CITY OF CAPE TOWN
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STAD KAAPSTAD

EPIC

Economic Performance Indicators for Cape Town

2018: Quarter 2 (April - June)

Making progress possible. Together.

Introduction

This is the 21st 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 2018, covering the period 1 April to 30 June 2018.

Rationale for a quarterly economic publication

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

Acknowledgements

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CAPE TOWN OVERVIEW – 2018 Q2

Of **South Africa's R3 130 909 million gross domestic product** (GDP) generated in the second quarter of 2018, the **Western Cape** accounted for **R430 642 million**. 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.[a]

During the second quarter of 2018, the **Western Cape** had a quarter-on-quarter **GDP growth rate** of **-2,3%**, compared to a **national** growth rate of **-0,7%**.[b]

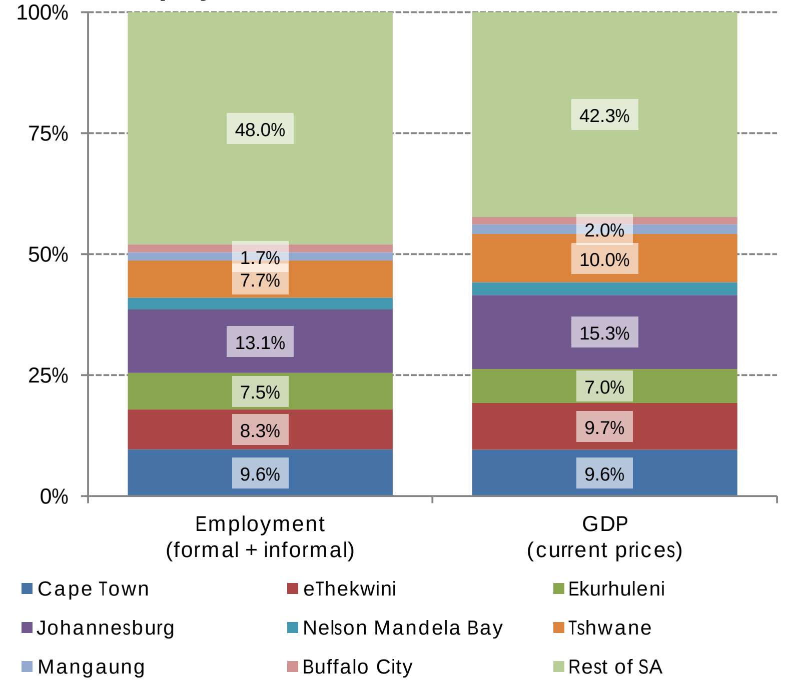
In 2017, **South Africa** had a **GDP per capita**, of **R88 262**, while the **Western Cape's** GDP per capita was **R97 983** and **Cape Town's** was **R106 839**.[c]

At the end of the second quarter of 2018, **South Africa** had a lower **rate of inflation of 4,6%**, than the **Western Cape** which had a rate of **5,4%**.[d]

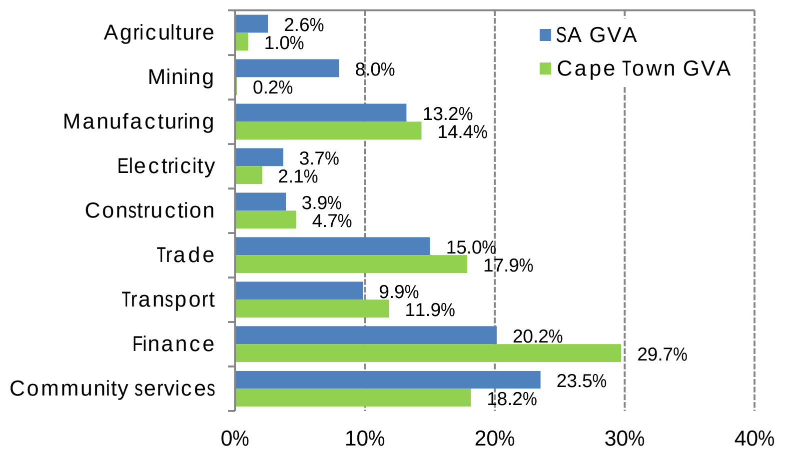
South Africa has **56 521 948** people: **6 510 312** (11,4%) live in the **Western Cape** and, of those, **4 174 510** are resident in **Cape Town**.[g]

In 2017 **South Africa** had a **Gini coefficient** of **0,63**, while **Cape Town** had a slightly lower value of **0,61**.[h]

Cape Town gross geographic product & employment contributions to SA, 2017[e]



Cape Town gross value added (GVA) versus national GVA, 2017[f]



In the second quarter of 2018, tourists and residents made **5 580 961** visits to **Cape Town's five major attractions**.[i]

Of the **8 918 395 passenger movements** through **South Africa's three international airports**[j] during the second quarter of 2018, **2 407 252** were through **Cape Town International Airport**.[k]

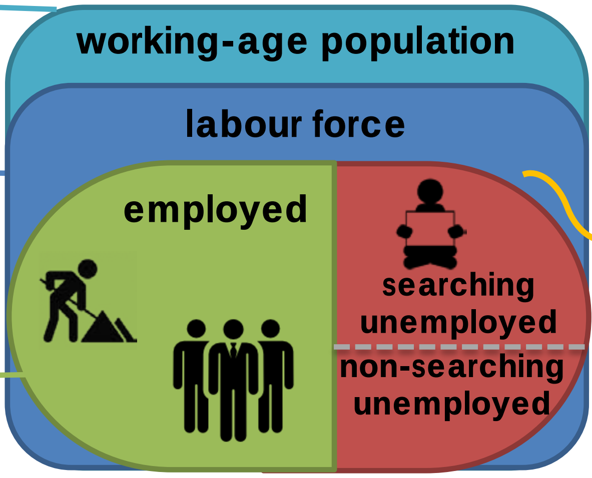
a,b. At constant 2010 prices. *Source: Quantec, 2018.*
c,f. At current prices. *Source: IHS Markit, 2018.*
d, g. *Source: Statistics South Africa (StatsSA), 2018.*
e. GGP at current prices. *Source: IHS Markit, 2018.*
h. *Source: IHS Markit, 2018.*
i. *Source: Cape Town Tourism and Wesgro, 2018.*
j. Cape Town, OR Tambo and King Shaka.
k. *Source: ACSA, 2018.*

LABOUR OVERVIEW – 2018 Q2

The **Working-Age Population** is all persons aged **15-64** years old.

The **Labour Force** comprises all persons who are **employed** plus **unemployed**.

The **Employed** are those who, during a reference week, did any **work** for at least 1 hour or had a **job or business** (even if temporarily absent).



The **Strictly Unemployed** includes only people who are actively seeking work (i.e. '**searching unemployed**').

The **Broadly Unemployed** includes the 'searching unemployed' as well as 'discouraged' and 'other non-searching' job seekers.

A '**discouraged job seeker**' is a person who was not employed during the reference period, was available, but did not take active steps to find work during the last 4 weeks.

