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EPIC

Economic Performance Indicators for Cape Town

Quarter 1 (January – March) **2017**

SECTOR FOCUS: THE CREATIVE ECONOMY

Making progress possible. Together.

Document navigation shortcuts

- Entries on the Contents pages link to the relevant page.
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http://www.capetown.gov.za/work%20and%20business/doing-business-in-the-city/business-support-and-guidance/economic-resources-and-publications

Foreword

The severe drought affecting the Western Cape has underlined the increasing importance of building a resilient city, one that can adapt and grow in the face of severe shocks and stresses.

While not on the scale of the water crisis, our national economy is currently undergoing severe stress. Gross Domestic Product (GDP) growth figures, released by StatsSA on 6 June, revealed that the country had slipped into a technical recession – having recorded two consecutive quarters of negative quarterly GDP growth. At the same time, South Africa posted its highest strict unemployment rate in 14 years. These figures do not even take into account the recent credit rating downgrades. As such, there can be little doubt that these are challenging times for our economy. And yet in the midst of these times, certain segments of the city's economy have proven remarkably resilient.

Cape Town grew employment by 28 763 in the first quarter of 2017, buoyed by strong employment growth in the manufacturing sector, bringing the city's strict unemployment rate down to 23,0% at a time when the national rate had reached a 14-year high. Against the tide of investor pessimism, the City also recorded R4 billion worth of completed building plans in the first quarter, representing growth of 47,5% on the previous year's figures. And despite the decrease in foreign tourist numbers to South Africa in the first quarter, both Cape Town's accommodation establishments and top tourist attractions enjoyed increases in their occupancy rates and number of visits respectively. The positive performance of the tourism sector, in part, reflects the City's efforts, together with provincial government and Wesgro, in securing a greater number of direct flights, evidenced by Cape Town International Airport recording a 25% year-on-year increase in international arrivals.

Building an economically resilient city, which can grow in the face of adverse national economic conditions, requires a certain level of innovativeness and creativity. These are characteristics that Cape Town is increasingly becoming known for, as reflected in Chapter 7 which focuses on the Creative Economy.

Since having the honour of being the World Design Capital in 2014, the city has matured into a creative and design hub and moved from using design simply as a means of styling to embedding design thinking into processes. The retail turnover growth of places like the Watershed at the V&A Waterfront, which hosts about 150 craft and design businesses, pays testament to the sector's maturation.

If we want Cape Town to not just be able to weather storms, economic or natural, but to thrive in them, design-led thinking needs to inform innovation. We need to embed a culture of innovation into all the work we do as we live in an ever-changing and unpredictable world. To ensure that we adapt and grow, we will constantly have to innovate and evolve with the times.

The City is geared for these changes through our Organisational Development and Transformation Plan which led to the establishment of an Organisational Effectiveness and Innovation Department. This department's role is to drive change leadership and a culture of innovative thinking into the organisation which will translate into new ways of doing businesses and enhancing service delivery in our mission to become a more customer-centric government.

As usual, *EPIC* provides City officials and stakeholders with up-to-date economic information and analysis on the state of the Cape Town economy. I encourage you to engage with its contents as the basis for critical conversations on our City's economic future.

Patricia de Lille
Executive Mayor

OVERVIEW | GLOBAL | ECONOMIC GROWTH | INFLATION | LABOUR | TRADE | SECTOR FOCUS | INFRASTRUCTURE | TOURISM | INDICATORS

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Over the next five years the City of Cape Town has set as one of its strategic priorities the positioning of Cape Town as a forward-looking, globally competitive business city. In November 2016, the **Invest Cape Town** initiative was launched. It was the start of a process to develop a business brand narrative that emphasises the unique characteristics of the city-region. It concerns itself with crafting an authentic narrative about what Cape Town stands for as an investment destination, building on the compelling success stories and competitive advantages of the destination.

The essence of the narrative is that Cape Town is a functional African hub where ideas come to life through the energy and ambition of its people. Cape Town plays an important role in enabling growth across the continent by linking businesses to new insights, opportunities and unconventional solutions. It is a switched-on, in-tune and globally connected city with a business ecosystem driven by innovation and creativity. It is Africa's ideas centre.

The narrative will be further developed in 2017. Visit www.investcapetown.com for more information.

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Introduction

This is the 16th edition of the *EPIC* publication, which presents and analyses economic (and related) trends in Cape Town on a quarterly basis. This edition focuses on the first quarter of 2017 covering the period 1 January to 31 March 2017.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development strategies. It is essential to understand the nature, composition and performance of the local economy to 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.

Aim of publication, and key principles

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

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

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

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

Acknowledgements

The *EPIC* quarterly publication is a collaborative product of the Organisational Policy and Planning Department of the City of Cape Town, together with Wesgro. The publication is authored, consolidated and edited by the Economic Research Unit within the City's Research Branch, Department of Organisational Policy and Planning.

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

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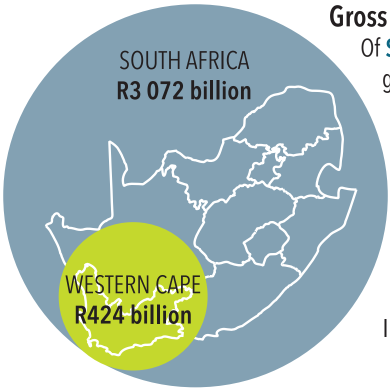


Gross domestic product (GDP)

Of **South Africa's R3 072 415 million** gross domestic product generated in the first quarter of 2017, the **Western Cape**[1] accounted for **R424 412 million**.

13,81%

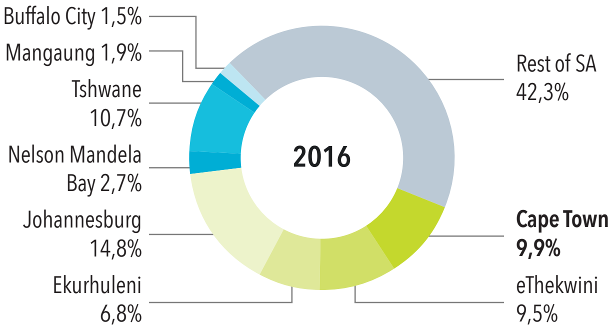
Source: Quantec, June 2017.

GDP per capita

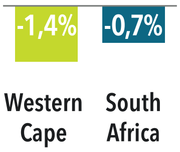
In 2016, **South Africa** had a GDP per capita of **R55 121**, while the **Western Cape** value was **R66 771** and **Cape Town's** rate was **R73 811**.

Source: IHS Global Insight, June 2017.

Gross geographic product (GGP) contributions



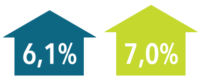
Source: Own calculations based on IHS Global Insight ReX regional data 2017.



GDP growth

During the first quarter of 2017, the **Western Cape** had a quarter-on-quarter GDP growth of -1,4%, against a national growth of -0,7%.

Source: Quantec, June 2017.

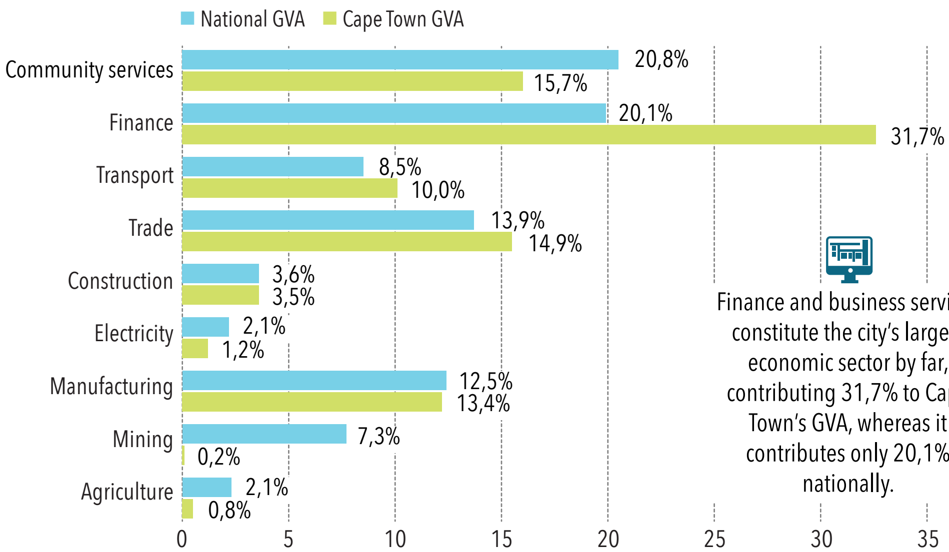


Inflation

At the end of the first quarter of 2017, the **Western Cape** had a higher rate of inflation – **7,0%** – than the rest of **South Africa** at **6,1%**.

Source: Stats SA, Consumer Price Index April 2017.

Cape Town's gross value added (GVA) versus national GVA 2016



Finance and business services constitute the city's largest economic sector by far, contributing 31,7% to Cape Town's GVA, whereas it contributes only 20,1% nationally.

Source: Own calculations based on IHS Global Insight ReX regional data 2017.

Passenger vehicle sales

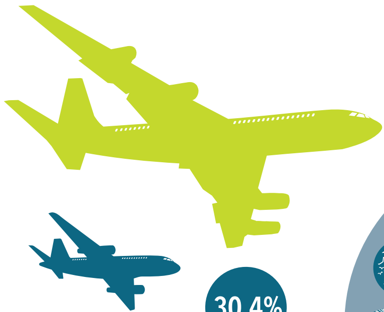
Of the **96 773** new passenger vehicles sold in **South Africa** during the first quarter of 2017, **10 841** were sold in the **Western Cape**.

Source: NAAMSA, June 2017.

Air passenger movements

Of the **9 044 273** passenger movements through **South Africa's three international airports** during the first quarter of 2017, **2 756 826** were through **Cape Town International Airport**.

Source: ACSA, May 2017.



30,4%

Cargo tonnage handled at ports

During the first quarter of 2017, **57 214 807** tons of cargo were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **1 548 589** tons.

Source: Transnet, National Ports Authority, May 2017.

Containers handled at ports

During the first quarter of 2017, **1 117 799** containers were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **239 936**.

Source: Transnet, National Ports Authority, May 2017.

Visitor attractions

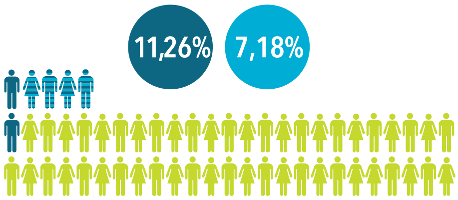
In the first quarter of 2017, tourists and residents made **7 640 198** visits to Cape Town's six major attractions.

Source: Wesgro, May 2017.

21,5%

1. GDP figures are not available for Cape Town on a quarterly basis so Western Cape figures are used as a proxy.

FIRST QUARTER 2017



Population

South Africa has 55 908 865 people: 6 293 200 live in the Western Cape and, of those, 4 012 441 are resident in Cape Town[2].

Source: Stats SA, City of Cape Town, January 2017.

Gini coefficient

In 2015, South Africa had a Gini coefficient[3] of 0,63, while Cape Town had a slightly lower value of 0,62.

Source: IHS Global Insight, June 2017.

0,74

Human development index

In 2015, South Africa had an HDI[4] of 0,64, while Cape Town's was 0,74.

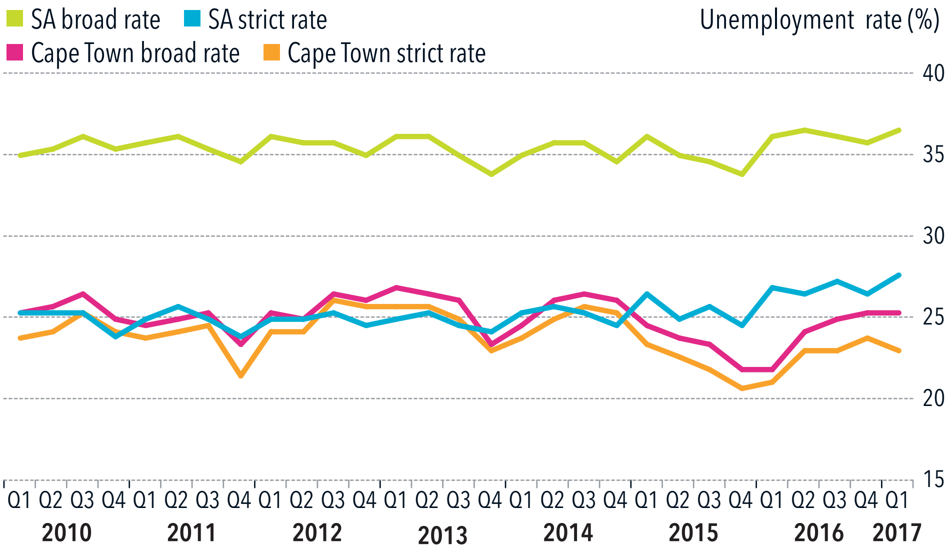
Source: IHS Global Insight, June 2017.

Functional literacy

South Africa has a functional literacy rate of 83,1%, while Cape Town has a rate of 92,3%.

Source: IHS Global Insight, June 2017.

Strict vs broad unemployment rates for Cape Town (Q1, 2010 to Q1, 2017)



Source: Stats SA, June 2017.

7,63%

Working-age population

Of the 37 060 653 people aged 15–64 in South Africa, 2 828 447 are resident in Cape Town.

Source: Stats SA, Quarterly Labour Force Survey (QLFS), June 2017.

36,4%

RATE

25,1%

Expanded unemployment

Of the 9 291 107 unemployed people in South Africa during the first quarter of 2017, 505 109 live in Cape Town.

Source: Stats SA, QLFS, June 2017.

Labour absorption rate

South Africa had a 43,7% absorption rate – the percentage of the working-age population in employment – in the first quarter of 2017, while Cape Town had a rate of 53,4%.

Source: Stats SA, QLFS, June 2017.

7,9%

Expanded labour force

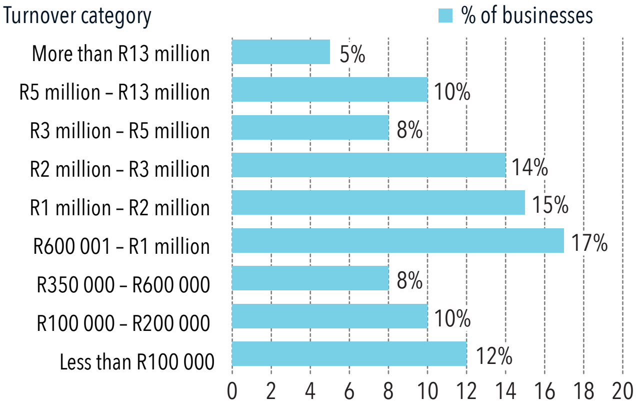
Of South Africa's 25 503 358 labour force participants, 2 016 058 live in Cape Town.

Source: Stats SA, QLFS, June 2017.

SECTOR FOCUS – THE CREATIVE ECONOMY

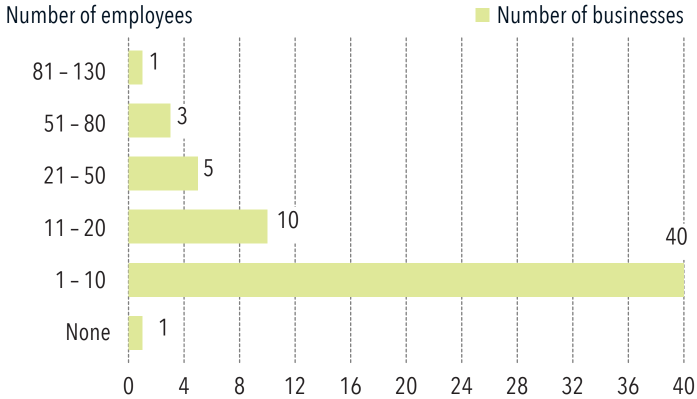
Cape Town is fast emerging as a focal point of design activity on the continent. The creative economy, especially craft and design, has the ability to provide differentiation in the international market place and unlock competitiveness.

Distribution of design retail businesses by turnover



Source: CCDI, 2017.

Number of employees reported by design retailers



Source: CCDI, 2017.

