CITY OF CAPE TOWN
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EPIC

Economic Performance Indicators for Cape Town

2018: Quarter 3 (July - September)

Making progress possible. Together.

Introduction

This is the 22nd 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 third quarter of 2018, covering the period 1 July to 30 September 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 Q3

Of **South Africa's R3 150 995 million gross domestic product** (GDP) generated in the third quarter of 2018, the **Western Cape** accounted for **R432 924 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 third quarter of 2018, the **Western Cape** had a quarter-on-quarter **GDP growth rate** of **2,0%**, compared to a **national** growth rate of **2,2%**.[b]

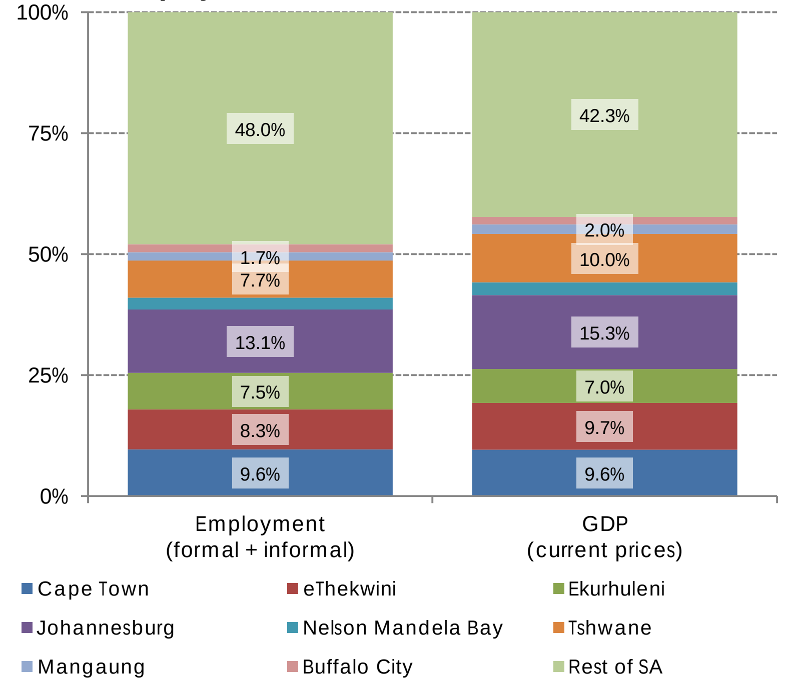
In 2017, **South Africa** had a **GDP per capita**, of **R82 262**, while the **Western Cape's** GDP per capita was **R97 983** and **Cape Town's** was **R106 839**.[c]

At the end of the third quarter of 2018, **South Africa** had a lower **rate of inflation of 4,9%**, than the **Western Cape** which had a rate of **5,6%**.[d]

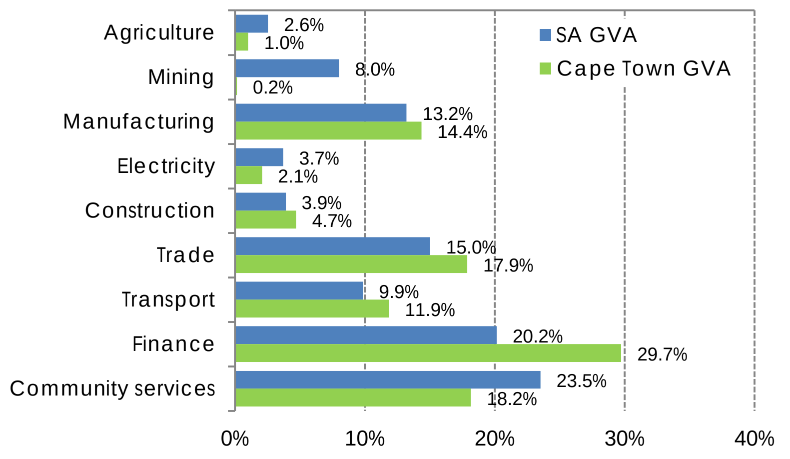
South Africa has **56 521 948** people: **6 510 312** (11,4%) live in the **Western Cape** and, of those, **4 174 510** are resident in **Cape Town**.[g]

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 third quarter of 2018, tourists and residents made **1 831 298** visits to **Cape Town's five major attractions**.[i]

Of the **9 578 187 passenger movements** through **South Africa's three international airports**[j] during the third quarter of 2018, **2 578 380** were through **Cape Town International Airport**.[k]

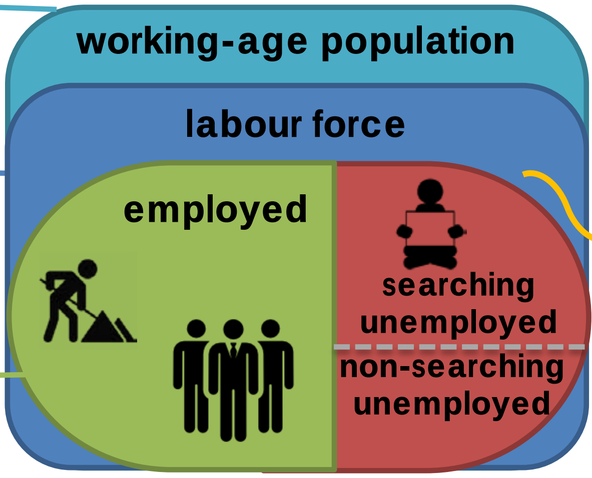
a,b. At constant 2010 prices. *Source: Quantec, 2018.*
c,f. At current prices. *Source: IHS Markit, 2018.*
d, g. *Source: Statistics South Africa (StatsSA), 2018.*
e. GGP at current prices. *Source: IHS Markit, 2018.*
h. *Source: IHS Markit, 2018.*
i. *Source: Cape Town Tourism and Wesgro, 2018.*
j.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

LABOUR OVERVIEW – 2018 Q3

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.

2018 Quarter 3		**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	37 985	↑	153	↑	611	2 912	↑	14	↑	55
	Labour Force	22 589	↑	219	↑	187	2 035	↓	-4	↑	23
	Employed: total	16 380	↑	92	↑	188	1 606	↑	1	↑	61
	Employed: Formal sector	11 255	↓	-65	↓	-125	1 319	↑	20	↑	46
	Employed: Informal sector	3 017	↑	188	↑	327	179	↓	-5	↑	3
	Unemployed	6 209	↑	127	↓	-1	429	↓	-5	↓	-38
	Not economically active	15 395	↓	-66	↑	424	878	↑	18	↑	32
	Discouraged work-seekers	2 733	↓	-131	↑	297	17	↑	3	↓	-2
	Other not economically active	12 662	↑	65	↑	127	860	↑	14	↑	34
Rate (percentage, %)	Official/strict unemployment	27,5	↑	0,3	↓	-0,2	21,1	↓	-0,2	↓	-2,1
	Broad/expanded Unemployment	37,3	↑	0,1	↑	0,5	22,9	↑	0,3	↓	-2,1
	Absorption	43,1	–	0.0	↓	-0,2	55,1	↓	-0,3	↑	1,0
	Labour Force Participation	59,5	↑	0,4	↓	-0,4	69,9	↓	-0,4	↓	-0,5

↑ increase | ↓ decrease | improvement | deterioration | – No change (due to rounding)

Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 3, October 2018.