		South Africa					Cape Town				
		Recorded	Q-on-Q		Y-on-Y		Recorded	Q-on-Q		Y-on-Y	
Number (thousands, '000's)	Working-age population	37 832	↑	154	↑	615	2 898	↑	14	↑	56
	Labour Force	22 370	↑	12	↑	94	2 038	↓	-10	↑	59
	Employed: total	16 288	↓	-90	↑	188	1 604	↑	15	↑	74
	Employed: Formal sector	11 320	↓	-35	↑	127	1 299	↑	12	↑	50
	Employed: Informal sector	2 828	↓	-73	↑	68	184	↓	-5	↑	12
	Unemployed	6 083	↑	102	↓	-94	434	↓	-26	↓	-14
	Not economically active	15 462	↑	141	↑	521	860	↑	24	↓	-4
	Discouraged work-seekers	2 864	↑	77	↑	503	14	–	0	↓	-3
	Other not economically active	12 598	↑	65	↑	17	846	↑	25	–	0
Rate (percentage, %)	Official/strict unemployment	27,2	↑	0,5	↓	-0,5	21,3	↑	-1,1	↑	-1,4
	Broad/expanded Unemployment	37,2	↑	0,5	↑	0,6	22,6	↑	-1,2	↑	-1,6
	Absorption	43,1	↓	-0,4	↓	-0,2	55,4	↑	0,3	↑	1,5
	Labour Force Participation	59,1	↓	-0,2	↓	-0,8	70,3	↓	-0,7	↑	0,7
↑ increase		↓ decrease	improvement		deterioration		– No change (due to rounding)				

Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 2, July 2018.

Note:
- A 'quarter-on-quarter' comparison is between the current quarter and the previous quarter (for example: Quarter 2, 2018 versus Quarter 1, 2018).
- A 'year-on-year' comparison is between the same quarters in two consecutive years (for example: Quarter 2, 2018 versus Quarter 2, 2017).

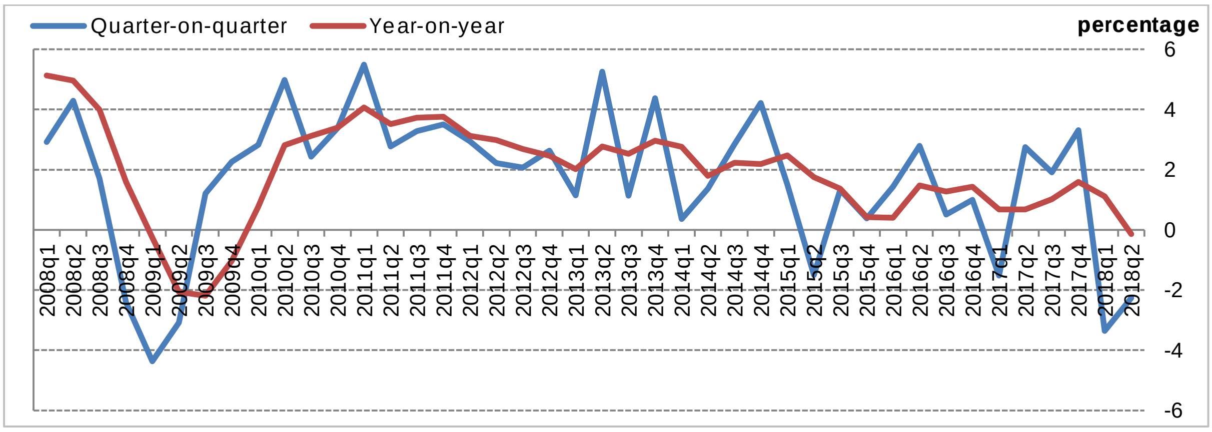
1. Economic Growth

a. Quarter-on-quarter GDP-R growth rate

The Western Cape economy contributes around 14% of South Africa's gross domestic product (GDP) (IHS Markit, 2018). The province's economic performance is strongly related to the country's economic performance and, in line with the contraction of the national economy (by 0,7%) in the second quarter, the Western Cape economy contracted by 2,3%, despite improving on the previous quarter's growth rate of -3,4%[1]. This meant that the province had entered a technical recession (two consecutive quarters of negative quarter-on-quarter economic growth). As with growth at a national level, the weak economic performance in the second quarter was driven by the agricultural sector[2] which contracted by -50,2% quarter-on-quarter. The agricultural sector's substantial contraction can be attributed to the impact that the drought has had on agricultural production in the province (BER, 2018a). As Figure 1 shows, on a year-on-year basis, the province's economy contracted by 0,1%, a decline from the previous quarter's positive year-on-year growth rate of 1,1%.

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, 2018). On average, in the last 10 years, the variation of the city's 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 2018, a plausible range for Cape Town's quarter-on-quarter economic growth is between -2,1% and -2,5%. However, the agricultural sector-driven nature of the economic contraction in the second quarter, means that this growth range may not be applicable for Cape Town in this particular quarter – this is discussed further toward the end of the chapter.

Figure 1: Real GGP growth for the Western Cape, Quarter 1, 2008 to Quarter 2, 2018



Source: Quantec, September 2018.

b. Sectoral drivers of economic growth in the Western Cape

The Western Cape economy's weak performance in the second quarter of 2018 is reflected across most of its sectors. The most prominent contributors to the Western Cape's total gross

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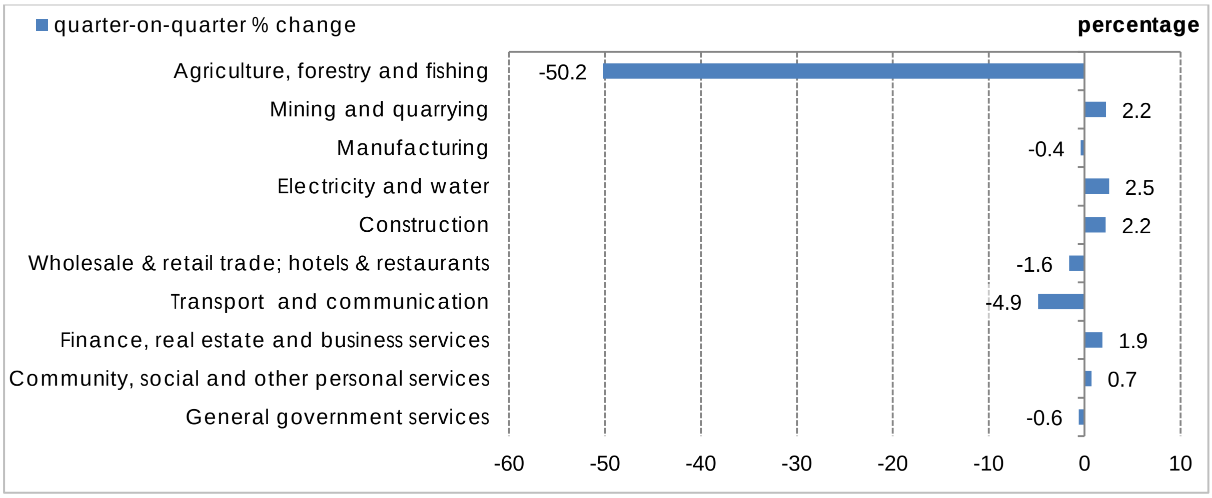
[1] Quarterly GDP growth for the first quarter of 2018 has been revised from -2,8% to -3,4% (Quantec, 2018).

[2] Quarterly GDP growth for the agricultural sector for the first quarter of 2018 has been revised from -42,5% to -48,8% (Quantec, 2018).

value added (GVA) in the second quarter of 2018 were the finance (31,3%), trade (16,0%) and manufacturing (14,9%) sectors (Quantec, 2018). Of these, only the finance sector contributed positively to the province's quarterly economic growth rate, contributing 0,57 of a percentage point. The agricultural sector, despite constituting a relatively small share of the Western Cape's total GVA (3,2%), was the largest negative contributor to growth in the second quarter, reducing growth by 2,38 percentage points alone. The next largest reductions in economic growth came from the transport and trade sectors which reduced growth by -0,51 and -0,26 of a percentage point, respectively.

