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Economic Performance Indicators for Cape Town

2020 QUARTER 2
(April-June)

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FOREWORD

As we plot the way forward in our collective recovery from the impact of Covid-19 and the national lockdown measures, on behalf of the City's Enterprise and Investment Department, I would like to thank and applaud the Cape Town business community for adapting so well to the new way of working and for implementing the necessary health protocols to keep people safe.

There is no denying the significant impact this pandemic has had on our local economic growth and job opportunities. The second quarter (Q2) figures for both labour and gross domestic product were among the worst ever recorded. However, despite these worrying figures, we still have reason to be proud and hopeful.

For one, I am immensely proud of the resilience demonstrated by our city, which has ensured that Cape Town continues to have the lowest broad unemployment rate. And there is certainly reason to remain hopeful as the economy is already showing signs of recovery. By way of example, I recently confirmed that in Q2, the Business Process Outsourcing (BPO) sector created 2 633 new jobs.

One of the main reasons for Cape Town's economic landscape being so resilient is because we prioritise and support high-growth sectors in order to drive demand. These sectors include, but are not limited to, the following:

- Tourism and hospitality
- BPO sector (call centre operations)
- Sea and sky economies
- Tech sector – including PharmaTech
- Green tech
- Clothing and design

It's not surprising, then, that increasing numbers of companies are choosing Cape Town as their preferred 'home base', because they know that here they will enjoy the services, infrastructure, sound governance, skilled workforce and political will required to grow their operations and the economy.

At the beginning of October, I also had the pleasure of relaunching the City's 'Open for Business' campaign, which targets vital investment as the lifeblood of Cape Town's sustainable growth and job creation. Just last year, through our targeted approach, R2,6 billion worth of investment was secured, 5 720 jobs were created and 2 048 people were trained by the City's Special Business Partners (SBPs). This is evidence of the power of partnerships in practice.

The City provides funding to, and collaborates with, SBPs to address developmental challenges, but also to actively seek out opportunities to grow our economy by attracting investment.

Our expanding world-class airport, our well-located harbour with access to African and international markets, and our ability to unlock economic potential through land transactions makes Cape Town a prime location for businesses looking to launch their operations internationally.

The Department of Enterprise and Investment is absolutely focused on attracting investment, and provides various kinds of specialist support to small and large businesses, as well as investment incentives and skills development – all aimed at helping businesses reach their full potential and employ more people. For more information on the City's business brand, Invest Cape Town, run by the Department of Enterprise and Investment, visit *www.investcapetown.com*.

Early on in the Covid-19 pandemic, I also established the Tourism Task Team, which focused on the interventions needed to minimise the devastating effect of the lockdown measures on tourism and related industries. The task team's key priority is to get all sectors back to business, because our economy relies significantly on people visiting Cape Town for events, conferences, and leisure and business travel.

Through close collaboration with the City's destination marketing organisation, Cape Town Tourism, and other key stakeholders, supported by the many initiatives we have in place, Cape Town will bounce back, stronger and more sustainable than before, and in time for our city's peak visitor season.

To this end, we are investing in targeted messaging to key source markets across the globe, so that Cape Town is front of mind for businesses looking for the right place to invest, expand or get established. While much has been achieved, there is more work to be done, and we recognise that initiatives that facilitate economic growth and job creation are needed now more than ever.

The City's Economic Action Plan (EAP), developed in response to the pandemic, identified key interventions to retain and expand business in Cape Town in the short term. Now, in the recovery phase, my team is implementing the following steps as part of this recovery plan:

- Enhancing business retention efforts, including offering business aftercare and support, reducing the cost of doing business in the city and facilitating targeted assistance from Sector Support Organisations.
- Ongoing work to lower the costs of doing business and transacting with the City, to make it easier for expansion and investment to resume again. A key part of this is revisiting the City's Investment Incentive Policy and adapting it to further stimulate investment during the recovery phase.
- The Covid-19 pandemic and associated preventative measures have fundamentally changed the way businesses work. The City will keep working through its SPVs (in particular, the Cape IT Initiative) to help equip businesses for these new ways of working.

Given the current economic crisis, and recognising the need for long-term sustainable economic growth, the City has also recently released its Inclusive Economic Growth Strategy (IEGS) for public comment. This strategy identifies key, interrelated challenges that must be addressed in order to move towards a more viable, competitive and inclusive economy that provides for as many livelihoods as possible. To address these challenges, the IEGS proposes the following interventions:

- **Quality service provision:** A core function of the City is to create a business-friendly environment that meets the basic needs of individuals and companies in a stable, reliable manner, to reduce risk and inequalities.
- **Business facilitation, retention and expansion:** Interventions are needed at a firm, sector or area-specific level that address challenges faced in the expansion, retention and overall efficiency of individuals or firms already operating in Cape Town. Addressing these areas speaks to the competitiveness of Cape Town's current local economy, and the need for the City to play a more strategic role in providing support for economic stakeholders at every level.
- **Labour market support:** This area of intervention speaks to the supply side of the economy, specifically in the form of human capital. In order to assist in ensuring a skilled workforce, the City will enhance its internship programme within available budget. We will also consult with business chambers on an ongoing basis to determine the evolving labour needs of key industries, with findings being communicated back to the centralised skills co-ordinator to ensure that participants of internship, apprenticeship, learnership or public works programmes are equipped with the relevant skills to make them more employable.
- **Stimulating investment:** Destination marketing is a key element on which globally competitive cities of the world rely in order to attract investment and tourism to their region and enhance economic growth and job creation. In order to restore investor confidence post-Covid-19, the City will:
  - create a platform for greater focus on the importance of aftercare services for domestic and foreign investors;
  - prioritise targeted and viable sectors and subsectors to promote and attract investment, mobilising partners in target countries to support these efforts;
  - adopt new communication technologies and digital messaging for improved awareness of Cape Town opportunities for investment; and
  - advocate for investment in reforms at national level, such as reduced barriers for visas, and developing escalation mechanisms through InvestSA to lobby more directly for support interventions from the Investment and Infrastructure Office in the Presidency.

At the City's Enterprise and Investment Department, we sincerely believe that where there is a will, there is a way, and we know that all the stakeholders in Cape Town's economic future have the will to make progress and growth happen. The City is committed to the key role it plays in this through creating the right environment to attract local and foreign investment and continuing to make it easier to do business, so that, together, we can keep on growing our economy and creating more jobs.

Alderman James Vos
Mayoral Committee Member for Economic Opportunities and Asset Management

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INTRODUCTION

In the previous edition of EPIC, special attention was paid to what the emerging data (even for the period beyond Q1 2020) were telling us about the nature and scale of the economic impact of Covid-19 and its related restriction on economic activity. While there were limited macro-economic indicator data to reflect on in that edition, it was apparent that once that data became available, it would likely reflect the largest contraction seen in Cape Town's economy in modern times. And this has indeed been the case.

The September release of second quarter gross domestic product (GDP) figures for the country reflected an annualised economic contraction of -51,0%, while estimates for the Western Cape indicated that the provincial economy declined by -50,1%. Notwithstanding the distortionary effects of growth rate annualisation, the scale of these figures is remarkable. They are not, however, unique to South Africa and, in fact, a number of countries experienced even more precipitous declines in economic output, including the United Kingdom. In fact, the GDP figures for the Western Cape in the second quarter led to a revision of the City's annual growth forecast for 2020, from -8,6% to -7,5%.

Labour market data, reflected in the recently released Quarterly Labour Force Survey, paint a similar picture of the devastating impact that Covid-19 has had on the economy, with 2,2 million job losses recorded for South Africa. In Cape Town, job losses amounted to 174 000 which, though unprecedented in Cape Town's recent history, was significantly lower than the job losses that occurred in Johannesburg, eThekwini and Ekurhuleni. This could be attributed to the cushioning effect that strong food and beverages and ICT sectors – both of which continued to operate throughout lockdown – may have had on the city's economy. Nevertheless, increases in food prices during the first half of this year, coupled with substantial job losses, means that food security for the most vulnerable in society is likely to become an increasingly pressing issue in Cape Town.

While Cape Town, the province, and the country have indeed seen their largest quarterly contractions in economic output on record, emerging data, even for the second quarter, suggest that the economy may be recovering somewhat quicker than expected. The number of containers shipped from the Port of Cape Town showed a notable uptick in June, while electricity consumption by large power users (a measure of manufacturing sector output) rose by 7,4% in the same month. Looking beyond the second quarter, two key indicators have recently also shown positive movement: the Business Confidence Index for South Africa has risen from an all-time low of five index points in the second quarter to 24 index points in the third quarter; and the number of building plans submitted to the City of Cape Town increased by 24% year-on-year.

Having weathered the (initial) Covid-19 storm, Cape Town's economy is firmly on a recovery path. Its continued trajectory along this path will depend on a number of factors, three of which are: macro-economic conditions at a national level; the innovativeness of the local business community; and the response of government. Unfortunately, a number of these factors are not entirely in the City of Cape Town's control. Challenges such as load-shedding have the potential to undermine the recovery of the economy, although the City is continuing to advocate for the ability to directly purchase energy from independent power producers.

Naturally, the response of businesses to the pandemic and to what may, for some time, be a so-called new normal is absolutely key to Cape Town's economic recovery. Recent interviews with the EdTech sector (for which Cape Town is Africa's hub) have shown how innovative businesses are prospering despite the challenging economic climate.

Finally, the City of Cape Town has recently released its Inclusive Economic Growth Strategy for public comment. This strategy identifies short-term interventions aimed at assisting Cape Town's economic recovery, while also suggesting solutions for long-term systemic challenges which, if not addressed, will remain impediments to growth long after the Covid-19 storm has passed. At the core of the Inclusive Economic Growth Strategy is the recognition that collaboration and partnerships are key to building a more prosperous and inclusive economy for Cape Town. The manner in which the business community, residents, and government have worked together to combat the Covid-19 pandemic will need to be replicated in the efforts to revitalise Cape Town's economy.

Paul Court
Manager: Economic Analysis

KEY FINDINGS FOR THE SECOND QUARTER OF 2020

This is the 29th edition of the EPIC publication, which presents and analyses economic (and related) trends in Cape Town on a quarterly basis. This edition focuses on the second quarter of 2020, covering the period 1 April to 30 June 2020.

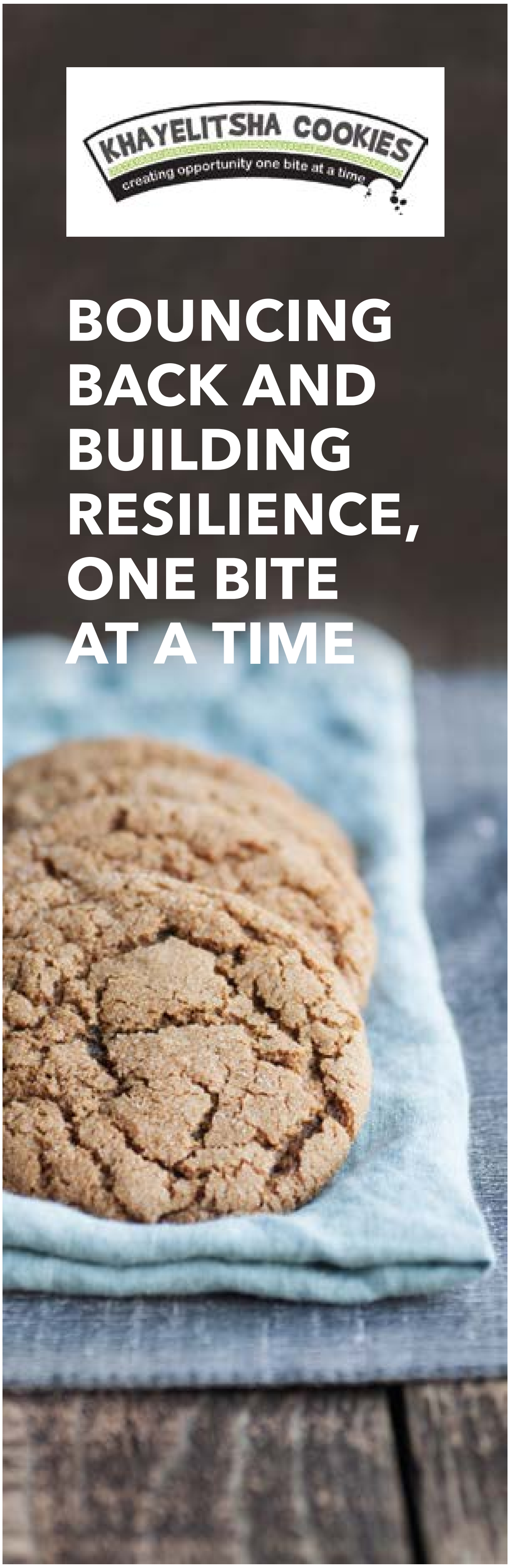
In the second quarter of 2020, the Western Cape economy **contracted by 50,1% quarter-on-quarter**, mirroring the national trend and attributed mainly to the nationwide lockdown. Most sectors experienced contractions, with the agricultural sector being the only one to record positive growth of 15,2%.

The Western Cape recorded an **inflation rate of 2,8%** at the end of the second quarter of 2020, which is lower than the 4,8% shown at the end of the first quarter. This was, however, higher than the national inflation rate of 2,2%, but both dropped below National Treasury's inflation target range of 3% to 6%.