Note:
- A 'quarter-on-quarter' comparison is between the current quarter and the previous quarter (for example: Quarter 3, 2018 versus Quarter 2, 2018).
- A 'year-on-year' comparison is between the same quarters in two consecutive years (for example: Quarter3, 2018 versus Quarter 3, 2017).

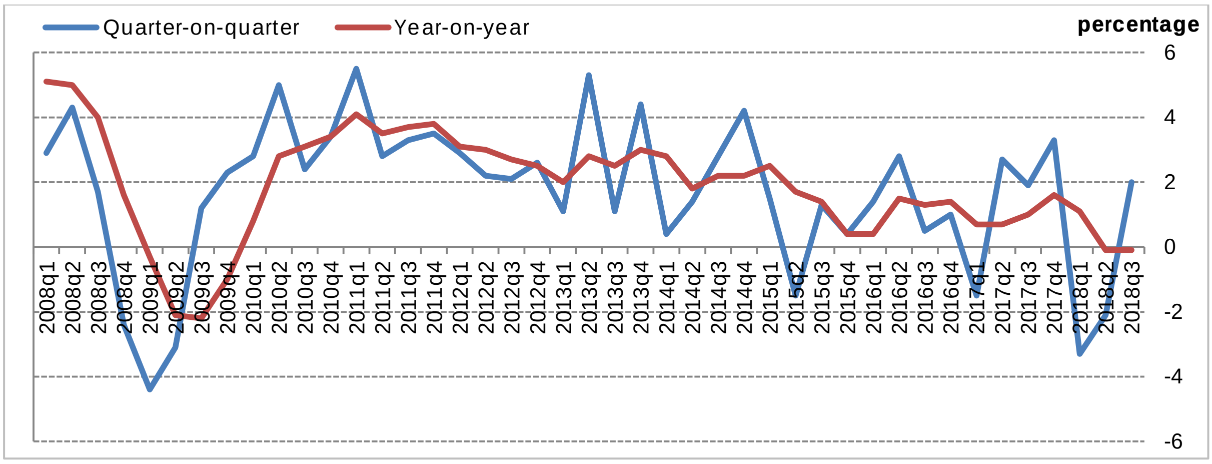
1. Economic Growth

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

The Western Cape economy contributes around 14% of South Africa's gross domestic product (GDP). The province's economic performance is strongly related to the country's economic performance and, in line with the growth of the national economy (by 2,2%) in the third quarter, the Western Cape economy grew by 2%, improving by a significant 4,1 percentage points on the previous quarter's growth rate of -2,1%[1]. This meant that the province exited its technical recession (two consecutive quarters of negative quarter-on-quarter economic growth). As with growth at a national level, the recovery of the third quarter was driven by the manufacturing and finance[2] sectors which grew by 7,3% and 2,2% quarter-on-quarter, respectively. However, unlike growth at the national level, the Western Cape's agricultural sector recorded another substantial contraction of -32,2% quarter-on-quarter, with the sector likely still experiencing the impact of the drought and the resultant strain on water resources. As figure 1 shows, on a year-on-year basis, the province's economy contracted by 0,1% in the third quarter of 2018, its second consecutive year-on-year contraction. This is indicative of the cumulative effects of a number of previous quarters of weak economic growth.

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 71% 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 third quarter of 2018, a plausible range for Cape Town's quarter-on-quarter economic growth is between 1,8% and 2,2%. However, the sizeable impact of the agricultural sector's contraction on the provincial growth rate in the third 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 3, 2018



Source: Quantec, December 2018.

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

[2] Quarterly GDP growth for the finance sector in the Western Cape for the second quarter of 2018 has been revised from 1,9 to 1,8 (Quantec, 2018).

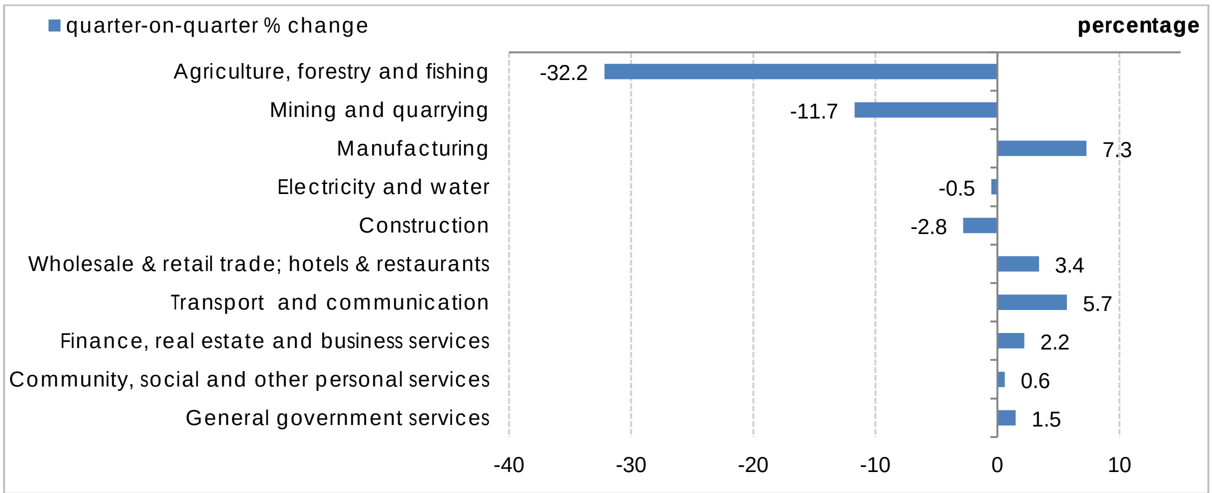
b. Sectoral drivers of economic growth in the Western Cape

The Western Cape economy's recovery in the third quarter of 2018 is characterised by mixed performances across its sectors. The most prominent contributors to the Western Cape's total gross value added (GVA) in the third quarter of 2018 were the finance (31,3%), trade (16,1%) and manufacturing (15,2%) sectors (Quantec, 2018). Six sectors contributed positively to the province's quarterly economic growth rate; the manufacturing sector contributed 1,10 percentage points to GVA growth, followed by finance with 0,72, transport with 0,60 and trade with 0,56 of a percentage point. The agricultural sector, despite constituting a relatively small share of the Western Cape's total GVA (2,9%), was the largest negative contributor to growth in the third quarter, reducing growth by 1,21 percentage points alone. The next largest reduction in economic growth came from the construction sector which reduced growth by 0,13 of a percentage point.

The scale of the decline in the agricultural sector in the Western Cape (-32,2%) - following large contractions in the previous two quarters - points to the severe cumulative impact that years of below average rainfall have had on agricultural production. The mining sector experienced the next largest contraction (-11,7%), whilst the construction sector slipped back into negative growth (from 2% in the previous quarter to -2,8%). Both the transport and trade sectors - which are amongst the province's largest contributors to GVA - recorded positive growth in the third quarter (5,7% and 3,4%, respectively), improving by 10,6 and 4,7 percentage points, respectively. Encouragingly, the Western Cape's largest sector, the finance and business services sector, continued its trend of improvement on the previous quarter's performance to grow at 2,2% in the third quarter, up by 0,4 of a percentage point.