The scale of the decline in the agricultural sector in the Western Cape (-50,2%) - following a large contraction in the previous quarter - points to the severe cumulative impact that years of below average rainfall have had on agricultural production. The transport sector experienced the next largest contraction (-4,9%), likely a result of the nearly four week long national bus strike experienced during the second quarter (Khumalo and Bell, 2018). Weak consumer confidence levels were reflected in the performance of the trade sector, which contributes 16,0% to the Western Cape's GDP-R, and recorded a negative growth rate of -1,6% in the second quarter of 2018 – albeit an improvement of 1,3 percentage points from the previous quarter. The growth performance of the manufacturing sector, while also improving on the first quarter's results, remained negative (-0,4%) in the second quarter. Encouragingly however, the Western Cape's largest sector, the finance and business services sector, improved on the previous quarter's performance to grow at 1,9% in the second quarter, while relatively strong growth rates were also recorded in the water and electricity, mining and quarrying and construction sectors.

Figure 2: Sectoral real GDP-R growth rates in the Western Cape, Quarter 2, 2018



Source: Quantec, September 2018.

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, 72% of its wholesale and retail trade, 68% of its manufacturing, and 62% of its construction sectors (IHS Markit, 2018). 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 2018.

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 19% (IHS Markit, 2018). 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 2018 would have been driven by the performance of the finance, trade, manufacturing and transport sectors, which comprise 30%, 18%, 14% and 12% of the city's economy, respectively. Given that it was the agricultural sector that weighed so heavily on economic growth at a provincial level in the second quarter, there is strong reason to believe that Cape Town would not have performed as poorly as the provincial economy during this period.

2. 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.

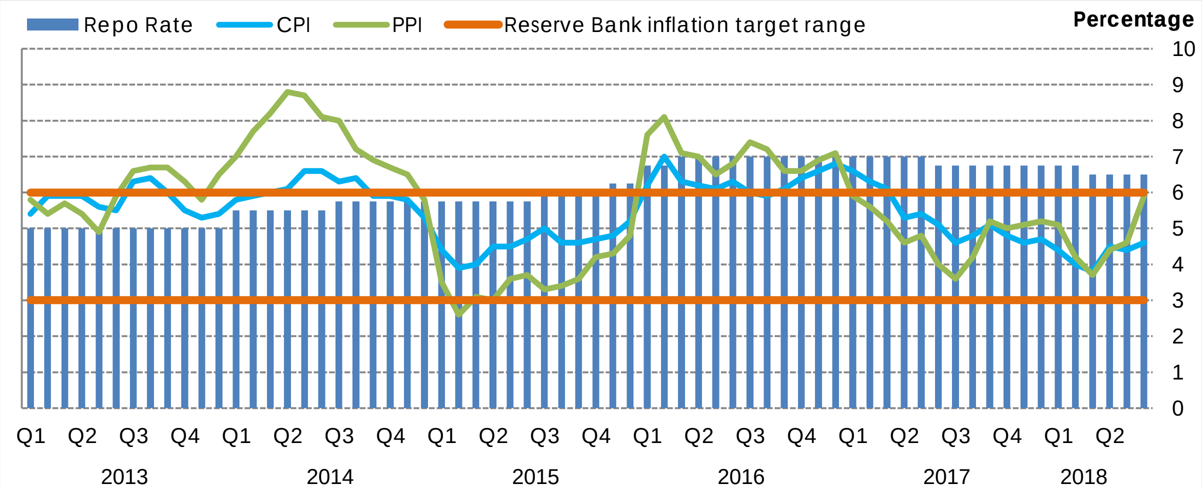
a. Inflation overview

In the second quarter of 2018, the CPI increased in comparison to the first quarter of 2018. As illustrated in Figure 3, the CPI recording for April was 4,5%, decreasing slightly to 4,4% in May and increasing to 4,6% in June 2018. Although headline inflation increased compared to the end of first quarter, it remained significantly below the upper inflation target range. According to the Monetary Policy Committee (MPC) statement of May 2018 (South African Reserve Bank [SARB], 2018), the increase recorded for April was largely driven by the 1 percentage point increase in value added tax (VAT) and other levies.

Similar to the movement of CPI, the PPI increased when compared to the end of the first quarter of 2018. Since reaching a low of 3,7% in March 2018, the PPI increased throughout the second quarter of 2018 recording a rate of 4,4% in April, slightly increasing to 4,6% in May and further increasing to 5,9% in June. The main inflationary contributors to the PPI throughout the second quarter of 2018 (in terms of final manufactured products) were the prices of coke, petroleum, chemical, rubber and plastic products; transport equipment, as well as food products, beverages and tobacco products. The significant rise in PPI, to almost 6% in June, is attributed to fuel price pressures, evidenced by the petroleum category adding 3,1 percentage points to the PPI figure for June 2018 (Bisseker, 2018). While CPI increased throughout the second quarter of 2018, it still remained below its recordings during the same period in 2017. In contrast to CPI, the PPI recorded a higher inflation rate in June 2018 as compared to the same period in 2017. The two rates also remained well within the Reserve Bank inflation target range of 3-6% over the last 12 months (July 2017 to June 2018).

Figure 3 illustrates changes in the repurchase rate (repo rate). As indicated in the graph, the repo rate was reduced in March 2018 and remained unchanged (at 6,5%) throughout the second quarter. According to the MPC statement of May 2018 (SARB, 2018), the MPC decided to keep the repo rate unchanged as inflation still remains below the upper end of the target range and the inflation outlook remains positive. Furthermore, in terms of the latter, the Reuters Econometer's expectation is for inflation to average 4,9% in 2018 and 5,3% in 2019, both within the inflation target range. The MPC did, however, caution that it will be closely monitoring the second-round effects of the increased VAT rate, the volatility of the rand exchange rate, persistent increases in international oil prices and employment trends.

Figure 3: CPI and PPI trends for South Africa, January 2013 to June 2018

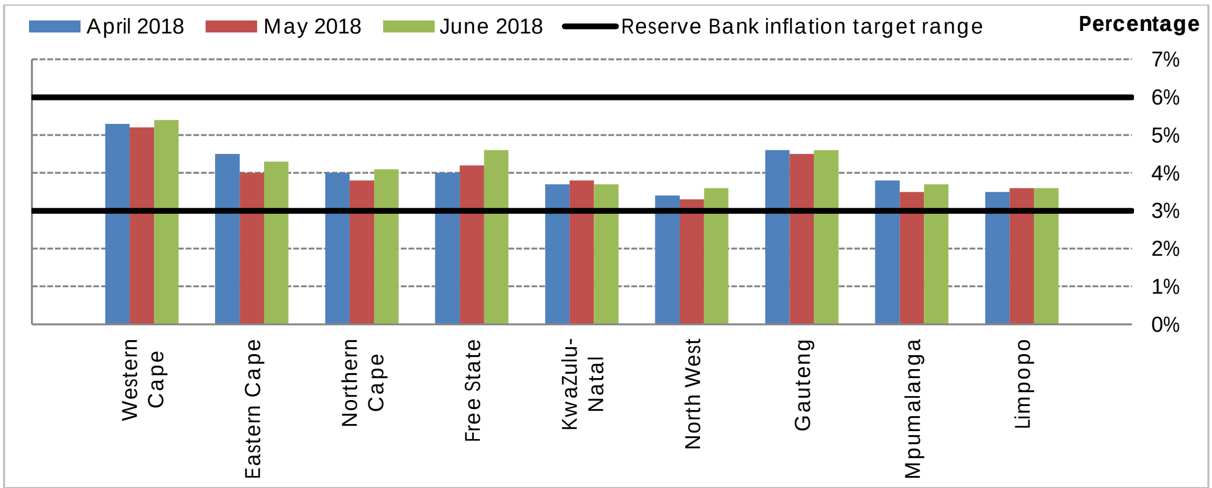


Source: CPI and PPI extracted from Statistics South Africa, 2018, and repurchase rate extracted from SARB, 2018.

b. Geographical inflation

The Western Cape recorded an inflation rate of 5,4% at the end of the second quarter of 2018. This was higher than the provincial inflation rate at the end of the first quarter of 2018, which was 4,4%. Although remaining within the inflation target range at the end of the quarter, the provincial inflation rate remained higher than the national rate of 4,6%. Figure 4 illustrates inflation rates recorded in the second quarter of 2018 across all nine provinces in the country. In comparison to the end of the first quarter of 2018, all nine provinces recorded an increase in inflation rates by the end of the second quarter of 2018. The Western Cape recorded the highest inflation rate throughout the second quarter with an average of 5,3%, followed by Gauteng (4,6%), and the Eastern Cape and Free State at 4,3%, whilst the North West recorded the lowest average inflation rate (3,6%) across the three months in the second quarter of 2018.