On a quarter-on-quarter basis, the **number of people employed in Cape Town decreased by 173 791** to a total of 1,39 million. On a year-on-year basis, this figure also decreased by 190 569 individuals. These represent the largest decreases recorded over these respective periods since the inception of the QLFS in 2008. The main contributor to quarter-on-quarter employment growth during the period was the electricity and water sector, which added 4 423 jobs. Community, social and other personal services shed the most jobs (-45 396) quarter-on-quarter, followed by transport and communication (-39 627) and finance, real estate and business services (-27 238).

01

SUCCESS STORIES



BOUNCING BACK AND BUILDING RESILIENCE, ONE BITE AT A TIME

The Covid-19 crisis hit many sectors of the South African economy very hard. The City of Cape Town and the Enterprise and Investment Department recognise the imperative that exists to do everything possible to assist businesses to bounce back after the protracted lockdown period and get back on the path of sustainable profitability, success, and job creation. Two of the key priorities that underpin that support are economic inclusion and building resilient, sustainable businesses.

Recently, Mayoral Committee Member for Economic Opportunities and Asset Management, Alderman James Vos, along with the Director of the Enterprise and Investment Department, Lance Greyling, visited a number of local businesses as part of the City's Business Retention and Expansion Programme.

"In the last couple of weeks, I have visited a variety of businesses, including Khayelitsha Cookies in Parow, to discern how best the City can assist local SMMEs to emerge from this crisis. It is imperative that we understand the concerns and obstacles flagged by businesses in distress, in order to identify viable action plans and respond quickly. Our discussions were fruitful and I look forward to assisting these businesses to remain sustainable and even expand their operations, so that more jobs can be created."

Alderman James Vos

"For me, the ultimate success is empowering women by providing them with a regular salary that they can use to support themselves and their families."

Adri Williams; Co-founder and MD of Khayelitsha Cookies

Individually wrapped Khayelitsha Cookies.

The Khayelitsha Cookies team hard at work.

For MD and co-owner of Khayelitsha Cookies, Adri Williams, the lockdown regulations have been notably tough on business as valuable income streams from various sectors, including hospitality, schools, hospitals, offices and retail stores, became increasingly strained. The impact of the lockdown on the hospitality sector was especially concerning as, prior to Covid-19, this sector made up 65% of Khayelitsha Cookies' business.

A primary key concern for Adri and her management team has been keeping the business afloat so that the 96 women employed in the business can remain employed.

Khayelitsha Cookies has been in operation since 2005 and creates income-earning opportunities for previously unemployed women from various communities, including Khayelitsha. It is 51% black-owned, over 90% female-owned, and employees have a 30% shareholding. The proudly South African confections company produces up to 70 000 cookies every day, including customer-branded products such as their cookie and rusk range produced for Purity. The business is even currently gearing up to launch a product range in the USA.

Committed to sustainable business practices

In addition to providing inclusive employment opportunities, Khayelitsha Cookies is highly environmentally aware and follows strict environmental protection protocols. All salvageable waste that is generated onsite is recycled, and packaging is made from 100% recyclable materials. Rain water is harvested for non-production operations and staff have access to an onsite veggie garden to harvest fresh produce that they can take home to feed their families.

The team is also actively involved in charity work, fundraising and outreach projects. They assisted farmers who were impacted by the 2016 and 2019 droughts, and support various orphanages, soup kitchens and women's organisations in need of sponsorship and funding.

FIRST CAPE FLATS-BORN AND BRED ENERGY DRINK, DUIDELIK®, HITS THE SHELVES

Cape Town is an established food and drink production hub, and is well-known for the broad range of high-quality beverages produced and manufactured locally. In recent years, the soft drink market has been steadily growing, with energy drinks, in particular, enjoying increasing share of the market.

Recognising this significant opportunity to introduce and grow a competitive, proudly South African energy drink offering, Kaapse Bru founders Hylton Mitchell and Allistair Bunding conceived and launched Duidelik®, an exciting new energy drink that hit the shelves of spaza shops around the city on Heritage Day.

Ahead of their market launch, the entrepreneurs hosted an exclusive launch event, to which Mayco Member for Economic Opportunities and Asset Management, Alderman James Vos, was invited as a VIP guest.

"One of the City of Cape Town's key priorities is to generate and maintain the right conditions to attract investment, grow the economy and create jobs. We have an enviable entrepreneurial spirit in our city, coupled with the lowest unemployment rate of all SA metros. This is largely due to the passion and vision of people like the founders of Duidelik®. The City's Business Hub exists to help entrepreneurs set up and improve their businesses and can help with any part of the process, including connecting SMMEs with business partners, funders, support organisations or municipal departments. The City and my team will continue to work to provide the right conditions for entrepreneurs like Hylton Mitchell and Allistair Bunding to flourish and to create economic opportunities for all."

Alderman James Vos

"Our business came about as a result of Covid-19. We realised that we needed to develop products that can compete on the global landscape. We were pushed to think of new industries to develop new brands and hopefully make some money in the process. We want to make a difference to communities on the Cape Flats."

Hylton Mitchell, Co-founder of Kaapse Bru

Alderman James Vos gives Cape Flats-born energy drink, Duidelik®, a definite thumbs up.

Intriguing and appealing packaging is a key part of the Duidelik® experience.

The entrepreneurial team describe Kaapse Bru as a dynamic Cape Flats business underpinned by the rich and diverse history that has shaped Cape Flats culture.

The pair explain that Duidelik® was conceived to not only meet local energy drink demand, but also to stimulate discussion and raise awareness. The 500 ml aluminium can incorporates design elements that celebrate and comment on Cape Flats characteristics.

The can design includes an anti-gender-based violence logo and a portion of all Duidelik® sales will be donated to the Saartjie Baartman Centre in Manenberg. In addition, short stories showcasing historical heroes and heroines are included in the can design, spotlighting figures across industries and movements with the intent to inspire and support Cape Flats communities. What's more, the Duidelik® logo shows a passion gap (a smile with the upper front teeth missing), which is a nod to another cultural characteristic of Cape communities.

When asked about the role of Kaapse Bru in Cape Town and abroad, Mitchell explained that he and his business partner, Allistair, want to demonstrate that the Cape Flats can also be a place of opportunity, where new and creative industries can make a difference in the world.

Through their successful development and launch of a new energy drink offering during a global health pandemic that negatively impacted local and global economic growth, Kaapse Bru has shown what can be achieved with determination, a tenacious attitude, and a resilient mindset.

And the Kaapse Bru team have big plans for the future, including expansion into other recovering local sectors such as clothing and textiles, music and events, as well as hotels and day resorts.

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OVERVIEW

CAPE TOWN OVERVIEW 2020: QUARTER 2

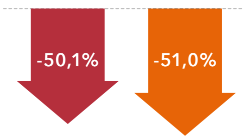
GROSS DOMESTIC PRODUCT (GDP)

The **Western Cape** accounted for **R366 billion**[a] of the **R2,6 trillion gross domestic product** (GDP) generated by **South Africa** in the second quarter of 2020. While GDP data are not available at a city level on a quarterly basis, **Cape Town** typically contributes around **72%** of the provincial GDP annually.[b]

[a] *At constant 2010 prices. Source: Quantec, 2020.*
[b] *At current prices. Source: IHS Markit, 2020.*

GDP GROWTH RATE

During the second quarter of 2020, the **Western Cape** achieved quarter-on-quarter GDP growth of **-50,1%**, compared to **national GDP** growth of **-51,0%**.[c]



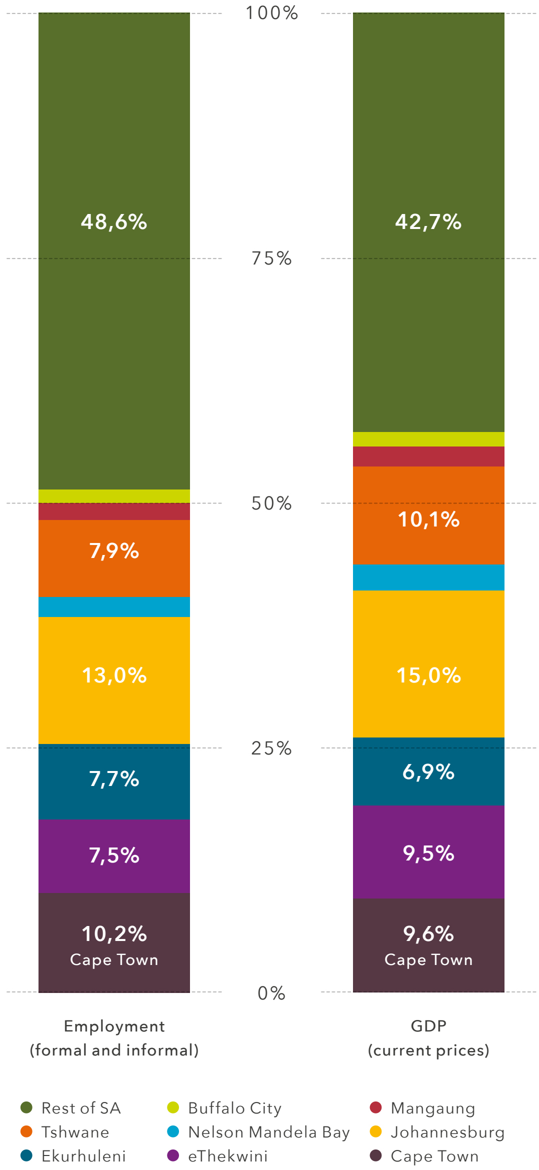
[c] *At constant 2010 prices. Source: Quantec, 2020.*

GDP PER CAPITA

In 2019, **South Africa** had a GDP per capita of **R86 083**, while the **Western Cape's** GDP per capita was **R101 098** and **Cape Town's** was **R111 364**.[d]

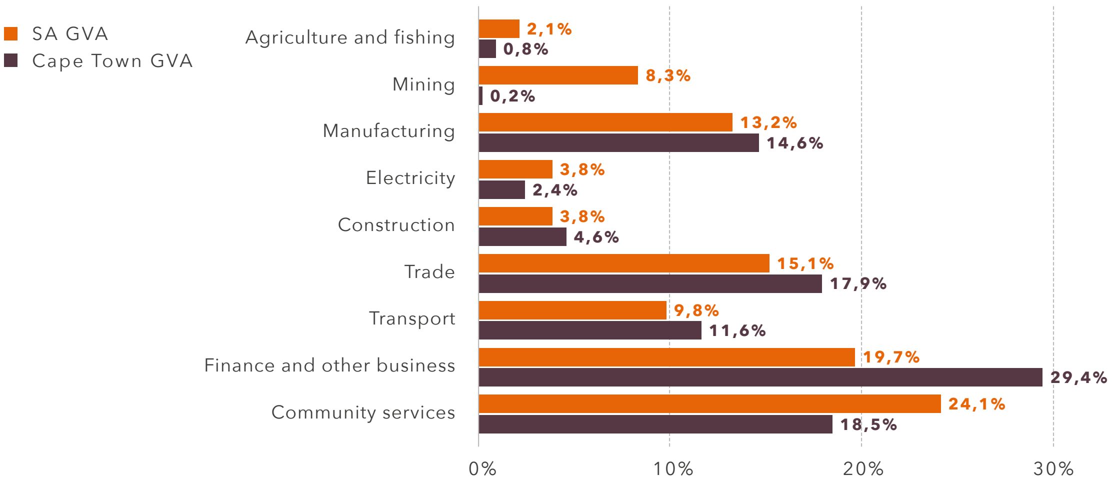
[d] *At current prices. Source: IHS Markit, 2020.*

CAPE TOWN GROSS GEOGRAPHIC PRODUCT AND EMPLOYMENT CONTRIBUTIONS TO SA, 2019[e]



[e] *Source: Statistics South Africa (StatsSA), 2020.*

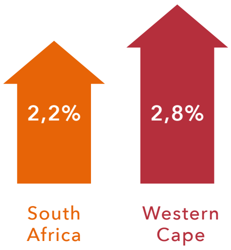
SECTORAL SHARES, CAPE TOWN GROSS VALUE ADDED (GVA) VERSUS NATIONAL GVA, 2019[f]



[f] *At current prices. Source: IHS Markit, 2020.*

INFLATION

At the end of the second quarter of 2020, **South Africa** had an inflation rate of **2,2%**. The **Western Cape's inflation rate** for the same period was **2,8%**.[g]



[g] *Source: Statistics South Africa (StatsSA), 2020.*

POPULATION

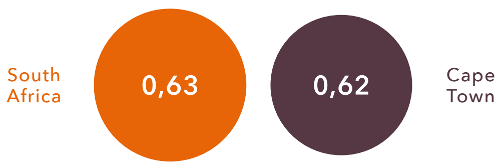
South Africa has a population of **58 775 022**. A total of **6 844 272** people (11,6% of the national population) live in the **Western Cape**. Of those, **4 488 546** are residents of **Cape Town**.[h]

