPE

The most prominent contributors to the Western Cape's total GDP (value) are the finance (31,3%), trade (15,9%) and manufacturing (14,8%) sectors.

The Western Cape economy's performance in the second quarter of 2019 is characterised by improved performances across most of its sectors. The most prominent contributors to total GDP (value) in the Western Cape are the finance, trade and manufacturing sectors; and these were also amongst the largest positive contributors to growth in the second quarter of 2019. The finance sector, in particular, was the largest positive

contributor towards growth during this period, adding 1,27 percentage points to total growth, this was followed by the trade sector which added 0,62 of a percentage point to overall growth. The general government sector added 0,36 of a percentage point, followed closely by the manufacturing sector with a contribution of 0,31 of a percentage point. Three sectors contributed negatively towards growth in the second quarter,

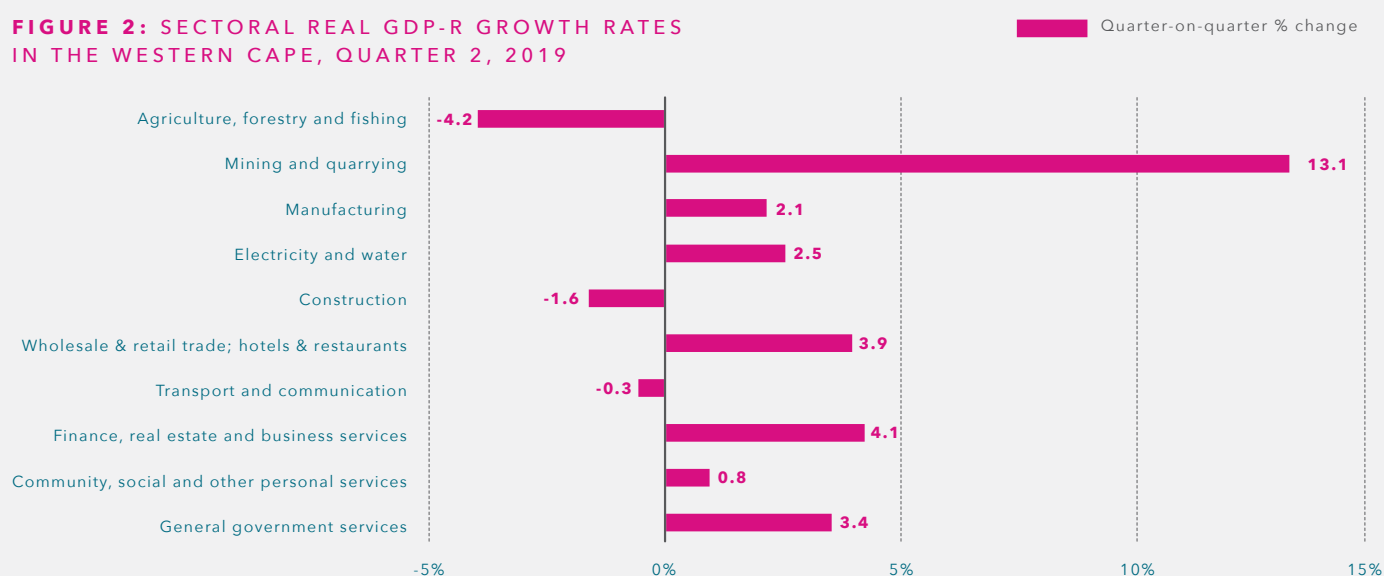
namely the agricultural, construction and transport sectors, but combined to reduce growth by only 0,27 of a percentage point.

From an individual sectoral performance perspective, the agricultural sector, which has experienced fluctuating performance since 2015, recorded its second consecutive quarter of negative growth (-4,2%) in the second quarter of 2019, whilst the transport sector experienced a similar trend, also recording its second consecutive quarter of negative growth (-0,3%), albeit both at improved levels when compared to the previous quarter. The manufacturing as well as wholesale and retail trade sectors were amongst

those that recorded positive performances in the second quarter of 2019, with quarter-on-quarter growth of 2,1% and 3,9%, respectively, following contractions in the previous quarter. While the mining sector experienced the largest growth (13,1%) in the second quarter, its impact remains limited as it constitutes a very small share of economic activity in the province (0,2%) (Quantec, 2019). The improved GDP performance, applicable to both provincial and national economies, marks a rebound from the poor performance in the previous quarter which had been underpinned by load shedding and prolonged strike activity in the mining sector (BER, 2019a).

The finance sector was the largest positive contributor towards growth during this period and added 1,27 percentage points to total growth, followed by the trade sector which added 0,62 of a percentage point to total growth.

FIGURE 2: SECTORAL REAL GDP-R GROWTH RATES IN THE WESTERN CAPE, QUARTER 2, 2019



Source: Quantec, September 2019.

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, it comprises 82% of the Western Cape's finance and business services, 77% of its transport, 73% of its wholesale and retail trade, 69% of its manufacturing, and 63% of its construction sectors (IHS Markit, 2019). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the second quarter of 2019.

In contrast to Cape Town's contribution to the tertiary sector output of the province, its' contribution to the province's total primary sector GGP is only 20% (IHS Markit, 2019). 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 of the city, as the primary sector contributes only 1% to Cape Town's total GGP. Rather, the performance of the city's economy in the second quarter of 2019 would have been driven by the performance of the finance, community services and trade sectors, which, in 2018, comprised 35%, 17%, and 16% of the city's economy, respectively. Given that two of these sectors (finance and trade) were amongst the main contributors to economic growth at the provincial level in the second quarter, it is reasonable to believe that Cape Town may have experienced slightly higher economic growth than the province in this period.



INFLATION

Price fluctuations of goods and services in an economy are measured by the consumer price index (CPI) inflation rate and producer price index (PPI) inflation rate. The CPI measures the change in the cost of living for households and the PPI measures the change in the cost of production.



INFLATION

INFLATION OVERVIEW

In comparison to the end of the previous quarter, South Africa's CPI remained at 4,5% by the end of the second quarter of 2019. And after breaching the 6% target threshold by the end of the first quarter of 2019, the PPI recorded 5,8% by the end of the second quarter.

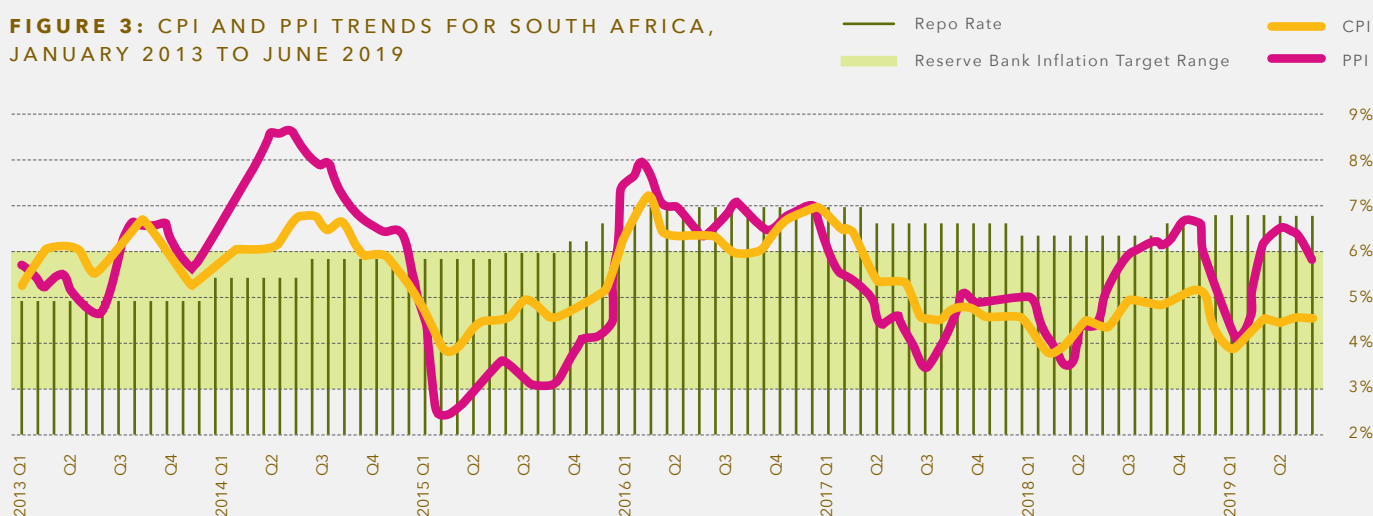
Overall, by the end of the second quarter of 2019, the CPI remained at 4,5% in comparison to the end of the first quarter of 2019. As illustrated in Figure 3, the CPI recording for April was 4,4%, increasing slightly to 4,5% in May and remaining at 4,5% in June 2019. Encouragingly, the headline inflation rate continued to remain below the upper end of the inflation target range (6%) for the second quarter - this has been the case since the second quarter of 2017. According to Statistics South Africa (2019), the main categories contributing to the overall CPI recording for June 2019 included alcoholic beverages and tobacco, as well as education with each of these categories recording inflation rates of above 6%. According to the Monetary Policy Committee (MPC) statement of July 2019 (South African Reserve Bank [SARB], 2019a), the [overall] lower headline inflation is a result of a stronger rand, with the rand appreciating by 3,3% against the US dollar (USD) since the MPC meeting of May 2019.