2. Mid-year estimates, 2016.
3. The Gini coefficient measures inequality in levels of income. Lower values represent greater equality. Values are for 2015.
4. The human development index (HDI) is a composite statistic of life expectancy, education and income indices. Higher values are better. Values are for 2015.

1

Overview

Cape Town is the second-most-important contributor to national employment. The industries in which Cape Town has the most pronounced comparative advantages as compared to the country as a whole are fishing, real estate, textiles and clothing, hotels and restaurants, and food and beverage manufacturing.

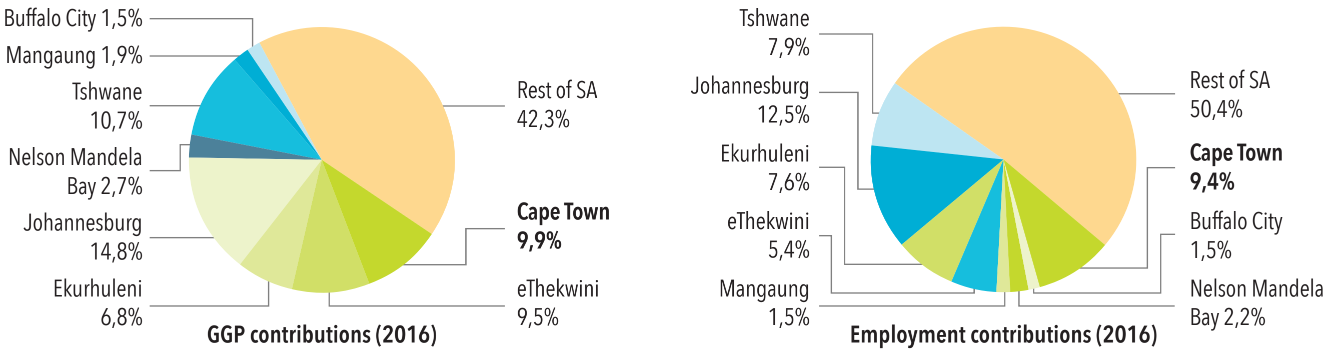
Cape Town is the second-most-important contributor to national employment.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 9,9% to national gross domestic product in 2016) followed closely after Tshwane (10,7%) and is the third largest municipal economy in the country in the first quarter of 2017. The City of Johannesburg has the largest economy (contributing 14,8% to national GDP in 2016), while eThekwini (9,5%) and Ekurhuleni (6,8%) closely follow behind Cape Town. Together, these five metropolitan municipalities accounted for 51,7% of the country's economic output in 2016.

Metropolitan areas are also major employers in the national economy, although they tend to be less labour-intensive than non-metro areas, where activities such as agriculture dominate employment. While the five largest municipalities contributed 51,7% of the country's output value in 2016, they accounted for only 42,7% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

Figure 1: Gross geographic product (GGP) contributions and employment contributions, 2016

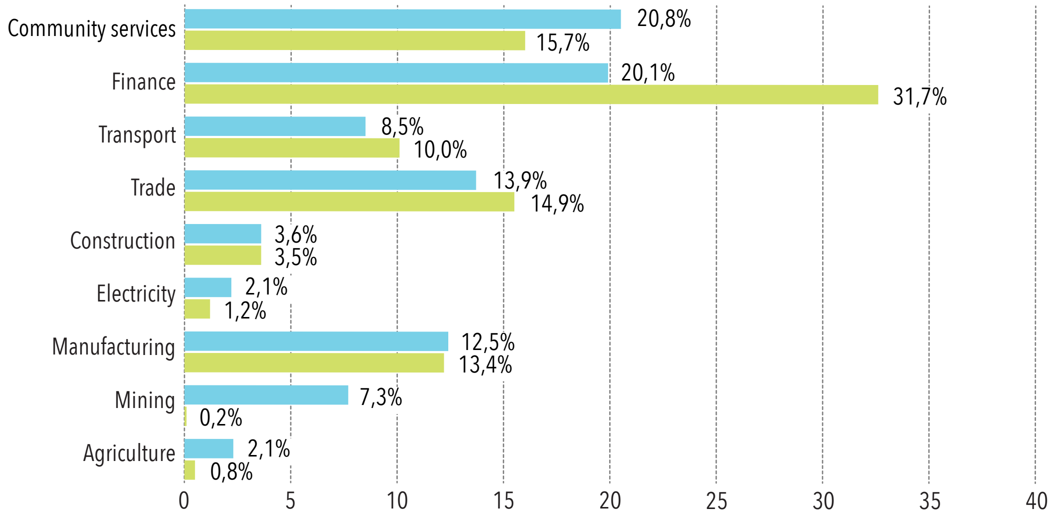


Source: Own calculations based on IHS Global Insight ReX data, 2017, and Statistics South Africa's QLFS data, 2017.

THE STRUCTURE OF CAPE TOWN'S ECONOMY

Figure 2 compares the sectoral distribution of gross value added (GVA) for Cape Town's economy to that of the national economy. The distribution differs from the national economy predominantly in terms of the smaller relative size of the primary sector (agriculture and mining) and the greater relative size of the tertiary sector (particularly finance and insurance). Finance and business services constitute the city's largest economic sector by far, contributing 31,7% to Cape Town's GVA, whereas it contributes only 20,1% nationally. At the other end of the scale, mining and quarrying contribute only 0,2% in Cape Town, as compared to 7,3% nationally.

Figure 2: Cape Town's GVA versus national GVA, 2016



Source: Own calculations based on IHS Global Insight ReX regional data, 2017.

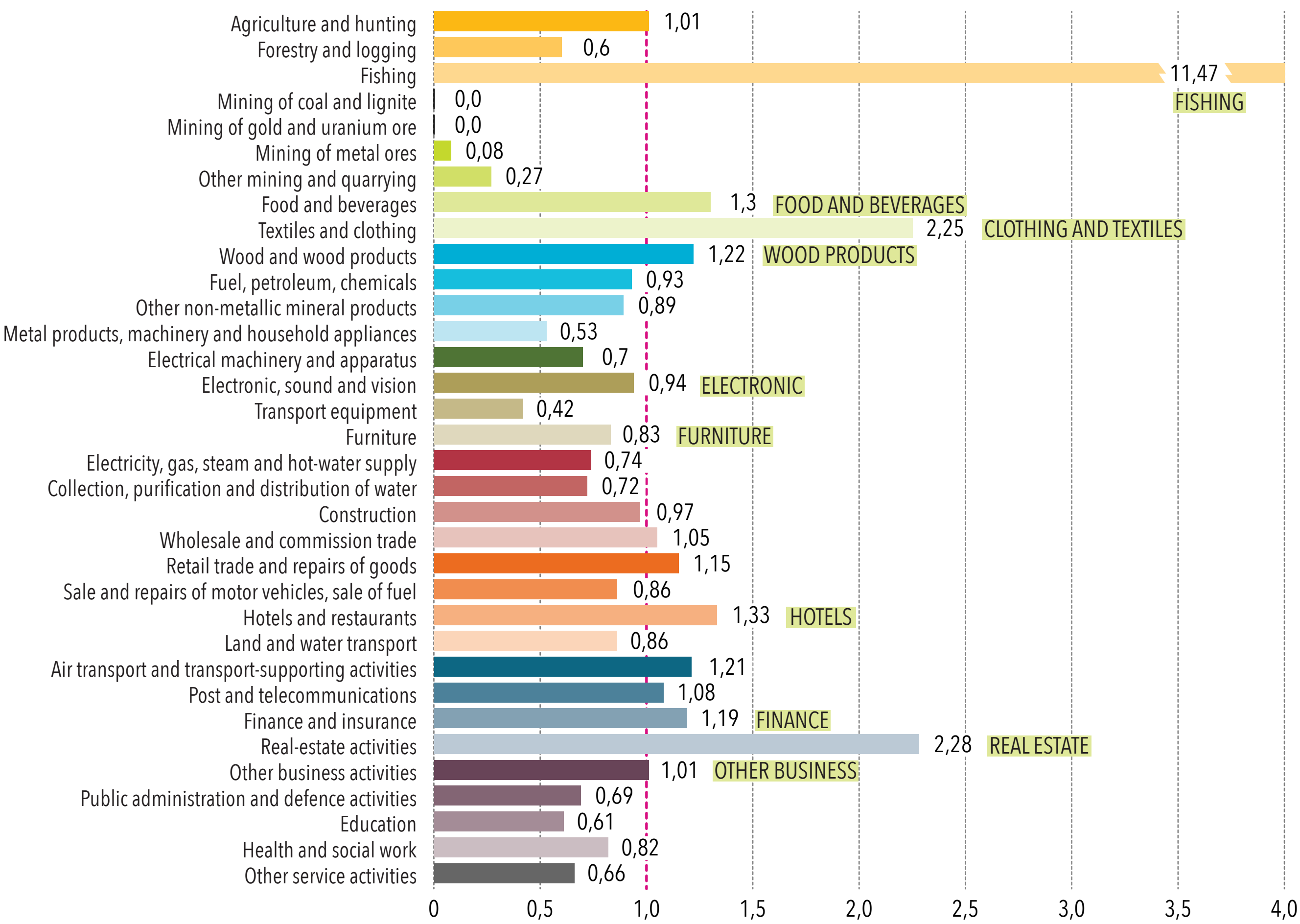
Finance and business services constitute the city's largest economic sector by far, contributing 31,7% to Cape Town's GVA.

CAPE TOWN'S COMPARATIVE ADVANTAGES

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

The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, real estate, textiles and clothing, hotels and restaurants, food and beverage manufacture, wood-product manu-

Figure 3: Location quotients for industries in Cape Town (compared to other metros)



Source: Own calculations based on IHS Global Insight ReX regional data, 2016.

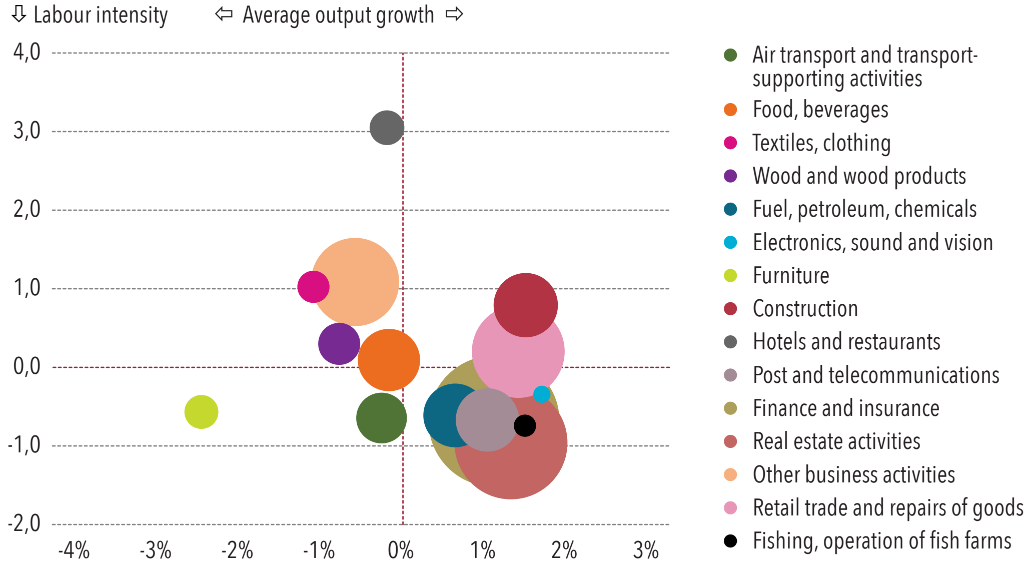
facturing, air transport activities, finance and insurance, post and telecommunications and retail trade and repairs of goods. These industries contribute a greater share of the city's economic output than they do to the combined economic output of all the metros in South Africa. While this analysis provides some idea of specific industries in which Cape Town has a comparative advantage, it is a static and one-dimensional analysis that fails to take into account the dynamic nature of the city's economy and the extent to which individual industries contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's industries that have a comparative advantage.

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

The importance of the tertiary sector is strongly reflected in figure 4, with the four largest bubbles being finance and insurance, real-estate activities, other business activities and retail trade. Of these industries, finance is growing the fastest. Unfortunately, a number of Cape Town's growth industries are also below 0 on the y-axis, indicating that they are capital-intensive as opposed to labour-intensive. This is true of finance and insurance; real-estate activities and fuel, petroleum and chemicals and post and telecommunications sectors of the economy. The industries that are growing fast, which are labour-intensive, and therefore offer good opportunities for employment creation, are construction and other business services.

The industries that are growing fast, which are labour-intensive, and therefore offer good opportunities for employment creation, are construction and other business services.

Figure 4: Industry performance for Cape Town



Source: Own calculations based on IHS Global Insight ReX regional data, 2016.

Size of bubble = gross value added

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

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

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

Global economic developments and outlook

As a mid-sized, middle-income city on the international stage, Cape Town is highly interconnected with the rest of the world and strongly affected by developments in the global economy. In a globalised world, understanding the economic performance of an open, international city requires a sound understanding of the current global economic climate.

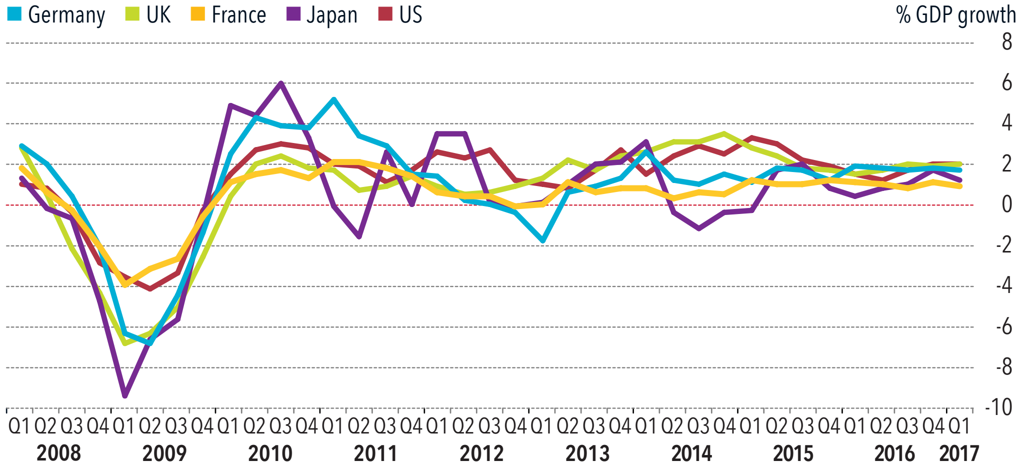
RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

While year-on-year[5] GDP growth for most developed economies was stable during the first quarter of 2017, only one of the five countries analysed observed an increasing GDP growth rate, namely the United Kingdom (UK), by 0,1 percentage points to 2,0%. The United States (US) remained stable at 2,0% year-on-year GDP growth for the second consecutive quarter. Germany and Japan observed declines of 0,1 percentage points and 0,4 percentage points respectively to year-on-year growth rates of 1,7% and 1,3% in the first quarter of 2017. Similarly, France experienced a decline from 1,2% in the fourth quarter of 2016 to 1% in the first quarter of 2017 to record the lowest GDP growth rate of the five countries. Whilst government spending improved, France's trade balance negatively affected its GDP growth as imports exceeded exports in the first quarter of 2017 and was further compounded by sluggish household spending (Trading Economics, 2017).

Whilst government spending improved, France's trade balance negatively affected its GDP growth as imports exceeded exports in the first quarter of 2017.