[h] *Source: Statistics South Africa (StatsSA), 2020.*

GINI COEFFICIENT

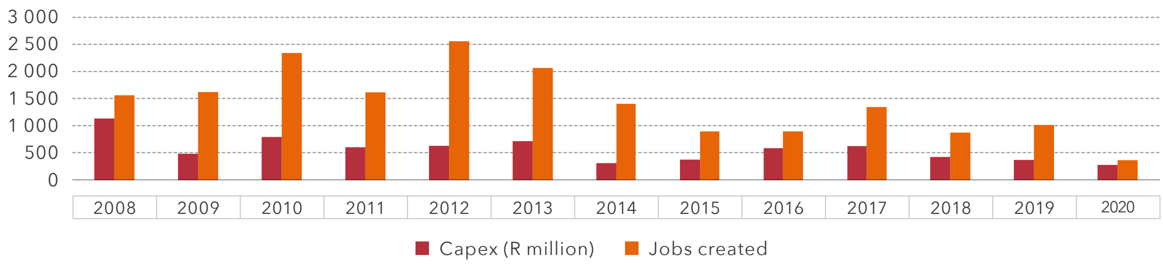
In 2019, **South Africa** had a Gini coefficient* of **0,63**, while **Cape Town** had a slightly lower value of **0,62**.[i]

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



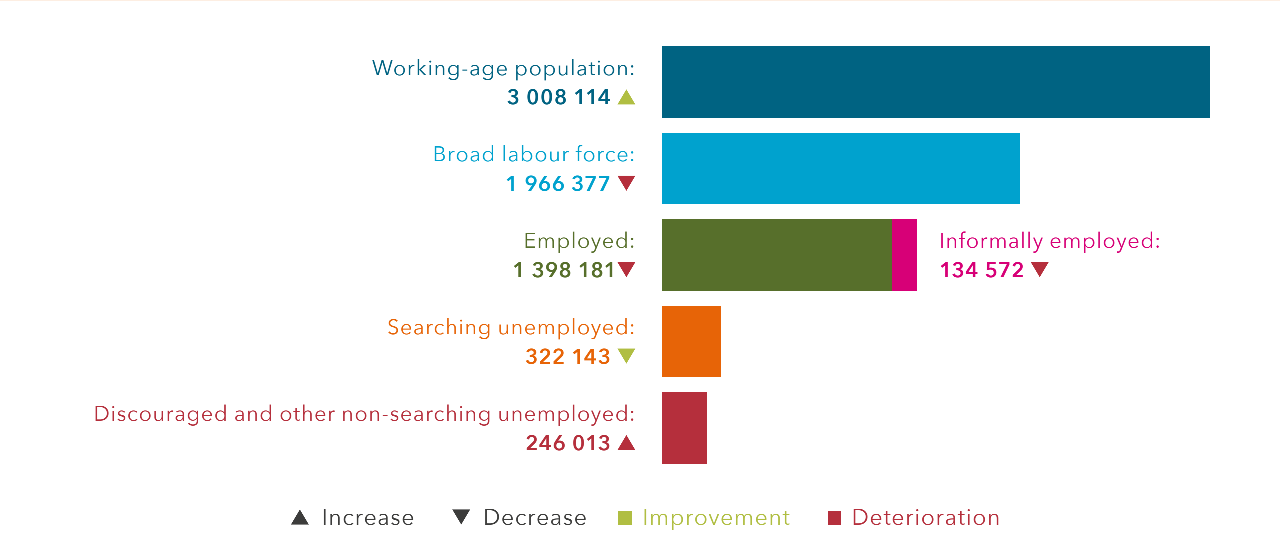
[i] *Source: IHS Markit, 2020.*

FOREIGN DIRECT INVESTMENT (FDI) INFLOWS INTO CAPE TOWN[j]



[j] *FDI Markets, 2020. Note: Investment data are subject to change due to reporting lags.*

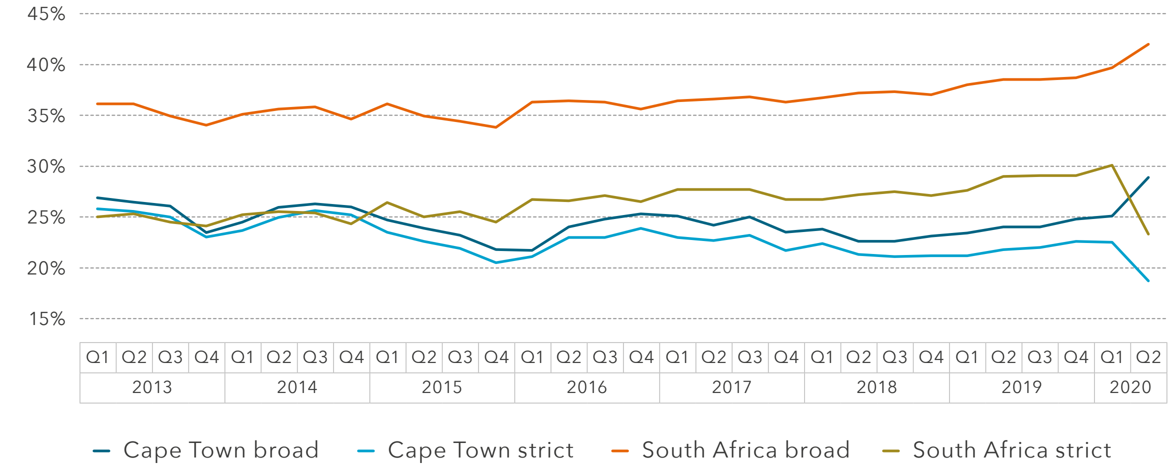
LABOUR OVERVIEW 2020: QUARTER 2



Labour force participation rate (strict) = **57,2%** Absorption rate = **46,5%** Dependency ratio = **43,8%**

Source: Statistics South Africa, Quarterly Labour Force Survey, 2020 Quarter 2, September 2020.

STRICT VERSUS BROAD UNEMPLOYMENT RATES FOR SOUTH AFRICA AND CAPE TOWN, 2013 Q1 TO 2020 Q2



Source: Statistics South Africa, Quarterly Labour Force Survey, 2020 Quarter 2, September 2020.

03

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 therefore often the main drivers of economic growth in a region.

QUARTER-ON-QUARTER ECONOMIC PERFORMANCE

In the second quarter of 2020, the national economy recorded growth of -51,0%,[1] thereby prolonging its recession[2] as the country recorded its fourth consecutive quarter of negative growth. This historic contraction was largely expected and is attributed to the impact of the Covid-19 lockdown restrictions, which commenced on 27 March 2020 (Ramaphosa, C., 2020). This saw economic activity severely restricted to only 'essential' services and production in April, with a gradual resumption of additional economic activity in May (lockdown level 4) and June (lockdown level 3) (City of Cape Town, 2020a).

The primary drivers of the second quarter contraction were the manufacturing, trade and transport sectors, which subtracted the most from the national total growth rate, while agriculture was the only sector to record positive growth.

The very weak economic climate is further highlighted by additional market indicators such as the RMB/BER Business Confidence Index, which declined a further 13 points in the second quarter of 2020 to record its lowest reading of five index points (Bureau for Economic Research [BER], 2020a). According to the BER, the last time this index reached its low point was during a period of political instability. The current poor sentiment thus reflects the economic crisis brought about by the Covid-19 pandemic. Similarly, the Absa Purchasing Manager's Index remains fairly low, recording 53,9 index points in June 2020. This, however, showed slight increases over the preceding months, signalling small improvements in business activity as the easing of lockdown restrictions began across the country (BER, 2020b).

[1] *Unless otherwise stated, quarter-on-quarter growth rates are seasonally adjusted and annualised. The non-annualised quarter-on-quarter contraction for South Africa for the second quarter of 2020 was -16,4%.*

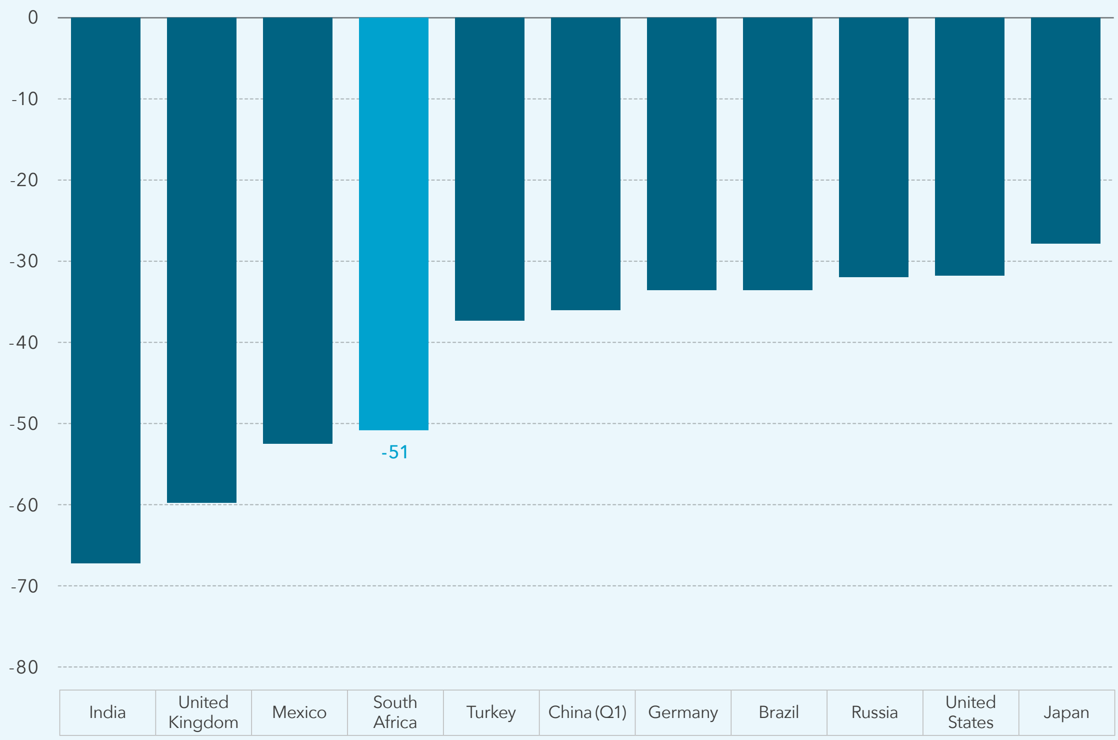
[2] *A 'technical recession' is defined as two consecutive quarters of negative real GDP growth.*

A GLOBAL COMPARISON OF ECONOMIC PERFORMANCE IN THE SECOND QUARTER

According to the International Monetary Fund (IMF), the so-called 'Great Lockdown' – an unprecedented global response to the Covid-19 pandemic – is triggering the worst recession since the Great Depression, with 2020 global growth forecast at -4,9% (IMF, June 2020). The contraction in South Africa's economy is therefore not unique in the global context, with many countries showing record annualised quarter-on-quarter declines.

Among developed economies, the United Kingdom recorded one of the worst declines in economic growth ever in the second quarter of 2020, while India's growth rate was among the worst of the developing countries. As Figure 1 illustrates, these countries' contractions ranged between -25% and -70% for this period.

FIGURE 1: BUREAU OF ECONOMIC RESEARCH'S COMPARISON OF ANNUALISED ECONOMIC GROWTH RATES FOR 2020 Q2



Source: BER, 2020c.

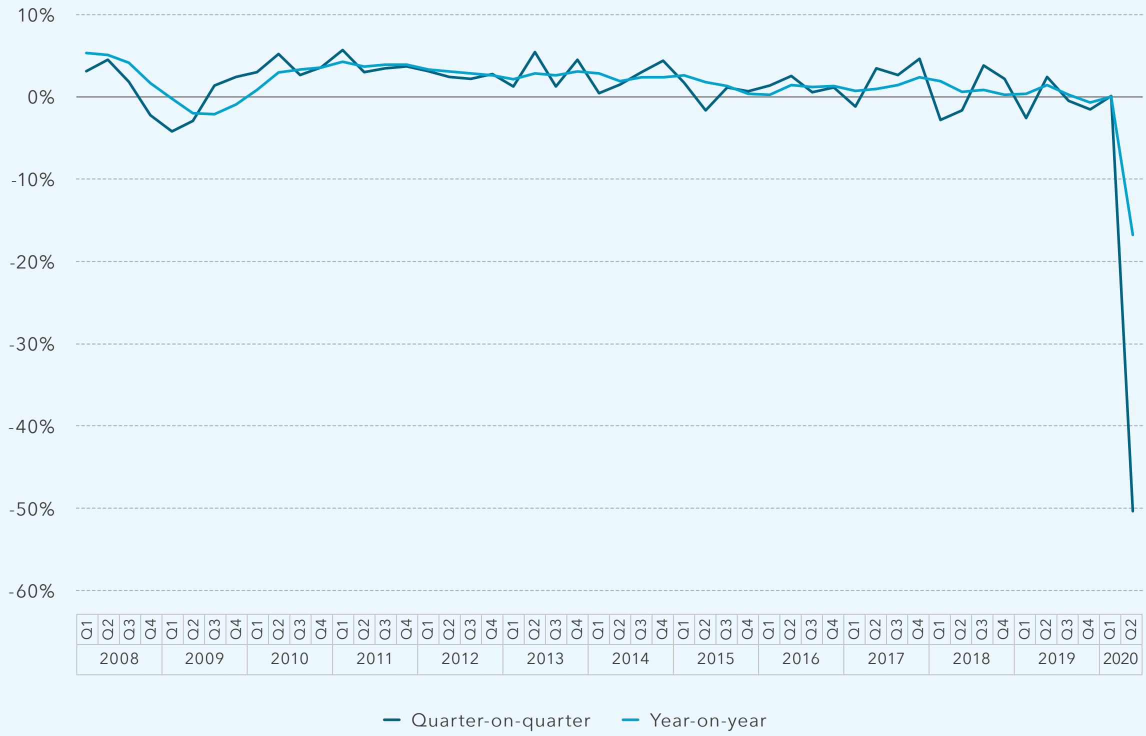
In 2021, global growth is projected to be 5,4%, leaving 2021 GDP some 6,5 percentage points lower than in pre-Covid-19 projections, with an output loss of more than USD 12 trillion. The World Bank posits similar figures, with a 2020 recession of 5,2%, followed by a 4,2% recovery in 2021.