Figure 4: CPI inflation rate at a provincial level, April to June 2018



Source: Statistics South Africa, June 2018.

Food price inflation in the Western Cape was 3,8% in June 2018 (decreasing slightly from 3,9% in May 2018), whilst nationally it was 2,4% in June 2018 (unchanged from the 2,4% in May 2018). The disparity between food price inflation at a provincial and national level was the main cause of the overall higher inflation rate for the Western Cape in the second quarter. Higher food price inflation in the Western Cape may be as a result of the increasing pressure that declining agricultural output is having on the retail price of food products in the province. Water and other services'[3] price inflation in the Western Cape was 8,8% in June 2018 (decreasing slightly from 8,9% in May 2018), higher than the 7% at a national level. Private transport fuel price inflation in the Western Cape was 16,4% in June 2018 (increasing from 9,3% in May 2018). This was a large increase compared to the March figure of 2,9%. Fuel prices persistently increased throughout the second quarter, recording a cumulative increase of R2 per litre during this period (Automobile Association of South Africa, 2018). The MPC noted the impact of increasing international oil prices, which peaked at 79,80 USD per barrel in May 2018 (since 2014), as well as the depreciating rand (SARB, 2018). The increase in the private transport fuel price inflation in the Western Cape was on par with the increase in this category at a national level - 16,3% in June (increasing from 9,4% in May 2018). Electricity and other fuels' price inflation recorded 4% in the Western Cape and 3% nationally in June 2018.

3. 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 reflected on in this section.

a. Cape Town's labour market performance

In the second quarter of 2018, Cape Town's working age population (2,9 million) increased on both a quarter-on-quarter and year-on-year basis. The labour force decreased by 10 000 on a quarter-on-quarter basis but increased by 59 000 on a year-on-year basis to a total of 2 million individuals in the second quarter of 2018. Employment in the second quarter of 2018 increased on both a quarter-on-quarter (15 000) and year-on-year (74 000) basis to record 1,6 million individuals. Encouragingly, this is the eighth consecutive quarter of positive employment growth. The proportionally larger increase in employment than in the working-age population in the second quarter of 2018, meant that the labour absorption rate increased to 55,4% from 55,1% in the first quarter of 2018. The labour force participation rate declined by 0,7 of a percentage point to 70,3% in the second quarter of 2018.

b. Employment comparison of metros

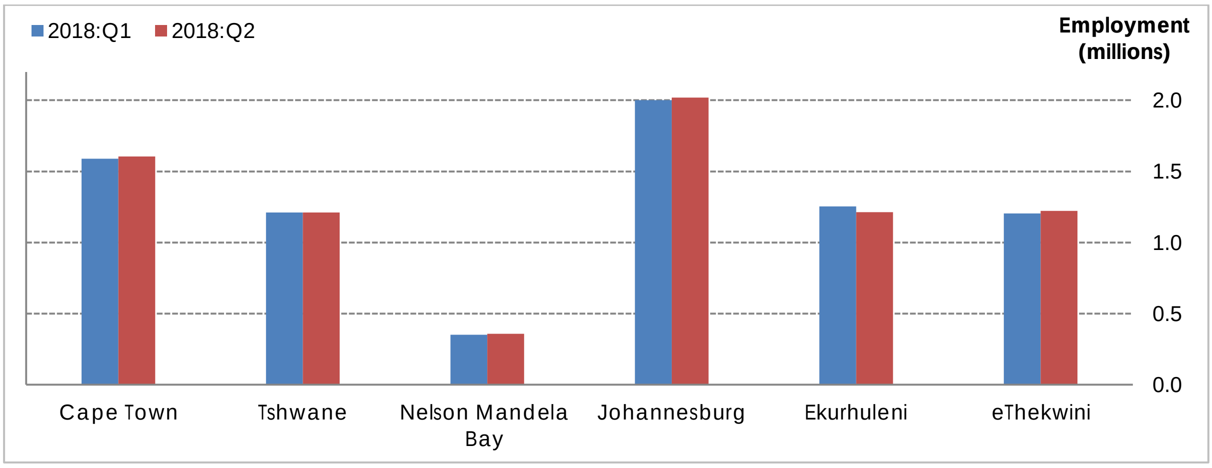
To measure Cape Town's job creation performance, a comparison with other metropolitan municipalities (metros) in the country is helpful. In the second quarter of 2018, Cape Town had the second largest number of employed people, with 1,6 million people employed in the city, second only to Johannesburg where 2 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 2018, the majority of the metros displayed positive quarter-on-quarter and year-on-year growth. Ekurhuleni and

[3] As defined by Statistics South Africa, this category includes water supply, rates, taxes and levies (Statistics South Africa, 2017).

Tshwane were the only metros to have experienced decreasing employment growth on both a quarter-on-quarter and year-on-year comparison. Ekurhuleni (with a reduction of employment of 39 766) shed the most jobs when compared to the previous quarter, whilst Tshwane (with a year-on-year reduction of employment of 46 166) shed the most jobs when compared to the second quarter of 2017. On a quarter-on-quarter basis, Johannesburg (with an employment increase of 19 133) added the most jobs, with eThekwini (with an employment increase of 17 401) and Cape Town (with an employment increase of 15 120) following closely.

Figure 5: Employment comparison with other metros, Quarter 1 2018 versus Quarter 2, 2018



Source: Statistics South Africa, Quarter Labour Force Survey, 2018 Quarter 2, June 2018.

c. Unemployment in Cape Town

Cape Town experienced a decrease in the number of unemployed people on both a quarter-on-quarter and year-on-year basis by 25 564 and 14 435 individuals, respectively in the second quarter of 2018. This resulted in the strict unemployment rate decreasing by 1,1 percentage points, on a quarter-on-quarter basis, to 21,3%. The youth unemployment rate in Cape Town, defined as the strict unemployment rate for individuals aged 15 to 24, was estimated at 49,4% in the second quarter of 2018, having increased from 45,4% in the previous quarter, and having increased from 48,5% in the second quarter of 2017. While this is below the national rate of 53,7%, 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). eThekwini, Cape Town, Johannesburg and Nelson Mandela Bay experienced decreases in both their strict and expanded unemployment rates in the second quarter of 2018, whilst Ekurhuleni and Tshwane were the only metros to experience increases in both their strict and expanded unemployment rates. Nelson Mandela Bay had the highest strict unemployment rate (35%), while eThekwini had the lowest strict unemployment rate (19,3%). On the other hand, Ekurhuleni had the highest expanded unemployment rate (37,4%) and Cape Town had the lowest expanded unemployment of 22,6%. 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 0,11 of a percentage point difference between the two rates of unemployment, whereas eThekwini recorded a 7,96 percentage points difference. Cape Town continues to record relatively low differences between the two rates of unemployment, remaining below 2 percentage points for the past five quarters. 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).