Figure 5: Economic growth trends in developed economies (Quarter 1, 2008 to Quarter 1, 2017)



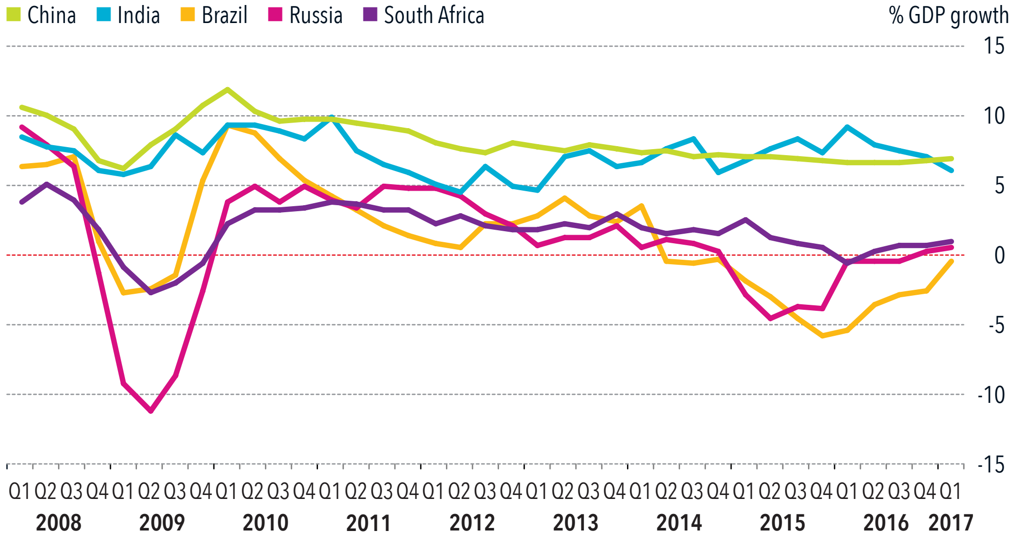
Source: Trading Economics, June 2017.

Emerging economies

Year-on-year GDP growth trends in the BRICS (Brazil, Russia, India, China and South Africa) economies have been diverse with high, positive growth in India and China and continued reprieve from recessionary trends in Brazil. China and India's economic growth has, on average, tended towards 7% and 8% year-on-year GDP growth since 2010. However, China's GDP growth has started consistently coming in below 7% year on year in recent quarters while India's growth has remained more erratic. In the first quarter of 2017, China's growth rate increased by 0,1 percentage points to 6,9%, while India experienced

The lower than expected performance of the Indian economy, its lowest since 2014, was impacted by lower consumer spending as well as investment levels, as the economy tried to stabilise following the demonetisation programme which started in November 2016.

Figure 6: Economic growth trends in emerging economies (Quarter 1, 2008 to Quarter 1, 2017)



Trading Economics and Stats SA, June 2017.

5. 'Year-on-year' is used here instead of annual, to reflect that the comparison is between the same quarters in two different years (Quarter 1, 2017 versus Quarter 1, 2016) as opposed to comparisons across different whole completed years (i.e. 2016 versus 2015). 'Quarter-on-quarter' refers to the comparison between the current quarter and the previous one (Quarter 1, 2017 versus Quarter 4, 2016).

Cash crunch: *People wait in a queue at the Reserve Bank of India in Kolkata (formerly Calcutta) to deposit old currency notes after the government demonetized 500 and 1 000 rupee notes in November 2016.*

a further decline of 0,9 percentage points to 6,1% in the first quarter of 2017. The lower-than-expected performance of the Indian economy, its lowest since 2014, was impacted by lower consumer spending as well as investment levels, as the economy tried to stabilise following the demonetization programme which started in November 2016 (Trading Economics, 2017). The case is quite different for the Brazilian economy, however, which recorded a 12th consecutive contraction, albeit the smallest in two years. Despite this, Brazil's GDP growth has improved year on year (by 5,4 percentage points from the first quarter of 2016 to the first quarter of 2017), as well as quarter on quarter (by 2,1 percentage points from the fourth quarter of 2016 to the first quarter of 2017), indicative that the economy is continuing towards exiting its recessionary trend. The South African economy observed a year-on-year growth rate of 1% in the first quarter of 2017, facilitated by a rebound in the mining and agricultural sectors. The chapter on economic growth delves deeper into this.

Global economic outlook

According to the latest *World Economic Outlook (WEO) Update* (2017) published by the International Monetary Fund (IMF) in April 2017, global growth in 2016 stood at 3,1%. Growth in the first quarter of 2017 is expected to maintain momentum into the rest of 2017, with the IMF revising its global growth projection upward by 0,1 percentage point to 3,5% in 2017. The growth forecast for 2018 remains at 3,6%. For the advanced economies the IMF reported a revised (higher) growth rate of 1,7% for 2016, with its outlook for 2017 also revised upward by 0,1 percentage points to 2,0%. Growth in emerging market and developing economies was confirmed as 4,1% in 2016, with the IMF forecast remaining at 4,5% for 2017.

Following an improvement from -0,4% growth in 2013 to 0,9% growth in 2014 and 2% in 2015 in the Eurozone, the IMF confirmed a growth rate of 1,7% in the Eurozone in 2016. The IMF's latest report projects that growth in the Eurozone will plateau at 1,7% in 2017 – a further 0,1 percentage point improvement since the previous forecast estimates in January 2017.

The IMF reported growth of 6,9% for China in 2015, and confirmed growth stood at 6,7% in 2016. The forecast for 2017 has been revised upward to 6,6% – possibly indicative of the successful rebalancing of the Chinese economy following recent policy support. However, its forecast for 2017 reflects the anticipation of a slowing Chinese economy. Despite the expectation of continued policy support, reliance thereon, coupled with rapid credit expansion and the transition towards a more sustainable growth path, increases the risk of a slowdown in growth. According to the IMF (2017), while the country is experiencing lower growth rates than that of the past two decades, its economic expansion still remains notably high on a global scale.

India's economy is expected to pick up again in 2017, with a growth rate of 7,2% forecast as new currency notes continue to be introduced into the economy.

Growth forecasts for India remain positive, with the growth for 2016 revised to 6,8%, upward by 0,2 percentage points since the IMF's January forecast. This is largely attributed to the temporary negative consumption shock related to the recent currency note withdrawal and exchange initiative. The demonetization of the 500 and 1 000 rupee notes in November 2016 resulted in large cash shortages and payment disruptions throughout the Indian economy. India's economy is expected to pick up again in 2017, with a growth rate of 7,2% forecast as new currency notes continue to be introduced into the economy.

Sub-Saharan Africa's economic growth for 2016 has been revised downwards by 0,2 percentage points to 1,4%. The IMF notes that 'modest recovery' is expected in this region in 2017, despite a slight downward revision of growth to 2,6%. The relatively low growth forecast is attributable to challenging macroeconomic conditions in some of its largest economies, driven mainly by lower commodity revenues. South Africa's economic growth forecast for 2017 predicts a modest improvement, with a growth projection remaining at 0,8%.

Asian infrastructure: *The world economy is increasingly reliant on China and India's above-global-average growth. Construction of the Guangzhou-Shenzhen-Hong Kong express rail link is pictured above.*

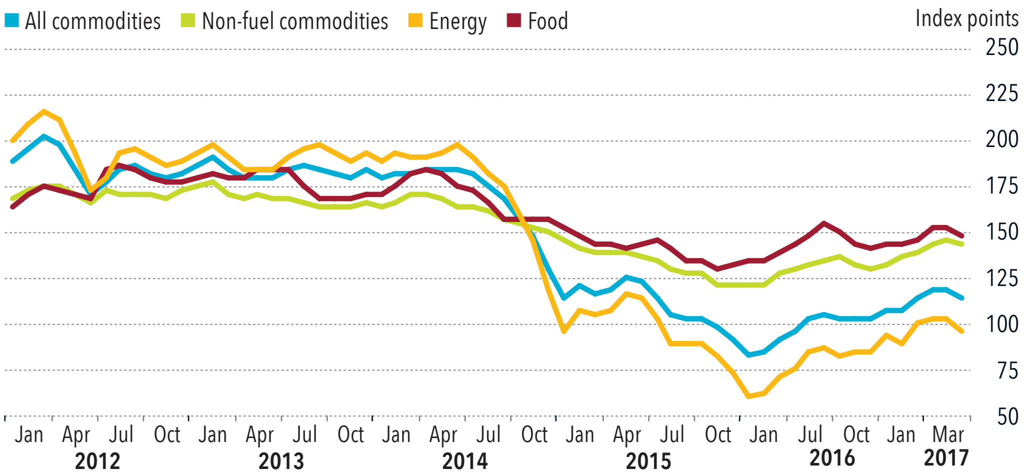
Overall, global output growth for 2016 was driven by growth of 4,1% in emerging market and developing economies and 1,7% in advanced economies. Growth for advanced economies in 2016 is the result of 'a long-awaited cyclical recovery', notably in manufacturing and trade (IMF, 2017: 1). In 2017, the IMF anticipates further recovery in global growth, led by growth in emerging market and developing economies. This is premised on the perception that there will be a normalisation of growth rates in countries and regions currently under stress or growing well below potential in 2016/17. It also reflects the increasing reliance of the world economy on China and India's above-global-average growth, particularly as growth in advanced economies continues to remain subdued.

COMMODITIES

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

The all-commodities index increased from its 109,71 (average) index points level in the fourth quarter of 2016 to 116,70 (average) index points in the first quarter of 2017.

Figure 7: World commodity indices (January 2012 to March 2017)



Source: IMF, June 2017.

The all-commodities index showed signs of improvement from its downward trend in 2015 for most of 2016 and this continued until the end of the first quarter of 2017. The all-commodities index increased from its 109,71 (average) index points level in the fourth quarter of 2016 to 116,70 (average) index points in the first quarter of 2017.

A number of factors drove activity in the all-commodities index in the first quarter of 2017, predominant among which was a 6,8% quarter-on-quarter increase in the energy index and 5,8% quarter-on-quarter increase in the non-fuel commodities index. The food index increased by 4,7% quarter on quarter in the first quarter of 2017, reversing the downward trend of the last two quarters of 2016.

Crude oil prices fluctuated throughout the first quarter of 2017, starting out fairly stable in January at US$52-US$55 a barrel, and declining to US$50,91 a barrel in March 2017 – driving a similar downward trend observed for the energy index. On 30 November 2016, the Organization of the Petroleum Exporting Countries (OPEC) agreed to reduce crude oil output to 32,5 million barrels per day as of January 2017. Whilst most members have been complying thus far with the agreement, spot oil prices have not been impacted as adversely as expected as Nigeria experienced some recovery in their production, as well as improved production in the shale market.

Futures markets anticipate oil prices to increase to US$55,2 a barrel in 2017 and to US$55,1 a barrel by 2018 (IMF, 2017). In terms of agricultural commodity prices, the outlook remains mixed for the foreseeable year ahead. This is due to the upside risk of higher energy prices and weather variability relative to the potential downside risk of a rise in the supply of agricultural products from China, which is bringing accumulated stocks to the market in response to the elimination of price floor systems (IMF, 2017).

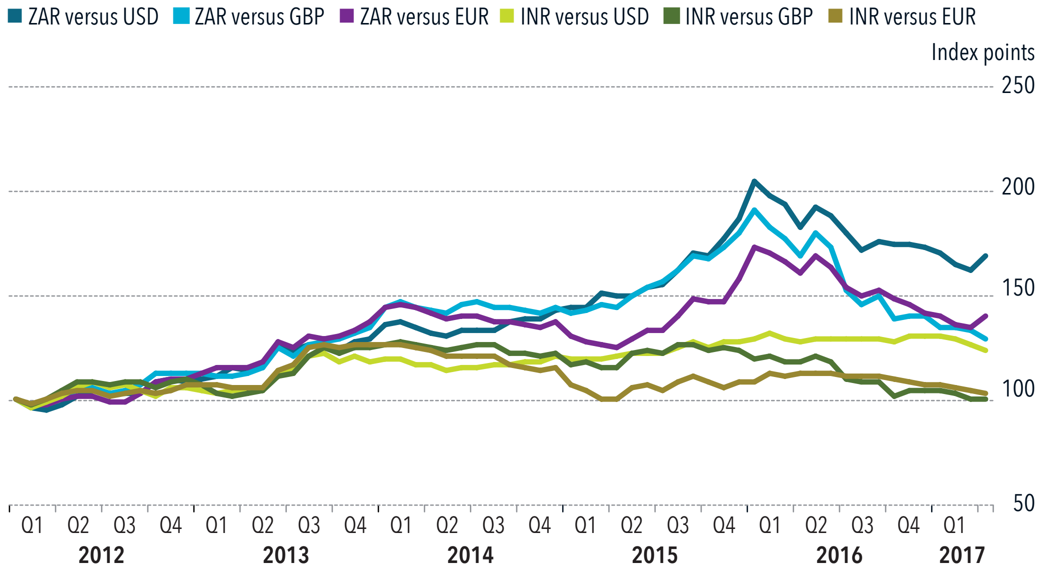
EXCHANGE RATES

The performance of the South African rand (ZAR) is measured by comparing the exchange rate with three other currencies, namely the US dollar (USD), the British pound (GBP) and the euro (EUR). Further, the Indian rupee (INR) is used as a proxy to measure the impact of global financial market developments on other emerging countries with respect to its rate of exchange with the US dollar, British pound and the euro.[6]

The first quarter of 2017 saw the appreciation of the rand relative to the US dollar, the British pound and the euro. However, by April 2017, the rand had significantly depreciated against the US dollar, the British pound and the euro. Domestically, the depreciation was largely a result of the sovereign ratings agency's decision to downgrade South Africa's credit ratings to sub-investment grade in the beginning of April. The rand's exchange rate against the US dollar, the British pound and the euro was strongest in March 2017. The US Federal Reserve's tightening of its monetary policy, which was expected to be a risk to the rand to dollar exchange rate, on the contrary, resulted in the rand and peer currencies strengthening in March 2017. For the rand, this has been attributable to an improving trend in terms of the deficit on the current account (SARB, 2017). The rand is set to depreciate against the US dollar and the euro in the second quarter of 2017 as domestic political uncertainty continues.

The US Federal Reserve's tightening of its monetary policy, which was expected to be a risk to the rand to dollar exchange rate, on the contrary, resulted in the rand and peer currencies strengthening in March 2017.

Figure 8: Indexed nominal exchange rate trends (January 2012 to April 2017)



Source: South African Reserve Bank and OANDA Solutions for Business, June 2017.

The Indian rupee similarly displayed moderate movement against the three developed currencies. It experienced a substantial appreciation against the US dollar, the British pound and the euro in the first quarter of 2017. Unlike the rand, the Indian rupee appeared to hold strong against the US dollar and euro in April, albeit observing a slight weakening against the pound. The latter aside, it would seem that the rand's depreciation in April was potentially more attributable to domestic developments in relation to the country's credit rating downgrade to non-investment grade (by Fitch and Standard and Poor's), and less so to international developments.

6. Note that all currencies were indexed to 100 in the base period (January 2012) in order to normalise them and contrast the relative trajectories these followed until the end of the period analysed (April 2017).

3

Economic growth

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

ECONOMIC GROWTH IN SOUTH AFRICA

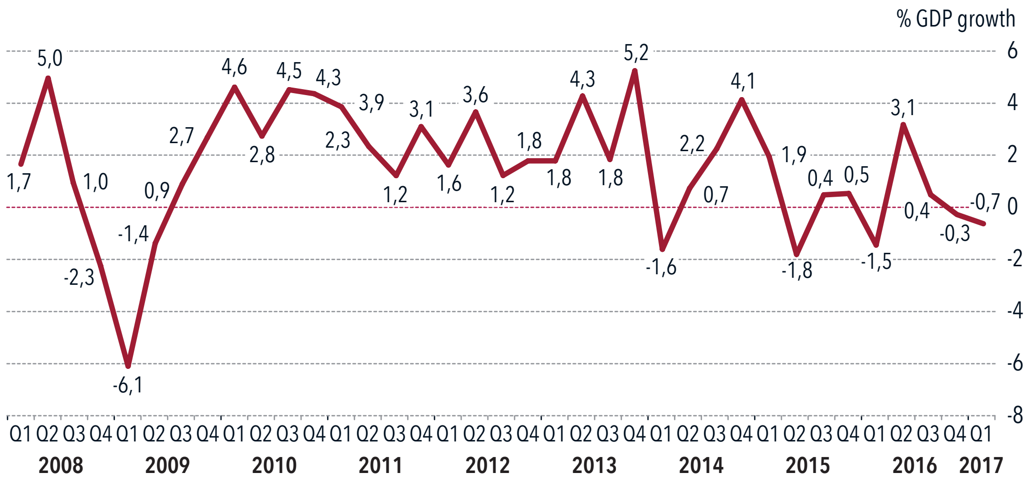
On a quarter-on-quarter basis, the South African economy contracted by -0,7%, plunging the economy into a technical recession for the first time since 2009.