WESTERN CAPE AND CAPE TOWN ECONOMIC PERFORMANCE

The Western Cape economy contributes around 14% of South Africa's gross domestic product (GDP). In line with the national economy's performance, the Western Cape's GDP contracted by 50,1%, quarter-on-quarter for the second quarter of 2020, a decline of 50,1 percentage points on the previous quarter's recording of 0,0% (which was revised downward by 0,1 of a percentage point). Alongside the historic quarter-on-quarter results, the year-on-year data for the Western Cape also indicate a similar performance to that of the country as a whole.

South Africa experienced negative year-on-year growth for the third consecutive quarter, recording -17,2% in the second quarter of 2020, while the Western Cape economy returned to a negative year-on-year growth figure of -16,5%.

FIGURE 2: REAL GGP GROWTH FOR THE WESTERN CAPE, 2008 Q1 TO 2020 Q2



Source: Quantec, 2020.

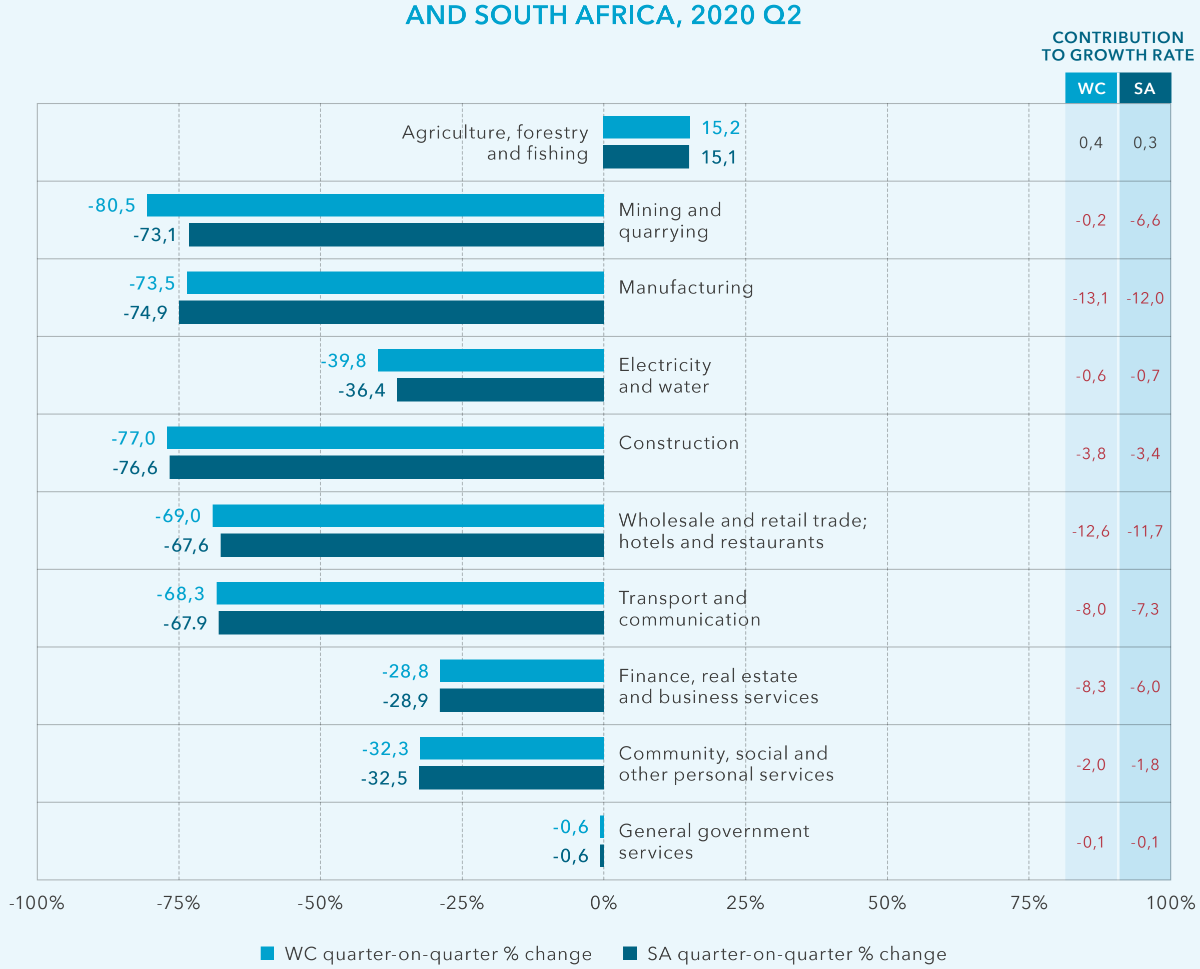
As restrictions were applied nationally, the Western Cape's sectoral performance on a quarter-on-quarter basis showed many similarities to that of the national economy. Notably, the agriculture sector was the only sector to record (positive) growth in the second quarter of 2020, growing by 15,2% and adding 0,4 of a percentage point to the total economic growth of the province.

The largest contributor to the overall contraction of both the national and provincial economies was the manufacturing sector, which declined by 74,9% at the national level and subtracted 10,8 percentage points from total national growth. At the provincial level, manufacturing declined by 73,5% and subtracted 13,1 percentage points from total provincial growth.

This was followed by the trade sector, which declined by 67,6% at the national level and subtracted 10,5 percentage points from total national growth. It declined by 69,0% at the provincial level, subtracting 12,6 percentage points from total provincial growth.

While the mining sector recorded the largest contraction (80,5%) of all the sectors in the Western Cape, its small contribution (0,2%) to the provincial economy meant that it only subtracted 0,2 of a percentage point from total growth. At a national level, the total contraction of the sector was lower, at 73,1%, but this translated to a much higher negative impact of 6,6 percentage points subtracted from total national growth. This is due to mining's greater share (6,4%) of the national economy.

FIGURE 3: SECTORAL REAL GDP-R GROWTH RATES IN THE WESTERN CAPE AND SOUTH AFRICA, 2020 Q2



Source: Quantec, 2020.

The most prominent contributors to total GDP (value) in the Western Cape are the finance, trade and manufacturing sectors. These sectors also contributed the most to the province's contraction in the second quarter of 2020, subtracting a combined 34,1 percentage points from total growth. Historically, positive performance by the agriculture sector often offsets contractions in other sectors and has a greater impact at the provincial level due to its higher share (4,7%) of the provincial economy, compared to its 3,1% share of the national economy. However, due to the amplified poor sectoral performances as a result of the pandemic-induced restrictions, the agricultural sector's contribution of 0,4 of a percentage point to total growth proved insufficient to meaningfully mitigate the impact of the large contractions in the other sectors during this period.

While GDP-R statistics for Cape Town are not timeously 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 72% of the total provincial economic output (IHS Markit, 2020). On average, in the last 10 years, the variation between the city's gross geographic product (GGP) growth rate and the provincial rate has been 0,2 of a percentage point. If this were to hold true for the second quarter of 2020, a plausible range for Cape Town's quarter-on-quarter economic growth would be between -49,9% and -50,3%. However, the nature of provincial economic growth is such that this range may not fully account for the performance of the city's economy in these unprecedented times.

Given that the agricultural sector, the only positive contributor to growth in the second quarter, contributes a relatively small share to Cape Town's GVA (0,8%), the city's economy is not likely to have been as cushioned by the encouraging performance of this sector, raising the possibility that Cape Town may have recorded a larger contraction than the province in this quarter. Indeed, international experience has shown that large urban economies are generally more affected by major health shocks than non-urban economies.

04

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 OVERVIEW

At the end of the second quarter of 2020, the CPI decreased to 2,2% from 4,1% at the end of the first quarter of 2020. As illustrated in Figure 4, the CPI was 3,0% in April, decreasing further to 2,1% in May and increasing slightly to 2,2% in June. In May, the CPI moved below the inflation target range, recording 2,1%, the lowest it has been since September 2004 when it recorded 1,3%.[3]

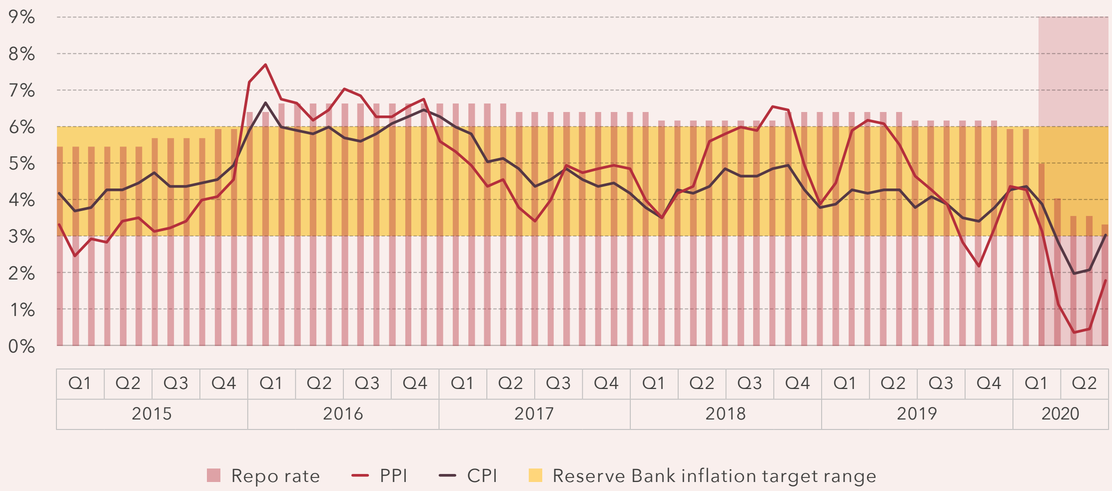
According to Statistics South Africa (2020), the main contributors to the overall CPI inflation rate for June 2020 included food and non-alcoholic beverages, housing and utilities, transport, and miscellaneous goods and services. According to the Monetary Policy Committee (MPC) statement of May 2020 (South African Reserve Bank [SARB], 2020a), the economic contraction and slow recovery will keep inflation expectations below the midpoint of the inflation target range for 2020. Also adding downward pressure to overall inflation are low oil prices and the continuous depreciation of the rand.

For the second quarter of 2020, the PPI decreased significantly to 0,7%, after averaging 4,1% during the previous quarter. The index recorded a low monthly reading of 1,2% in April, decreasing to a record low of 0,4% in May and then increasing marginally to 0,5% in June 2020. This quarter marks the lowest PPI recordings[4] on record since 2012. The main inflationary contributors to the PPI in June (in terms of final manufactured products) were the prices of food products, beverages and tobacco products, and transport equipment.

Figure 4 also illustrates changes in the repurchase rate (repo rate). As indicated in the graph, the repo rate was cut twice during the second quarter of 2020, resulting in a total reduction of 150 basis points. According to the MPC statement of May 2020 (SARB, 2020a), the decision to lower the repo rate by 50 basis points during May 2020 (to reach 3,75%) was against a backdrop of low inflation expectations, poor economic climate and weak business confidence as a result of the continuous spread of Covid-19.

In July 2020, the SARB decided to cut the repo rate by a further 25 basis points to a record low of 3,5% (SARB, 2020b). This is the lowest the repo rate has been to date. Overall, the repo rate has thus far been cut five times, by a total of 300 basis points, since January 2020, reflecting the SARB's use of monetary policy as a tool to respond to the impact of Covid-19. This approach allows for the relaxation of regulatory requirements on banks, which frees up more capital for lending to households and firms. Given that the economic outlook remains volatile and highly uncertain, the SARB will continue to monitor all the risks going forward.