At the end of the second quarter of 2019, the PPI decreased when compared to the end of the

first quarter of 2019. After breaching 6% at the end of first quarter of 2019, the PPI increased to 6,5% in April, thereafter decreasing slightly to 6,4% in May and further to 5,8% in June. The main inflationary contributors to PPI in June (in terms of final manufactured products) were the prices of coke, petroleum, chemical, rubber and plastic products as well as food products, beverages and tobacco products.

Figure 3 also illustrates changes in the repurchase rate (repo rate). As indicated in the graph, the repo rate remained unchanged at 6,75% throughout the second quarter of 2019. According to the MPC statement of May 2019 (SARB, 2019b), the key reasons to keep the repo rate unchanged were the [consistent] downward trend in recent inflation outcomes and moderation in inflation outlook expectations, lower global inflation and stronger rand performance. The MPC will, however, closely monitor electricity and water tariffs, domestic food prices and international oil prices for future decisions.

FIGURE 3: CPI AND PPI TRENDS FOR SOUTH AFRICA, JANUARY 2013 TO JUNE 2019



GEOGRAPHICAL INFLATION

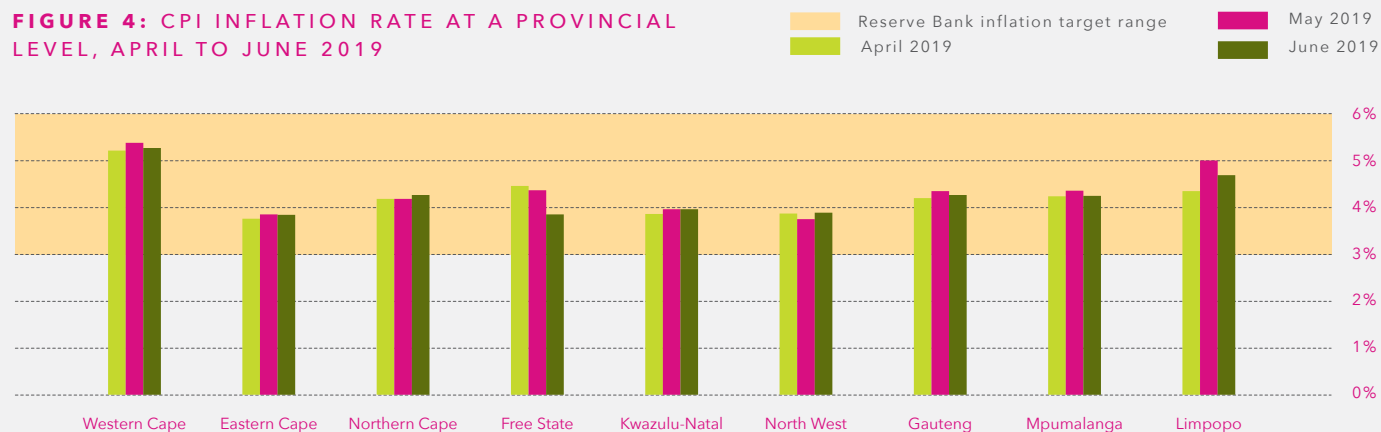
The Western Cape recorded an inflation rate of 5,3% at the end of the second quarter of 2019. This was lower than its inflation rate at the end of the first quarter of 2019, which was 5,5%.

Although remaining within the inflation target range at the end of the quarter, the provincial inflation rate remained higher than the national rate of 4,5%. Figure 4 illustrates inflation rates

recorded in the second quarter of 2019 across all nine provinces in the country. In comparison to the end of the first quarter of 2019, the majority of the provinces recorded slight decreases in their respective inflation rates by the end of the second quarter of 2019, with the North West being the only province to record an increase whilst Gauteng remained unchanged when compared to March 2019. The Western Cape recorded the highest inflation

rate throughout the quarter with an average of 5,3%, followed by Limpopo (4,7%), and Mpumalanga (4,3%), whilst the North West and Eastern Cape recorded the lowest average inflation rates (3,9% each) in the second quarter of 2019. Positively, all nine provinces continue to remain within the inflation target range of 3% and 6%.

FIGURE 4: CPI INFLATION RATE AT A PROVINCIAL LEVEL, APRIL TO JUNE 2019



Source: Statistics South Africa, July 2019.

The higher overall inflation rate at the provincial level (compared to the national level) for the second quarter of 2019 can largely be attributed to housing and utilities' price inflation which was recorded at 7,6% in June for the Western Cape and 4,9% at the national level. Within this category the disparity between prices at the provincial and national levels was notable in owners' equivalent rent¹ and actual rentals for housing which were recorded at 7,6% and 7,5%, respectively, for the province, compared to 4,1% and 3,2%, respectively, at the national level. Water and other services² price inflation in the Western Cape remained high in the second quarter, recording 9,6% for both May and June 2019, however was lower than the inflation rate in this category at a national level which was 10,8% in June 2019.

Food price inflation in the Western Cape increased from 1,6% in April to 3,4% in June 2019. Similarly, food price inflation on a national level increased from 3,0% in April to 3,8% in June. Although food price inflation has remained on the lower risk side, the MPC noted in their July statement (SARB, 2019a), it is expected to increase further. Large disparities in inflation rates between the Western

Cape and the country as a whole were also observed within the non-alcoholic beverages' price inflation (4,9% and 7,3%, respectively) and in tobacco price inflation (6,7 and 6,2%, respectively) at the end of June 2019. The Western Cape also recorded a higher restaurants and hotels price inflation (7,8%) than that recorded at a national level (3,1%) at the end of this quarter.

The transport inflation sub-categories such as private transport fuel inflation and public transport inflation continues to exert upward pressure on overall inflation for the Western Cape and the country. However, the private transport fuel inflation, for the country, decreased from 12% in April 2019 to 7,4% in June 2019. This was lower than the recordings for the Western Cape, mirroring a similar downward trend from 12,2% in April 2019 to 7,9% in June 2019. This trend could largely be attributed to the decrease in the price of oil, from USD 71,26 per barrel in April 2019 to USD 64,22 per barrel in June 2019 (Macrotrends, 2019), coupled with a stronger rand performance as noted in the MPC statement of July (SARB, 2019a).

The Western Cape continues to record the highest inflation rates amongst the provinces, as well as exceeding the national rate. Although improving slightly from the previous quarter, the Western Cape recorded an inflation rate of 5,3% at the end of the second quarter of 2019.

¹ As defined by Statistics South Africa, the category "owners' equivalent rent" measures the opportunity cost to the owners of forgoing a rental income by living in rather than renting out the house they own (Statistics South Africa, 2017).

² As defined by Statistics South Africa, the category "water and other services" includes water supply, rates, taxes and levies (Statistics South Africa, 2017).

LABOUR MARKET



The labour market is the point at which economic production meets human development. As such employment creation and unemployment reduction are top priorities for all spheres of government, and critically important to economic development. Labour market performance is tracked through a variety of indicators, many of which are reflected on in this section.

LABOUR MARKET



CAPE TOWN'S LABOUR MARKET PERFORMANCE

Cape Town's labour force increased on a quarter-on-quarter level (by 20 778) and decreased on a year-on-year level (by 7 835) to a total of 2,03 million individuals in the second quarter of 2019.

Cape Town's working age population (2,95 million) increased on both a quarter-on-quarter and year-on-year basis. The labour force increased on a quarter-on-quarter (20 778) level and decreased on a year-on-year (7 835) basis to a total of 2,03 million individuals. Likewise, employment increased (5 191) on a quarter-on-quarter level however, decreased (15 674) on a year-on-year level to record a total of 1,58 million individuals. The greater increase in the working-age population than employment for this quarter resulted in the labour absorption rate decreasing to 53,8% from 53,9% in the previous quarter. In contrast, the labour force participation rate

increased by 0,3 of a percentage point to 68,7% for the second quarter of 2019.