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

In 2016 the South African economy slowed to an average annual year-on-year growth of 0,3% (BER, 2017). On a quarter-on-quarter basis, the South African economy contracted by -0,7%, a further decline from its -0,3% contraction in the fourth quarter of 2016 plunging the economy into a technical recession for the first time since 2009. The first quarter growth figure was also notably lower than the 0,6% quarter-on-quarter growth anticipated by the BER as well as the Bloomberg consensus of growth of 0,9% quarter on quarter. The economic slowdown was brought about by strong quarter-on-quarter contractions in the trade (-5,9%), electricity (-4,8%) and manufacturing (-3,7%) sectors. Overall, the only sectors which observed economic gains in the first quarter were the agriculture (22,2%) and mining (12,8%) sectors. Growth in these sectors could not, however, outweigh the contraction across all other sectors of the economy.

In contrast to its quarterly performance, the South African economy grew on a year-on-year basis, recording a rate of 0,6% in the first quarter of 2017. This meant that economic growth performed 1,2 percentage points better than in the first quarter of 2016 when the economy experienced a year-on-year contraction of -0,6%.

Figure 9: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 1, 2017)



Source: Stats SA, June 2017.

Sectoral determinants of GDP growth in South Africa

The poor performance of the South African economy in the first quarter of 2017 was spread across all sectors, with the exception of the agricultural and mining sectors (Statistics South Africa, 2017). The primary sector grew by 14,9% quarter on quarter in the first quarter of 2017, a notable rebound from its 9% contraction in the fourth quarter of 2016 (Statistics South Africa, 2017). The mining sector observed a quarter-on-quarter growth rate of 12,8%, up markedly from its -11,5%

The primary sector grew by 14,9% quarter on quarter in the first quarter of 2017, a notable rebound from its 9% contraction in the fourth quarter of 2016.

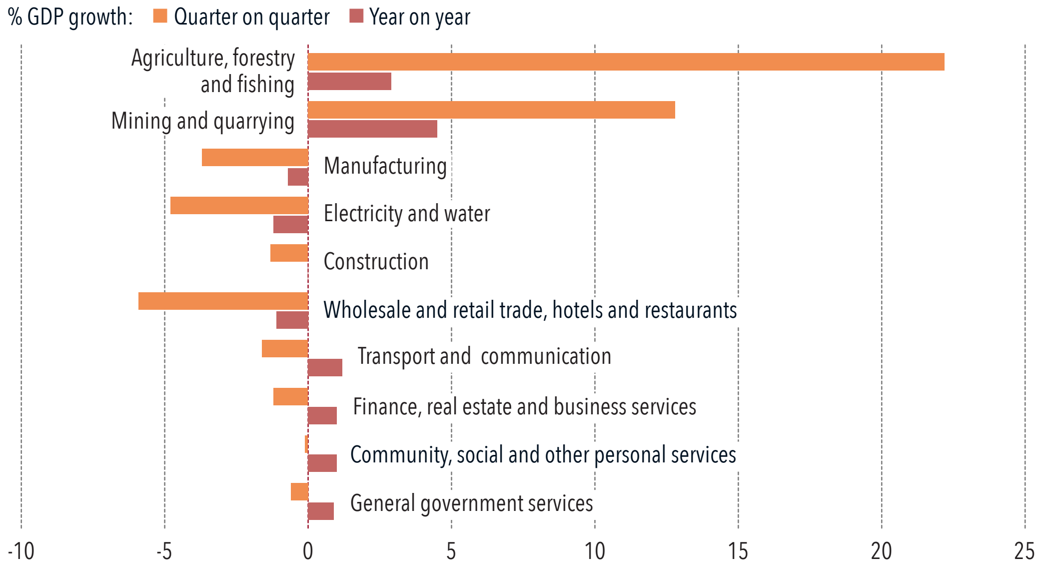
contraction in the fourth quarter of 2016. The largest recovery, however, was in the agricultural sector which saw growth of 22,2% quarter on quarter, evidencing its reversion from its eighth consecutive quarters of stagnation prior to the first quarter of 2017.

The secondary sector's output contracted by 3,4% in the first quarter of 2017, resulting from quarter-on-quarter contractions across all its sub-sectors, including manufacturing (-3,7%), electricity, gas and water (-4,8%), and construction (-1,3%). Statistics South Africa reports that much of this decrease in manufacturing output was the result of declines in the petroleum, chemical products, rubber and plastic products division. In terms of the electricity, gas and water industry, its contraction was driven by decreases in electricity production and water restrictions. The construction industry's contraction was attributed to reduced non-residential building and construction works.

The tertiary sector saw a reversal in its observed growth in the fourth quarter of 2016, contracting by -2% in the first quarter of 2017. Statistics South Africa reported that all services-related sectors contracted in the first quarter of 2017. The largest contraction was observed for the trade (-5,9%) sector, followed by the transport (-1,6%), finance (-1,2%), government (-0,6%) and personal services (-0,1%) sectors.

Figure 10 shows that the agriculture, forestry and fishing as well as mining and quarrying sectors experienced quarter-on-quarter and year-on-year expansions in the first quarter of 2017. While all other sectors observed quarter-on-quarter contractions, the transport and communication (1,2%), finance (1%), community, social and other personal services (1%) and general government services (0,9%) sectors saw year-on-year growth.

Figure 10: Sectoral GDP growth rates for South Africa (Quarter 1, 2017)



Source: Stats SA, June 2017.

The transport and communication (1,2%), finance (1%), community, social and other personal services (1%) and general government services (0,9%) sectors saw year-on-year growth.

The Western Cape economy contracted by -1,4% in the first quarter of 2017. On a year-on-year basis, however, the Western Cape economy performed better with 0,2% growth.

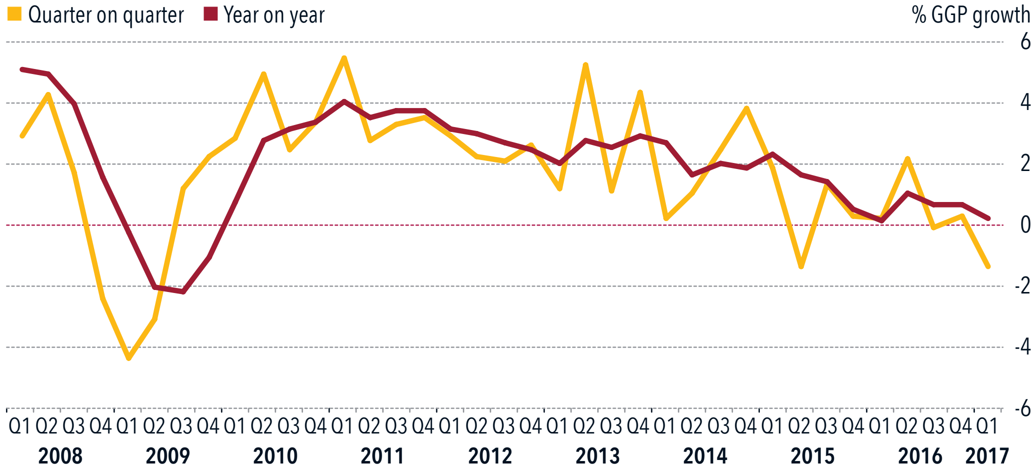
ECONOMIC GROWTH IN THE WESTERN CAPE

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

The Western Cape economy contributes around 14% of national GDP (IHS Global Insight, 2017). The province's economic performance is strongly influenced by national economic conditions, and in line with the quarter-on-quarter contraction at the national scale, the Western Cape economy contracted by -1,4% in the first quarter of 2017. This is likely attributed to the similarly weak performance of the province's trade, electricity and manufacturing sectors. On a year-on-year basis, however, the Western Cape economy performed better with 0,2% growth.

While GDP-R statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to typically mirror that of the provincial economy. This is because the metro contributes about 72% of the provincial economic output (IHS Global Insight, 2017). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate has been 0,05 percentage points.

Figure 11: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 1, 2017)



Source: Quantec, June 2017.

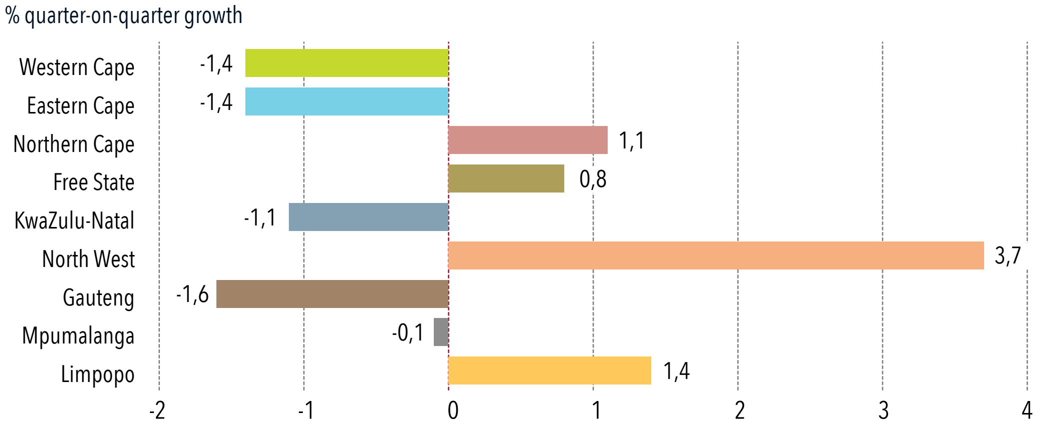
Four provinces observed positive quarter-on-quarter economic growth in the first quarter of 2017, namely Limpopo (1,4%), North West (3,7%), Free State (0,8%) and the Northern Cape (1,1%).

Provincial economic growth comparisons

Five provincial economies experienced negative growth in the first quarter of 2017, namely, Gauteng (-1,6%), KwaZulu-Natal (-1,1%), Eastern Cape (-1,4%) and the Western Cape (-1,4%), driven by contractions across all sectors except the agriculture and mining sectors. In contrast, four provinces observed positive quarter-on-quarter economic growth in the first quarter of 2017, namely Limpopo (1,4%), North West (3,7%), Free State (0,8%) and the Northern Cape (1,1%). These provinces' economies are comparatively more reliant on the agricultural and mining sectors.

Cape Town is not significantly affected by changes in the primary sector but the city is strongly affected by the performance of the tertiary sector, which accounts for 79% of its GDP (IHS Global Insight, 2017).

Figure 12: Provincial comparisons of real GDP-R growth rates (Quarter 1, 2017)



Source: Quantec, June 2017.

Sectoral drivers of economic growth in the Western Cape

The Western Cape's economy shrank in the first quarter of 2017, fuelled by a contraction across all except the agricultural and mining sectors. Much as per the national trend, the largest quarter-on-quarter sectoral contractions were observed by the province's trade (-6,1%), electricity (-5,4%), manufacturing (-3,5%), transport and communication (-1,7%), construction (-1,3%) and finance (-1,2%) sectors. The community and general government services sectors also shrank by -0,1% and -0,6%, respectively. In contrast, the Western Cape's agriculture sector made a significant rebound from its contraction in the fourth quarter of 2016, growing by 22,8% quarter on quarter. Similarly, the mining sector made a notable recovery, growing by 13% quarter on quarter.

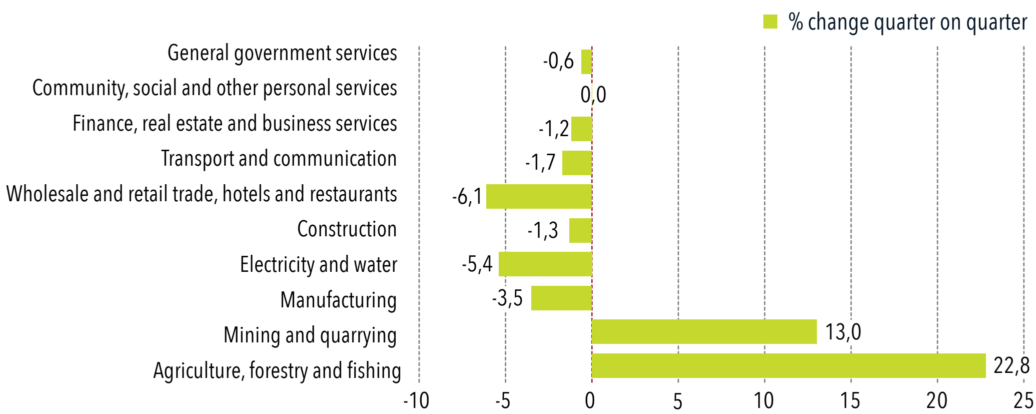
The positive year-on-year growth in the Western Cape's output came from agriculture (1,9%), mining (2,5%), transport and communication (1,4%), finance (0,7%), community (1%) and general government (0,8%), closely following the national trend.

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, 82% of the Western Cape's finance and business services, 72% of wholesale and retail trade, and 70% of manufacturing, can be attributed to the metropolitan area (IHS Global Insight, 2017). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the first quarter of 2017. However, these sectors' greater contribution to the city's economy means that they would have had a larger effect on its economic growth rate.

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 18% (IHS Global Insight, 2017). Thus, it is difficult to make inferences about the performance of the city's primary sector based on primary sector GGP growth in the Western Cape. However, even if Cape Town's primary sector (agriculture, in particular) did mirror provincial trends, it is unlikely that this would have had a large impact on the overall growth rate, as the primary sector contributes 1% to Cape Town's GGP. The performance of the city's economy in the first quarter of 2017 would have been driven by the slowdown in the finance, community services, trade and transport sectors which comprise 32%, 16%, 15%, 13% and 10% of the city's economy, respectively.

The Western Cape's agriculture sector made a significant rebound from its contraction in the fourth quarter of 2016, growing by 22,8% quarter on quarter.

Figure 13: Sectoral real GDP-R growth rates in the Western Cape (Quarter 1, 2017)



Source: Quantec, June 2017.

ECONOMIC GROWTH OUTLOOK

The first quarter of 2017 saw the South African economy slump into a technical recession. While the agriculture and mining sectors saw rebounds from their stagnation in the fourth quarter of 2016, this positive growth could not outweigh the contraction of all other sectors of the economy. The Western Cape followed suit, with the trade, utilities and manufacturing sectors the hardest hit.

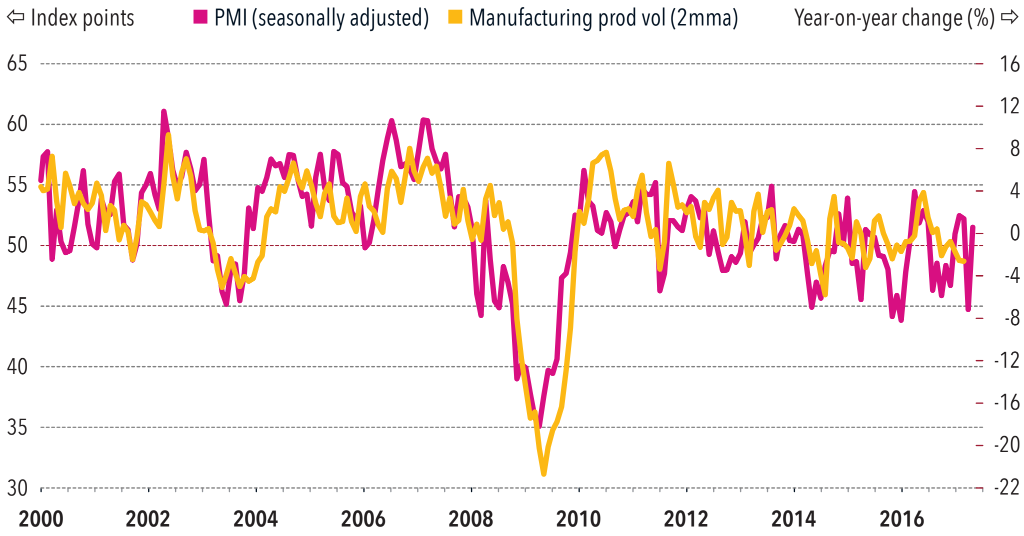
It remains to be seen whether the South African economy can, as it did after the contraction in the first quarter of 2016, reboot and achieve positive growth in the second quarter of 2017. The BER anticipates moderate quarter-on-quarter economic growth in South Africa of 0,6% during 2017, a downscaling from its 1% projection for growth in early 2017. This is driven by recent domestic political developments and the subsequent credit rating downgrades. Looking forward to 2018, the BER expects the acceleration of growth to be around 1,3%.

The BER anticipates moderate quarter-on-quarter economic growth in South Africa of 0,6% during 2017, a downscaling from its 1% projection for growth in early 2017.