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 third quarter of 2018.

Figure 2: Sectoral real GDP-R growth rates in the Western Cape, Quarter 3, 2018



Source: Quantec, December 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 third quarter of 2018 would have been driven by the performance of the finance, trade, manufacturing and transport sectors, which, in 2017, comprised 30%, 18%, 14% and 12% of the city's economy, respectively. Given that the agricultural sector weighed so heavily on economic growth at a provincial level in the third quarter, there is strong reason to believe that Cape Town would have performed slightly better than 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.

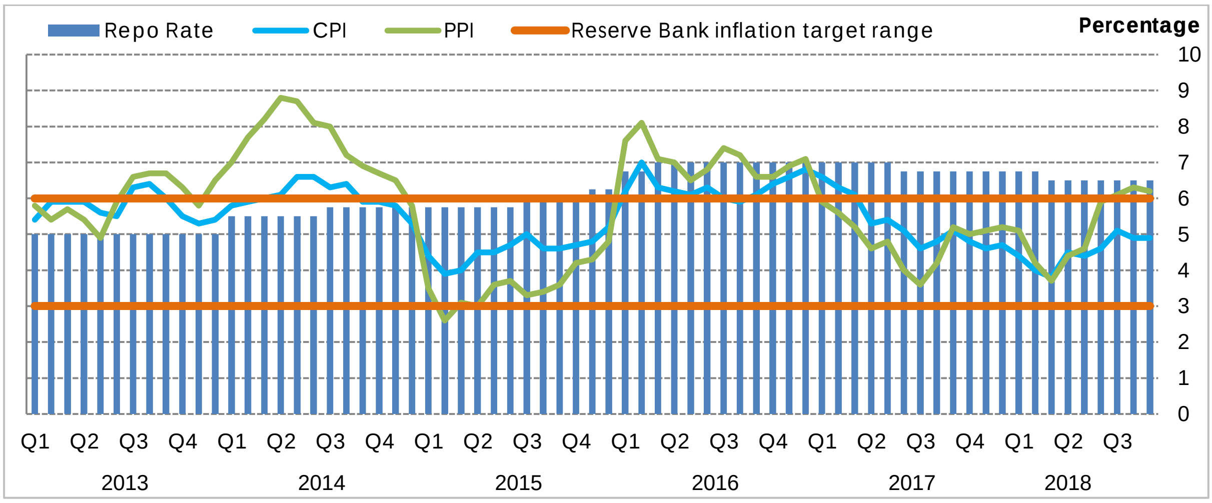
a. Inflation overview

In the third quarter of 2018, the CPI increased in comparison to the second quarter of 2018. As illustrated in figure 3, the CPI recording for July was 5,1%, decreasing slightly to 4,9% in August and remaining unchanged (at 4,9%) in September 2018. Although headline inflation increased compared to the end of the second quarter, it remained below the upper inflation target range. According to Statistics South Africa (2018), the main contributors to the increase in the CPI include housing and utilities, and transport, of which the latter was mainly driven by public transport. According to the Monetary Policy Committee (MPC) statement of September 2018 (South African Reserve Bank [SARB], 2018), the impact of the 1 percentage point increase in value added tax (VAT) in April remains muted and the higher headline inflation is a result of a weaker rand exchange rate, with the rand depreciating by 7,3% against the US dollar (USD) since July 2018, and higher international oil prices.

Similar to the movement of CPI, the PPI increased when compared to the end of the second quarter of 2018, increasing from 5,9% in June 2018 to 6,1% in July. It continued to rise to 6,3% in August but decreased slightly to 6,2% in September. The main inflationary contributors to PPI throughout the third quarter of 2018 (in terms of final manufactured products) were the prices of coke, petroleum, chemical, rubber and plastic products; as well as food products, beverages and tobacco products in August, which was driven by an increase in the food category.

Figure 3 also 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 and third quarter. There was however significant pressure to increase the rate at the September meeting of the MPC, with three members (out of the seven) being in favour of an increase of 25 basis points (SARB, 2018). This is indicative of the MPCs concerns about the "deteriorating inflation outlook" and increased related risks and uncertainties.

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

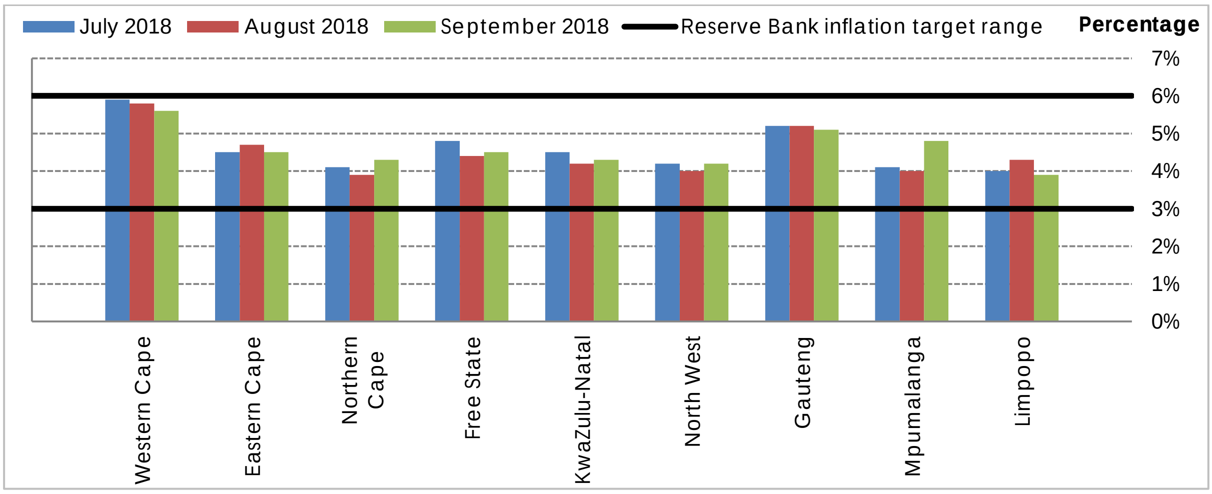


Source: CPI and PPI extracted from Statistics South Africa, 2018, and repurchase rate extracted from SARB, 2018.

b. Geographical inflation

The Western Cape recorded an inflation rate of 5,6% at the end of the third quarter of 2018. This was higher than its inflation rate at the end of the second quarter of 2018, which was 5,4%. Although remaining within the inflation target range at the end of the quarter, the provincial inflation rate remained higher than the national rate of 4,9%. Figure 4 illustrates inflation rates recorded in the third quarter of 2018 across all nine provinces in the country. In comparison to the end of the second quarter of 2018, eight provinces recorded an increase in inflation rates by the end of the third quarter of 2018. Free State is the only province that recorded a lower inflation rate, from 4,6% at the end of the second quarter, to 4,5% at the end of the third quarter of 2018. The Western Cape once again recorded the highest inflation rate throughout the third quarter with an average of 5,8%, followed by Gauteng (5,2%), and the Eastern Cape and Free State at 4,6%, whilst Limpopo recorded the lowest average inflation rate (4,1%) in the third quarter of 2018.