Formal employment recorded a decrease on both a quarter-on-quarter and year-on-year basis (by 22 714 and 19 050 respectively) to record a total of 1,28 million individuals. Encouragingly, informal employment increased on a quarterly basis (24 116) and year-on-year basis (27 267) to record a total of 210 810 individuals in the second quarter. The share of total employment contributed by informal employment increased to 13,3% from a previous recording of 11,8% in the first quarter of 2019.

EMPLOYMENT COMPARISON OF METROS

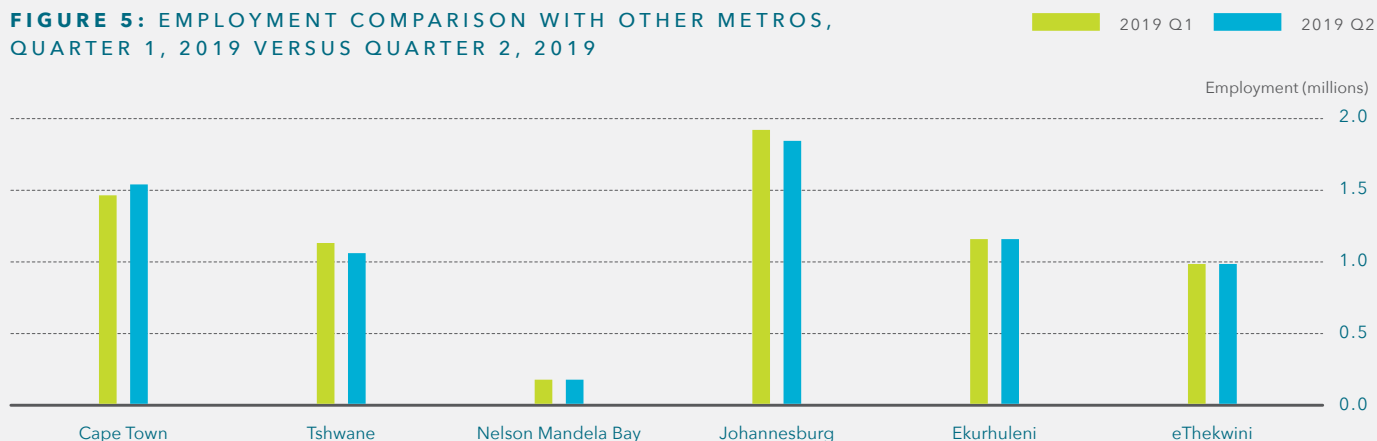
To measure Cape Town's job creation performance, a comparison with other metropolitan municipalities (metros) in the country is helpful. In the second quarter of 2019, Cape Town had the second largest number of employed people, with 1,58 million people employed in the city, second only to Johannesburg where 1,9 million people were employed. This is to be expected as Johannesburg has a significantly larger population.

Turning attention to employment trends in the second quarter of 2019, three metros displayed negative employment growth, while three metros recorded positive employment growth on a quarter-on-quarter basis (refer to Figure 5). Cape Town added the most jobs (5 191) with Ekurhuleni (an increase of 4 861 in employment) and Nelson Mandela Bay (an increase of 1 656

in employment) following closely. Johannesburg shed the most jobs (with a reduction of 57 890 in employment) followed by Tshwane (42 764 jobs shed) and eThekweni (520 jobs shed).

On a year-on-year level, the overall performance deteriorated with four metros displaying negative employment growth while only two metros added to employment. Ekurhuleni, in line with its quarterly performance, added 86 189 job opportunities while Tshwane displayed an increase of 25 683 in employment when compared to the second quarter of 2018. In contrast, Johannesburg (a reduction of 69 578 in employment) and eThekweni (63 069 jobs shed) displayed the largest decreases in employment when compared to the same period in 2018. Nelson Mandela Bay (-21 839) and Cape Town (15 674) also shed jobs on a year on year basis.

FIGURE 5: EMPLOYMENT COMPARISON WITH OTHER METROS, QUARTER 1, 2019 VERSUS QUARTER 2, 2019



Source: Statistics South Africa, Quarter Labour Force Survey, 2019 Quarter 2, July 2019.

UNEMPLOYMENT IN CAPE TOWN

Discouragingly, the number of unemployed people in Cape Town increased on both a quarter-on-quarter (15 587) and a year-on-year (7 840) basis to record a total of 441 717 individuals at the end of the second quarter. This led to an increase in the strict unemployment rate (21,8%) when compared to the previous quarter (21,2%). On a year-on-year level, the decrease in employment and the increase in unemployment resulted in an increase in the strict unemployment rate. The youth unemployment rate in Cape Town, defined as the strict unemployment rate for individuals aged 15 to 24, was estimated at 44,6% in the second quarter of 2019, having decreased minimally from 44,7% in the previous quarter and on a year-on-year level decreasing from 49,4% in the second quarter of 2018. While this is below the national youth unemployment rate of 56,4% (increasing from 55,2% in the previous quarter), it is nonetheless markedly high by developing-country standards and continues to pose a key challenge to economic policymakers in the city.

Whilst traditional comparisons of Cape Town's unemployment trends with that of South Africa as a whole are important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics (see table 1). Encouragingly, Cape Town had

the lowest strict (21,8%) and expanded (24%) unemployment rates when compared to all other metros for the second quarter of 2019, albeit increasing marginally compared to the previous quarter. Nelson Mandela Bay, on the other hand, had the highest strict (36,4%) and expanded (37,8%) unemployment rates for this quarter. Tshwane recorded the largest increase in both strict and expanded unemployment rates (by 3,4 and 2,0 percentage points, respectively) when compared to the first quarter of 2019. Johannesburg had the largest decrease (6 percentage points) in its strict unemployment rate while, Nelson Mandela Bay was the only metro to record a decrease in its expanded unemployment rate (0,5 of a percentage point). Notably, table 1 indicates the large differences in the relationship between strict and expanded unemployment rates in each of the six metros, with Nelson Mandela Bay recording 1,38 percentage points difference between the two rates of unemployment, whereas Johannesburg recorded a 9,7 percentage points difference. Cape Town continues to record relatively low differences between the two rates of unemployment (2,2 percentage points difference). This can be attributed to the city having a relatively small number of discouraged work-seekers in the metro (second lowest after Nelson Mandela Bay metro).

While the unemployment rate increased slightly to 21,8% in the second quarter of 2019 when compared to the previous quarter, Cape Town remains as having the lowest strict (21,8%) and expanded (24%) unemployment rates amongst the countries metros.

TABLE 1: OFFICIAL (STRICT) VERSUS EXPANDED (BROAD) UNEMPLOYMENT RATES

METRO	OFFICIAL (STRICT)			EXPANDED (BROAD)		
	2019 Q2	2019 Q1	2018 Q2	2019 Q2	2019 Q1	2018 Q2
Cape Town	21,8	21,2	21,3	24,0	23,4	22,6
eThekweni	21,9	23,0	19,3	30,5	28,9	27,2
Ekurhuleni	31,8	30,1	33,4	36,0	35,0	37,4
Johannesburg	23,7	29,8	28,5	33,4	31,7	30,8
Nelson Mandela Bay	36,4	38,2	35,0	37,8	38,3	35,2
Tshwane	29,9	26,4	28,7	33,4	31,4	34,8

Source: Statistics South Africa, Quarterly Labour Force Survey, 2019 Quarter 2, July 2019.

SECTOR EMPLOYMENT TRENDS FOR CAPE TOWN

The sectors that added the most to job creation in Cape Town in the second quarter of 2019 were trade, hotels and restaurants (19 288) and finance, real estate and business services (10 923).