FIGURE 4: CPI AND PPI TRENDS FOR SOUTH AFRICA, JANUARY 2015 TO JUNE 2020



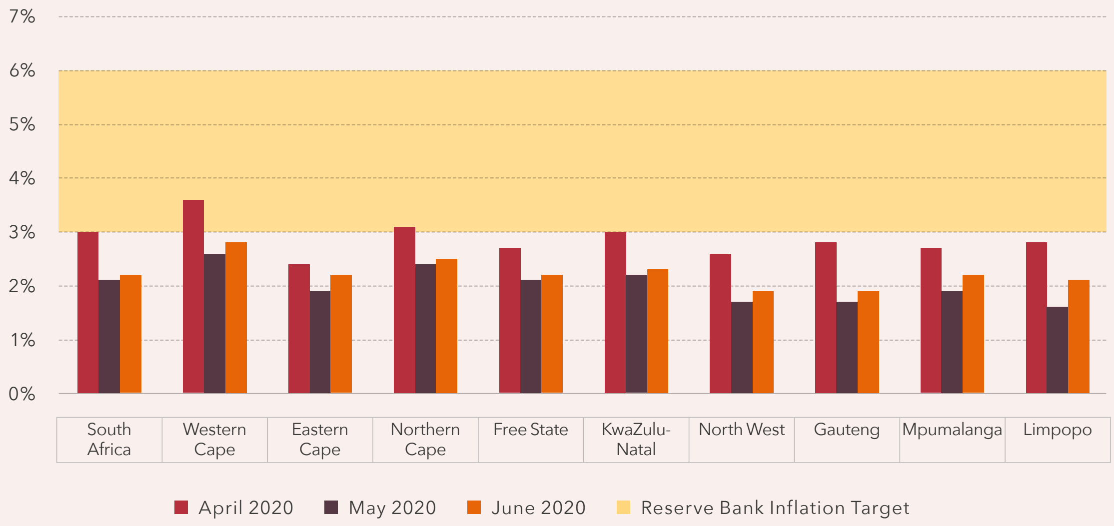
Source: CPI and PPI extracted from Statistics South Africa, 2020; repo rate extracted from SARB, 2020.
Note: March and April 2020 have been shaded above to highlight lockdown impacts.

[3] *Statistics South Africa CPI history.*
[4] *Statistics South Africa historical record for the PPI started from 2012.*

GEOGRAPHICAL INFLATION

The Western Cape recorded an inflation rate of 2,8% at the end of the second quarter of 2020. This was significantly lower than the 4,8% at the end of the preceding quarter. The provincial inflation rate was also higher than the national rate of 2,2%. Figure 5 illustrates inflation rates recorded in the second quarter of 2020 across all nine provinces of the country. In comparison to the end of the first quarter of 2020, all nine provinces experienced inflationary decreases, recording inflation rates below the lower band of the inflation target range of 3%. The Western Cape recorded the highest inflation rate for the second quarter, with an average of 3%, followed by the Northern Cape (2,6%), KwaZulu-Natal (2,5%) and Free State (2,3%). The North West (2,1%) recorded the lowest average inflation rate in the second quarter of 2020.

FIGURE 5: CPI INFLATION RATE AT A PROVINCIAL LEVEL, APRIL TO JUNE 2020

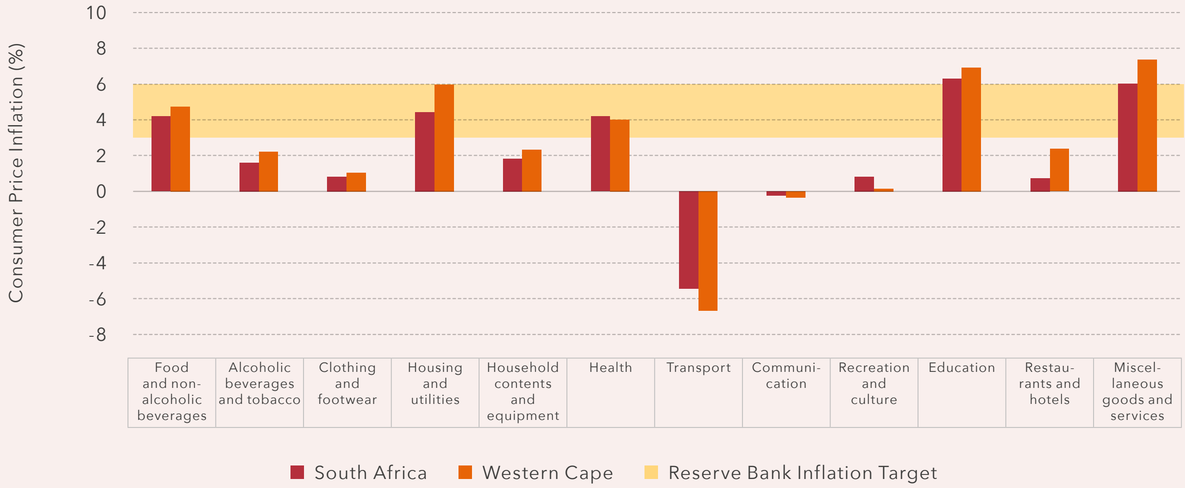


Source: Statistics South Africa, September 2020.

The higher overall inflation rate at the provincial level, compared to the national level for the second quarter of 2020, can largely be attributed to housing and utilities price inflation, which was recorded at 5,3% for the Western Cape and 4,4% nationally in June. Within this category, the disparity between prices at the provincial and national levels was notable in owners' equivalent rent[5] and actual rentals for housing. These were recorded at 5,3% and 4,6% respectively for the province, compared to 2,3% and 2,5% respectively at the national level. Within the same category, electricity and fuels price inflation recorded relatively high inflation rates for both the province (9,5%) and nationally (11,3%).

As indicated in Figure 6, the education and miscellaneous goods and services categories recorded relatively high inflation rates throughout the second quarter for both the Western Cape (average of 6,9% and 7,4% respectively) and South Africa (6,3% and 6,0% respectively), and were the only categories to have recordings above the inflation target range. Interestingly, the transport inflation rate deflated significantly for both Western Cape and nationally (-6,7% and -5,4% respectively), largely driven by the drop in the fuel price.

FIGURE 6: CONSUMER PRICE INFLATION FOR THE WESTERN CAPE AND SOUTH AFRICA, APRIL TO JUNE 2020



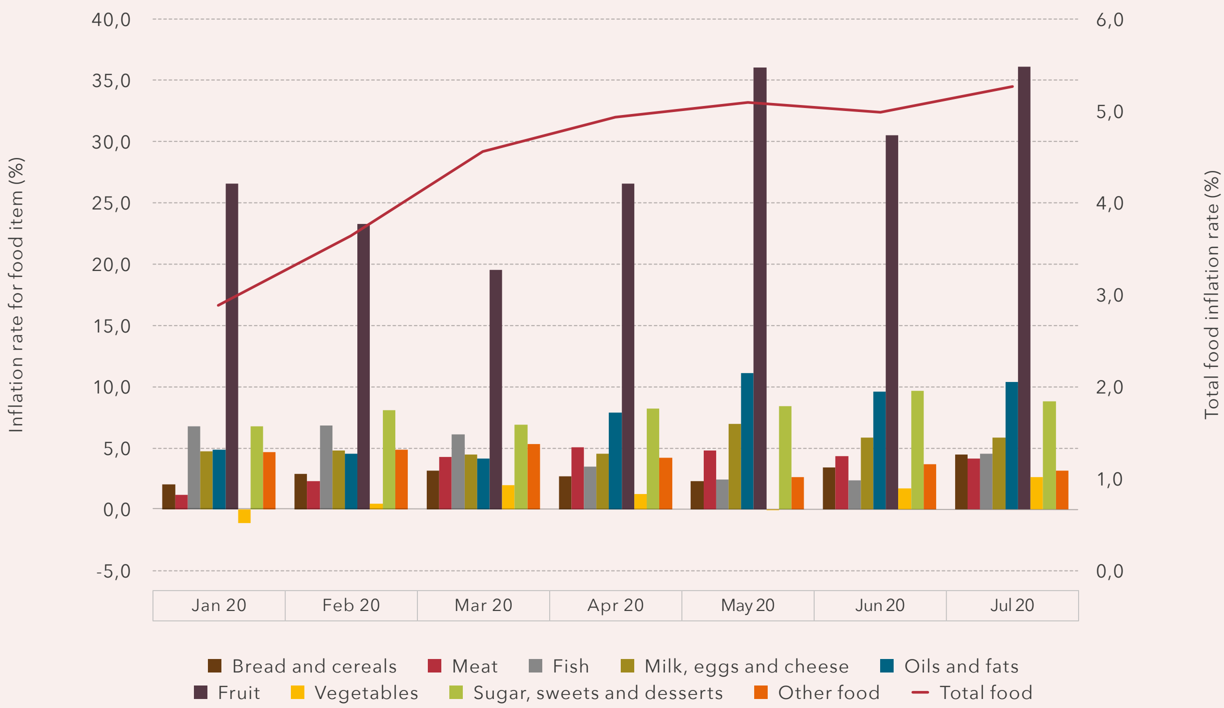
Source: Statistics South Africa, September 2020.

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

WESTERN CAPE FOOD INFLATION

In light of Covid-19, tracking and monitoring food price changes has become increasingly important as millions of South Africans are experiencing job losses and salary cuts, which further threaten their access to food. Figure 7 shows an upward trend for food inflation in the Western Cape since the beginning of 2020, averaging 3,7% in the first quarter of 2020 and increasing to 5,0% in the second quarter. The food items that demonstrated the highest average inflation rates in the second quarter of 2020 were: fruit (31,1%); sugar, sweets and desserts (8,8%); oil and fats (9,5%); and milk, eggs and cheese (5,8%). Vegetables recorded the lowest inflation rate (0,9%).

FIGURE 7: WESTERN CAPE'S FOOD INFLATION, JANUARY TO JULY 2020



Source: Statistics South Africa, 2020.

According to the Competition Commission (2020), the surge in food inflation at the beginning of the second quarter can be attributed to the depreciation of the rand and initial panic buying that disrupted normal demand patterns. Other market practices, such as price gouging, also contributed to greater food price inflation. As shown in Figure 7, food prices continued to increase, with food inflation at 5,3% in July 2020.

The Competition Commission had received 320 complaints by end of June, with 38% of these relating to food prices. To date, only Food Lover's Market has been subject to an administrative penalty for their price of raw ginger (Bassier et al., 2020). The Bureau for Food and Agricultural Policy's (BFAP) outlook on food prices has revealed that South Africa's credit rating downgrade to junk status, which has contributed to a rapid depreciation of the South African rand, will be the main factor affecting food prices for the rest of the year (BFAP, 2020). Combined with a projected decline in household income of between 4% and 6% in 2020, ongoing increases in food prices are likely to place upward pressure on the incidence of food poverty in the province and city.

05

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. Labour market performance is tracked through a variety of indicators, many of which are considered in this section.

On 19 March 2020, Statistics South Africa's (2020) face-to-face data collection was suspended due to the Covid-19 pandemic. As a result, Statistics South Africa changed the mode of data collection for their Quarterly Labour Force Survey (QLFS) to Computer Assisted Telephone Interviewing (CATI). To facilitate CATI, the same sample that was used for QLFS Q1: 2020 was also used in Q2: 2020. However, the process was not without challenges. Further details on the methodology can be reviewed in the official QLFS publication.

CAPE TOWN'S LABOUR MARKET PERFORMANCE IN THE SECOND QUARTER OF 2020

Cape Town's working age population (3 million) increased on both a quarter-on-quarter and year-on-year basis. The labour force decreased over the same periods to a total of 1,72 million individuals. Discouragingly, employment decreased at both a quarter-on-quarter (-173 790) and year-on-year (-190 569) level, recording a total of 1,39 million individuals for the second quarter of 2020. These are considered the largest decreases in employment since 2008 and represent the third consecutive quarter of negative employment growth.

Within total employment, formal and informal employment decreased on both a quarter-on-quarter and year-on-year basis, to a total of 1,28 million and 135 000 individuals respectively. This marks the third consecutive quarter in which a decline in informal employment has been recorded for Cape Town. The share of total employment that is made up by informal employment decreased to 9,6% from 11,0% in the first quarter of 2020.

The increase in the working age population and the decrease in employment for this quarter meant that the labour absorption rate decreased to 46,5% from 52,5% in the previous quarter. Likewise, the labour force participation rate decreased from 67,8% to 57,2% in the second quarter of 2020. Both rates recorded decreases when compared to the second quarter of 2019.

The number of discouraged work seekers increased on a quarter-on-quarter (3 735) and year-on-year (16 567) basis, to a total of 30 463 individuals in the second quarter of 2020. This is the highest recording for this category since the start of the QLFS in 2008. The increase in discouraged work seekers and decrease in employment outweighed the decrease recorded in the number of (searching) unemployed individuals in the second quarter, resulting in an overall increase in the broad unemployment rate (28,9% from 25,1% in the previous quarter). At 28,9%, Cape Town's broad unemployment rate remained lower than any of the other metros in South Africa.

TABLE 1: CAPE TOWN LABOUR MARKET INDICATORS

METRO	RECORDED			QUARTER-ON-QUARTER CHANGE	YEAR-ON-YEAR CHANGE
	2020 Q2	2020 Q1	2019 Q2	(vs 2020 Q1)	(vs 2019 Q2)
Working-age population	3 008 114	2 994 542	2 953 691	13 572	54 423
Labour force	1 720 324	2 029 093	2 030 467	-308 769	-310 143
Employed: Total	1 398 181	1 571 971	1 588 750	-173 790	-190 569
Employed: Formal sector	1 178 490	1 289 325	1 280 020	-110 835	-101 530
Employed: Informal sector	134 572	173 223	210 811	-38 651	-76 238
Unemployed	322 143	457 122	441 717	-134 979	-119 574
Not economically active	1 287 790	965 449	923 224	322 341	364 566
Discouraged work seekers	30 463	26 728	13 896	3 735	16 567
Other not economically active	1 257 328	938 721	909 329	318 607	347 999

Source: Statistics South Africa, Quarterly Labour Force Survey, 2020 Quarter 2, September 2020.