Figure 4: CPI inflation rate at a provincial level, July to September 2018



Source: Statistics South Africa, November 2018.

Food price inflation in the Western Cape was 2,9% in August 2018 and increased slightly to 3,1% in September 2018, whilst nationally it was 2,6% in August 2018, increasing to 2,9% in

September 2018. Despite the provincial food price inflation once again exceeding that of the national level, the disparity between the two decreased considerably in the third quarter. Rather, the higher overall inflation rate at the provincial level for the third quarter of 2018 can largely be attributed to housing and utilities' price inflation which was recorded at 7,4% in September for the Western Cape and 5,2% at the national level. Within this category the disparity between prices at the provincial and national levels was notably driven by an increase in electricity and other fuels' price inflation. Water and other services'[3] price inflation in the Western Cape remained high in the third quarter, although declined slightly from 9,9% in July and August, to 9,8% in September 2018, significantly lower than the inflation rate in this category at a national level which was 10,9% in September.

Private transport fuel price inflation increased significantly in the third quarter. From recording 16,4% in June 2018, private transport fuel price inflation in the Western Cape increased to 25,9% in July, thereafter declining slightly to 24% in August and 18,8% in September, mirroring national trends. This is reflective of the continuing increases in fuel prices which amounted to an additional cumulative 32 cents on the price of petrol in the third quarter of 2018 (Automobile Association of South Africa, 2018). The upward pressure on fuel price inflation could be attributed to the increasing international oil prices, which peaked at 79,80 USD per barrel in May 2018 (since 2014), as well as the depreciating rand, as noted by the MPC (SARB, 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 third 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 3 777 on a quarter-on-quarter basis but increased by 22 958 on a year-on-year basis to a total of 2,04 million individuals in the third quarter of 2018. Employment in the third quarter of 2018 increased on both a quarter-on-quarter (1 450) and year-on-year (61 010) basis to record 1,6 million individuals. Encouragingly, this is the ninth consecutive quarter of positive employment growth. The proportionally larger increase in the working-age population than in employment in the third quarter of 2018, meant that the labour absorption rate decreased to 55,1% from 55,4% in the second quarter of 2018. The labour force participation rate declined to 69,9% in the third quarter of 2018 from a previous recording of 70,3% in the second quarter of 2018.

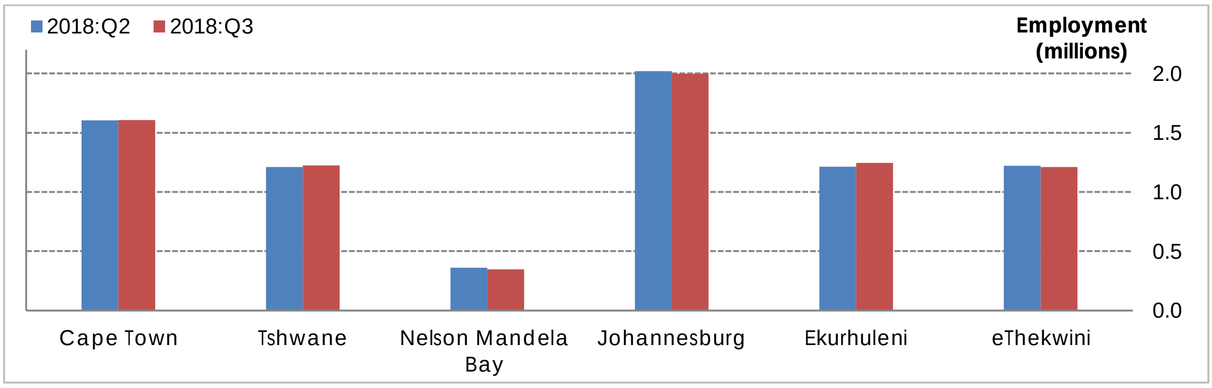
b. Employment comparison of metros

To measure Cape Town's job creation performance, a comparison with other metropolitan municipalities (metros) in the country is helpful. In the third 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.

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

Turning attention to employment trends in the third quarter of 2018, Cape Town was the only metro that displayed both positive quarter-on-quarter and year-on-year growth (see figure 5). Ekurhuleni added the most jobs (with an increase of 31 787 in employment) whilst Johannesburg shed the most jobs (with a reduction of 20 388 in employment) when compared to the previous quarter. On a year-on-year basis, Cape Town had the largest increase in employment (61 010 jobs) with eThekwini (54 052 jobs) and Johannesburg (48 475) following closely. Ekurhuleni shed the most jobs (with a reduction of 28 757 in employment) when compared to the third quarter of 2017. Tshwane and Nelson Mandela Bay reflected negative year-on-year employment growth.

Figure 5: Employment comparison with other metros, Quarter 2, 2018 versus Quarter 3, 2018



Source: Statistics South Africa, Quarter Labour Force Survey, 2018 Quarter 3, October 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 5 227 and 38 054 individuals, respectively, in the third quarter of 2018. This resulted in the strict unemployment rate decreasing by 0,2 of a percentage point, on a quarter-on-quarter basis, to 21,1%. The youth unemployment rate in Cape Town, defined as the strict unemployment rate for individuals aged 15 to 24, was estimated at 44,3% in the third quarter of 2018, having decreased significantly from 49,4% in the previous quarter, and [also] having decreased from 47,3% in the third quarter of 2017. While this is below the national rate of 52,9% (decreasing from 53,7% previous quarter), it is nonetheless markedly high by developing-country standards and continues to pose a key challenge to economic policymakers in the city.

Whilst traditional comparisons of Cape Town's unemployment trends with that of South Africa as a whole are important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics (see table 1). Ekurhuleni was the only metro to experience a decline in both its unemployment rates (strict and expanded). Johannesburg, Nelson Mandela Bay and Tshwane, on the other hand, all experienced increases in both their unemployment rates. Nelson Mandela Bay had the highest strict and expanded unemployment rates (36,4% and 36,7%, respectively), while eThekwini had the lowest strict unemployment rate (18,2%) and Cape Town had the lowest expanded unemployment rate (22,9%). 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 0,22 of a percentage point difference between the two rates of unemployment, whereas eThekwini recorded a 9,28 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 six 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