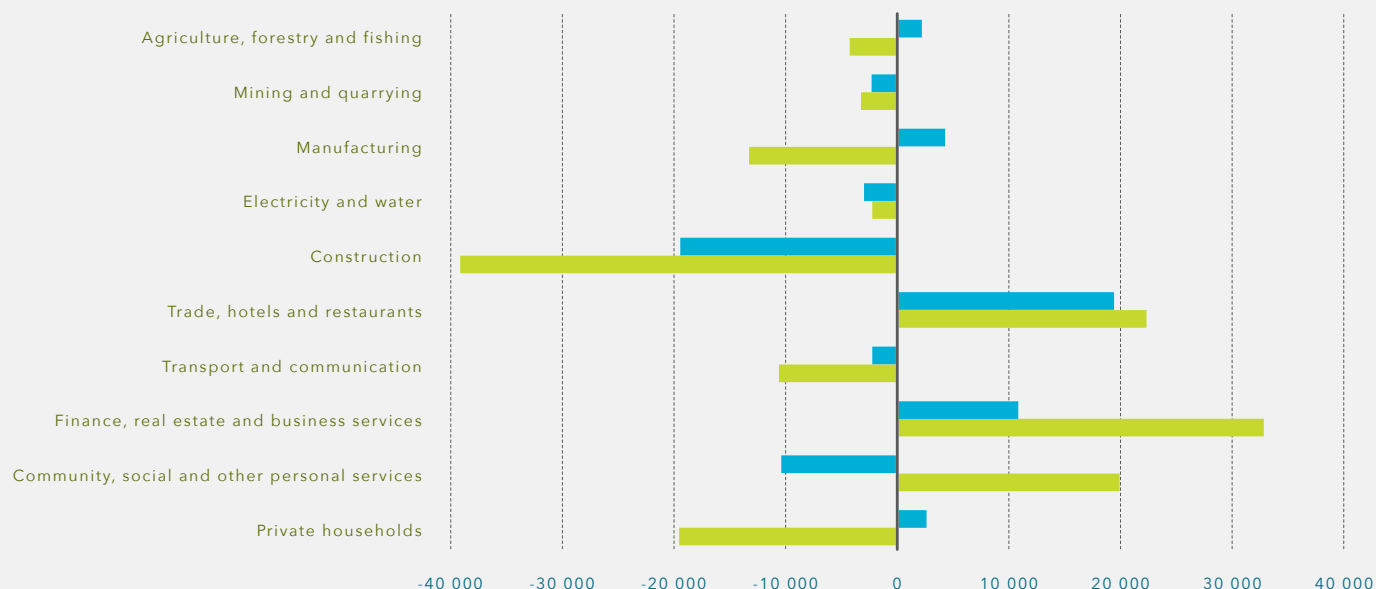
Figure 6 presents the change in the level of employment by sector within Cape Town in the second quarter of 2019. Five sectors made a positive contribution to employment creation when compared to the previous quarter, with the highest contributions recorded in the trade, hotels and restaurants (19 288) as well as finance, real estate and business services (10 923) sectors. Further contributions that added to employment came from manufacturing (4 472), private households (2 630) as well as the agriculture, forestry and fishing (1 160) sector. The remaining sectors experienced a reduction in employment when compared to the previous quarter. Construction (-19 431), community, social and other personal services (-10 403) as well as electricity and water (-2 614) sectors shed the most jobs. Further minimal reductions were recorded in

mining and quarrying (-832) as well as transport and communication (-2) sectors.

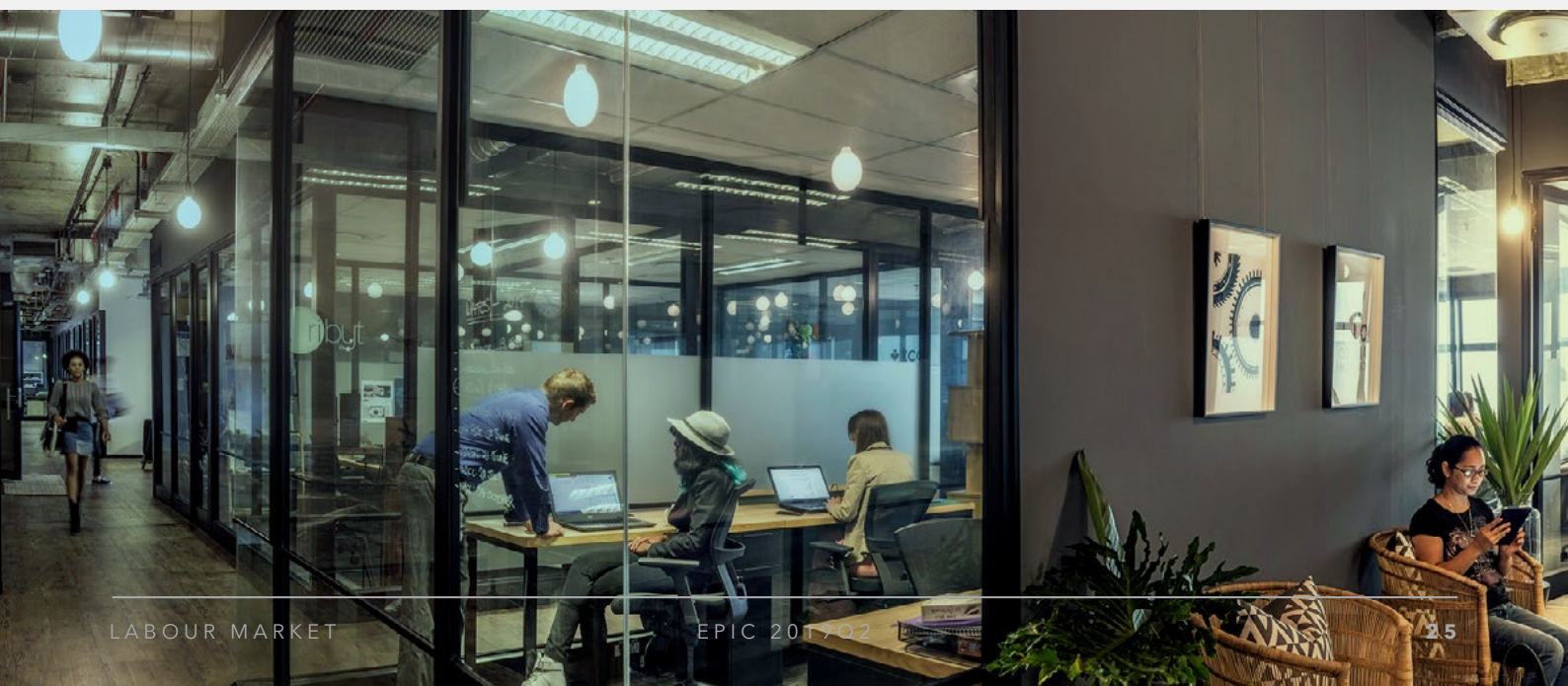
On a year-on-year basis seven of the ten sectors recorded employment losses while three sectors added positively to employment when compared to the second quarter of 2018. Finance, real estate and business services (32 819), trade, hotels and restaurants (22 191) as well as community, social and other personal services (20 101) were the only sectors to add positively to employment growth. The largest employment losses were recorded in the construction (-38 984), private households (-19 468) and manufacturing (-13 371) sectors. Further reductions were recorded in transport and communication (-10 704), agriculture (-4 423), mining and quarrying (-2 926) as well as electricity and water (-909) sectors.

FIGURE 6: QUARTERLY AND ANNUAL CHANGE IN EMPLOYMENT PER SECTOR FOR CAPE TOWN, QUARTER 2, 2019

Quarterly change Annual change



Source: Statistics South Africa, Quarterly Labour Force Survey, 2019 Quarter 2, July 2019.



INFRASTRUCTURE

Cape Town is often promoted as the gateway to South Africa, and to Africa more generally. This status is sustained by the city's well-developed transportation infrastructure, with Cape Town being home to South Africa's second-busiest airport as well as (historically) its' second-busiest container port. This section reviews infrastructure developments in relation to Cape Town's port and airport.



INFRASTRUCTURE

CONTAINER HANDLING

The Port of Cape Town remains as South Africa's second largest container handling port and handled 226 552 of cargo in the second quarter of 2019.