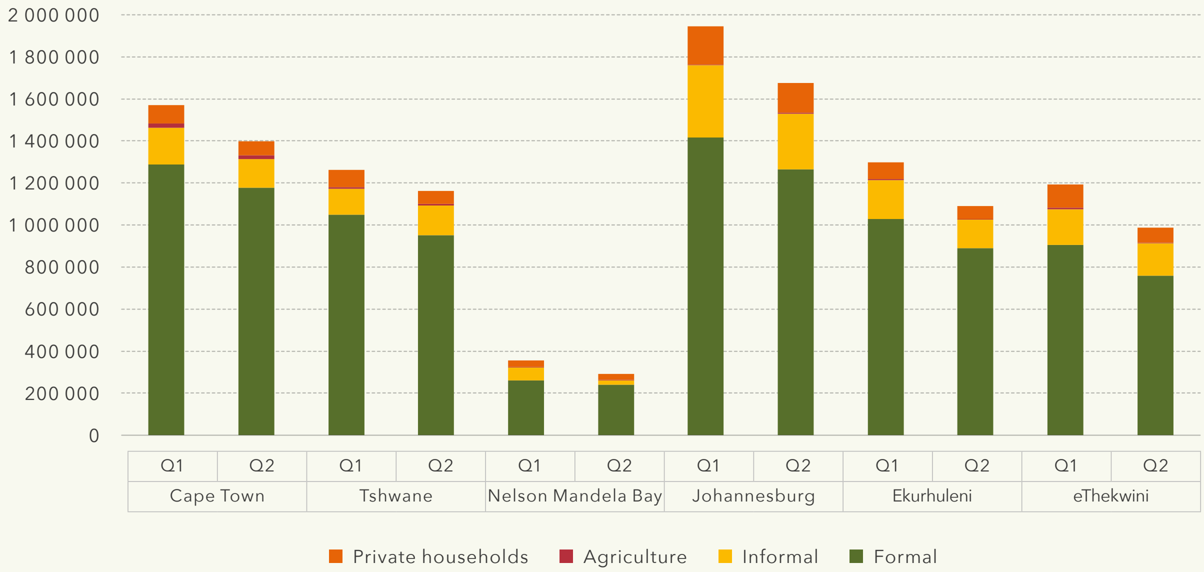
EMPLOYMENT COMPARISON OF METROS

When measuring Cape Town's job creation performance, a comparison with other metropolitan municipalities (metros) in the country is a helpful way of putting the figures in perspective. In the second quarter of 2020, Cape Town continued to have the second largest number of employed people, at 1,39 million individuals. This is second only to Johannesburg, where 1,67 million people were employed. This is to be expected, however, as Johannesburg has a significantly larger population than Cape Town.

As can be seen in Figure 8, the country's six metros recorded decreases in total employment when compared to the first quarter of 2020. This is largely attributed to the impact of Covid-19. Johannesburg shed the most jobs (269 942), followed by eThekwini (206 860) and Ekurhuleni (206 839). All metros recorded decreases in formal and private households' employment, with Johannesburg shedding the most in both categories (152 474 and 41 227 jobs respectively). Johannesburg also shed the most jobs (78 130) within informal employment, while Tshwane recorded the highest increase of 19 090 jobs in the informal sector – although the latter finding should be viewed with caution as this is completely at odds with the national experience of major job losses in the informal sector. Within the agricultural sector, Johannesburg was the only metro to add to employment while eThekwini recorded the largest decrease.

For Cape Town, formal employment decreased on both a quarter-on-quarter (110 835 jobs) and year-on-year (101 530 jobs) basis to a total of 1,17 million formally employed individuals. Similarly, informal employment decreased on both a quarter-on-quarter (38 650 jobs) and on a year-on-year (76 238 jobs) basis to a total of 134 572 informally employed individuals. Employment losses (-24 305 in total) were also recorded in private households and agriculture categories for this quarter.

FIGURE 8: EMPLOYMENT COMPARISON WITH OTHER METROS BY MAJOR SECTOR, 2020 Q1 VERSUS 2020 Q2



Source: Statistics South Africa, Quarterly Labour Force Survey, 2020 Quarter 2, September 2020.

UNEMPLOYMENT IN CAPE TOWN

As a consequence of the national lockdown restrictions, many individuals could not formally search for employment and were therefore classified as 'non-economically active'. As a result, the strict unemployment rates for the second quarter are somewhat misleading, recording significant improvements at a time when the economy has rapidly contracted. To avoid some of the unique definitional issues associated with this particular version of the QLFS, this section focuses exclusively on the expanded (broad) rate of unemployment, which is a much better indicator of the true unemployment challenge at times when people are unable to seek for work, as was the case during lockdown. Table 2 below presents the expanded rate of unemployment for the major metros in South Africa.

TABLE 2: UNEMPLOYMENT RATE COMPARISON OF METROS, 2020 Q2 VERSUS 2020 Q1 AND 2019 Q2

METRO	EXPANDED (BROAD)		
	2020 Q2	2020 Q1	2019 Q2
Cape Town	28,9%	25,1%	24,0%
eThekwini	37,8%	30,8%	30,5%
Ekurhuleni	38,1%	37,6%	36,0%
Johannesburg	39,7%	35,1%	33,4%
Nelson Mandela Bay	43,2%	36,5%	37,8%
Tshwane	35,7%	35,1%	33,4%

Source: Statistics South Africa, Quarterly Labour Force Survey, 2020 Quarter 2, September 2020.

All the metros displayed in Table 2 recorded increases in their broad unemployment rates in the second quarter of 2020, both at a quarter-on-quarter and year-on-year level. Nelson Mandela Bay recorded the largest quarter-on-quarter increase (6,7 percentage points), followed by eThekwini (7 percentage points) and Johannesburg (4,6 percentage points). Cape Town's broad unemployment rate rose by 3,8 percentage points.

SECTOR EMPLOYMENT TRENDS FOR CAPE TOWN

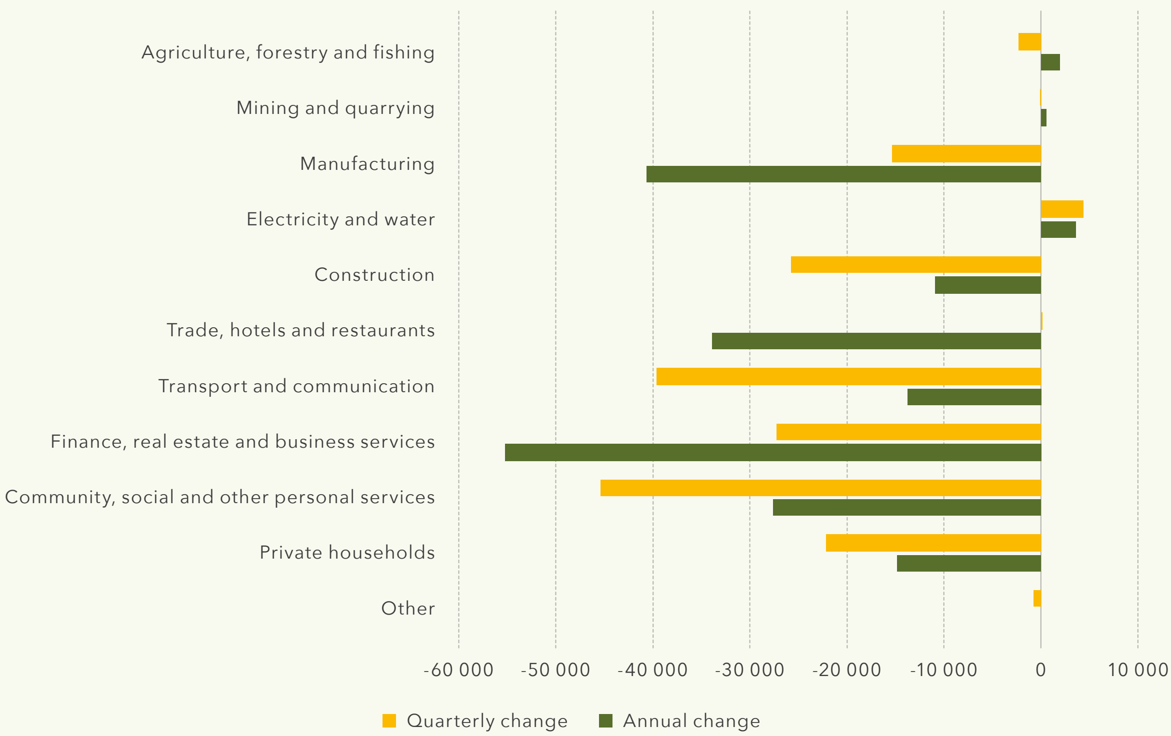
Figure 9 presents the change in the level of employment by sector in Cape Town in the second quarter of 2020. Only two sectors added to employment when compared to the first quarter of 2020. The electricity and water sector made a positive contribution to employment growth by adding 4 423 jobs, while a minimal contribution to employment of 174 jobs was made by the trade sector.

Eight sectors displayed negative quarter-on-quarter growth, with the community, social and other personal services sector recording the largest decrease (-45 396 jobs). Transport and communication (-39 627 jobs), finance, real estate and business services (-27 238 jobs), and construction sectors (-25 695 jobs) also recorded relatively high job losses for this quarter. Further decreases were recorded in the private households (-22 081 jobs), manufacturing (-15 319 jobs), agriculture (-2 225 jobs) and mining (-56 jobs) sectors.

On a year-on-year basis, only three sectors showed positive employment growth, while the rest displayed negative employment growth when compared to the second quarter of 2019. Similar to its quarterly performance, the electricity and water sector added the most jobs (3 620). Further contributions to positive employment growth were noted in the agriculture and mining sectors, which added 1 974 and 593 jobs respectively.

The finance, real estate and business sector shed the most jobs (-55 244) when compared to the same period in 2019. Large year-on-year decreases were recorded in the manufacturing (-40 631 jobs), trade, hotels and restaurants (-33 848 jobs), community, social and other personal services (-27 584 jobs), and private households (-14 775 jobs) sectors. Transport and communication (-13 746 jobs), and construction (-10 929 jobs) sectors continued to display negative employment growth.

FIGURE 9: QUARTERLY AND ANNUAL CHANGE IN EMPLOYMENT PER SECTOR FOR CAPE TOWN, 2020 Q2



Source: Statistics South Africa, Quarterly Labour Force Survey, 2020 Quarter 2, September 2020.

06

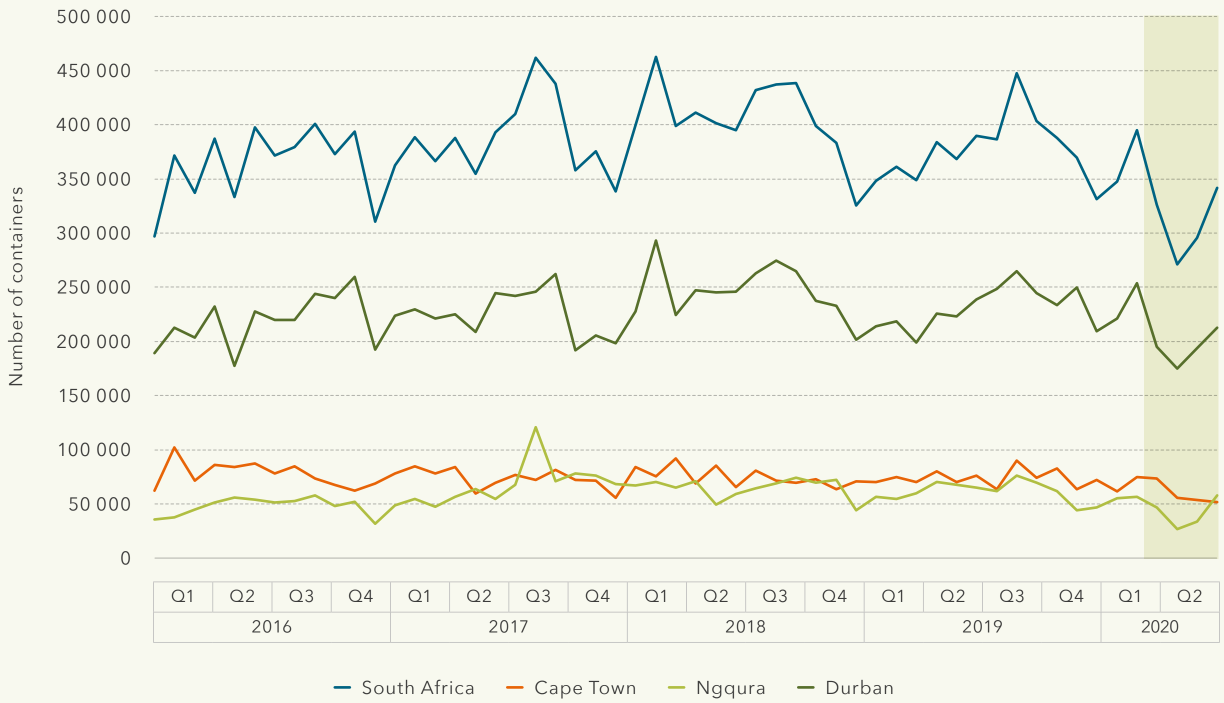
INFRASTRUCTURE AND TRADE

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

CONTAINER TRAFFIC

Container traffic demonstrates an erratic trend, as shown by Figure 10. As a result, it is best to compare total containers handled, as measured in twenty-foot equivalent units (TEUs),[6] over the period of a year. In the second quarter of 2020, the Port of Durban[7] remained the largest container handling port in South Africa with 582 531 TEUs, which accounted for 64,0% of all containers handled in the country. It was followed by the Port of Cape Town (17,8%) and the Port of Ngqura[8] (13,1%).