The Absa Purchasing Managers' Index (PMI)[7], an indicator of economic activity in the South African economy, averaged a value above the 50-point neutral mark in the first quarter of 2017. The index stood at 50,9 index points in January, steadily increasing to 52,5 index points in February, and mildly decreasing to 52,2 index points by March, at which point the index had remained above the 50 index point neutral mark for the third consecutive month. The BER reports that this was facilitated by all five major subcomponents coming in above 50 points, which last occurred in May 2012. At the time of the March 2017 PMI survey, manufacturers anticipated that improved global growth would translate into higher exports and that the agricultural sector's recovery would benefit domestic demand. However, the subsequent economic impacts of the cabinet reshuffle and consequent credit rating downgrades saw the PMI drop below 50 index points in April (to 44,7 index points), though it had recovered well by May 2017 (to 51,5 index points).

The Absa Purchasing Managers' Index (PMI) averaged a value above the 50-point neutral mark in the first quarter of 2017.

Figure 14: Purchasing Managers' Index for South Africa



Source: BER, May 2017. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

The resounding sentiment is that the South African economy, and by extension the Western Cape economy, is headed for uncertain times despite some economic indicators having performed well in the first quarter of 2017. The rand, for example, benefited from the weaker dollar, higher commodity prices and an increased investor appetite (BER, 2017). However, the BER reports that consumer spending and private sector fixed investment looks to come under further pressure in forthcoming months.

Although Cape Town and the Western Cape's economies will be exposed to much the same challenges as the national economy, some reprieve may rest in the anticipated recovery of the manufacturing sector (as signalled by the Absa PMI exceeding the 50 index point neutral mark in May 2017). Further, while the finance sector, at a provincial level, suffered a notable knock on a quarter-on-quarter basis in the first quarter of 2017, it observed positive gains on a year-on-year basis, growing by 0,7%. Overall, the ability of the city's economy to realise the opportunities presented by international demand for exports, FDI inflows into Africa and increased tourism in the region will determine whether the city can move onto a sustained higher growth path in 2017.

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

4 Inflation

After a record high inflation rate in December, inflation slowly fell throughout the first quarter of 2017.

SOUTH AFRICA'S INFLATION OVERVIEW

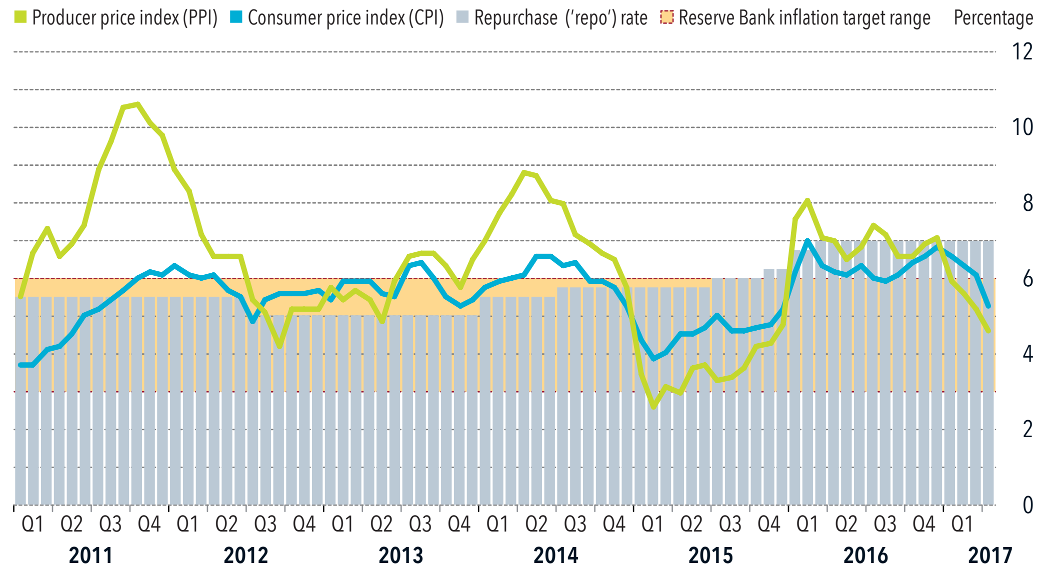
For the first quarter of 2017, the headline consumer price index (CPI) inflation rate decreased when compared to the fourth quarter of 2016. With a record high rate in December 2016 (6,8%) CPI inflation slowly observed a downward trend throughout the first quarter of 2017. However, it still hovered closely to the upper end of the inflation rate as it recorded 6,6% in January, 6,3% in February and 6,1% in March. According to the Monetary Policy Committee (MPC) statement (March 2017), key factors influencing the improved CPI in the first quarter of 2017 were the strengthening of the rand exchange rate following the tightening of the US Federal Reserve's monetary policy and the narrowing of the deficit on South Africa's current account.

Correspondingly, the producer price index (PPI) decreased when compared to the previous quarter. Since breaching the 7% mark at the end of December 2016, the PPI decreased significantly to within the target range for this quarter. It recorded rates of 5,9% for January, 5,6% for February and 5,2% for March 2017. The main contributors to PPI inflation were the prices of food, beverages and tobacco products (contributing 2,2 percentage points to PPI) as well as coke, petroleum, chemical, rubber and plastic products (contributing 2,2 percentage points to PPI).

Figure 15 also illustrates changes in the repurchasing rate (repo rate). As indicated on the graph, the repo rate remained at 7% throughout the first quarter of 2017. At the time of the MPC statement in March 2017, inflation had decreased for three consecutive months. The short-term inflation trajectory also improved as a result of a stronger exchange rate. As a result,

Key factors influencing the improved CPI in the first quarter of 2017 were the strengthening of the rand exchange rate following the tightening of the US Federal Reserve's monetary policy and the narrowing of the deficit on South Africa's current account.

Figure 15: CPI and PPI trends for South Africa (January 2011 to April 2017)



Source: CPI and PPI extracted from Stats SA, 2017, and repurchase rate extracted from SARB, 2017.

the MPC kept the repo rate unchanged for March 2017. Although the inflation outlook improved, some upward risks still exist in terms of the long-term inflation outlook. These risks relate to factors like the potential for further weakening in economic growth and exchange rate depreciation in response to sovereign credit rating changes.

Table 1: Inflation levels by household expenditure groups[8]

Quintiles	Level	Monthly expenditure	Inflation rate as at March 2017
1	Very low	R0 – R2 456	5,6%
2	Low	R2 457 – R4 742	5,8%
3	Middle	R4 743 – R7 907	5,6%
4	High	R7 908 – R14 419	5,9%
5	Very high	More than R14 420	6,2%
	South African inflation rate		**6,1%**

Source: Own calculations using Statistics South Africa, June 2017

The first and second quintiles, the household quintiles with the lowest level of monthly expenditure, experienced the lowest inflation rate (5,6% and 5,8%, respectively).

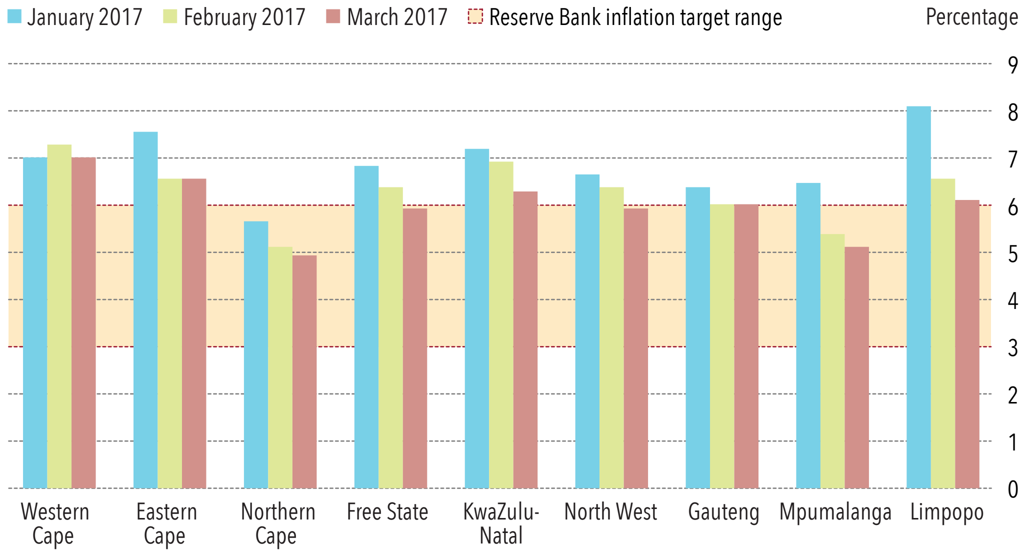
Table 1 indicates how different expenditure groups are affected by inflation. In the first quarter of 2017, inflation decreased significantly across all quintiles with only the fifth quintile breaching the 6% mark. The first and second quintiles, the household quintiles with the lowest level of monthly expenditure, experienced the lowest inflation rate (5,6% and 5,8%, respectively), whilst the fifth household quintile with the highest level of monthly expenditure recorded the highest (6,2%) inflation. One possible reason for this disparity is that higher expenditure quintiles may have been less impacted by the slight decrease in food price inflation (SARB, 2017).

Geographical inflation

The Western Cape recorded a higher inflation rate (7%) than the national inflation rate (6,1%) at the end of the first quarter of 2017. Overall, the inflation rate showed a downward movement within the quarter across all provinces. The largest declines, when comparing the change in inflation rate between January and March, were observed in Limpopo (2 percentage points), Mpumalanga (1,4 percentage points) and the Eastern Cape (1 percentage point). As illustrated in figure 16, the Northern Cape continued to record the lowest inflation rate (4,9%) at the end of March 2017 and was the only province to remain within the target range for the entire first quarter. The majority continued to log recordings above 6%. The highest inflation rate at the end of the first quarter was recorded for the Western Cape (7%), followed by the Eastern Cape (6,6%) and KwaZulu-Natal (6,3%). Food price inflation in the Western Cape was 8,2% in March 2017 (having decreased from 9,6% in February), while nationally it was higher at 8,9% (having decreased from 10,5% in February). Non-alcoholic beverages' price inflation in the Western Cape was 10,8% in March 2017 (having increased from 10,1% in February), while nationally it was lower at 9,4% (having increased from 9,3% in February). Higher inflation in the Western Cape was recorded in transport (8,4% compared to 7,5% nationally) and in education (7,5% compared to 7% nationally), whereas lower inflation was experienced in water (4,5% compared to 8,8% nationally) as well as in health activities (5,3% compared to 6,3% nationally).

Food price inflation in the Western Cape was 8,2% in March 2017 (having decreased from 9,6% in February).

Figure 16: CPI inflation rate at provincial level (January 2017 to March 2017)



Source: Stats SA, June 2017.

8. Statistics South Africa recently revised its quintile categories to further disaggregate higher quintiles and has redefined the 'level' of each quintile. As such, note that the monthly household expenditure categories reflected in this table correspond to this new categorisation by the national statistics agency.

Inflation outlook

For the first quarter of 2017, the overall inflation performance improved significantly when compared to the end of December 2016. After the headline CPI reached a record high for December 2016 (6,8%), it decreased substantially to 5,3% in April 2017. This marked a significant decline as it moved within the target range for the first time since December 2015. The PPI moved similarly as it drifted to below the upper end of the target range for March 2017 and remained as such into April 2017.

The appreciation of the rand was a key factor in the improvement of the inflation rate. Encouragingly, the recent appreciation of the rand is expected to lead to lower fuel price inflation, which will bring about some relief to consumers. That said, with the rand having depreciated in April 2017, following the country's credit rating downgrade, the MPC will closely monitor further exchange rate movements.

According to the latest MPC statement, the SARB inflation forecast has improved as it is expected to return to within the target range during the second quarter of 2017. This represents an improved view from its previous expectations that the inflation rate would only return to this range by the end of 2017. Furthermore, its inflation outlook for 2017 has improved from an average of 5,9% to 5,7% and it anticipates a further decrease in inflation to 5,3% in 2018.

At its May 2017 meeting, the MPC kept the repo rate unchanged at 7% per annum. Although the inflation outlook has improved significantly compared to 2016, the MPC will continue to monitor the inflation movement as upward pressure still exists due to high levels of uncertainty in the domestic environment.

The SARB inflation forecast has improved as it is expected to return to within the target range during the second quarter of 2017.

PRICE BASKET ANALYSIS

In order to better understand the effect that increases in the general price level (inflation) have on Cape Town households, the Economic Research Unit started collecting price data for typical grocery products in September 2016[9]. This section looks at which items have experienced the largest price increases and how the total cost of a notional basket of basic grocery items has changed between September 2016 and April 2017.

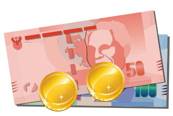
Price changes over time

The following indicates a notional price basket of potential food items that a household might consume during a month.

Diagram 1: Monthly average price for selected food items for a notional price basket in Cape Town, September 2016 to April 2017

September 2016

R152,47



	Percentage point contribution to price increase
White bread 700 g	-0,16
Long life milk 1 ℓ	0,24
Eggs (18)	4,84
Potatoes per kg	1,05
Onions per kg	-0,39
Rice (white) 2 kg	1,71
Baked beans 410 g	-0,64
Fish: pilchards (can)	0,65
Chicken: 250 g	-2,21
Cereal (oats)	-0,10
Total	**4,99**

April 2017

4,99%

R160,07

A tin of baked beans would need to be removed to keep the price of the basket of goods at the September 2016 level.

Source: City of Cape Town: Economic Research Unit, own calculations.

The price of the basket increased from R152,47 in September 2016 to R160,07 in April 2017, reflecting an upward price change of 4,99%. The basket reached the highest value of R164,08 in December 2016. This could be the result of a seasonal increase in demand associated with the festive season driving prices up. Thereafter, the basket decreased to R158,94 in March 2017 whilst increasing in April to R160,07. The key driver of the increase in the value of the notional basket was the price of

9. A few clarifications are required.
- This price basket is not related to the extensive one used by Statistics South Africa to derive CPI, but rather is a limited and subjective selection of typical household grocery items.
- The base data, which is collected monthly, consists of the average price of products across the main supermarket chains in Cape Town. Data gathering takes place at the end of each month.
- There is no assumption that these items are the only goods being consumed by households.
- The basket represents an assumed weekly household consumption expenditure (in rands).

Table 2: Fastest change in price of items increasing and decreasing during September 2016 and April 2017

Rank	Item from basket	Units	Min (R) values	Max (R) values	Average monthly growth rate (%)	Total growth rate (%)
Fastest increases in prices						
1	Juice (any)	2 ℓ	22,49	31,38	5,26	38,29
2	Eggs	18 eggs	27,22	40,19	4,43	27,09
3	Orange squash (concentrate syrup)	2 ℓ	24,99	32,38	3,08	17,61
4	Potatoes	per kg	9,99	11,99	2,55	16,02
5	Peanut butter	400 g	22,22	26,38	2,46	16,94
6	Sugar	2,5 kg	32,73	37,58	2,24	14,82
7	Rice (white)	2 kg	17,97	21,17	2,23	14,54
8	Tomato sauce	700 ml	17,74	20,18	1,93	13,77
Fastest decreases in prices						
1	Chicken: whole	per kg	42,39	59,46	-3,03	-22,65
2	Baked beans	410 g	7,30	8,62	-1,52	-11,29
3	Sunflower oil	750 ml	17,58	20,22	-1,22	-9,09
4	Instant coffee	750 g	63,79	75,18	-0,87	-7,17
5	Rooibos tea	80 bags	28,78	32,99	-0,39	-4,24
6	Margarine	500 g	16,79	20,19	-0,33	-4,00
7	White bread	700 g	11,39	12,34	-0,25	-2,01
8	Cereal: oats	1 kg	22,18	24,58	0,03	-0,67

Source: City of Cape Town: Economic Research Unit, own calculations.

The price of a two-litre bottle of juice observed the fastest price increase recording a monthly growth rate of 5,26%, with the price of eggs reflecting the second fastest price increase.

eggs. The table below identifies the items that experienced the fastest price growth between September 2016 and April 2017 as well as those that experienced price declines.