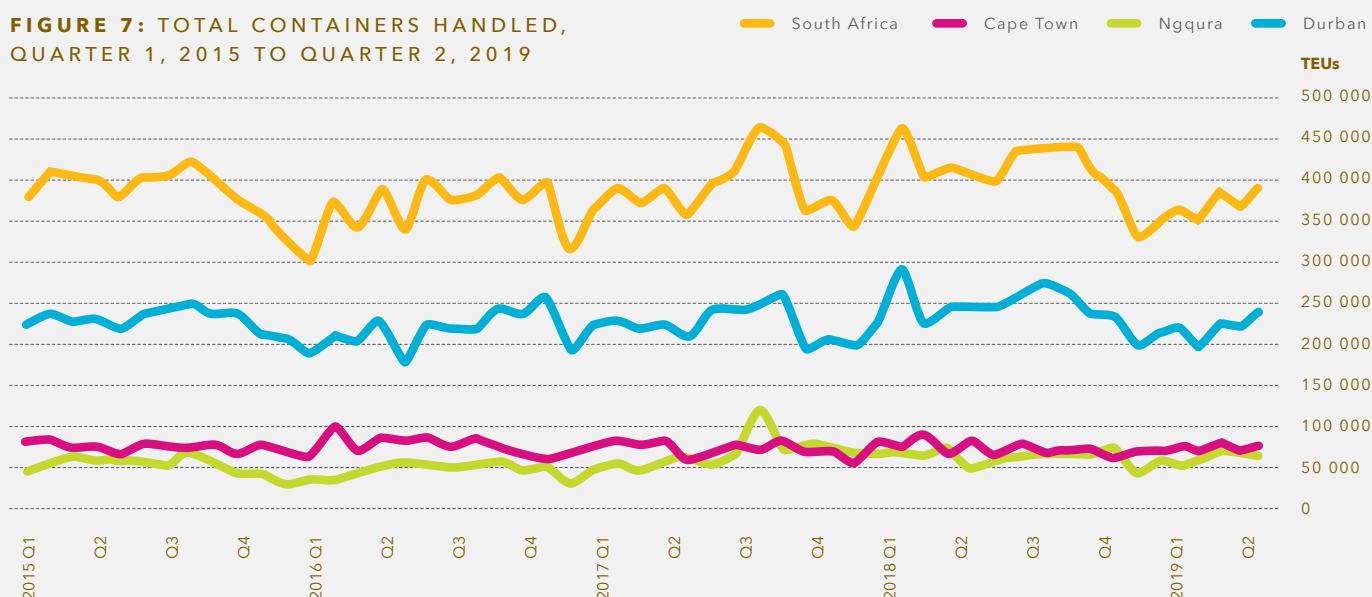
Container traffic is very seasonal, as Figure 7 indicates, thus it is best to compare total containers handled over the period of a year. The number of containers handled at the Port of Cape Town increased from 219 537 twenty-foot equivalent units (TEUs³) in the second quarter of 2018 to 226 552 in the second quarter of 2019, reflecting a positive growth rate of 3,20%.

The Port of Durban⁴ was once again the largest container handling port in the country (comprising 60,18% of all containers handled in South Africa in the second quarter of 2019),

followed by the Port of Cape Town (19,83%) and the Port of Ngqura⁵ (17,72%). The Port of Durban handled 687 415 TEUs in the second quarter of 2019, recording a decrease of 6,87% in container handling compared to the same period in 2018.

In contrast, the ports of Cape Town and Ngqura experienced increases in container handling. Despite this positive performance from the two ports, the total container handling at a national scale recorded a year-on-year decline of 5,42% in the second quarter of 2019, reflecting challenging economic conditions.

FIGURE 7: TOTAL CONTAINERS HANDLED, QUARTER 1, 2015 TO QUARTER 2, 2019



Source: Transnet National Ports Authority (TNPA), August 2019.

The Transnet National Ports Authority (TNPA) is responsible for the management of and ensuring a "safe, effective and efficient economic functioning of the national port system" (TNPA, 2019b). As part of its on-going initiative to improve services at the Port of Cape Town, TNPA will introduce a helicopter marine pilotage service at this port to transfer marine pilots⁶ to and from vessels. This service will help improve marine turnaround times as well as have a positive impact on the overall reliability of port operations and service

at the Port of Cape Town (Whitehouse, 2019a). These and other recent improvements to the port's service offering is reflected in the global recognition of being nominated at the 26th World Travel Awards in the Africa's Leading Cruise Port category (World Travel Awards, 2019a). Furthermore, through the V&A Waterfront, the Port is developing a "world-class" passenger terminal which is expected to increase attention from leading cruise line companies and attract tourists to Cape Town (Whitehouse, 2019b).

³ A TEU (20-foot equivalent unit) is an inexact unit of cargo capacity, based on the volume of a 20-foot-long (6m) 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.

⁴ The Port of Durban is located in the eThekweni metro municipality.

⁵ The Port of Ngqura is located in the Nelson Mandela Bay metro municipality.

⁶ Marine pilots are sailors that ensure safe navigation of ships in their waters. They board ships entering or exiting the port or harbour, and navigate them safely in and out avoiding submerged rocks and other hazards.

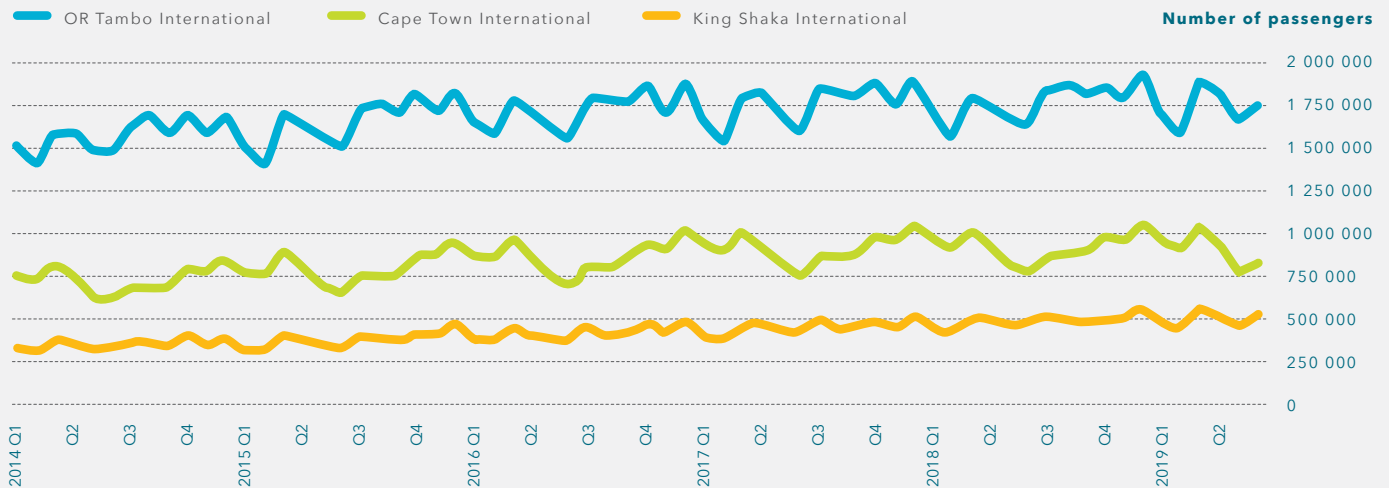
AIRPORT STATISTICS

Total passenger movements at Cape Town International in the second quarter of 2019 was 3,16% higher compared to the second quarter of 2018, recording 2,53 million passenger movements.

Cape Town International Airport is South Africa's second-busiest airport, after OR Tambo International Airport in Johannesburg. It recorded 2,53 million total passenger movements (arrivals and departures) in the second quarter of 2019 compared to 5,23 million passenger movements at OR Tambo International and 1,50 million at King Shaka International airports during the same period.

Figure 8 indicates the pronounced degree of seasonality in Cape Town's air passenger movements, with these consistently declining in the second quarter when the city enters its winter months and picking up again towards the third quarter with the onset of summer.

FIGURE 8: TOTAL (MONTHLY) PASSENGER MOVEMENTS AT SOUTH AFRICA'S MAJOR AIRPORTS, QUARTER 1, 2014 TO QUARTER 2, 2019



Source: Airports Company South Africa, August 2019.

Total passenger movements at Cape Town International in the second quarter of 2019 recorded a year-on-year increase of 3,16%, representing 77 481 additional passenger movements compared to the second quarter of 2018. OR Tambo International's total passenger movements had a year-on-year increase of 3,30% in the second quarter of 2019, whilst King Shaka International saw a year-on-year increase of 3,25% (albeit off the smallest base number).

Total passenger arrivals at Cape Town International continued to show slow recovery, following dampened tourist activity (from air departure markets) during 2017 and 2018, recording an increase of 3,67% in the second quarter of 2019, compared to the second quarter of 2018. International arrivals recorded a year-on-year increase of 9,48%, surpassing domestic arrivals' year-on-year increase of 2,48%.

Cape Town's increasing demand as a destination amongst global travellers is reflected in Cape Town International's recognition

as Africa's Leading Airport for the third consecutive year at the 26th World Travel Awards in the aviation category (World Travel Awards, 2019). In addition, Cathay Pacific will re-launch its seasonal non-stop flight between Cape Town and Hong Kong which directly links Cape Town with travellers from Hong Kong and other parts of Asia (Fin24, 2019).