Table 1: Official (strict) versus expanded (broad) unemployment rates

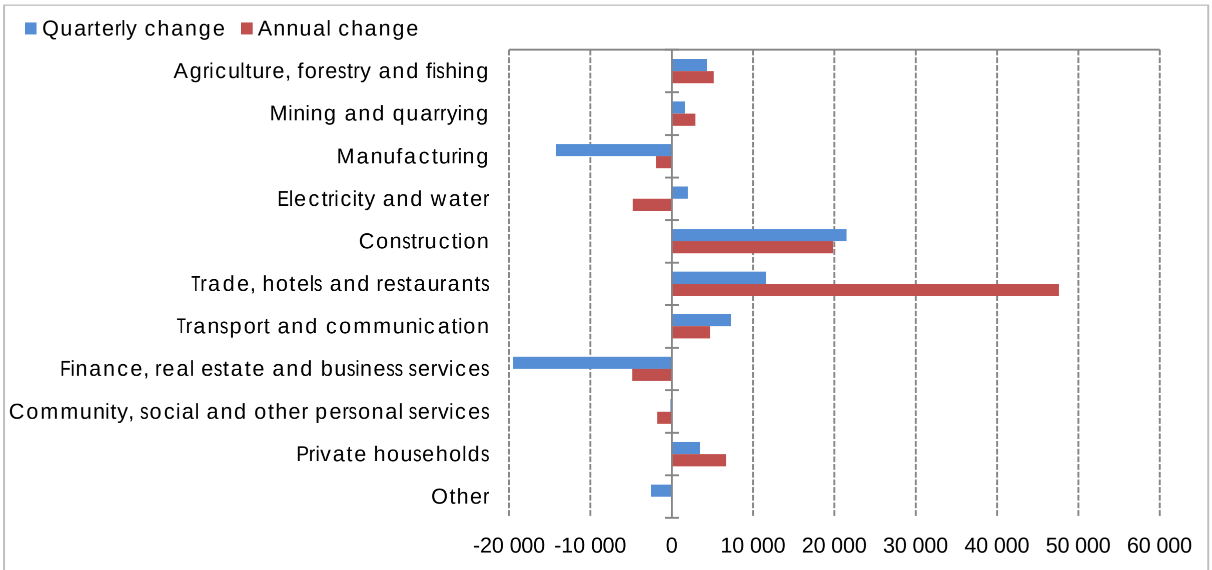
Metro	Official (strict)			Expanded (broad)		
	2018: Q2	2018: Q1	2017: Q2	2018: Q2	2018: Q1	2017: Q2
Cape Town	21,3	22,4	22,7	22,6	23,8	24,2
eThekwini	19,3	20,3	21,8	27,2	27,4	29,3
Ekurhuleni	33,4	30,9	31,2	37,4	34,9	34,4
Johannesburg	28,5	28,8	30,1	30,8	31,4	31,8
Nelson Mandela Bay	35,0	36,3	34,5	35,2	36,4	35,4
Tshwane	28,7	26,0	27,2	34,8	33,5	30,5

Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 2, June 2018.

d. Sector employment trends for Cape Town

Figure 6 presents the change in the level of employment by sector within Cape Town in the second quarter of 2018. Seven sectors made a positive contribution to employment when compared to the previous quarter, with the highest contributions recorded in the construction (21 490), trade, hotels and restaurants (11 563) as well as transport and communication (7 266) sectors. Agriculture, forestry and fishing (4 311), private households (3 445) and mining and quarrying (1 625) were more modest contributors to employment. The main job-shedding sectors in Cape Town in the second quarter of 2018, as compared to the previous quarter, were finance, real estate and business services (-19 509) as well as manufacturing (-14 272).

Figure 6: Quarterly and annual change in employment per sector for Cape Town, Quarter 2, 2018



Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 2, June 2018.

On a year-on-year basis six sectors added to employment growth whereas four sectors recorded employment losses when compared to the second quarter of 2017. All sectors displayed similar growth trends compared to their quarter-on-quarter growth performance, with the exception of the electricity and water sector, where a quarter-on-quarter increase was contrasted against a year-on-year decrease in employment. The trade, hotels and restaurants (47 613) as well as construction (19 855) sectors made the largest contribution to employment. Further positive contributions were recorded within private households (6 689), agriculture, forestry and fishing (5 159) as well as transport and communication (2 926) sectors. Discouragingly, the finance, real estate and business service sector (-4 846) recorded the largest employment loss with the electricity and water sector (-4 825) following closely. Manufacturing (-1 937) as well as community, social and other personal services (-1 770) sectors also displayed negative employment growth.

4. 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, as well as in terms of water production and consumption, in light of the drought the Western Cape is facing.

a. Container handling

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 213 090 in the second quarter of 2017 to 219 537 in the second quarter of 2018, reflecting a growth rate of 3% on a year-on-year basis. In the second quarter of 2018, the Port of Durban[4] was once again the largest container handling port in the country (comprising 61% of all containers handled in South Africa), followed by the Port of Cape Town (18%) and the Port of Ngqura[5] (15%). While the Port of Cape Town, on average, handled more containers in the second quarter than the Port of Ngqura, the latter port handled more containers in April. Despite Cape Town maintaining its position as the second-largest container handling port on a quarterly basis, capacity constraints experienced at the Port of Cape Town may impact on this positioning in the short term. However, Transnet has approved plans for a multibillion-rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium-term.

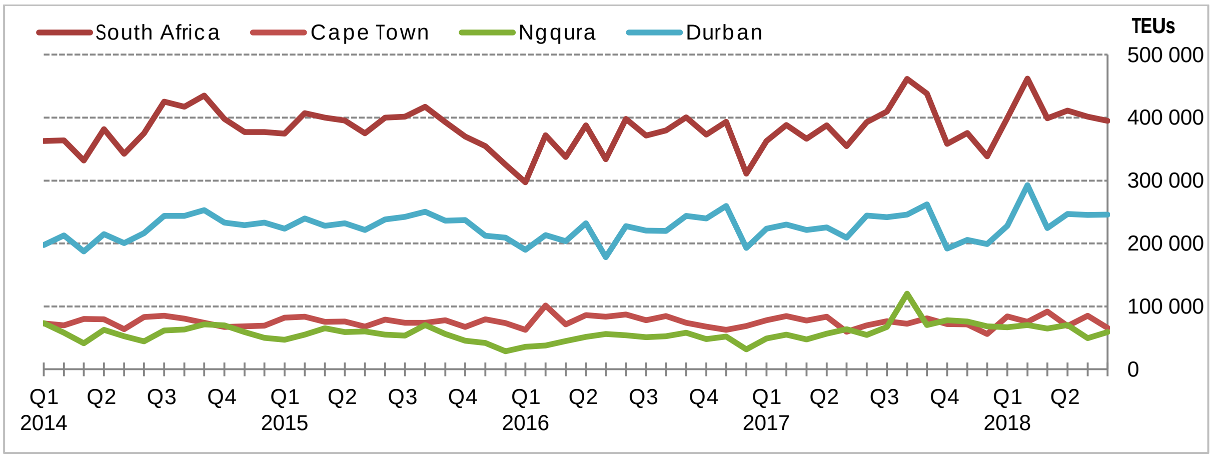
The Port of Durban maintained its top position amongst the key container handling ports in South Africa (handling 738 158 twenty-foot equivalent units (TEUs)[6]) in the second quarter of 2018) and recorded an increase in container handling of 59 308 (8,7%) in the second quarter of 2018, in comparison to the same period in 2017. Increased container handling by the aforementioned three ports contributed towards total container handling, at a national scale, increasing by 6,4% year-on-year in the second quarter of 2018.

[4] The Port of Durban is located in eThekwini metropolitan municipality.

[5] The Port of Ngqura is located in the Nelson Mandela Bay metropolitan municipality.