Interestingly, the price of a two-litre bottle of juice observed the fastest price increase recording a monthly growth rate of 5,26%, with the price of eggs reflecting the second fastest price increase. The increase in the price of juice could be driven by a number of factors but perhaps most likely are the increasing prices of its input ingredients such as fruit and sugar. The negative impact that the drought has had on fruit crops is still being felt and has resulted in upward pressure on fruit prices. Similarly, the price of sugar, which is a key input into juice, concentrate syrup, peanut butter and tomato sauce, saw the sixth fastest increase in price for items on which data was collected. Once again, the severe impact of the drought on the supply of sugar-cane crops likely drove this price increase. According to the South African Sugar Association (SASA), the total saleable sugar production decreased for the 2016/17 season to 1 539 739 tons, compared to the estimated 2 110 550 tons for the 2014/2015 season (SASA, 2017).

Chicken meat continues to record the fastest decline in price. As reported in the latest monthly report of the South African Poultry Association (SAPA), the number of poultry imports increased by 8,2% and 4,9% in January and February 2017, respectively (SAPA, 2017). The latest statistics published for March 2017 reflect that 94,6% of total poultry meat comprised chicken. The US has overtaken Brazil as the key poultry exporter. The competition between the US, Brazil and the Netherlands in the poultry market seems to be keeping chicken prices at a relatively low level. With chicken meat being imported at a relatively cheaper cost, South African chicken farmers and retailers have been forced to reduce their mark-up to sell at a competitive price, hence the significant decline in the price of chicken.

5

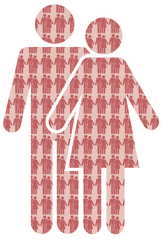
Labour market trends

The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic strategies, and are critically important to the country's development.

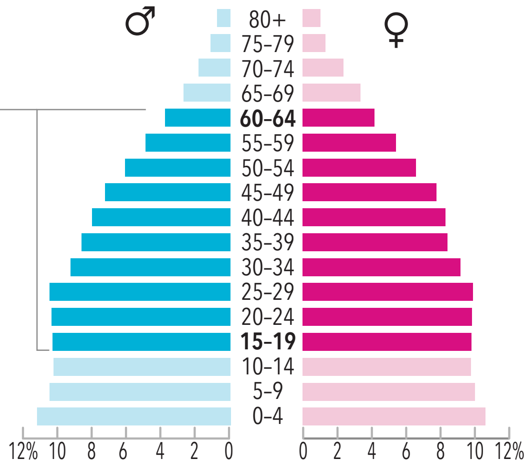
THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET – QUARTER 1, 2017

THE WORKING-AGE POPULATION

Cape Town has 2 828 447 people aged between 15 and 64. This group forms the **working-age population**. This is the value from which employment and unemployment figures are derived.



2 828 447
working-age population



Age distribution in the Western Cape

The dependency ratio
This refers to how many people depend on those of working age.
In Cape Town **45,3%** of those of non-working age depend on those of working age.

EMPLOYMENT

*The definition of **employment** is 'those aged 15-64 years who, during the reference week, did any work for **at least one hour**, or had a business or job, but were not at work (temporarily absent)'.*

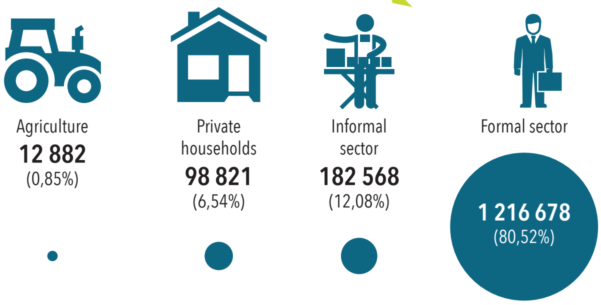
Of the 2 828 447 people who make up the **working-age population**, 1 510 949 – 53,4% – are **employed**. This percentage is also known as the labour absorption rate.

1 510 949
employed people

53,4% labour absorption rate

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

Of the 1 510 949 **employed Capetonians**, the majority are employed in the formal sector, with 12,1% in the informal sector.



Agriculture	Private households	Informal sector	Formal sector
12 882 (0,85%)	98 821 (6,54%)	182 568 (12,08%)	1 216 678 (80,52%)

The informal sector is defined as 'employees working in establishments that employ fewer than five employees, which do not deduct income tax from their salaries/wages; employers, own-account workers and persons helping unpaid in their household, and businesses that are not registered for either income tax or value-added tax'.

How these figures are calculated

Statistics South Africa publishes quarterly labour force surveys (QLFS), which provide data on the number of people in the labour market.

This includes the number of people who are employed, unemployed and not economically active. The data is broken down by industry, province, sex, age and sector. It covers both the formal and informal sectors.

Respondents are asked about their employment activity in the week prior to the survey, which is known as the 'reference week'.

The surveys are conducted in 30 000 private households and worker hostels across the country. The results are then weighted (adjusted) to accommodate factors such as rural and urban variations and to ensure that they are representative of the population as a whole.

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET – QUARTER 1, 2017

UNEMPLOYMENT

There are two measures of unemployment – strict and broad. The strict measure specified by the International Labour Organisation (ILO) is used in developed countries with mostly formal employment, and is useful for international comparisons. The broad definition is more useful in describing the scale of unemployment in developing economies with large numbers of discouraged job seekers.

Strict unemployment
The 'strict' definition of unemployment includes only people who are actively seeking work. By that definition, Cape Town has **452 317 unemployed people** – 23% of the strict labour force.

Strict rate

$$\frac{\text{Searching unemployed}}{\text{Labour force (employed + searching)}} = 23{,}0\%$$

WORK WANTED

Broad rate

$$\frac{\text{Searching + non-searching unemployed}}{\text{Broad labour force (employed + searching + non-searching)}} = 25{,}1\%$$

Broad unemployment
The 'broad' definition of unemployment includes those under the 'strict' definition as well as 'discouraged' and other 'non-searching' job seekers. By that definition, Cape Town has **505 109 unemployed people** – 25,1% of the broad labour force.

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

↑SEARCH CRITERIA
- *were available for work, i.e. would have been able to start work or a business in the reference week; or*
- *had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and were available.*

The youth unemployment rate
This refers to people between the ages of 15 and 24 who are not employed, despite being willing and able to work. The strict youth unemployment rate is 49,8%, while the broad youth unemployment rate is 52,6%.

49,8% | 52,6%

Some unemployed youth are meaningfully engaged in education or training. The NEET (not in employment, education or training) indicator captures those youth not actively participating in the economy in any way.

29,4% **The youth NEET rate in Cape Town is 29,4%.**

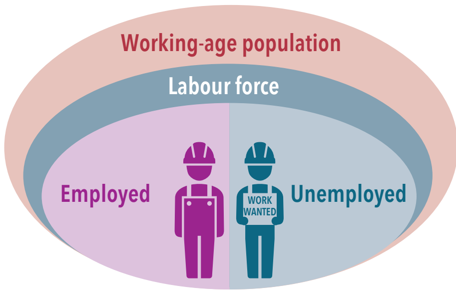
A __'discouraged job seeker'__ is a person who was not employed during the reference period, wanted to work, was available to work or start a business, but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring their skills; lost hope of finding any kind of work.
Other __non-searching work seekers__ are the searching unemployed and those who have not fulfilled the search criteria.
- *Discouraged work seekers and other non-searching work seekers are accommodated in the broad definition through the removal of the search criteria.*

↑SEARCH CRITERIA

THE LABOUR FORCE

The labour force comprises all persons of working age who are employed, plus all persons of working age who are unemployed.

Strict labour force = 1 963 266
The 'strict' definition of the labour force includes both those in employment and those unemployed people who are actively seeking work. By that measure, the Cape Town labour force is 1 963 266 strong, being made up of **1 510 949 employed people** and **452 317 job seekers**.



Broad labour force = 2 016 058
The 'broad' definition of the labour force includes those under the 'strict' definition, and 'non-searching' job seekers. By this measure, Cape Town's labour force is 2 016 058 strong, being made up of **1 510 949 employed people, 452 317 job seekers, 11 710 discouraged** and **41 082 other non-searching unemployed**.

THE LABOUR FORCE

1 510 949 EMPLOYED	452 317 SEARCHING UNEMPLOYED	52 792 DISCOURAGED AND OTHER NON-SEARCHING UNEMPLOYED

STRICT: 69,4% — LABOUR FORCE PARTICIPATION RATE — BROAD: 71,3%

Labour force participation rate

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

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

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

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

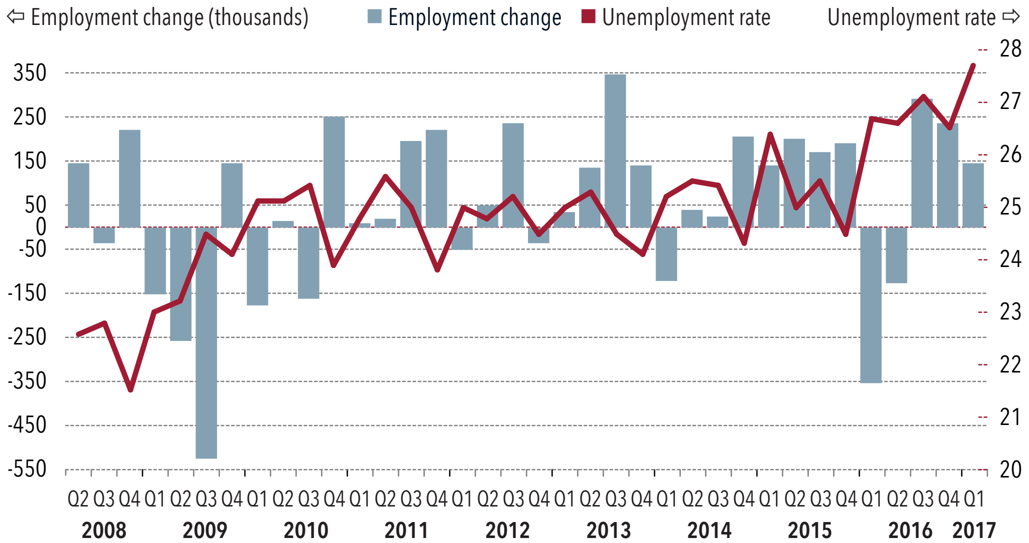
The sectors that contributed significantly to quarterly employment growth were manufacturing (62 000), finance and other business services (49 000) as well as mining (26 000).

In the first quarter of 2017, South Africa's labour force increased by 577 000 individuals compared to the fourth quarter of 2016. The number of employed people increased by 143 000 to 16,21 million from a previous figure of 16,07 million. Overall, the majority of the sectors displayed positive employment growth. The sectors that contributed significantly to quarterly employment growth were manufacturing (62 000), finance and other business services (49 000) as well as mining (26 000) whilst agriculture (-44 000), transport (-15 000) and community and social services (-2 000) were the only sectors that observed negative employment growth.

On a year-on-year basis, 1 029 000 more people were added to the labour force and employment increased by 538 000 individuals when compared to the first quarter of 2016. The finance and other business services (152 000), manufacturing (145 000) as well as construction (143 000) sectors added significantly to year-on-year employment growth. The community and social services sector observed the largest year-on-year contraction in employment (-101 000). In contrast to its positive quarterly performance, the mining sector (-24 000) was the only other sector to observe a reduction, year on year.

In the first quarter of 2017, unemployment in South Africa increased significantly by 433 000 quarter on quarter to a total of 6,21 million individuals. As a result, the official (strict) unemployment rate increased to 27,7% from a previous rate of 26,5% in the fourth quarter of 2016. This marked the highest recording in 14 years. The number of discouraged work-seekers, who are only included in the expanded measure of unemployment, decreased by 15 000 quarter on quarter. The figure below illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, consecutive increases in employment growth typically lead to a decrease in the unemployment rate. However, for the first quarter of 2017 the increase in employment was countered by the large increase in unemployment, which led to an increase in the strict unemployment rate.

Figure 17: Employment trends vs strict unemployment rate in South Africa (Quarter 1, 2008 to Quarter 2, 2017)



Source: Stats SA, June 2017.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the first quarter of 2017, the working-age population of Cape Town increased by nearly 14 000 individuals compared to the fourth quarter of 2016, and by approximately 56 000 individuals on a year-on-year basis. On a quarter-on-quarter basis Cape Town's labour force increased by 14 000 individuals to a total of 1,9 million in the first quarter, which led the labour force participation rate to increase by 0,2 of a percentage point to 69,4%. This remains higher than the national rate of 60,5%, pointing to the greater inclusiveness of Cape Town's labour market.

Table 3: Labour market indicators: South Africa and Cape Town*

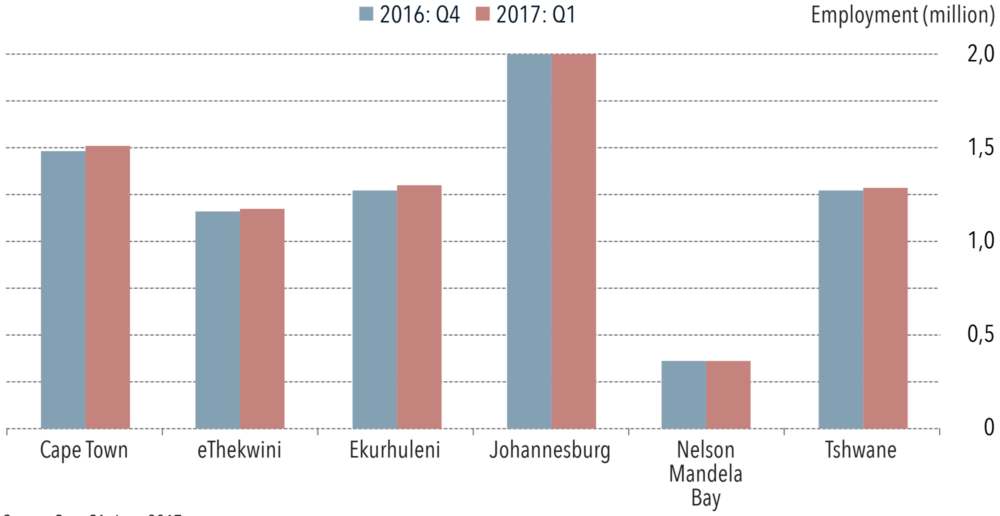
Indicator	South Africa			Cape Town		
Unit: Thousands ('000s)	**Q1:2017**	**Q4:2016**	**Q1:2016**	**Q1:2017**	**Q4:2016**	**Q1:2016**
Working-age population	37 061	36 905	36 431	2 828	2 814	2 772
Labour force	22 426	21 849	21 398	1 963	1 949	1 921
Employed	16 212	16 069	15 675	1 511	1 482	1 516
Employed by the formal sector	11 337	11 156	10 983	1 217	1 207	1 236
Employed by the informal sector	2 681	2 695	2 565	183	165	171
Unemployed	6 214	5 781	5 723	452	467	405
Not economically active	14 634	15 055	15 033	865	865	850
Discouraged work-seekers	2 277	2 292	2 434	12	11	5
Other	12 357	12 763	12 599	853	855	846
Unemployment rate (%)	27,7	26,5	26,7	23,0	23,9	21,1
Youth (15–24) unemployment rate (%)	54,2	50,9	54,5	49,8	48,0	50,4
NEET** as % of working age population	39,9	39,4	40,4	33,2	34,1	32,7
Absorption rate (%)	43,7	43,5	43,0	53,4	52,7	54,7
Labour force participation rate (%)	60,5	59,2	58,7	69,4	69,2	69,3

*Source: Stats SA, June 2017. * Figures in tables may not exactly add up due to rounding off. ** Not in employment, education or training.*

On a quarter-on-quarter basis Cape Town's labour force increased by 14 000 individuals to a total of 1,9 million in the first quarter, which led the labour force participation rate to increase by 0,2 percentage points to 69,4%.

The number of people employed in Cape Town in the first quarter of 2017 increased by 29 000 individuals on a quarterly basis whereas it decreased by a minimal 5 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and recorded an increase of 10 000 in the first quarter of 2017, relative to the fourth quarter of 2016. Similarly, employment increased in the informal sector by 18 000 on a quarter-on-quarter basis and both (formal and informal) decreased on a year-on-year basis. The share of total employment contributed by the informal sector increased to 12,1% from a previous figure of 11,2% in the fourth quarter of 2016. Further, private households reflected negative quarter-on-quarter employment growth in the first quarter of 2017.