International arrivals to Cape Town may in the future be further boosted by the Department of Home Affairs revision of visa regulations for seven countries including New Zealand, Ghana and United Arab Emirates, meaning that citizens from these countries will no longer require visas to visit South Africa (Brophy, 2019). This initiative is expected to increase visitor numbers, with roll-out currently underway and full implementation expected by November 2019. With potentially higher passenger movements, the forthcoming launch of the new "e-gates"⁷ by the department is timely as it aims to better equip local airports to efficiently manage passenger movements (BusinessTech, 2019).

⁷ An e-gate is an electronic immigration gate at an airport which, for example, uses biometrics technology.



TOURISM

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 advantage of the global growth of the tourism industry.



TOURISM

On a year-on-year comparison, the average room rate and revenue per room increased in the second quarter of 2019 by R138 and R30, respectively.

Cape Town is a well-known tourist destination, both locally and internationally, and the tourism sector is a valuable contributor to the city's economy. The occupancy and revenue figures presented in table 2 are derived from a monthly survey⁸ of an average of 105 tourism accommodation establishments in the Cape Town metropolitan area (Cape Town Tourism, 2019). Occupancy rates at city accommodation establishments decreased by an average of 3,1 percentage points in the second quarter of 2019 compared to the same period in 2018. The month of April recorded the highest occupancy rate (60,8%) in the second quarter of 2019 as well as the lowest year-on-year decrease of 1,0 percentage points when compared to April 2018. The declining occupancy rate throughout the second quarter of 2019 reflects the onset of winter, and is in line with seasonal trends.

The average room rate increased by R138, year-on-year, in the second quarter of 2019, while the revenue per room increased by R31 over the same period.

Overall, tourist accommodation in Cape Town, on average, performed marginally weaker than the corresponding period last year. The overall decrease in occupancy rate may be attributed to slow economic growth and low levels of consumer confidence but could also be a result of well-above-inflation increases in average room rates. While occupancy rates declined, the increase in average room rates ensured that revenue per room increased year-on-year. For the second quarter of 2019, self-catering establishments reflected the highest occupancy rate of 69,5%, followed by hotels (58,0%).

TABLE 2: INCOME DERIVED FROM TOURIST ACCOMMODATION⁹, QUARTER 2, 2018 VERSUS QUARTER 2, 2019

INDICATOR	APRIL		MAY		JUNE		SECOND-QUARTER AVERAGE	
	2019	2018	2019	2018	2019	2018	2019	2018
Occupancy rate	60,8%	61,8%	53,0%	59,6%	51,3%	53,1%	55,0%	58,2%
Average room rate	R 1 807	R 1 669	R 1 666	R 1 473	R 1 677	R 1 594	R 1 717	R 1 579
Average revenue per room	R 1 098	R 1 031	R 883	R 878	R 861	R 841	R 947	R 917

Source: Derived from Cape Town Tourism data, Selected Accommodation Establishments, August 2019.

For the second quarter of 2019 all of Cape Town's five major tourist attractions¹⁰ experienced declines on a quarter-on-quarter basis; Robben Island reflected the lowest decline in number of visits (-35 864), whilst Kirstenbosch National Botanical Gardens observed the highest decline in

the number of visits (-97 035 at a rate of -34,79%). Table Mountain Aerial Cableway recorded the lowest negative growth rate (-26,24%) when compared to the previous quarter. On a year-on-year basis, however, all of the five major tourist attractions reflected increases in the number of

⁸ Important to note is that the monthly survey varies every month in both sample size and the specific respondents.

⁹ As the sample changes with each monthly survey conducted (see previous footnote 8), the data applicable to the previous quarter (e.g. average occupancy rate of 58,2% for the second quarter of 2018) will differ from that published in the appropriate past quarterly EPIC (i.e. EPIC 2018: Q2 reports an occupancy rate of 53,1% for the second quarter of 2018).

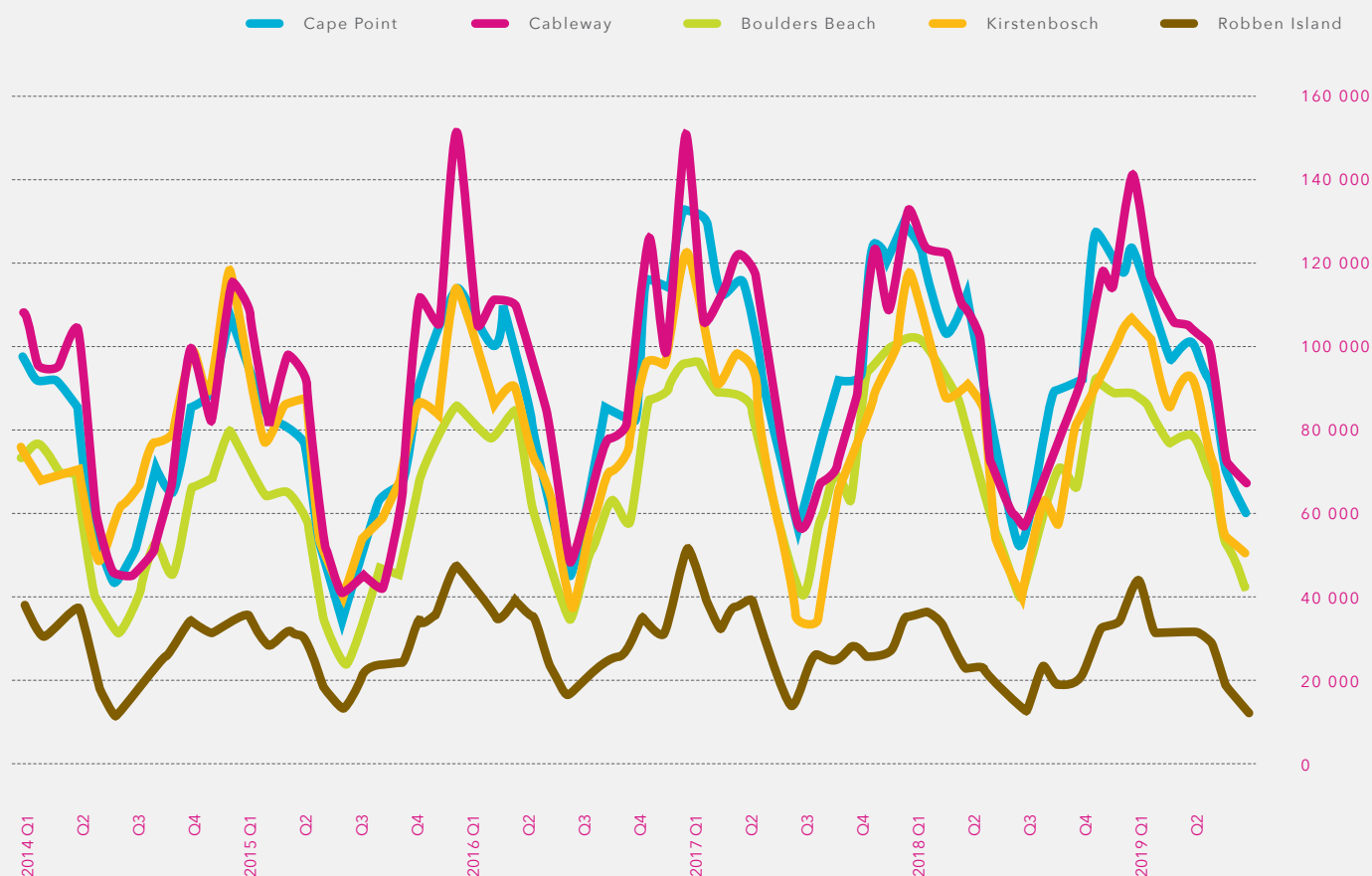
¹⁰ Includes Cape of Good Hope, Boulders Beach, Table Mountain Aerial Cableway, Kirstenbosch National Botanical Gardens and Robben Island; excludes the V&A Waterfront.

visits, with Table Mountain Park: Cape of Good Hope recording the highest increase in number of visits (16 291), while Robben Island recorded the highest positive year-on-year growth rate of

9,73%. On average, visitor numbers improved by 5,83% in the second quarter of 2019 across the five attractions when compared to the corresponding period in 2018.

Visits to Cape Town's top attractions were higher than they had been in the corresponding period in 2018, with a 5,83% year-on-year increase in the number of visitors.