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

Figure 7: Total containers handled (TEUs), January 2014 to June 2018



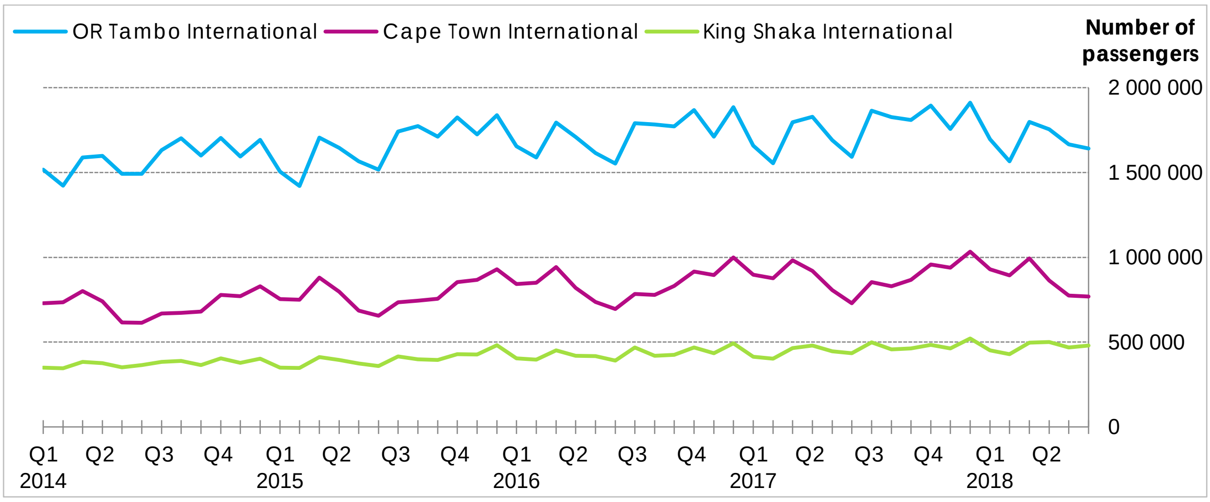
Source: Transnet National Ports Authority, August 2018.

b. Airport statistics

Cape Town International Airport is South Africa's second-busiest airport, after OR Tambo International Airport in Johannesburg. It recorded 2,41 million total passenger movements in the second quarter of 2018 compared to 5,06 million passenger movements at OR Tambo International and 1,45 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the second quarter of 2018 was 2,0% lower than in the second quarter of 2017, when 2,46 million passenger movements were recorded. OR Tambo International also observed a negative year-on-year growth rate (-0,99%) in passenger movements when compared to the same period in 2017. In contrast, King Shaka International Airport saw a year-on-year increase of 6,67% in passenger arrivals. At the start of the second quarter of 2018, King Shaka International managed to exceed the 500 000 passenger movement mark again after surpassing it for the first time in December 2018. However, passenger movements at the airport dropped below the 500 000 mark for the remainder of the quarter.

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 in the fourth quarter with the onset of summer. In the second quarter of 2018, Cape Town International's total passenger arrivals decreased by -14,96% when compared to the first quarter of 2018. However, on a year-on-year basis (which controls for seasonal effects) total passenger arrivals at Cape Town International decreased by only -1,15%, while international arrivals increased by 7,85%. The relatively strong performance of international arrivals at a time when total arrivals were declining – likely as a result of water shortage concerns from the domestic market – is more a reflection of the successes of the air access programme than an indication of growing foreign tourist numbers.

Figure 8: Total passenger movements at South Africa's major airports, January 2014 to June 2018

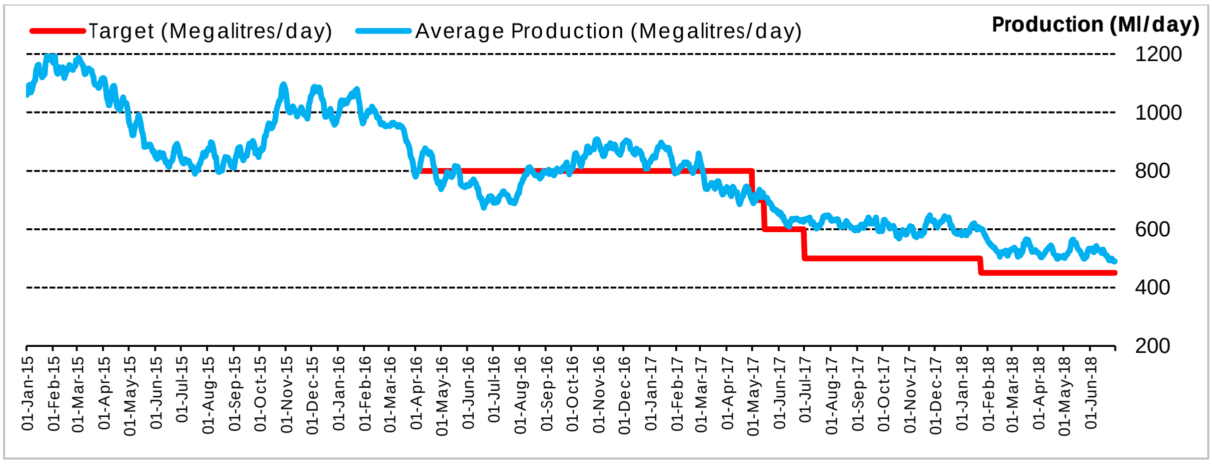


Source: ACSA, August 2018.

c. Water

Cape Town is experiencing its worst drought in recorded history. The City has, for a number of years, had a range of demand and supply-side management instruments in place to enable the sustainable provision of water but, in light of the severity of the drought and the impact this had on dam levels, a number of these measures had to be accelerated. The City is now working on determining the best approach for securing water resilience for the water supply system (City of Cape Town [CCT], 2018a).

Figure 9: Daily average water production (7 day average)

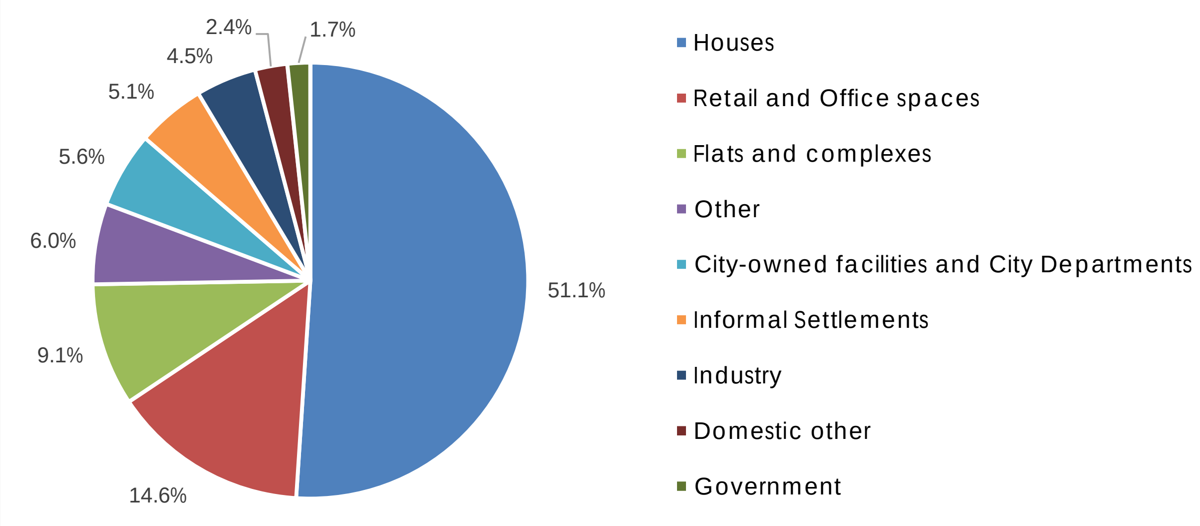


Source: Department of Water & Sanitation, CCT, 2018b.