Figure 18: Employment comparison with other metros (Quarter 4, 2016 to Quarter 1, 2017)



Source: Stats SA, June 2017.

To measure Cape Town's job creation performance, a comparison with the other metros in the country is helpful. From a static point of view, Cape Town has the second largest number of people employed in the country, with 1,51 million people employed

The metros which experienced a significant increase in employment were Ekurhuleni (31 877), Cape Town (28 763) and eThekwini (20 049).

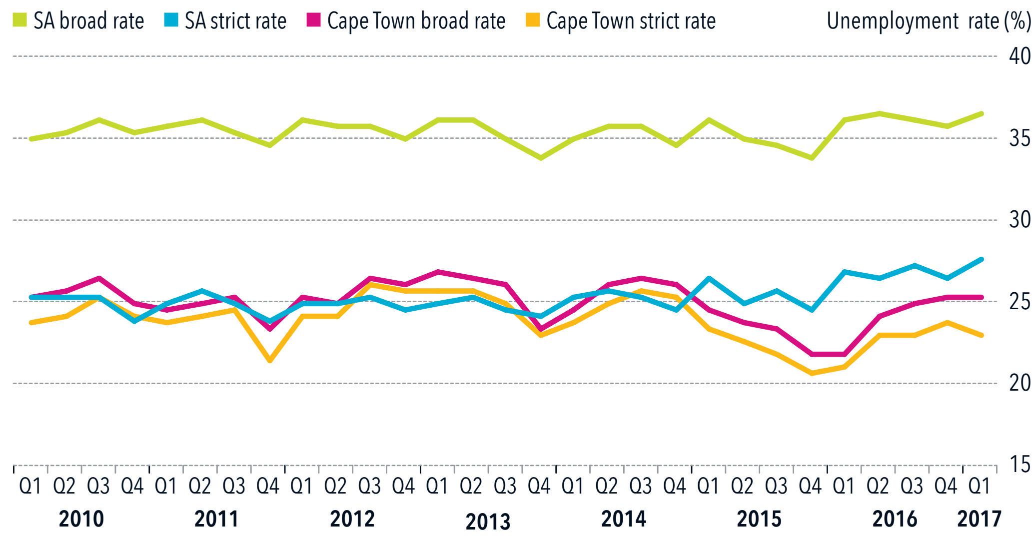
in the city compared to Johannesburg's 1,99 million. This is to be expected as Johannesburg has a significantly larger population.

Turning attention to employment creation in the first quarter of 2017, as measured by the difference in employment levels between the fourth quarter of 2016 and the first quarter of 2017, all metros displayed positive employment growth except Johannesburg and Nelson Mandela Bay. The metros which experienced a significant increase in employment were Ekurhuleni (31 877), Cape Town (28 763) and eThekwini (20 049). Nelson Mandela Bay reflected the highest decline with 7 384 individuals and Johannesburg followed with a decline of 2 675. On a year-on-year basis, Cape Town shed jobs at the fastest rate (-0,2%), while employment in eThekwini grew fastest (20,2%).

Unemployment in Cape Town

Cape Town experienced a decrease (14 368) in the number of unemployed people in the first quarter of 2017 compared to the previous quarter and an increase in the number of people unemployed (48 055) compared to the corresponding period in the previous year. This resulted in the strict unemployment rate decreasing, on a quarter-on-quarter basis, by 0,9 percentage points to 23% by the first quarter of 2017. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 49,8% in the first quarter of 2017, having increased from 48% in the previous quarter, although it observed a decline compared to the first quarter of 2016. While this is below the national rate of 54,2%, it is nonetheless remarkably high by developing-country standards, and poses a key challenge to economic policymakers in the city.

Figure 19: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 1, 2017)



Source: Stats SA, June 2017.

South Africa's expanded unemployment rate in the first quarter of 2017 was 36,4%, compared to Cape Town's expanded rate of 25,1%.

By excluding discouraged work-seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals wishing to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by figure 19, over the last few years the two rates of unemployment for Cape Town have remained relatively close although over the last three quarters of 2016 and continuing into the first quarter of 2017, there was a slight deviation. Cape Town's strict unemployment rate has, since the first quarter of 2015, diverged in trend from the national strict rate. Whilst moving slightly closer during the third and fourth quarter of 2016, it started to diverge further in the first quarter of 2017. As a result, the gap between Cape Town's strict unemployment rate and that of the national strict unemployment rate has grown to 4,7 percentage points in the first quarter of 2017, from a minimal difference of about 2,6 percentage points in the previous quarter. On average, the expanded unemployment rate in Cape Town is only 1,08% higher than the city's strict rate. However, it is important to consider the expanded definition of unemployment, as South

Table 4: Official vs expanded unemployment rates

Metro	Official			Expanded		
	2017:Q1	2016:Q4	2016:Q1	2017:Q1	2016:Q4	2016:Q1
Cape Town	23,0	23,9	21,1	25,1	25,3	21,7
eThekwini	21,8	22,0	18,8	28,7	28,0	27,2
Ekurhuleni	30,8	30,6	34,4	34,0	34,4	37,4
Johannesburg	28,3	27,8	29,8	30,2	30,2	31,1
Nelson Mandela Bay	30,2	29,6	33,2	30,4	30,2	33,2
Tshwane	28,3	25,7	26,0	30,1	29,1	29,6

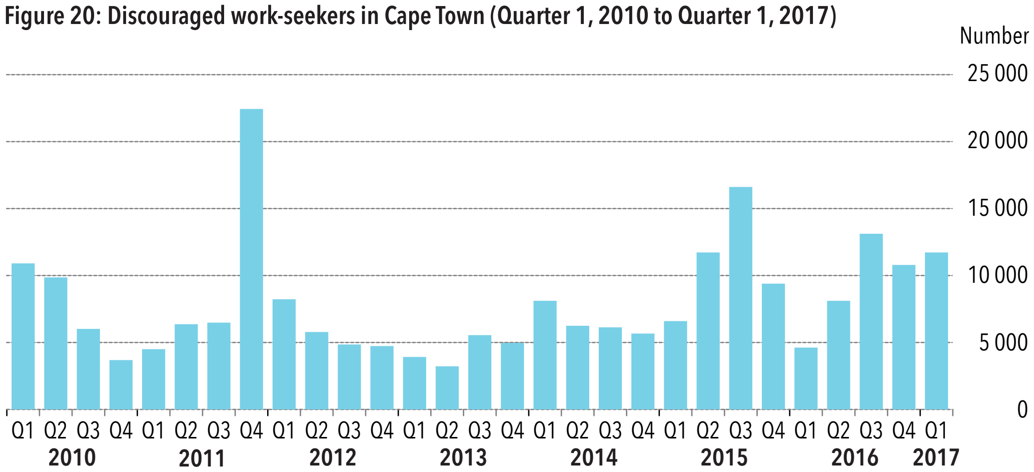
Source: Stats SA, June 2017

Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 19). South Africa's expanded unemployment rate in the first quarter of 2017 was 36,4%, compared to Cape Town's expanded rate of 25,1%. On this basis, Cape Town's labour market can be considered better performing and more inclusive than the national labour market.

While comparing Cape Town's unemployment trends with South Africa as a whole is important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics. Cape Town was the only metro that recorded decreases in both the official and expanded unemployment rates in the first quarter of 2017. Contrastingly, Johannesburg, Nelson Mandela Bay and Tshwane experienced an increase in both their respective rates. From a static point of view, Ekurhuleni had the highest strict unemployment rate (30,8%) and expanded unemployment rate (34%), while Cape Town had the lowest expanded unemployment rate (25,1%) and eThekwini the lowest strict unemployment rate (21,8%). What is also notable from table 4 is that for Nelson Mandela Bay there is minimal difference between the expanded and official unemployment rates, whereas in eThekwini the expanded rate is over 6 percentage points higher than the strict rate.

Cape Town was the only metro that recorded decreases in both the official and expanded unemployment rates in the first quarter of 2017.

Figure 20: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 1, 2017)



Source: Stats SA, June 2017.

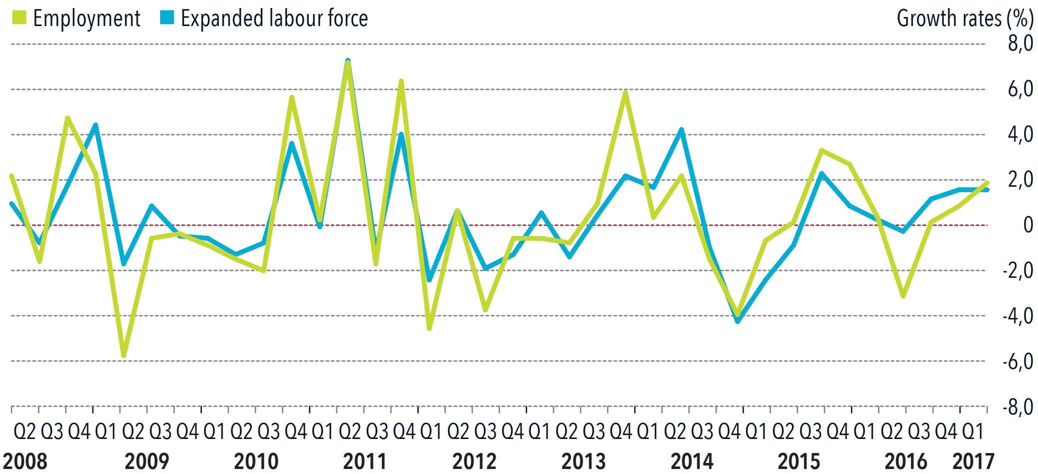
The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work-seekers in Cape Town. Discouraged work-seekers are included in the expanded unemployment figure, which explains why this is slightly higher than the strict unemployment figure. The number of discouraged work-seekers in Cape Town increased to 11 710 in the first quarter of 2017 from 10 792 in the fourth quarter of 2016.

Apart from the outliers in the fourth quarter of 2011, the third quarter of 2015 and the third quarter of 2016, figure 20 shows that the number of discouraged work-seekers has consistently been below 12 000 individuals. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,53%) to the country's total number of discouraged work-seekers.

Labour force and employment

Two factors determine whether the expanded rate of unemployment increases or decreases: a change in the expanded labour

Figure 21: Expanded labour force and employment growth rates for Cape Town (Q2, 2008 to Q1, 2017)



Source: Stats SA, June 2017.

force and a change in the level of employment. When the rate of employment growth is exceeded by the rate at which the expanded labour force grows, the expanded unemployment rate increases. Figure 21 shows that in the first quarter of 2017, the growth in Cape Town's employment slightly exceeded the growth in the labour force. This resulted in a decrease in the expanded unemployment rate for the period under review.

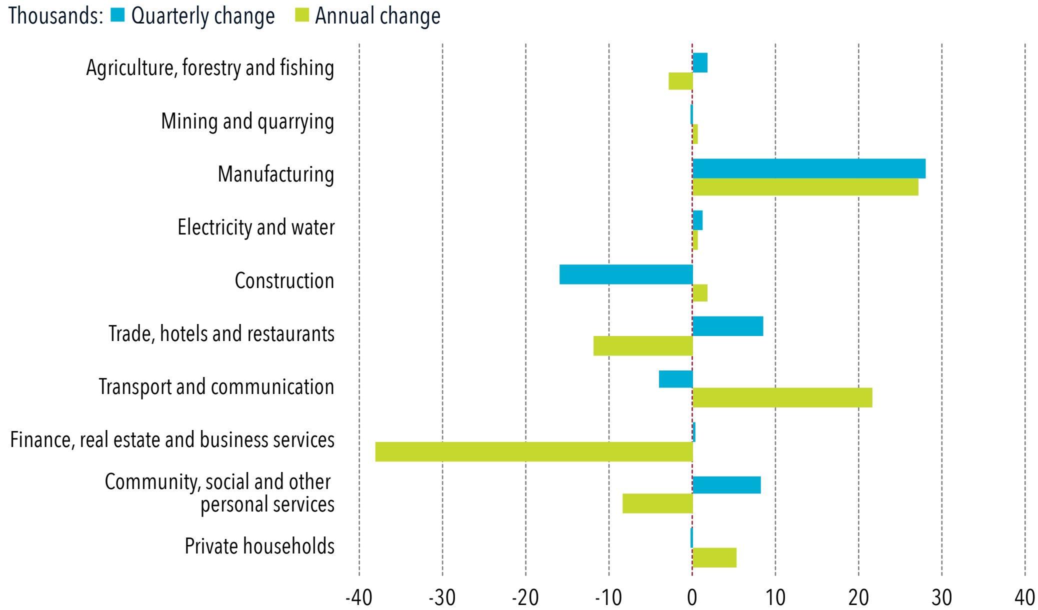
Sector employment trends for Cape Town

Figure 22 displays the change in the level of employment by sector within Cape Town. Overall six sectors displayed a positive contribution towards employment creation when compared to the previous quarter. The sectors that added significantly to job creation in Cape Town in the first quarter of 2017 were manufacturing (28 078), trade (8 505) as well as community and social services (8 333). Both the agricultural and utilities sectors added marginally to employment. The key sectors that recorded job losses for this quarter were construction (-15 972) and transport (-4 026). Mining and private households recorded minimal losses.

The sectors that added significantly to job creation in Cape Town in the first quarter of 2017 were manufacturing (28 078), trade (8 505) as well as community and social services (8 333).

On a year-on-year basis, the sectors displayed a similar performance when compared to their quarterly performance, with six sectors displaying positive growth. Similar to its quarterly performance, manufacturing (27 239) made the highest contribution to employment. Transport (21 593) and private households (5 176) also added largely to employment. Finance and other business services (-38 219), trade (-11 756), community and social services (-8 366) as well as agriculture (-2 819) observed negative employment changes, year on year.

Figure 22: Quarterly and annual change in employment per sector for Cape Town (Quarter 1, 2017)



Source: Stats SA, June 2017.

LABOUR MARKET OUTLOOK

For the first quarter of 2017 Cape Town's labour market improved slightly when compared to the fourth quarter of 2016. Key positives for the first quarter were the increase in employment, decrease in unemployment and a minimal increase in discouraged work-seekers. This altogether contributed to a decline in both the strict and broad unemployment rates as well as an increase in the labour force absorption and labour force participation rates. The youth unemployment rate recorded a quarter-on-quarter increase, although it was lower than in the first quarter of 2016.

Cape Town's labour market displayed resilience against seasonal (un)employment during December and January.

Encouragingly, Cape Town's labour market displayed resilience against seasonal (un)employment during December and January. Recent developments at a national level, which have resulted in credit ratings downgrades, will likely have negative knock-on effects for the labour market, as will the fact that South Africa has slipped into a technical recession. However, it remains to be seen whether mildly positive manufacturing and construction sector outlooks are able to swim against the tide of pessimism and yield some job creation in these sectors in the next quarter.

Trade and investment

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

Weak global trade growth of just 1,3% in 2016 was partly due to cyclical factors as economic activity slowed, but it also reflected deeper changes in the relationship between trade and economic growth.