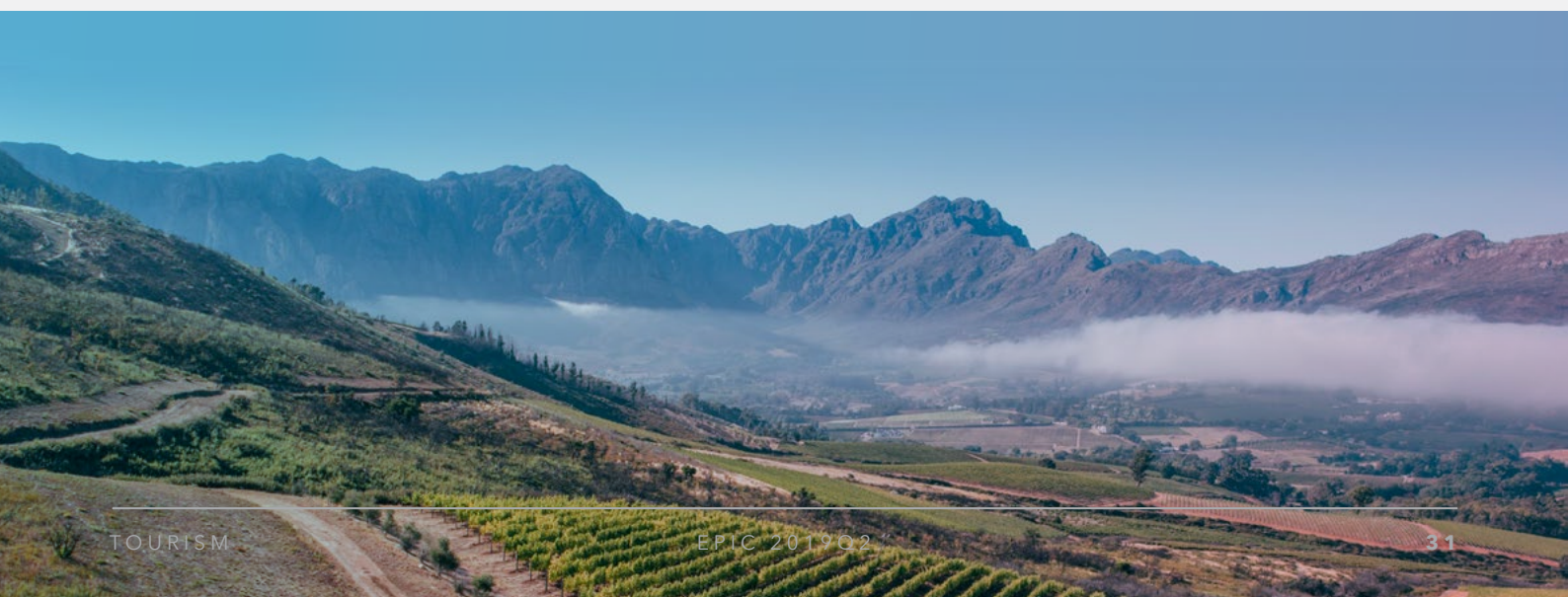
FIGURE 11: TOTAL (MONTHLY) VISITS TO THE TOP 5 TOURIST DESTINATIONS OF CAPE TOWN, QUARTER 1, 2014 TO QUARTER 2, 2019



Source: Derived from Wesgro and Cape Town Tourism data, August 2019.

Figure 11 illustrates that Cape Town's attractions are subject to strong seasonality, with peak visitor activity occurring in the summer period from November to March. The lowest tourist visitor numbers occur during the period May to July, which are Cape Town's winter months. The 5,83% year-on-year increase in

total visits across the five major attractions in the second quarter of 2019, may have been a result of tariff reductions at several of the attractions, with the most recently implemented at Robben Island in June 2019 (Robben Island Museum, 2019).



ADDITIONAL INDICATORS

In addition to macroeconomic indicators, administrative data capture specific consumer trends and provide strong indications of the performance of the local economy. In particular, building plan statistics and property development are key indicators of the levels of confidence in the economy, while passenger vehicle sales mirror trends in the business cycle and are regarded as a leading indicator of GDP growth.

ADDITIONAL INDICATORS

BUILDING DEVELOPMENTS

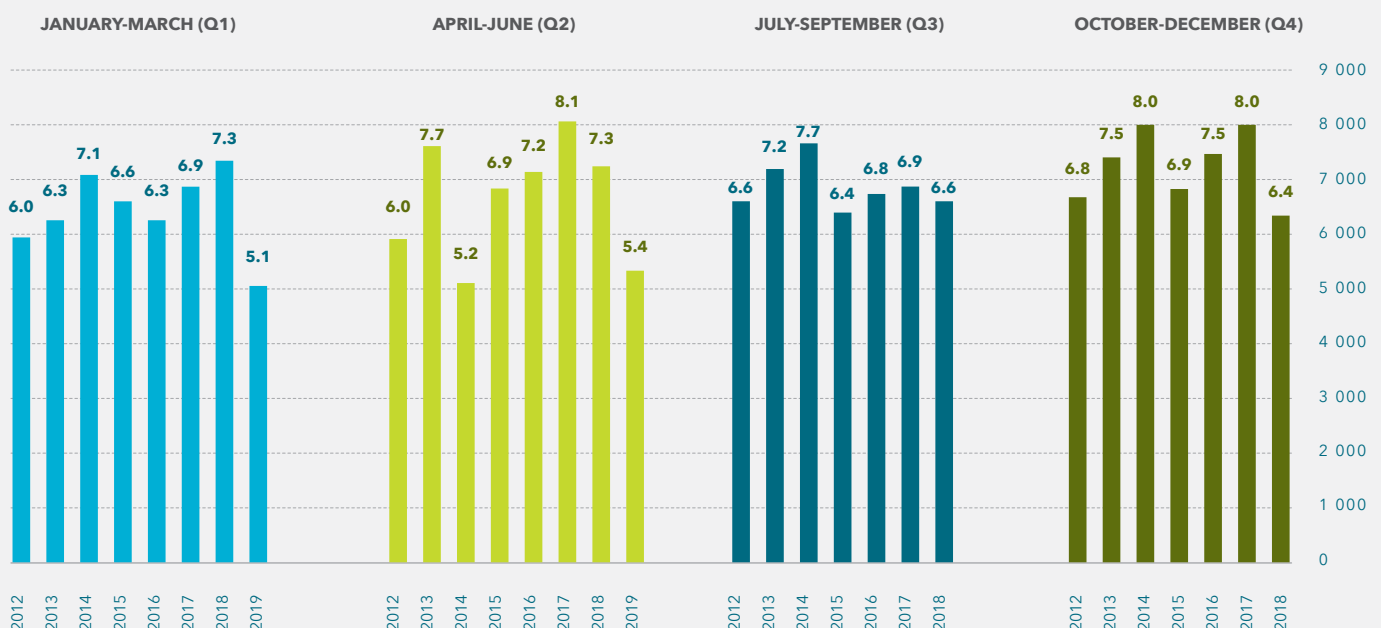
Building plans submitted to the City in the second quarter of 2019 increased by 6,18% from the previous quarter, however decreased by 25,08% compared to the corresponding period in 2018.

The economic growth data for the second quarter of 2019 highlights that output at a national level in the construction industry declined by 1,6% quarter-on-quarter - the sector's fourth consecutive quarter of negative growth. On a year-on-year basis the sector recorded its ninth consecutive contraction (-1,5%). Mirroring national trends, the Western Cape's construction industry contracted by 1,6% quarter-on-quarter and 1,5% year-on-year in the second quarter of 2019 (Quantec, 2019). After declining to 25 points in the first quarter of 2019, the First National Bank (FNB)/BER composite Building Confidence Index¹¹ (BER, 2019b) increased by 4 points to record 29 index points in the second quarter of 2019. According to the BER, four of the six sub-sectors obtained higher confidence scores, with building sub-contractors contributing the largest to the increase in index points. Despite the improved index, confidence in the quantity

surveyors sub-sector fell sharply whilst that of architects remained unchanged.

Building plans submitted to the City in the second quarter of 2019 increased by 6,18% from the previous quarter. Figure 12 provides an annual comparison of the number of building plans submitted in each of the quarters over the past eight years, thereby controlling for seasonal trends in the building and construction industry. Building plans submitted to the City in the second quarter of 2019 decreased by 25,08% compared to the corresponding period in 2018, continuing its decline in year-on-year performance. This reflects the weak though slightly improved confidence in the industry at present, also captured in the FNB/BER Civil Confidence Index¹² which improved slightly in the second quarter after recording its lowest index in the first quarter of 2019 since 2011 (BER, 2019c).