On the demand-side, in the second quarter, the City had a range of water restrictions and tariffs in place to bring water demand in line with a total water supply target of a maximum of 450 million litres (Ml) per day. On a quarter-on-quarter basis water production declined by 5% in the second quarter of 2018 relative to the first quarter of 2018. As Figure 9 shows, however, while water production[7] in the City had declined, relative to the previous quarter, it was still above the 450 Ml per day target.

Drinking water consumption in 2017/2018, as illustrated in Figure 10, was largely dominated by domestic[8] and commercial (Retail and Office spaces) categories, which respectively accounted for approximately 67,7% and 14,6% of total water consumption. This was followed by other customer types (6%), City-owned facilities and City departments (5,6%), Industry (4,5%) and Government (1,7%) (CCT, 2018b).

Figure 10: Potable water[9] consumption by use category (2017/2018)



Source: Department of Water & Sanitation, CCT, 2018b.

5. Tourism

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 survey[10] of an average of 84 tourism accommodation establishments in the Cape Town metropolitan area (Cape Town Tourism, 2018). Occupancy rates at city accommodation establishments decreased by an average of 7,6 percentage points in the second quarter of 2018 compared to the same period in 2017. The month of April recorded the highest occupancy rate (59,4%) in the second quarter of 2018, but recorded a year-on-year decrease of 9,9 percentage points when compared to April 2017. The average room rate decreased by R175, year-on-year, in the second quarter of 2018 while the revenue per room decreased by R230 over the same period.

Lower occupancy rates during the second quarter of 2018 were almost certainly affected by tourists' concerns of potential water shortages in the city, and in particular the possibility that

[7] Readers are cautioned not to interpret this water production indicator as synonymous with water consumption in Cape Town, as it includes losses (for example, due to leaks), as well as treated water provided to external customers like neighbouring municipalities.
[8] Which comprises the following categories: Houses (51,1%), Flats and complexes (9,1%), Informal Settlements (5,1%) and Domestic other (2,4%).
[9] Water that is of a safe drinking standard.
[10] Important to note is that the monthly survey varies every month in both sample size and the specific respondents.

the city might reach a 'Day Zero[11]' around April. This would have been further compounded by the increase in the supply of tourism beds in the past year as a result of the finalisation of a number of new hotel developments. Other factors which might also have contributed to dampened tourism activity in Cape Town include slow economic growth and the imposition of a VAT increase, both of which are likely to have constrained consumer spending on luxury activities such as vacations. Perhaps tellingly, the highest occupancy rate by accommodation establishment type in the second quarter of 2018 was not recorded by Hotels but by Self Catering accommodation (57%).

Table 2: Income derived from tourist accommodation[12], Quarter 2, 2017 versus Quarter 2, 2018

	April		May		June		Second-quarter average	
Indicator	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Occupancy rate	59,4%	69,3%	51,8%	61,4%	48,0%	51,3%	53,1%	60,7%
Average room rate	R 1 668	R 2 006	R 1 396	R 1 542	R 1 436	R 1 476	R1 500	R1 675
Revenue per room	R 991	R 1 390	R 723	R 947	R 689	R 757	R801	R1 031

Source: Derived from Cape Town Tourism data, Selected Accommodation Establishments, August 2018.

All of the five major Cape Town tourist attractions[13] recorded quarter-on-quarter and year-on-year declines in the number of visits in the second quarter of 2018. While Table Mountain Aerial Cableway observed the highest year-on-year decline in absolute visit numbers (25 029 at -10%), Robben Island observed the most pronounced decline in year-on-year growth rate (-31,81%). Kirstenbosch National Botanical Gardens recorded the smallest decline (-2,48%) in visitor numbers in the second quarter.

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 are seen during the period May to July, which are Cape Town's winter months. Overall, total visits to the five major attractions declined by 9,8% in the second quarter of 2018 compared to the same period in 2017. As with the declining occupancy figures in the second quarter, this may, in large part, be attributed to tourist concerns relating to the city potentially experiencing water shortages during this period.

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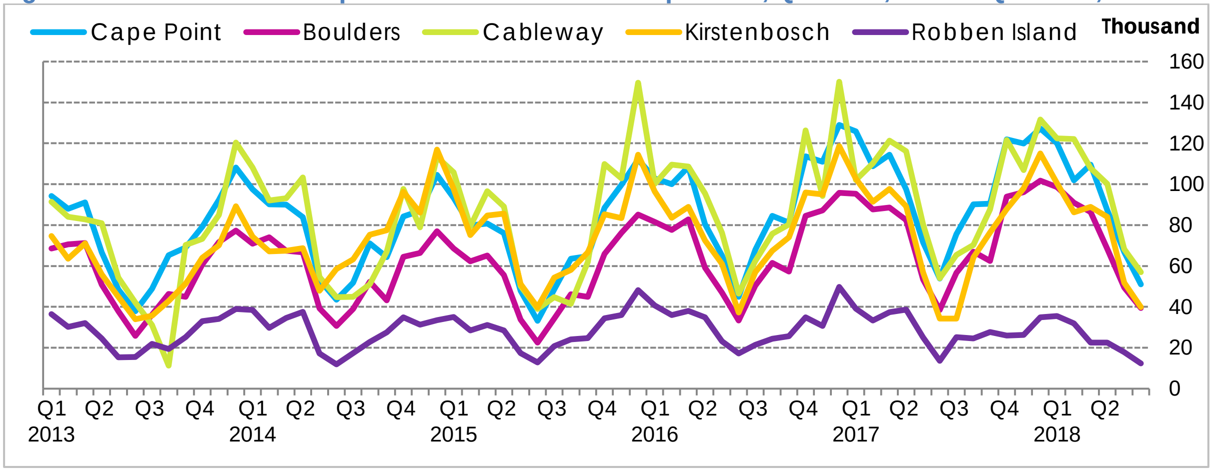
[11] 'Day Zero' would have been the day when dam levels reached 13,5 %, and the City would have had to take control of the municipal water supply and turn off most taps, in order to stretch supply. Residents would then have to queue for water municipal water supplies (adapted from CCT, 2017 and CCT, 2018d).

[12] As the sample changes with each monthly survey conducted (see previous footnote 10), the data applicable to the previous quarter (e.g. occupancy rate of 60,7% for the second quarter of 2017) will differ from that published in the appropriate past copy of EPIC (i.e. EPIC 2017: Q2 reports an occupancy rate of 59,2% for the second quarter of 2017).

[13] Includes, Cape of Good Hope, Boulders Beach, Table Mountain Aerial Cableway, Kirstenbosch National Botanical Gardens and Robben Island.

Figure 11: Total visits to the top 5 tourist destinations of Cape Town, Quarter 1, 2013 to Quarter 2, 2018



Source: Derived from Wesgro and Cape Town Tourism data, August 2018.

6. 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.