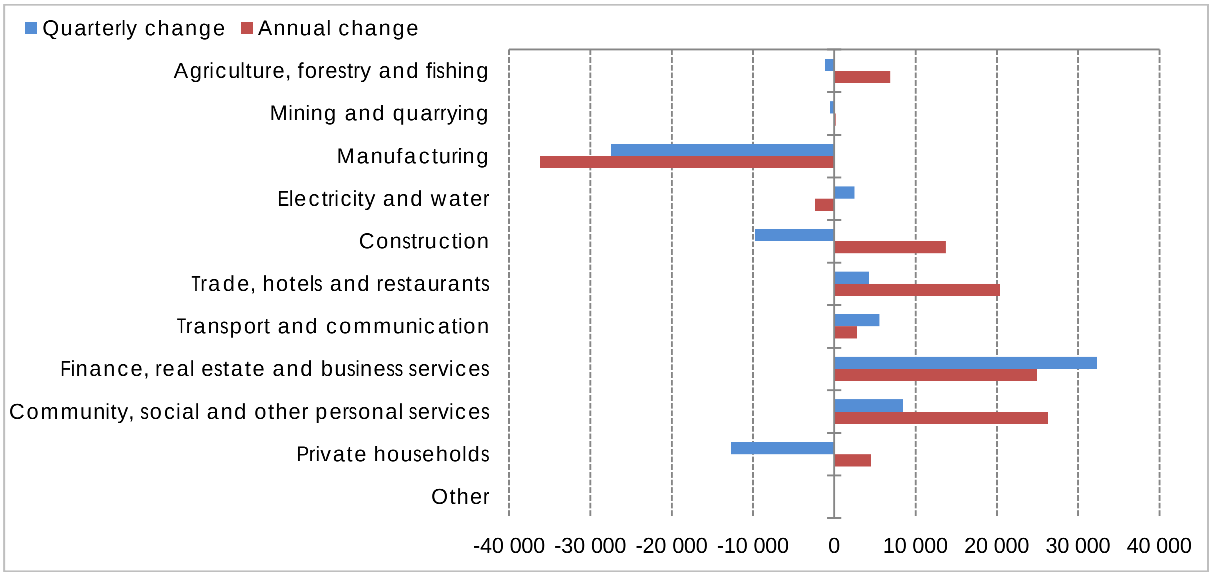
Metro	Official (strict)			Expanded (broad)		
	2018: Q3	2018: Q2	2017: Q3	2018: Q3	2018: Q2	2017: Q3
Cape Town	21,1	21,3	23,2	22,9	22,6	25,0
eThekwini	18,2	19,3	23,3	27,5	27,2	30,5
Ekurhuleni	30,9	33,4	32,2	35,6	37,4	35,0
Johannesburg	29,2	28,5	29,6	31,5	30,8	31,2
Nelson Mandela Bay	36,4	35,0	36,0	36,7	35,2	36,2
Tshwane	29,4	28,7	27,9	34,9	34,8	31,6

Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 3, October 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 third quarter of 2018. Five sectors made a positive contribution to employment when compared to the previous quarter, with the highest contributions recorded in the finance, real estate and business services (32 321), community, social and other personal services (8 485), as well as transport and communication (5 535) sectors. Trade, hotels and restaurants (4 267), as well as electricity and water (2 466) sectors were more modest contributors to employment. The main job-shedding sectors in Cape Town in the third quarter of 2018, as compared to the previous quarter, were manufacturing (-27 449), private households (-12 731) and construction (-9 775).

Figure 6: Quarterly and annual change in employment per sector for Cape Town, Quarter 3, 2018



Source: Statistics South Africa, Quarterly Labour Force Survey, 2018 Quarter 3, October 2018.

On a year-on-year basis Cape Town's labour market displayed a better performance with the majority of sectors adding positively to employment. Overall, eight sectors added to employment growth whereas two sectors recorded employment losses when compared to the third quarter of 2017. Community, social and other personal services (26 256), finance, real estate and business services (24 935) as well as trade, hotels and restaurants (20 388) sectors made the largest contributions to employment. Further positive contributions were recorded within construction (13 703), agriculture, forestry and fishing (6 884) as well as private households (4 478) sectors. Minimal positive employment contributions were experienced within transport and communication, as well as mining and quarrying. Similar to its quarter-on-quarter performance, the manufacturing sector shed the most jobs (-36 188) with the electricity and water sector (-2 392) following thereafter.

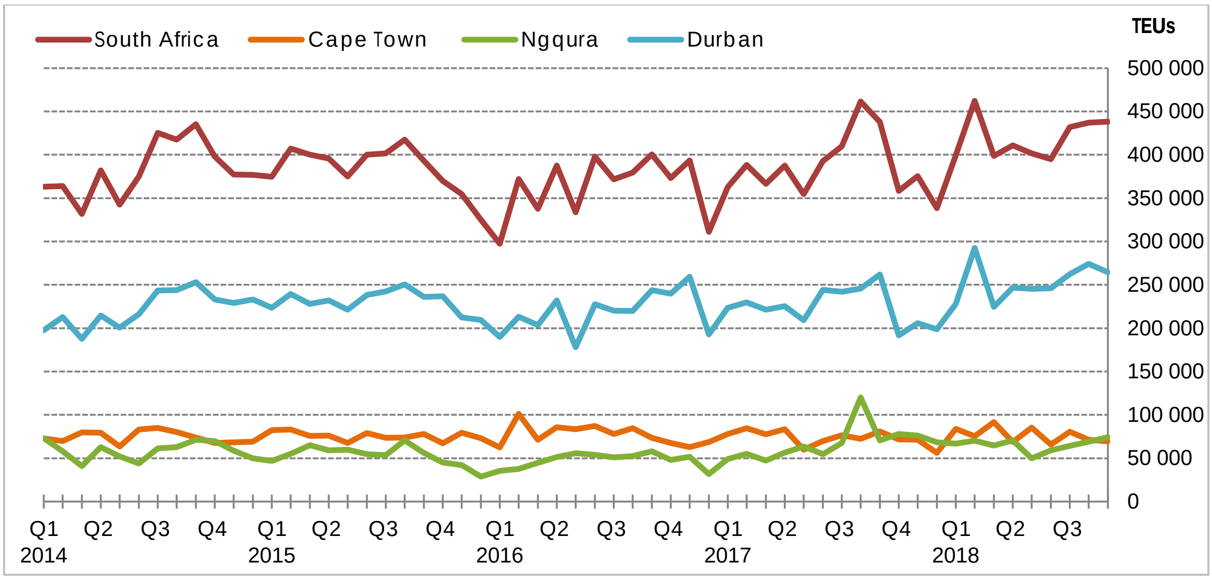
4. Infrastructure

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 decreased from 229 881 in the third quarter of 2017 to 220 947 in the third quarter of 2018, reflecting a negative growth rate of 3,89%. In the third quarter of 2018, the Port of Durban was once again the largest container handling port in the country (comprising 61,27% of all containers handled in South Africa), followed by the Port of Cape Town (16,90%) and the Port of Ngqura (15,89%). Moreover, the Port of Cape Town managed to outperform the Port of Ngqura in the third quarter of 2018 and therefore maintained its position as the second-largest container handling port.

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



Source: Transnet National Ports Authority, November 2018.