FIGURE 10: TOTAL CONTAINERS HANDLED (NATIONALLY), 2016 Q1 TO 2020 Q2



Source: Transnet National Ports Authority (TNPA), September 2020.
Note: March 2020 with 1 week of full lockdown shaded above.

As shown in Table 3, the total number of containers handled at South African ports declined significantly in the second quarter of 2020, despite the country's main ports continuing to operate during lockdown. This was due to normal business operations being disrupted, specifically as the ports implemented risk management precautions that resulted in delays, while demand was also significantly reduced due to the closure of destination ports (SAIMI, 2020).

The Port of Cape Town reported a decline from 226 552 TEUs in the second quarter of 2019 to 161 780 TEUs in the second quarter of 2020, reflecting a year-on-year decrease of 28,6%. The Port of Durban experienced a decrease of 15,3% in containers handled, while the Port of Ngqura reported a decrease of 41,2% when compared to the same period in 2019. Overall, the total containers handled nationally decreased year-on-year by 20,3% from 1 142 250 TEUs in the second quarter of 2019 to 910 190 TEUs in the second quarter of 2020. This represents the largest year-on-year decline since the first quarter of 2019.

[6] *A TEU (20-foot equivalent unit) is an inexact unit of cargo capacity, based on the volume of a 20-foot-long (6 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.*
[7] *The Port of Durban is located in the eThekwini metro municipality.*
[8] *The Port of Ngqura is located in the Nelson Mandela Bay metro municipality.*

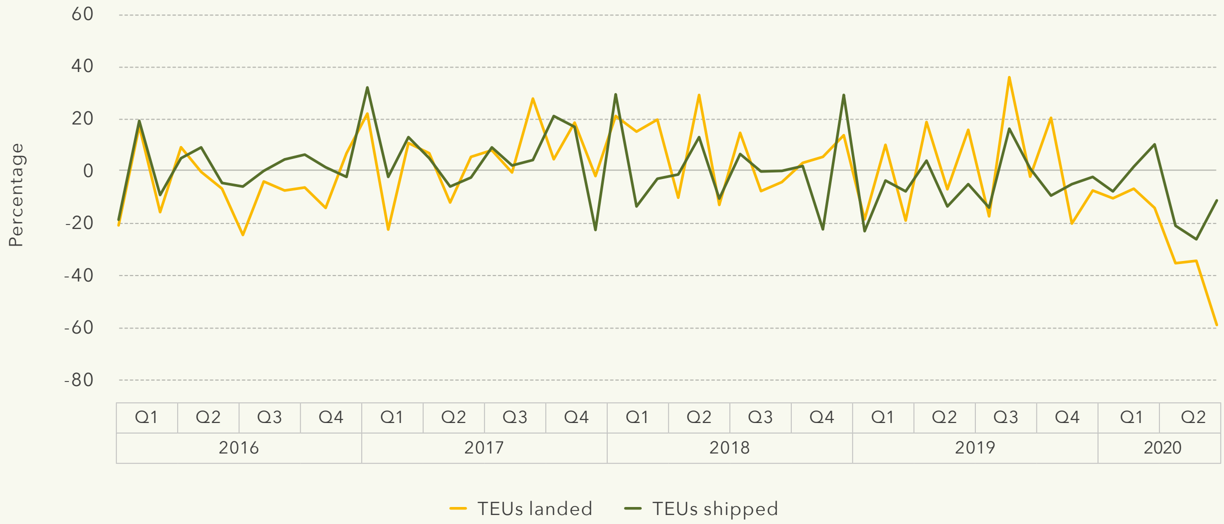
TABLE 3: COMPARISON OF TOTAL CONTAINERS HANDLED (IN TEUs)

	2019 Q2	2020 Q1	2020 Q2	YEAR-ON-YEAR CHANGE
South Africa	1 142 250	1 068 989	910 190	-20,3%
Cape Town	226 552	209 748	161 780	-28,6%
Ngqura	202 401	158 588	119 028	-41,2%
Durban	687 415	669 897	582 531	-15,3%

Source: Transnet National Ports Authority (TNPA), June 2020.

Operational challenges have resulted in less than optimal service levels experienced at the Port of Cape Town, and this situation was worsened by the Covid-19 pandemic and the resultant economic restrictions. This is illustrated in Figure 11, which shows that the Port of Cape Town experienced a significant year-on-year decline of 58,7% in TEUs landed, from 75 981 in the second quarter of 2019 to 43 665 TEUs in the second quarter of 2020. The number of TEUs shipped reported a decrease of 11,1% from 81 214 TEUs to 65 507 TEUs for the same period.

FIGURE 11: ANNUAL CHANGE IN TEUs HANDLED AT THE PORT OF CAPE TOWN, 2016 Q1 TO 2020 Q2



Source: Transnet National Ports Authority (TNPA), June 2020.

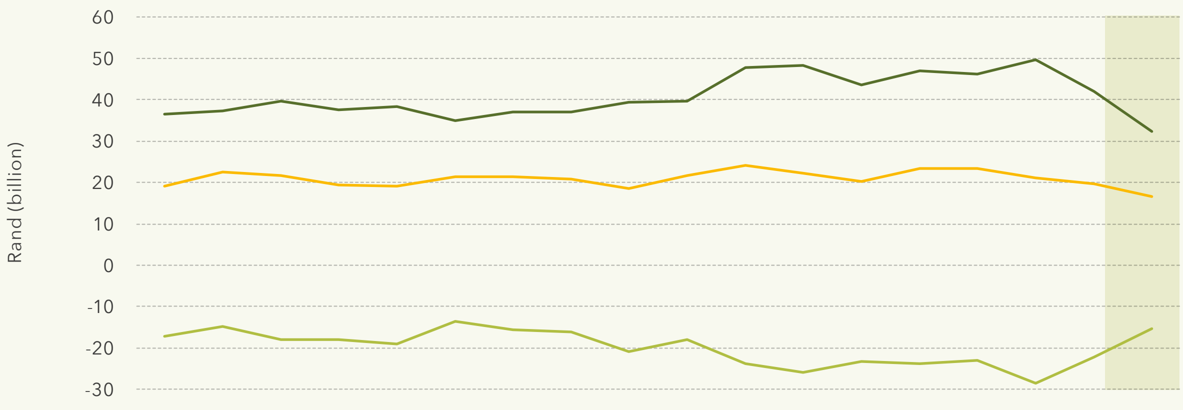
The reason for some of the operational backlog at the Port of Cape Town was severe congestion caused by staff shortages due to Covid-19 positive cases. This reduced the number of teams serving vessels, leading to berthing delays of up to a week (Goddard, 2020). This, in turn, led to many container lines redesigning their sailing schedules and introducing port congestion surcharges for shippers. Some container services were forced to withdraw calls to Cape Town and focus their South African calls at Durban and Ngqura instead (van Marle, 2020).

In addition, fruit exports had to be transferred to other ports to ensure they were delivered to customers on time (Meintjies, 2020). To mitigate these operational backlogs, TNPA introduced a number of interventions, including staff redeployment, increasing the number of teams serving vessels from four to five, and leasing two generator packs to assist the fruit industry with additional operational capacity (Goddard, 2020).

CAPE TOWN TRADE

Quarter 2 trade saw a large drop in exports and imports, as illustrated in Figure 12, which shows the quarterly trade balance for Cape Town. From the first quarter of 2020 to the second quarter, exports declined by 13,5% to ZAR 17,1 billion, while imports declined by 21,7% to ZAR 32,9 billion. These declines take into account the April level 5 lockdown, which resulted in severe production disruptions and limited trade to only 'essential' goods.

FIGURE 12: CAPE TOWN'S TRADE BALANCE, 2016 Q1 TO 2020 Q2



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	2016				2017				2018				2019				2020	
Export	19,37	22,25	21,47	19,52	19,27	21,21	21,37	20,80	18,71	21,51	23,66	22,06	20,20	22,96	23,09	21,11	19,80	17,10
Import	36,90	37,66	39,79	37,90	38,58	35,39	37,47	37,46	39,70	39,85	47,49	47,89	43,55	46,74	46,12	49,29	41,67	32,90
Trade balance	-17,50	-15,40	-18,30	-18,30	-19,30	-14,10	-16,10	-16,60	-20,90	-18,30	-23,80	-25,80	-23,30	-23,70	-23,00	-28,10	-21,80	-15,00

Source: Quantec, 2020.
Note: Quarter 1 2020 inclusive of March 2020 has been shaded above to highlight lockdown impacts.

The top 10 exports for Cape Town in the second quarter of 2020 are shown in Table 4 on the next page. The largest year-on-year decline – from the second quarter of 2019 to the second quarter of 2020 – was seen in refined petroleum oil (-73,9%), followed by fish fillets (-15,3%). The former is unsurprising, given the drastic drop in global oil prices recorded during this period.

Despite major supply chain disruptions throughout the world, some export categories recorded (positive) year-on-year growth. These included enzymes, which recorded a significant 1 104% increase, and plastic parts for packaging, which increased by 404%. The latter could be attributed to the general increase in demand for cleaning and sanitising products. The overall year-on-year decline in exports was 25,4%. Due to the rare change in demand patterns, some products that are usually positioned in the top 10 exports, such as crustaceans, jewellery, wine and yachts, saw declines of -50%, -62%, -30% and -80% respectively, when compared to the second quarter of 2019.

TABLE 4: CAPE TOWN'S TOP 10 EXPORTS, 2020 Q2

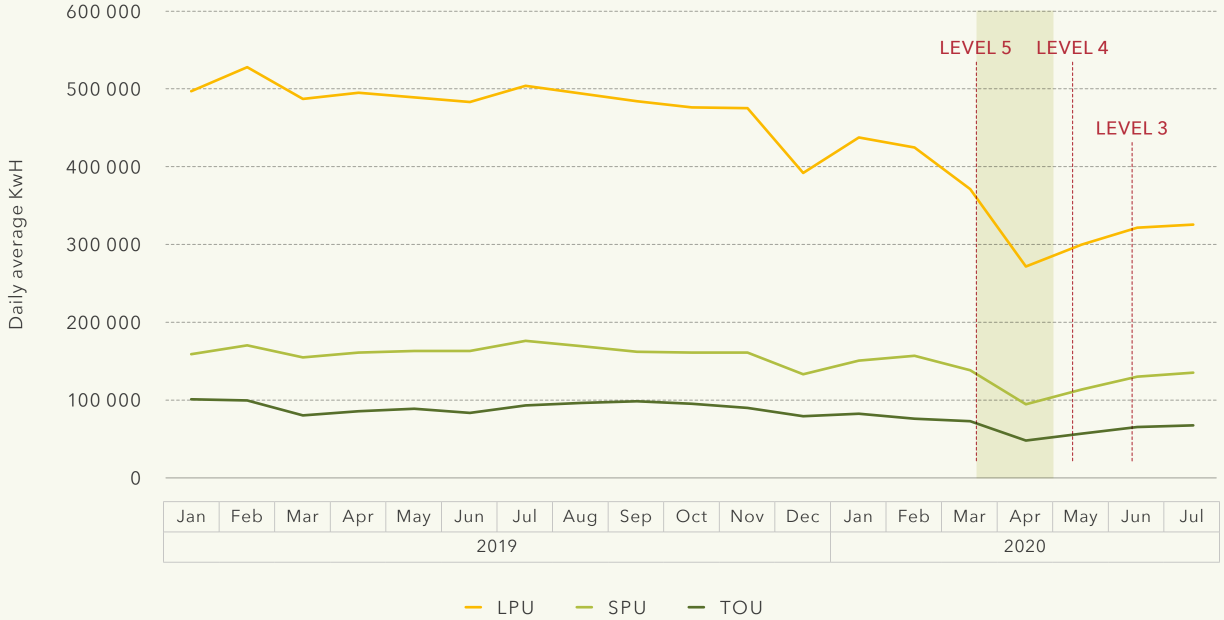
CAPE TOWN'S TOP EXPORT CATEGORIES FOR 2020 Q2 (HS 4)	ZAR MILLION	% OF TOTAL EXPORTS	YEAR-ON-YEAR GROWTH, 2020 Q2
Citrus fruit	R2 563,50	15,0%	58,5%
Apples and pears	R1 878,20	11,0%	23,7%
Refined petroleum oils	R1 316,90	7,7%	-73,9%
Plastic parts for packaging	R856,60	5,0%	404,1%
Frozen fish, excluding fish fillets	R539,50	3,2%	42,9%
Animal feed	R530,60	3,1%	43,5%
Fish fillets	R513,90	3,0%	-15,3%
Antiques	R472,50	2,8%	69,2%
Beauty or make-up	R452,10	2,6%	4,1%
Enzymes	R362,50	2,1%	1 104,4%
Total from ALL products	**R17 116,70**	**100,0%**	**-25,4%**

Source: Quantec, own calculations, September 2020.
Note: Only the top 10 exports at an HS4 level are shown in the table above.