FIGURE 12: BUILDING PLANS SUBMITTED TO THE CITY OF CAPE TOWN, QUARTER 1, 2012 TO QUARTER 2, 2019



Source: Planning & Building Development Management Department, CCT, August 2019.

¹¹ The FNB/BER Building Confidence Index captures the percentage of architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions.

¹² The FNB/BER Civil Confidence Index captures the business confidence of civil contractors. A recording of 10 means that 90% of the survey respondents are dissatisfied with the current business conditions in their sector.

COMMERCIAL PROPERTY DEVELOPMENTS

The performance of the commercial property market can be tracked in a number of ways. An indicative trend analysis is provided in Figure 13 by review of: the observed variation in the quarterly office vacancy rate; the total floor area of completed office buildings added to the office property stock; the total floor area of completed office building alterations and the quarter-on-quarter percentage change in provincial GVA for the finance and business services sector. The finance, business and real estate services sector is the largest in Cape Town and as such property developments in this sector are a useful measure of economic activity.

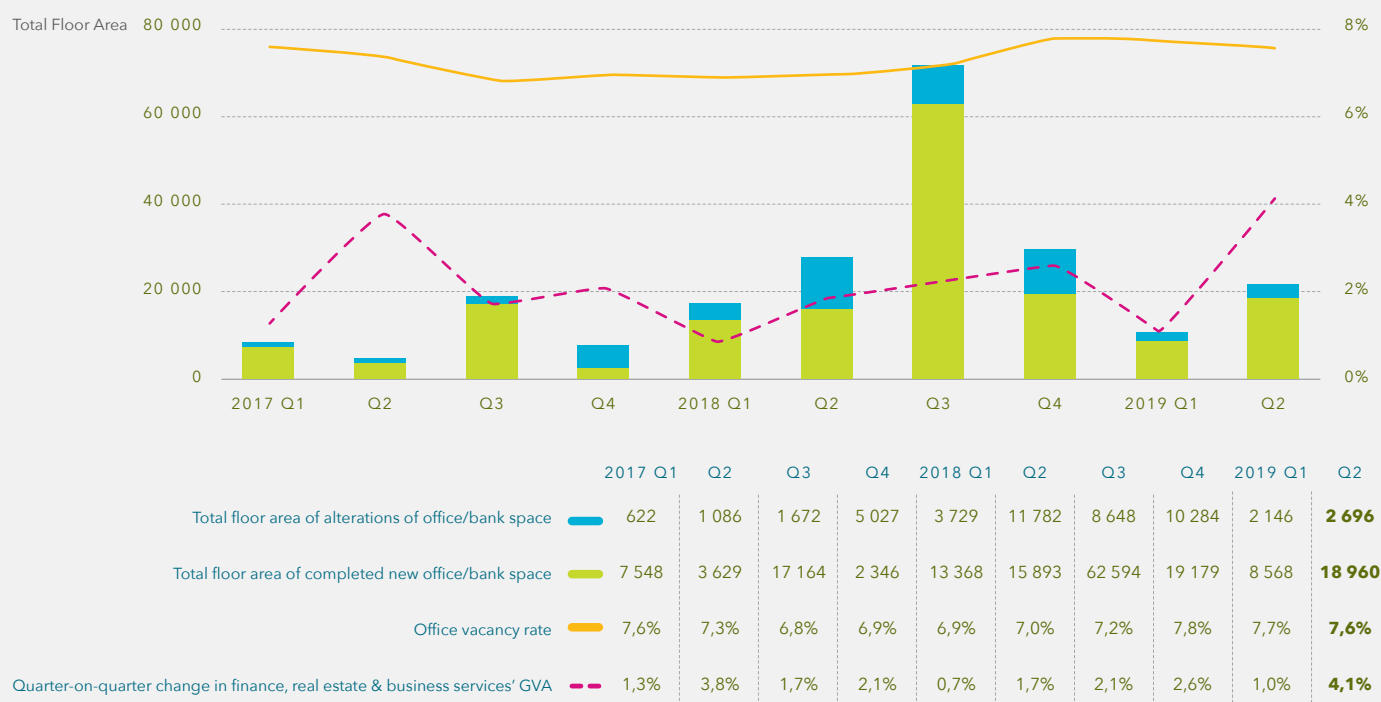
In the second quarter of 2019, construction of 18 960 m² of new office or banking space was reported to have been completed in Cape Town, as well as 2 696 m² of office or banking space

alterations. Following sluggish performance in the previous quarter, new office or banking space recorded increases on both quarter-on-quarter and year-on-year comparisons for the second quarter of 2019.

As Figure 13 shows, Cape Town's office vacancy rate decreased by 0,1 of a percentage point to 7,60% in the second quarter of 2019, and remains the lowest vacancy rate across the five largest metropolitan municipalities (SAPOA, 2019). Despite the increase in the number of new developments completed in this quarter, the continued demand for office and banking space put further downward pressure on the vacancy rate. However, developments planned to be completed within the second half of the year may cause the vacancy rate to increase in the forthcoming quarters.

In the second quarter of 2019, construction of 18 960 m² of new office or banking space was reported to have been completed and 2 696 m² of office or banking alterations

FIGURE 13: OFFICE/BANKING SPACE SECTOR DEVELOPMENTS, QUARTER 1, 2017 TO QUARTER 2, 2019



Source: Planning and Building Development Management Department, CCT, August 2019; Quantec, September 2019; Jones Lang LaSelle (JLL), 2019 and South African Property Owners Association [SAPOA], 2019.



According to SAPOA (2016), a sustained improvement in the office vacancy rate (i.e. return to the natural vacancy rate¹³), depends on the long-term strength of key economic drivers such as economic growth and business confidence. However, the increase in the GVA growth rate of the finance and business service sector in the second quarter of 2019 appears not to have

had a significant impact on the office vacancy rate during this period. This may be due to the lag experienced in the relationship between the demand for office space and economic/output growth or may be because increased availability of office space counterbalanced the increased demand for office space.

NEW VEHICLE SALES

Total vehicle market sales in the Western Cape decreased from 14 160 in the first quarter of 2019 to 13 139 in the second quarter of 2019. Year-on-year results reflect a decrease in vehicle sales of 6,44% (905 units) from 14 044 vehicles sold in the same period of 2018. Passenger vehicle sales in the Western Cape, which reflect the private consumer segment of the market, decreased from 9 122 in the first quarter of 2019 to 8 658 in the second quarter of 2019, whilst the year-on-year results indicate a decline of 5,35% (489 units), as compared to the 9 147 vehicles sold in the second quarter of 2018. At a national level, a year-on-year decrease of 0,81% was observed with a total of 77 933 passenger vehicles sold in the second quarter of 2019, compared to 78 566 passenger vehicles sold in the second quarter of 2018. The continuing downward trend across all periods suggests that weak demand for new vehicles remains a challenge for the automotive industry.

National Association of Automobile Manufacturers of South Africa (NAAMSA) attributed the weak performance in the automotive market to low levels of business and consumer confidence, increasing pressure on household income and persisting tough economic conditions which continue to limit South Africa's growth potential as well as impacting consumer behaviour (Hancock, 2019). The South African Reserve Bank's Monetary Policy Committee's decision to leave the repo rate unchanged at their May 2019 meeting (SARB, 2019b) would have provided some relief for the automotive industry as an increase in interest rates would have further dampened consumer confidence and likely led to a larger decline in vehicle sales. Despite the poor performance in the second quarter, NAAMSA remains positive on their long-term strategic objectives which include increasing South African vehicle production and increasing local content in assembled vehicles (Hancock, 2019).

13 The natural vacancy rate is defined as the normal, average, or traditional percentage of rental properties in a community that are not leased or occupied.



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ABBREVIATIONS

ACSA: Airports Company South Africa

BER: Bureau for Economic Research

BPO: business process outsourcing

CPI: consumer price index

EPIC: Economic Performance Indicators for Cape Town

e-gate: electronic gate

FNB: First National Bank

GDP: gross domestic product

GDP-R: regional gross domestic product

GGP: gross geographic product

GVA: gross value added

JLL: Jones Lang LaSalle

MPC: Monetary Policy Committee

NAAMSA: National Association of Automobile Manufacturers of South Africa

PPI: producer price index

SAPOA: South African Property Owners Association

SARB: South African Reserve Bank

TEU: twenty-foot equivalent unit

TNPA: Transnet National Ports Authority

UCT: University of Cape Town

USD: United States dollar

UWC: University of the Western Cape



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