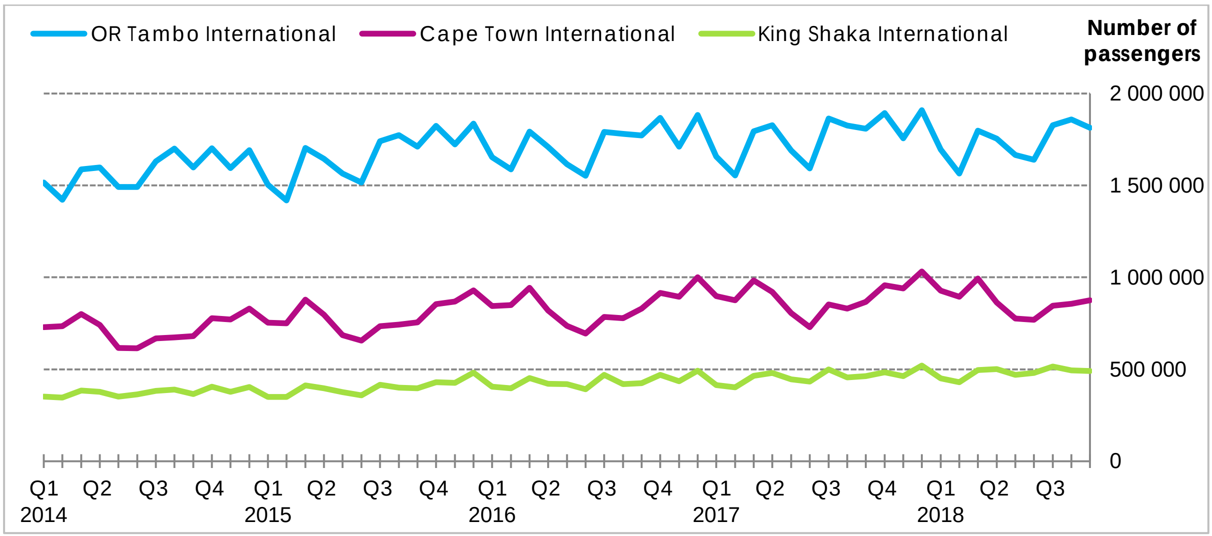
The Port of Durban handled 801 017 twenty-foot equivalent units (TEUs) in the third quarter of 2018, recording an increase in container handling of 6,84% compared to the same period in 2017. In contrast the Ports of Cape Town and Ngqura experienced decreases in container handling, contributing towards total container handling at a national scale decreasing by 0,15% year-on-year in the third quarter of 2018.

b. Airport statistics

Cape Town International Airport is South Africa's second-busiest airport, after OR Tambo International Airport in Johannesburg. It recorded 2,58 million total passenger movements in the third quarter of 2018 compared to 5,50 million passenger movements at OR Tambo International and 1,50 million at King Shaka International airports during the same period.

Figure 8 indicates the pronounced degree of seasonality in Cape Town's air passenger movements, with these consistently declining in the second quarter when the city enters its winter months and picking up again towards the fourth quarter with the onset of summer. This is reflected in the increase experienced during the third quarter of 2018, as compared to the previous quarter.

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



Source: Airports Company South Africa, November 2018.

Total passenger movements at Cape Town International in the third quarter of 2018 was 1,12% higher compared to the third quarter of 2017, when 2,55 million passenger movements were recorded. Despite the relatively low year-on-year growth, this signalled an improvement following three consecutive quarters of declining year-on-year performance. OR Tambo International observed a minimal year-on-year increase (0,01%) in total passenger movements in the third quarter of 2018, whilst King Shaka International saw the highest year-on-year increase of 5,76%. This included another peak above the 500 000 monthly total passenger movement mark for the airport in July 2018.

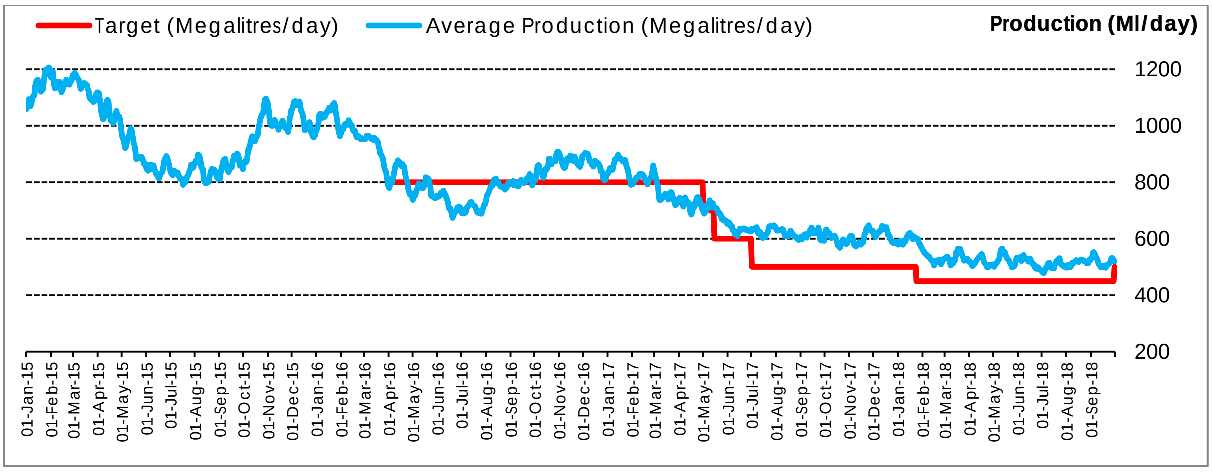
Following dampened tourist activity, in part as a result of the drought, passenger arrivals' data reflect improvements. Total passenger arrivals at Cape Town International increased by 2,45% in the third quarter of 2018, as compared to the third quarter 2017, with international arrivals recording a year-on-year increase of 17,45% and domestic arrivals returning to a positive year-on-year growth rate of 2,40%.

c. Water

Cape Town recently experienced its worst drought in recorded history. The City of Cape Town (City/CCT) 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; however, 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 (CCT, 2018a).

On the demand-side, in the third quarter, the City had a range of water restrictions and tariffs in place to bring water demand in line with the total water supply target of a maximum of 450 million litres (Ml) per day[4]. On a quarter-on-quarter basis water production declined by 0,2% in the third quarter of 2018 relative to the second quarter of 2018. As figure 9 shows, however, while water production[5] in the city marginally declined, relative to the previous quarter, it was still above the 450 Ml per day target applicable to this period.

Figure 9: Daily average water production (7 day average) in Cape Town

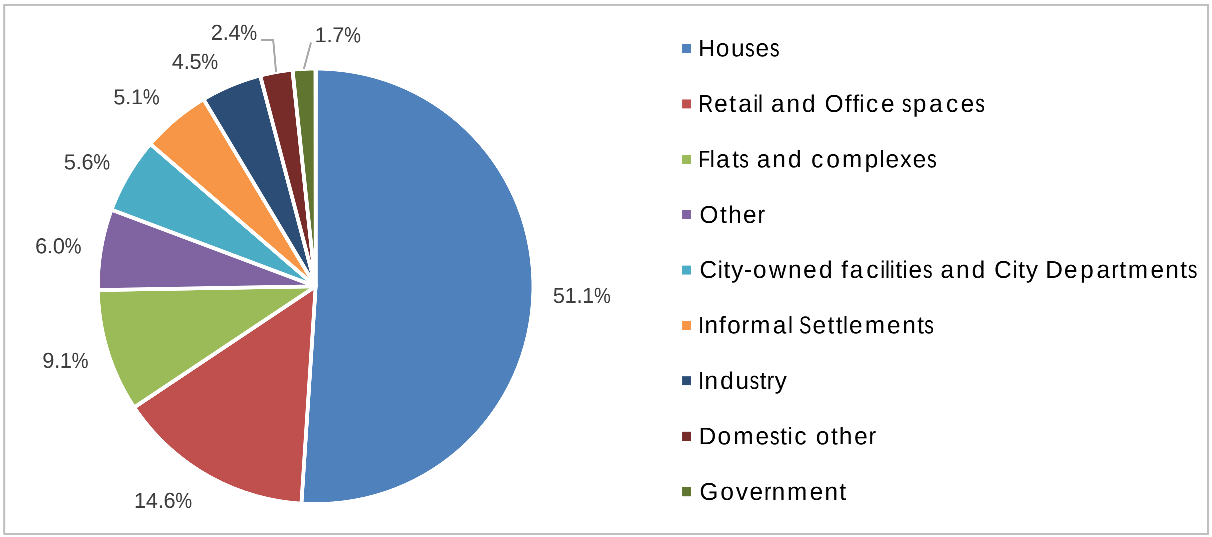


Source: Department of Water & Sanitation, CCT, 2018b.