COMMERCIAL ELECTRICITY USAGE

Electricity is an important driver of economic activity as it is a key input in most production processes. This is especially true in economies with greater proportions of secondary and tertiary sector activities, such as those of South Africa and Cape Town. Consumption of electricity by large power users (LPUs), small power users (SPUs), and time of use (TOU) customers is therefore a good indicator of production levels in the manufacturing sector. According to data collected by the City from a representative sample of LPUs, SPUs, and TOU customers, the introduction of the nationwide lockdown towards the end of March 2020 led to a sharp decline in electricity consumption in April 2020. However, the easing of stringent lockdown restrictions, as the country moved to lockdown level 4 on 1 May 2020, resulted in an upswing in electricity consumption. This is illustrated in Figure 13, which shows commercial electricity usage from January 2019 to July 2020.

FIGURE 13: CAPE TOWN'S COMMERCIAL ELECTRICITY USAGE, JANUARY 2019 TO JULY 2020

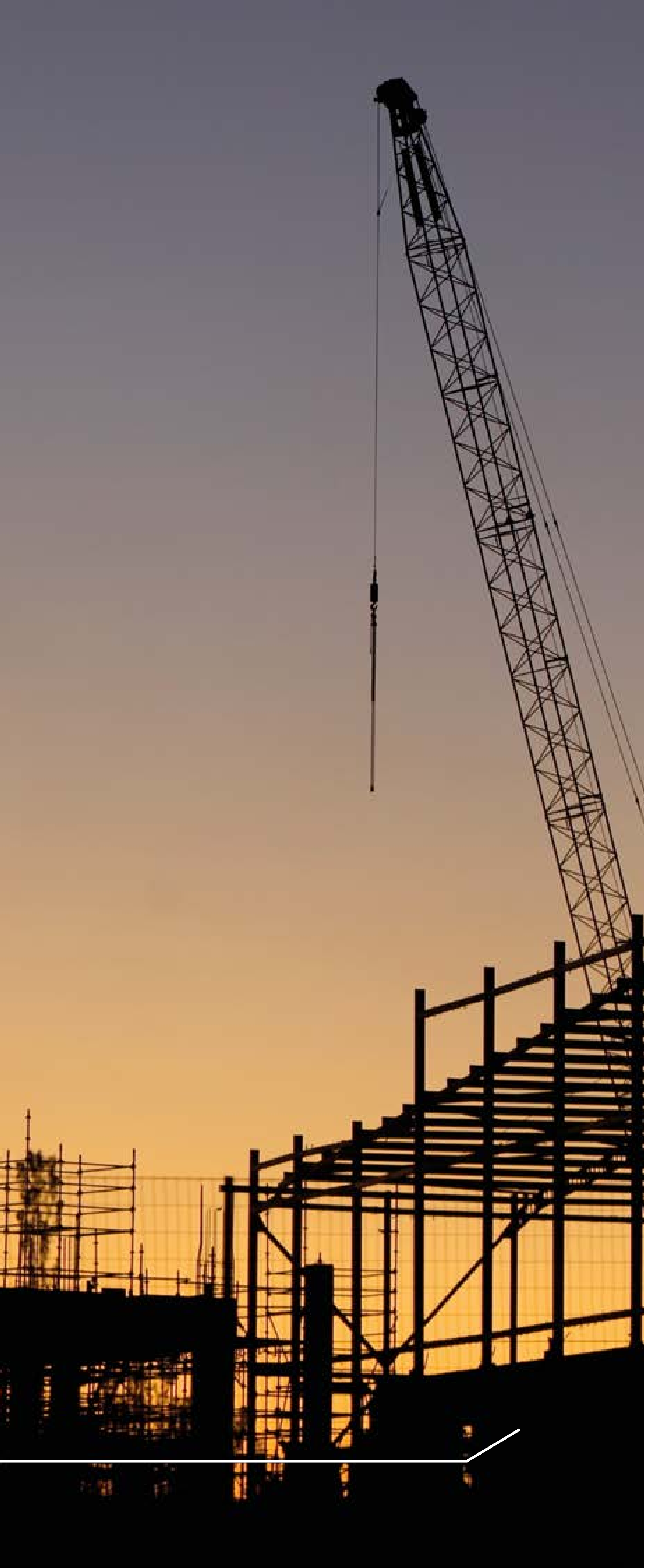


Source: Electricity Generation & Distribution, CCT, September 2020.
Note: March and April 2020 have been shaded above to highlight lockdown impacts.

Daily average consumption of electricity by LPUs, SPUs, and TOU customers from May to July 2020 was generally lower than in the corresponding period in 2019. However, month-on-month consumption trended upwards over that time period. In May 2020, electricity consumption by LPUs, SPUs, and TOU customers increased by 10,0%, 18,3% and 17,0% respectively. With the country moving to lockdown level 4 in May, more manufacturing industries were able to resume operations, contributing to increased demand for electricity.

While commercial electricity usage continued to increase in June and July 2020, this was at a decreasing rate, despite the further easing of lockdown restrictions as the country progressed to lockdown level 3 on 1 June 2020. Electricity consumption by LPUs, SPUs, and TOU customers grew by 7,4%, 14,1% and 12,2% respectively in June 2020. Increases in commercial electricity consumption were significantly lower in July, going up by only 1,0%, 3,3% and 3,9% for LPUs, SPUs, and TOU customers respectively. This can mostly be attributed to the return of widespread load-shedding during this time, which constrained production in the manufacturing sector. Notwithstanding load-shedding, commercial electricity usage increased on a month-to-month basis in the second quarter of 2020, potentially signifying that manufacturing sector output is beginning to rebound.

07



ADDITIONAL INDICATORS

In addition to macro-economic indicators, administrative data reveal 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.

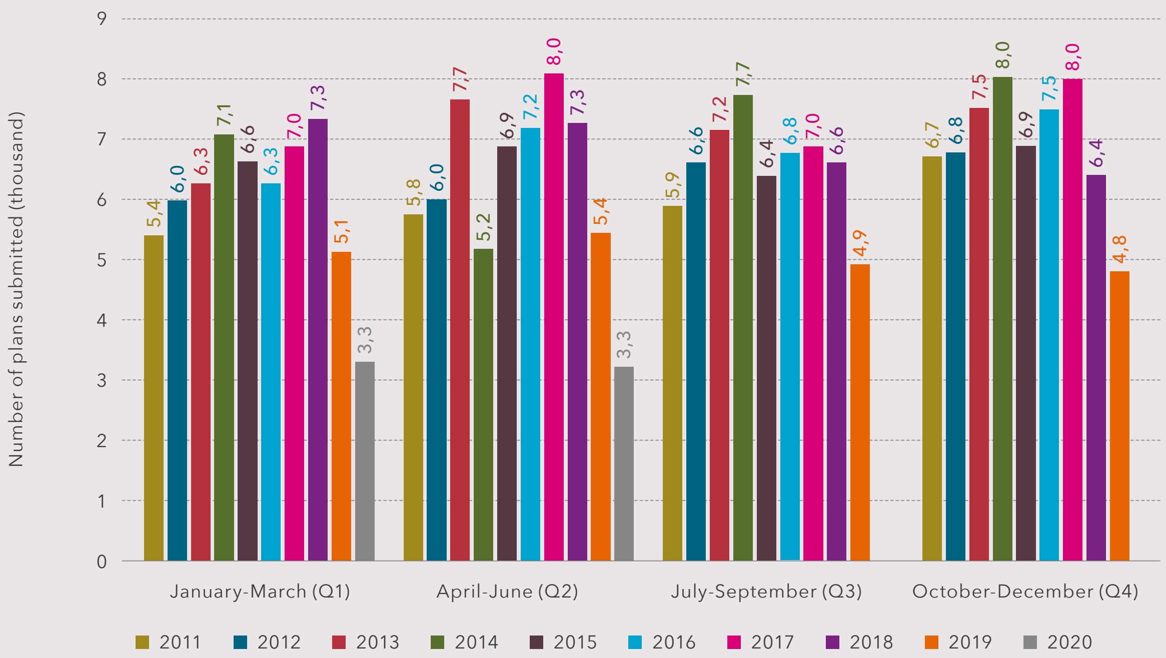
BUILDING DEVELOPMENTS

The economic growth data for the second quarter of 2020 show that national output in the construction industry declined by 76,6% quarter-on-quarter. This was the sector's eighth consecutive quarter of negative growth, the magnitude of which is attributed to the nationwide lockdown, which brought the industry to a near standstill for this period. On a year-on-year basis, the sector recorded its 13th consecutive contraction (down 33,5%). The Western Cape's construction industry mirrored these national trends, contracting by 77,0% quarter-on-quarter and 34,3% year-on-year in the second quarter of 2020 (Quantec, 2020).

The First National Bank (FNB)/BER Building Confidence Index[9] once again reached an all-time low of four index points in the second quarter of 2020, a decline of nine points from the previous quarter (BER, 2020d). These weak figures were expected given the nationwide lockdown, but sentiments are also expected to remain low going forward.

A total of 3 225 building plans were submitted to the City for approval in the second quarter of 2020, which is a marginal decrease of 2,4% from the previous quarter. Figure 14 provides an annual comparison of the number of building plans submitted in each of the quarters over the past 10 years. This allows for seasonal volatility when analysing the long-term trends in the building and construction industry. Year-on-year building plan submissions decreased by 40,8% in the second quarter of 2020, which represents a continuation of the declining annual trend. This reflects the current lack of confidence in the industry and mirrors the findings of the FNB/BER Civil Confidence Index,[10] which declined to an all-time low of five index points, with already unfavourable industry conditions exacerbated by the lockdown (BER, 2020e).

FIGURE 14: BUILDING PLANS SUBMITTED TO THE CITY OF CAPE TOWN, 2011 Q1 TO 2020 Q2



Source: Planning & Building Development Management Department, CCT, September 2020.

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

[10] *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.*

NEW VEHICLE SALES

Total vehicle market sales in the Western Cape decreased from 11 978 in the first quarter of 2020 to 4 702 in the second quarter of 2020. On a year-on-year basis, vehicle sales experienced a decrease of 64,2% (8 439 units) from 13 141 vehicles sold in the same period of 2019.

Passenger vehicle sales in the Western Cape, which represent the private consumer segment of the market, decreased from 8 310 in the first quarter of 2019 to 3 129 in the second quarter of 2020. The year-on-year results also showed a decrease of 63,9% (5 529 units) compared to the 8 658 vehicles sold in the second quarter of 2019. At a national level, a year-on-year decrease of 65,0% (50 677 units) was observed in total vehicle sales, while passenger vehicles sold decreased from 77 937 units in the second quarter of 2019 to 27 260 units in the second quarter of 2020.

As the data illustrate, the local automotive market has seen a dramatic, but anticipated, decline in the second quarter of 2020, as consumers and car dealers faced a severely constrained economic environment. The lockdown period, in particular, resulted in operations at factories and dealerships being halted in April, with only vehicle support service for essential services providers remaining operational. Lockdown regulations eased in May with the implementation of level 3, which made provision for vehicle manufacturing to operate at 50% of normal production. This led to an immediate, albeit gradual, increase in sales in new vehicles compared to previous months. This trend eventually spilled over to June, the first month of full operation following the hard lockdown restrictions (BusinessTech, 2020).

As the world economy recovers from the effects of the Covid-19 pandemic, consumers and the business community remain unsatisfied with prevailing economic conditions in South Africa. Consumer confidence continued to fall as households cut spending on durable goods, such as vehicles, due to increasing financial strain. At the same time, business confidence deteriorated, with motor trade confidence levels recording just two index points in the second quarter of 2020 (RMB, 2020).

Furthermore, TransUnion's Vehicle Pricing Index (VPI) revealed that local consumers are increasingly switching to used cars due to the increased pressure on disposable income (Reddy, 2020). As Covid-19 continues to impact the already-weak domestic economic landscape, NAAMSA noted that the outlook for the local vehicle market is likely to remain under pressure for some time, as the projected drop in new vehicle sales is significant (Woosey, 2020). On the positive side, WesBank revealed that there were high levels of demand for cars in June, compared to late last year, and this may be attributable to the uptake of fixed rate deals due to the historically low interest rates (Woosey, 2020). Despite this, analysts believe consumers are likely to delay their purchase decisions until there is more certainty on the Covid-19 pandemic and its economic implications (Woosey, 2020).

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ABBREVIATIONS

BER	Bureau for Economic Research
BPO	Business Process Outsourcing
CCT/City	City of Cape Town
CPI	consumer price index
CT	Cape Town
EPIC	Economic Performance Indicators for Cape Town
FNB	First National Bank
GDP	gross domestic product
GDP-R	regional gross domestic product
GGP	gross geographic product
GVA	gross value added
IMF	International Monetary Fund
LPU	large power user
MPC	Monetary Policy Committee
NAAMSA	National Association of Automobile Manufacturers of South Africa
PMI	Purchasing Manager's Index
PPI	producer price index
PwC	PriceWaterhouse Cooper
QLFS	Quarterly Labour Force Survey
SA	South Africa
SARB	South African Reserve Bank
SMME	small, medium and micro enterprises
SPU	small power user
TEU	twenty-foot equivalent unit
TNPA	Transnet National Ports Authority
TOU	time of use
USD	United States dollar
WC	Western Cape
ZAR	South African rand

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