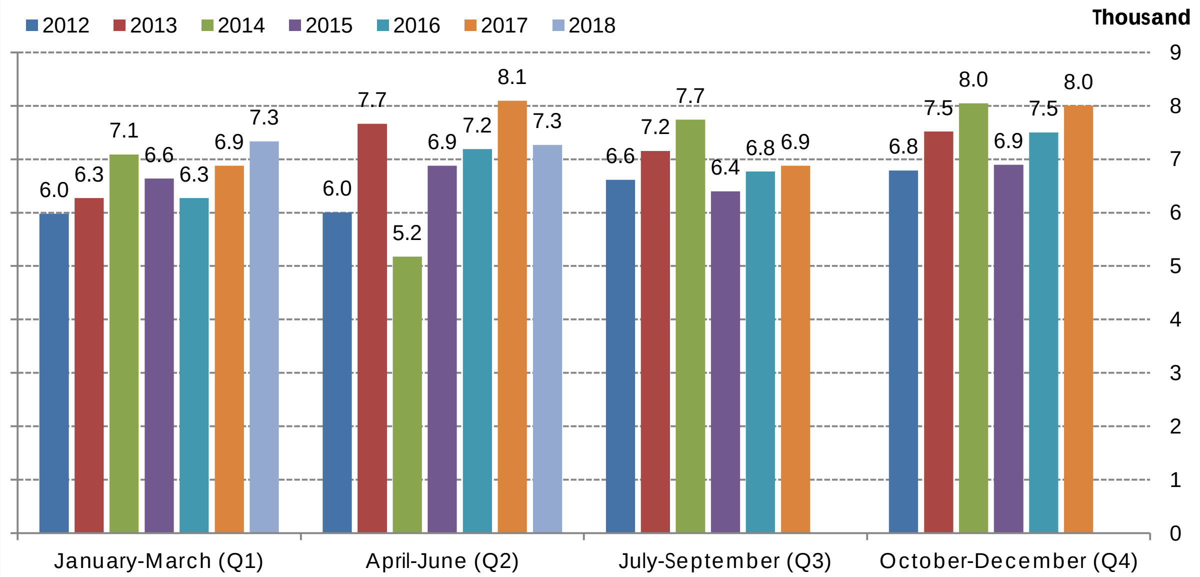
a. Building developments

The economic growth data for the second quarter of 2018 highlights that output at a national level in the construction industry grew by 2,3% quarter-on-quarter, following five consecutive quarters of contraction. On a year-on-year basis however, the sector contracted by 0,6% in the second quarter of 2018, a slight improvement as compared to its year-on-year contraction of 1,3% in the first quarter of 2018 (Quantec, 2018). The Western Cape's construction industry grew by 2,2% in the second quarter of 2018 but, as was the case at a national level, contracted by 0,6% year-on-year. After gaining 12 points in the first quarter of 2018, the First National Bank (FNB)/BER composite Building Confidence Index[14] (BER, 2018) declined by 14 index points in the second quarter of 2018, registering 29 index points. This is the index's lowest level since the third quarter of 2012. According to the BER, the reason behind the drop in overall construction sector confidence is largely due to the lower confidence among hardware retailers and manufacturers of building material as well as weaker underlying activity in the sector (BER, 2018b).

Building plans submitted to the City of Cape Town (City/CCT) in the second quarter of 2018 decreased by 0,9% 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 seven years, thereby controlling for seasonal trends in the building and construction industry. Building plans submitted to the City in the second quarter of 2018 decreased by a considerable 10,2% compared to the corresponding period in 2017.

[14] 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.

Figure 12: Building plans submitted to the City of Cape Town, 2012-2018



Source: Transport Development Authority: Business Support Department, CCT, August 2018.

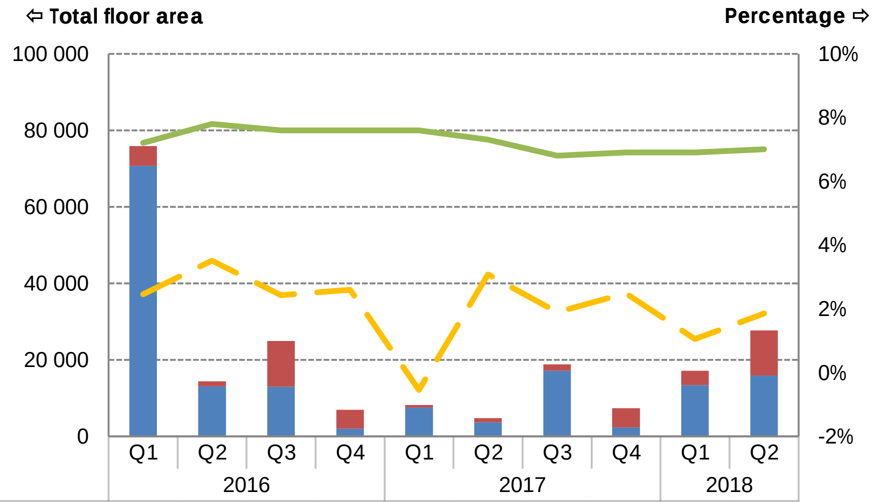
b. Commercial property developments

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 service 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 2018, construction of 15 893 m^2 of new office or banking space was reported to have been completed as well as 11 782 m^2 of office or banking space alterations. In terms of new office or banking space for the second quarter of 2018, an increase of 18,9% in quarter-on-quarter completions was recorded, partly as a result of the new development in Sable Park, Century City (16 000 m^2) (Jones Lang LaSelle [JLL], 2018). It should however, be noted that one major development which was expected to be completed in the second quarter of 2018, the 156 Roggebaai development (16 000 m^2) in the Cape Town Central Business District (CBD) (JLL, 2018), has now had its completion date pushed out to the fourth quarter of 2018 (Lead 2 Business, 2018).

As Figure 13 shows, Cape Town's office vacancy rate increased by 0,1 of a percentage point to 7% in the second quarter of 2018 (South African Property Owners Association [SAPOA], 2018). This may in part be attributable to the completion of the new office developments in Century City which placed further upward pressure on the vacancy rate (JLL, 2018). According to the South African Property Owners Association (2017), a sustained improvement in the office vacancy rate (i.e. return to the natural vacancy rate), depends on the long-term strength of key economic drivers such as economic growth and business confidence. While the finance and business services sector in the Western Cape reported an increase in quarter-on-quarter GVA growth from 1,0% in the first quarter to 1,9% in the second quarter of 2018, this is still too low to have a meaningful impact on the office vacancy rate.

Figure 13: Office/banking space sector developments, January 2016 to June 2018



	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Total floor area of alterations of office or banking space	5 203	1 294	11 934	5 008	622	1 086	1 672	5 027	3 729	11 782
Total Floor area of completed of new office/banking space	70 671	13 045	12 951	1 953	7 548	3 629	17 164	2 346	13 368	15 893
Office Vacancy rate	7.20%	7.80%	7.60%	7.60%	7.60%	7.30%	6.80%	6.90%	6.90%	7.00%
Quarter-on-quarter change in Finance, real estate and business services' GDP	2.5%	3.5%	2.4%	2.6%	-0.5%	3.1%	1.9%	2.5%	1.0%	1.9%

Source: Transport Development Authority: Business Support Department, CCT, August 2018; Jones Lang LaSelle, February 2018; and Quantec, September 2018.

c. New vehicle sales

Total vehicle sales in the Western Cape decreased to 14 269 in the second quarter of 2018 from 16 088 in the first quarter of 2018. Year-on-year results indicated a slight decline of 1,35% (195 units) in vehicles sold in the second quarter from the 14 464 vehicles sold in the corresponding period of 2017. Passenger vehicle sales in the Western Cape (private consumer segment of the market) decreased from 10 923 in the first quarter of 2018 to 9 327 in the second quarter of 2018. Year-on-year results reflected an increase of 0,43% (40 passenger vehicles) relative to the 9 287 vehicles sold in the second quarter of 2017. Passenger vehicle sales in South Africa also saw a year-on-year increase of 4,20% in the second quarter of 2018, with a total of 78 515 passenger vehicle sales. This year-on-year increase in passenger vehicle sales in the second quarter of 2018 could be a result of the vehicle price index dipping below inflation for new passenger vehicles (Cokayne, 2018).

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Abbreviations

ACSA: Airports Company South Africa
BER: Bureau for Economic Research
CCT/City: City of Cape Town
CPI: consumer price index
FNB: First National Bank
GDP: gross domestic product
GDP-R: regional gross domestic product
GGP: gross geographic product
GVA: gross value added
Ml: million litres
MPC: Monetary Policy Committee
NAAMSA: National Association of Automobile Manufacturers of South Africa
PPI: producer price index
SARB: South African Reserve Bank
TEU: twenty-foot equivalent unit
USD: United States dollar
V&A: Victoria and Alfred
VAT: value-added tax