Drinking water consumption in 2017/2018, as illustrated in figure 10, was largely dominated by domestic[6] 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).

[4] The maximum water supply target increased to 500 Ml per day on the 1 October 2018, enabled by a relatively good rain season (CCT, 2018c).
[5] 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.
[6] Which comprises the following categories: houses (51,1%), flats and complexes (9,1%), informal settlements (5,1%) and domestic other (2,4%).

Figure 10: Potable water[7] 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[8] of an average of 90 tourism accommodation establishments in the Cape Town metropolitan area (Cape Town Tourism, 2018). Occupancy rates at city accommodation establishments decreased by an average of 5,1 percentage points in the third quarter of 2018 compared to the same period in 2017. The month of September recorded the highest occupancy rate (63,6%) in the third quarter of 2018, but recorded a year-on-year decrease of 5 percentage points when compared to September 2017. The average room rate decreased by R2, year-on-year, in the third quarter of 2018 while the revenue per room decreased by R77 over the same period.

Table 2: Income derived from tourist accommodation[9], Quarter 3, 2017 versus Quarter 3, 2018

	July		August		September		Third-quarter average	
Indicator	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Occupancy rate	50,6%	56,0%	56,7%	61,1%	63,6%	68,6%	57,0%	62,1%
Average room rate	R 1 452	R 1 501	R 1 542	R 1 521	R 1 572	R 1 000	R1 522	R1 524
Revenue per room	R 734	R 840	R 874	R 937	R 1 000	R 1 063	R 869	R 947

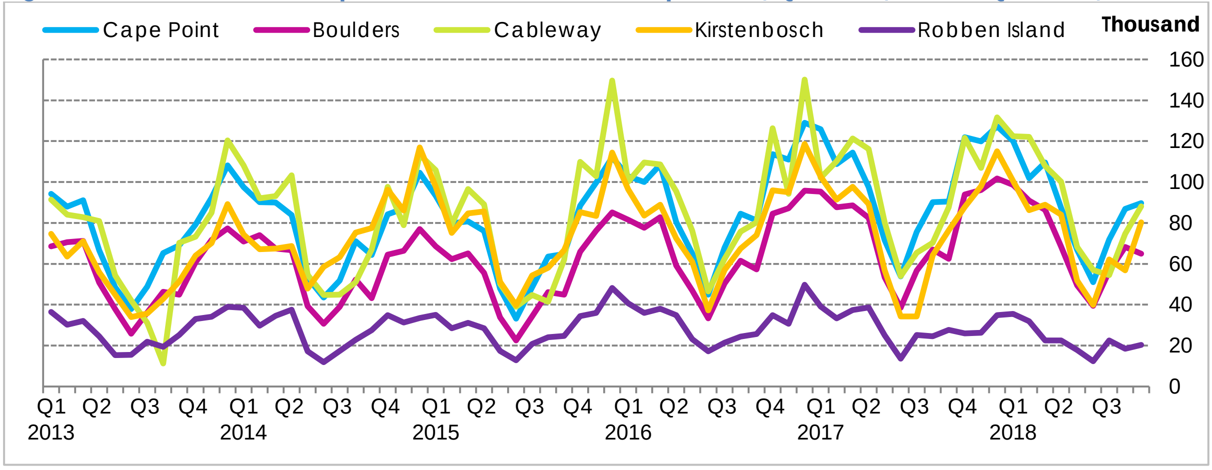
Source: Derived from Cape Town Tourism data, Selected Accommodation Establishments, November 2018.

[7] Water that is of a safe drinking standard.
[8] Important to note is that the monthly survey varies every month in both sample size and the specific respondents.
[9] As the sample changes with each monthly survey conducted (see previous footnote 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).

Lower occupancy rates could be explained by possible lingering negative perceptions associated with the water crisis, an increase in the supply of tourism beds in the past year, slow economic growth and the imposition of a VAT increase, further constraining consumer spending on luxury activities such as vacations. The occupancy data also shows that one of the outcomes of the constraints mentioned above was that tourists opted for the less costly means of traveling, reflected in the high occupancy rate of backpacker accommodation (64,1%) for the third quarter of 2018.

On a quarter-on-quarter basis, the highest number of tourist visits (43 168) was reflected for Table Mountain Park: Cape of Good Hope, also reflecting the highest growth rate of 21,04% when compared to the same quarter of the previous year. Table Mountain Aerial Cableway observed the highest quarter-on-quarter decline in number of tourist visits (-8 177) and the highest negative growth rate (-3,63%) when compared to the previous quarter. On a year-on-years basis, out of the five major Cape Town tourist attractions[10], Kirstenbosch National Botanical Gardens reflected the highest increase in the number of visitors (24 362) with a positive growth rate of 13,94%, while Robben Island reflected the highest decline in number of visitors (-16 080) with a negative growth rate of 20,76% when compared to the previous year's third quarter. It is important to note the overall declining trend in the number of visitors to Robben Island which could be attributed largely to the increasing number of ferry cancellations over the last three months (August-October). Inconsistency in the weather conditions has been noted as reasons for cancellations (Maliti, 2018).

Figure 11: Total visits to the top 5 tourist destinations of Cape Town, Quarter 1, 2013 to Quarter 3, 2018



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

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 0,22% in the third quarter of 2018 compared to the same period in 2017. This was likely influenced by the same factors highlighted for the decrease in occupancy rates, i.e. decreased discretionary spending, and possible lingering negative perceptions of the destination.

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

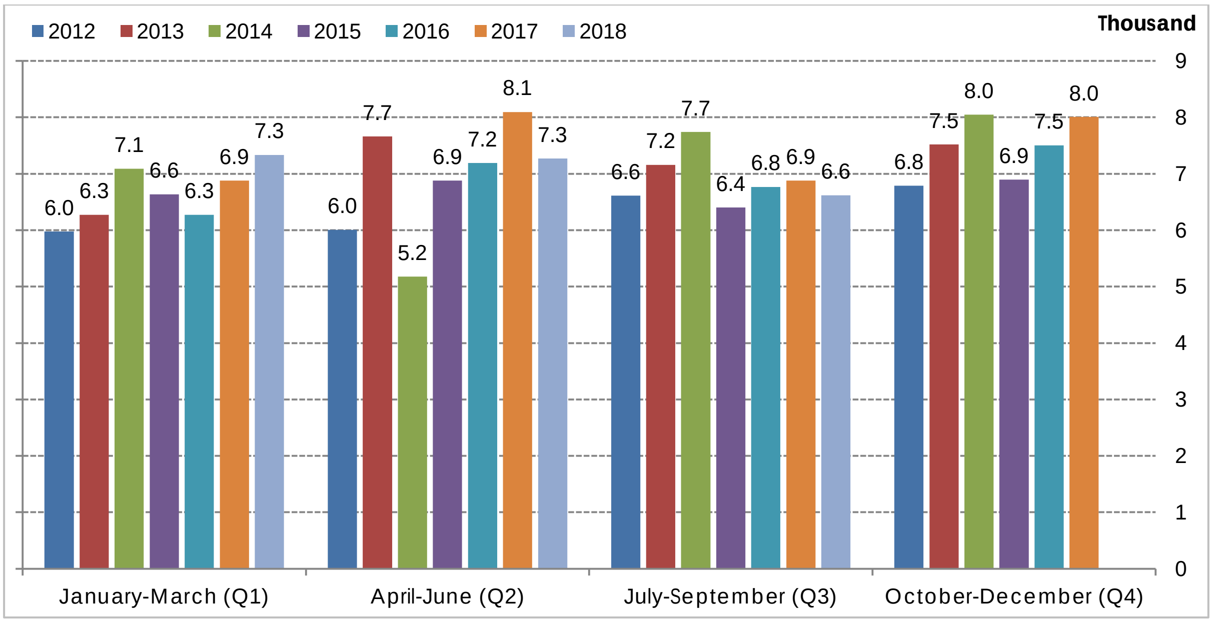
6. Additional Indicators

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 third quarter of 2018 highlights that output at a national level in the construction industry declined by 2,7% quarter-on-quarter, following a brief uptick of positive growth in the previous quarter. On a year-on-year basis the sector recorded its fifth consecutive contraction (-1%) (Quantec, 2018). Mirroring national trends, the Western Cape's construction industry contracted by 2,8% quarter-on-quarter and 1% year-on-year in the third quarter of 2018. After declining by 14 points in the second quarter of 2018, the First National Bank (FNB)/BER composite Building Confidence Index[11] (BER, 2018) remained unchanged in the third quarter of 2018 at 29 index points. This has been the index's lowest level since the third quarter of 2012. According to the BER, even though the index remained flat, there were still notable changes in confidence among the sub-sectors, highlighting a significant drop in non-residential contractors' business confidence (from 40 to 18), whilst the business confidence of architects saw a slight improvement (from 40 to 47).

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



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

Building plans submitted to the City in the third quarter of 2018 decreased by 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

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

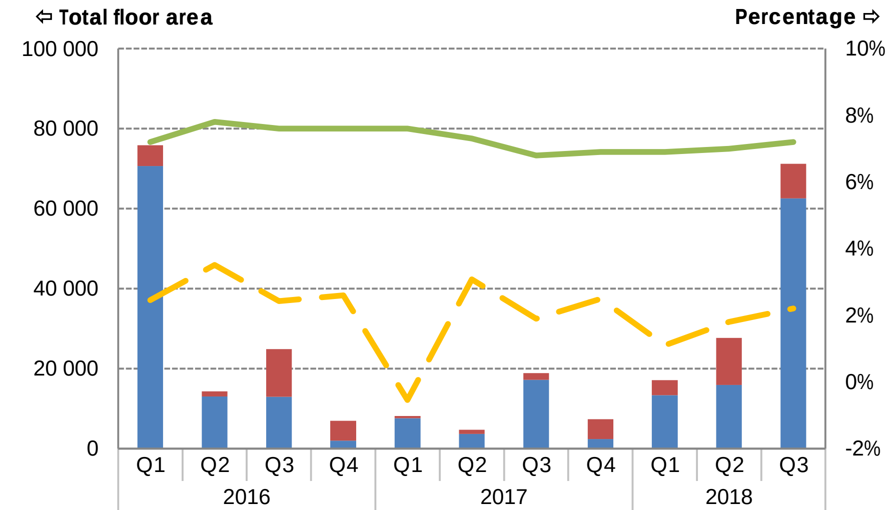
third quarter of 2018 decreased by 3,8% compared to the corresponding period in 2017, declining for the second consecutive quarter in 2018.

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 services sector is the largest in Cape Town and as such property developments in this sector are a useful measure of economic activity.

In the third quarter of 2018, construction of 62 594m^2 of new office or banking space was reported to have been completed, as well as 8 648 m^2 of office or banking space alterations. In terms of new office or banking space for the third quarter of 2018, a large increase of 293,8% in quarter-on-quarter completions was recorded, partly as a result of the new development in Sable Park, Century City (16 000 m^2); although this completion took place in the second quarter, its effects [on the new buildings' completion data] carried through to the third quarter of 2018 (Jones Lang LaSelle [JLL], 2018).

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



	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Total floor area of alterations of office/bank space	5 203	1 294	11 934	5 008	622	1 086	1 672	5 027	3 729	11 782	8 648
Total floor area of completed new office/bank space	70 671	13 045	12 951	1 953	7 548	3 629	17 164	2 346	13 368	15 893	62 594
Office vacancy rate	7.20%	7.80%	7.60%	7.60%	7.60%	7.30%	6.80%	6.90%	6.90%	7.00%	7.20%
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%	1.1%	1.8%	2.2%

Source: Transport Development Authority: Business Support Department, CCT, November 2018; Quantec, December 2018, Jones Lang LaSelle, September 2018 and South African Property Owners Association [SAPOA], October 2018.

As figure 13 shows, Cape Town's office vacancy rate continued to increase, by 0,2 percentage points to 7,20% in the third quarter of 2018, and remains the lowest vacancy rate across the five largest metropolitan municipalities (SAPOA, 2018). This increase may in part be attributable to the office development in Century City which was completed in quarter two of 2018, continuing to place further upward pressure on the vacancy rate (JLL, 2018). According to SAPOA (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 1,8%[12] in the second quarter to 2,2% in the third quarter of 2018, this is still too low to have a meaningful impact on the office vacancy rate.

c. New vehicle sales

Total vehicle market sales increased in the Western Cape to 14 901 in the third quarter of 2018 from a previous recording of 14 401 in the second quarter of 2018. Year-on-year results reflect a slight decrease in vehicle sales of 4,97% (779 units) from the 15 680 total vehicles sold in the corresponding period of 2017. Passenger vehicle sales in the Western Cape (private consumer segment of the market) increased from 9 144 in the second quarter of 2018 to 9 981 in the third quarter of 2018, whilst the year-on-year results indicate a decrease of 3,78% (392 passenger vehicles), as compared to the 10 373 vehicles sold in the third quarter of 2017. On a national level, a year-on-year decrease of 0,26% was observed with a total of 94 249 passenger vehicle sales in the third quarter of 2018, as compared to 94 494 passenger vehicles sold in the third quarter of 2017. Decreasing passenger vehicle sales in the third quarter of 2018 may be attributed to a weaker GDP outcome in the short and medium term that adversely impacted consumers' purchasing power (Omarjee, 2018).

[12] Quarterly GVA growth for the finance and business services sector for the second quarter of 2018 has been revised from 1,9% to 1,8% (Quantec, 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
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
Ml: million litres
MPC: Monetary Policy Committee
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