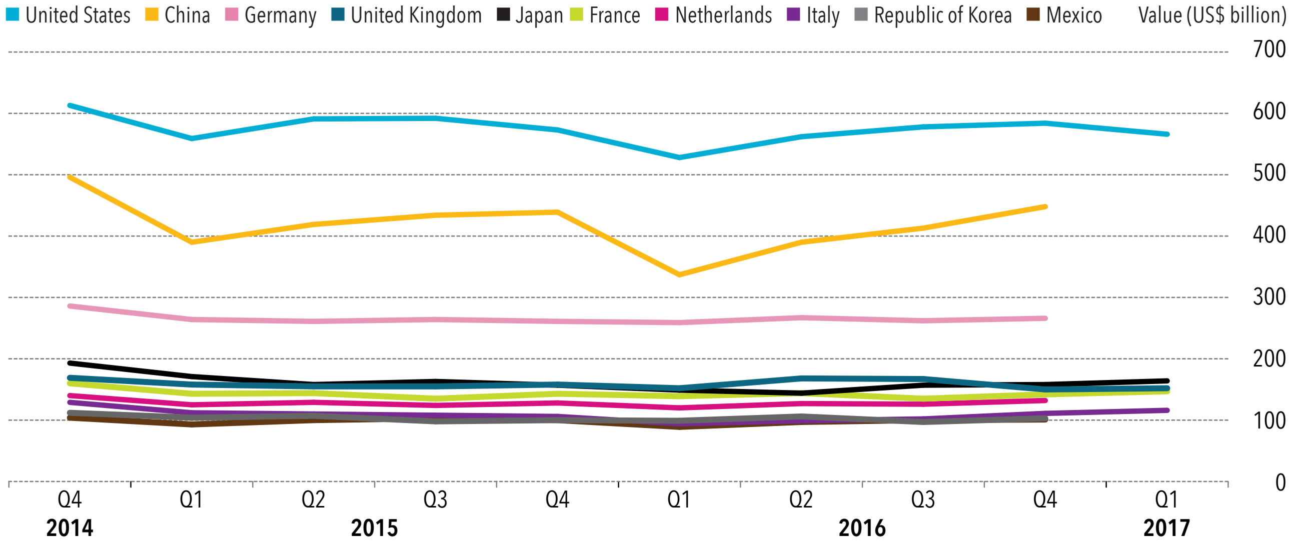
TRADE

Global trade

Based on the most recently available trade estimates, the world's largest importer of goods remains the United States[10]. Weak global trade growth of just 1,3% in 2016 was partly due to cyclical factors as economic activity slowed across the board, but it also reflected deeper changes in the relationship between trade and economic growth (WTO, 2017). The World Trade Organisation (WTO, 2017) is currently expecting world trade growth of 2,4% in 2017 and growth of between 2,1% and 4% in 2018.

Available data on the historically top importers in the first quarter of 2017 indicates that, in dollar terms, from the first quarter of 2016, an increase in imports was reported for the United States (7,2%), Japan (10,3%), France (5,5%) and the Republic of Korea (23,9%) while imports by the United Kingdom decreased by 0,2%.

Figure 23: Global imports of goods (Quarter 4, 2014 to Quarter 1, 2017)



Values in US$ bn	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16	Q3-'16	Q4-'16	Q1-'17
US	613	559	591	592	573	528	562	578	584	566
China	496	390	419	434	439	337	390	413	448	
Germany	286	264	261	264	261	259	267	262	266	
UK	169	158	155	155	158	152	168	167	150	152
Japan	193	171	158	163	157	149	144	157	158	164
France	160	143	144	135	143	139	144	135	142	147
Netherlands	140	125	129	124	128	120	127	126	132	
Italy	112	104	107	98	100	99	106	97	103	
Korea, Republic of	129	112	110	108	106	94	99	102	111	116
Mexico	104	93	100	103	100	89	97	100	101	

Source: International Trade Centre, June 2017.

South African trade

South African exports experienced a quarter-on-quarter decrease of 4,7% in the first quarter of 2017 compared to the fourth quarter of 2016, in rand terms. In contrast, on a year-on-year basis South African exports increased by 5,3% in the first quarter of 2017. The trade balance for South Africa decreased in the first quarter of 2017 to a deficit of R4 billion, from a deficit of R1 billion in the fourth quarter of 2016. This was due to exports dipping by more than the dip in imports in the first quarter of 2017, relative to the fourth quarter of 2016.

On a year-on-year basis South African exports increased by 5,3% in the first quarter of 2017.

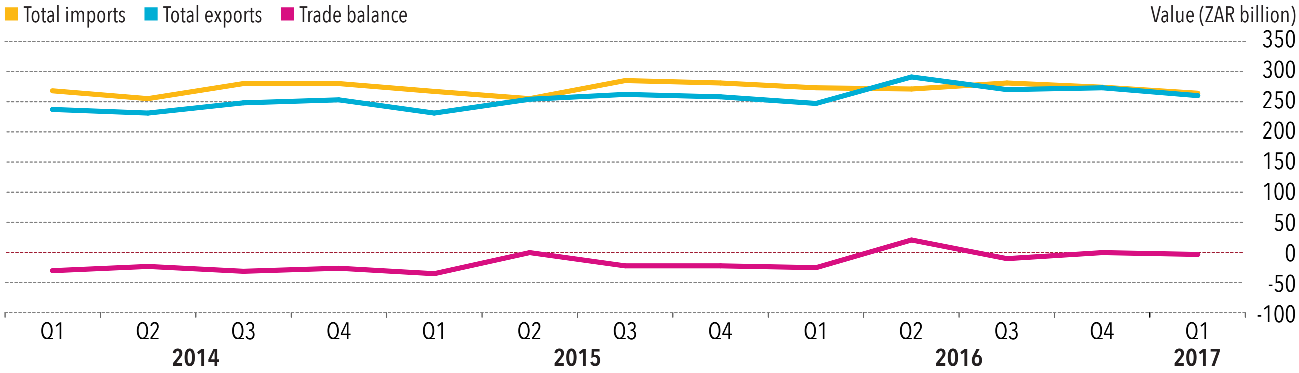
Amongst the top 10 exports, South Africa's exports to Namibia saw the largest decrease (-20,3%) in the first quarter of 2017 compared to the fourth quarter of 2016, followed by its exports to Botswana (-18,12%), India (-13,71%) and China (-12,88%). The decrease in exports to Namibia was mainly the result of a decrease in the exports of motor vehicles, refined petroleum oil and electrical energy. The decline in Botswana was also due to a drop in the export of motor vehicles as well as diamonds.

China was South Africa's largest export destination in the first quarter of 2017, with exports reaching R25,7 billion in the first quarter of 2017. Germany was South Africa's second-largest export market, followed by the United States, Japan and Botswana as the third-, fourth- and fifth-largest export markets, respectively. The demand for iron, chromium ores, manganese, ferro-alloys, wool, niobium, chemical wood pulp and refined copper drove South Africa's exports to China.

Of its top 10 export markets, Germany and the United Kingdom were the fastest-growing South African export markets,

10. Note, however, that trade data for the first quarter of 2017 for China, Germany, the Netherlands, Canada and the Republic of Korea had not yet been reported at the time of writing.

Figure 24: South Africa's exports, imports and trade balance (Quarter 1, 2014 to Quarter 1, 2017)[11]



Values in ZAR bn	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16	Q3-'16	Q4-'16	Q1-'17
Exports	237	231	248	253	231	254	262	258	247	291	270	273	260
Imports	268	255	280	280	267	255	285	281	273	271	281	274	264
Trade balance	-31	-24	-32	-27	-36	-1	-23	-23	-26	20	-11	-1	-4

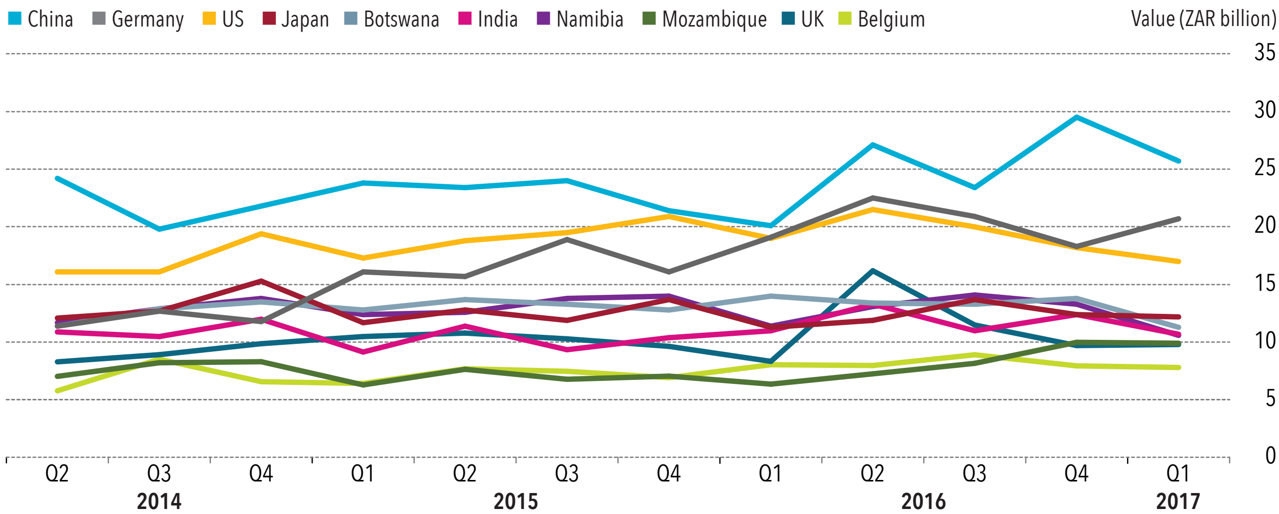
Source: Quantec, June 2017.

growing by 13,1% and 0,9% respectively, from the fourth quarter of 2016 to the first quarter of 2017. These countries were the only ones to experience positive growth out of the top 10 markets. Exports to Germany were stimulated by increased demand for motor cars, coins, centrifuges, platinum, motor vehicles and reaction initiators. South Africa's exports to the United Kingdom increased due to growth in demand for platinum, motor vehicles, grapes (fresh or dried), centrifuges and wine of fresh grapes (including fortified wines).

Eastern Europe was the fastest growing region for South Africa's exports, growing by 20,80% from the fourth quarter of 2016 to the first quarter of 2017. This was followed by Western Asia which grew by 19,20% and Australia and New Zealand at 12,13%. Exports to the Southern African Customs Union (SACU) and Southern African Development Community (SADC) decreased by -18,69% and -13,59% respectively. There were three African countries among South Africa's top 10 export markets in the first quarter of 2017, namely, Botswana, Namibia and Mozambique.

Germany and the United Kingdom were the fastest-growing South African export markets, growing by 13,1% and 0,9% respectively, from the fourth quarter of 2016 to the first quarter of 2017.

Figure 25: South Africa's export markets (Quarter 2, 2014 to Quarter 1, 2017)



Values in ZAR bn	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16	Q3-'16	Q4-'16	Q1-'17
China	24,20	19,80	21,80	23,80	23,40	24,00	21,40	20,10	27,10	23,40	29,50	25,70
Germany	11,40	12,70	11,80	16,10	15,70	18,90	16,10	19,10	22,50	20,90	18,30	20,70
US	16,10	16,10	19,40	17,30	18,80	19,50	20,90	19,00	21,50	20,00	18,20	17,00
Japan	12,10	12,70	15,30	11,70	12,80	11,90	13,70	11,30	11,90	13,70	12,40	12,20
Botswana	11,40	12,90	13,50	12,80	13,70	13,30	12,80	14,00	13,40	13,30	13,80	11,30
India	10,90	10,50	12,00	9,16	11,40	9,36	10,40	11,00	13,30	11,00	12,40	10,70
Namibia	11,70	12,90	13,80	12,40	12,60	13,80	14,00	11,40	13,10	14,10	13,30	10,60
Mozambique	7,05	8,23	8,32	6,31	7,66	6,80	7,07	6,38	7,27	8,18	10,00	9,92
UK	8,31	8,93	9,88	10,50	10,80	10,30	9,65	8,35	16,20	11,50	9,72	9,81
Belgium	5,80	8,54	6,59	6,44	7,71	7,49	6,94	8,06	7,99	8,92	7,96	7,82

Source: Quantec, June 2017.

11. Please note that the trade figures in this edition may differ from previous editions as the values may have been adjusted for any previous errors as well as additional delayed country information.

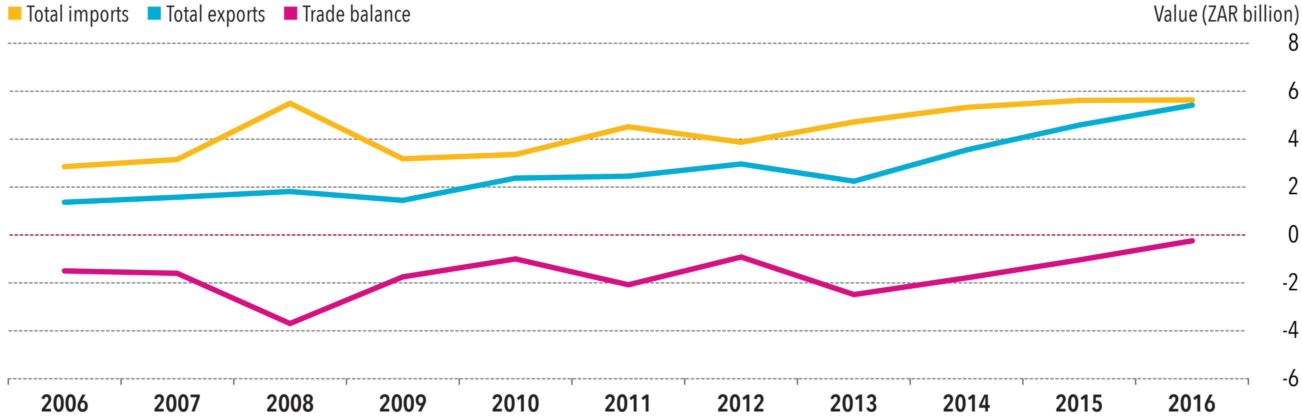
Cape Town's largest export to the United States in 2016 was jewellery made from precious metals valued at R1,16 billion, accounting for 21,3% of Cape Town's exports of this product.

Cape Town trade with the United States

Cape Town's exports to the United States have shown growth from 2015 to 2016 in nominal rand terms, growing by 18% from R4,6 billion to R5,4 billion. This was driven by exports of diodes, transistors and similar semiconductor devices, wine of fresh grapes, articles of precious metal jewellery and parts thereof as well as citrus fruit, fresh or dried. Imports from the United States have remained consistent from 2015 to 2016, growing by 0,38%. Although the value of refined petroleum imports declined, other imports rose such as magnesite, medical appliances, mirrors and petroleum gases.

Cape Town's largest export to the United States in 2016 was jewellery made from precious metals valued at R1,16 billion, accounting for 21,3% of Cape Town's exports of this product. Diodes and related devices and engine parts were the second and third largest exports to the United States, respectively, worth R994 million and R608 million. Export products which observed growth by more than 50% include diodes and related devices (74%) and wine (55%). Refined petroleum oil was the top import product from the United States worth R650 million, followed by magnesium carbonite worth R315 million.

Figure 26: Cape Town trade with the United States (2006 to 2016)



Values in ZAR bn	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
• Exports	1,38	1,59	1,83	1,46	2,39	2,47	2,98	2,26	3,57	4,61	5,44
• Imports	2,87	3,17	5,52	3,20	3,38	4,54	3,89	4,74	5,35	5,64	5,66
• Trade balance	-1,49	-1,59	-3,69	-1,74	-0,99	-2,07	-0,91	-2,48	-1,78	-1,03	-0,23

Source: Quantec, June 2017.

Table 5: Top 10 export and import products between Cape Town and the United States (2016)

	Top 10 exports from Cape Town to the United States, 2016			Top 10 imports to Cape Town from the United States, 2016		
Rank	**Product**	**Value 2016 (R m)**	**% growth 2015–16**	**Product**	**Value 2016 (R m)**	**% growth 2015–16**
1	Articles of precious metal jewellery and parts thereof	1 158,24	46,91	Refined petroleum oils	650,82	-22,32
2	Diodes, transistors and similar semiconductor devices	994,21	73,88	Magnesium carbonate (magnesite)	314,90	150,65
3	Engine parts	608,25	-17,66	Medical instruments and appliances	251,49	14,72
4	Parts of transmission TV, radio and film equipment	349,28	9,19	Orthopaedic appliances, including crutches, surgical belts, splints etc.	179,22	4,79
5	Crustaceans	234,98	30,79	Glass mirrors	150,86	38,97
6	Beauty or make-up preparations, including sunscreen	180,74	22,80	Electric generating sets and rotary converters	150,18	-25,02
7	Citrus fruit, fresh or dried	107,87	45,18	Petroleum gases and other gaseous hydrocarbons	131,13	241092,03
8	Pantyhose, tights, stockings, socks and other hosiery	101,49	20,59	Centrifuges, including centrifugal dryers	130,52	9,60
9	Wine of fresh grapes (including fortified wines)	94,62	55,22	Other food preparations	125,88	-14,79
10	Vegetable alkaloids, natural or reproduced by synthesis, and their derivatives	90,63	285,35	Other aircraft (e.g. helicopters, aeroplanes) and spacecraft	124,37	52,53
TOTAL EXPORTS TO THE UNITED STATES		**5 436,15**	**17,97**	**TOTAL IMPORTS FROM THE UNITED STATES**	**5 662,29**	**0,38**

Source: Quantec, June 2017.

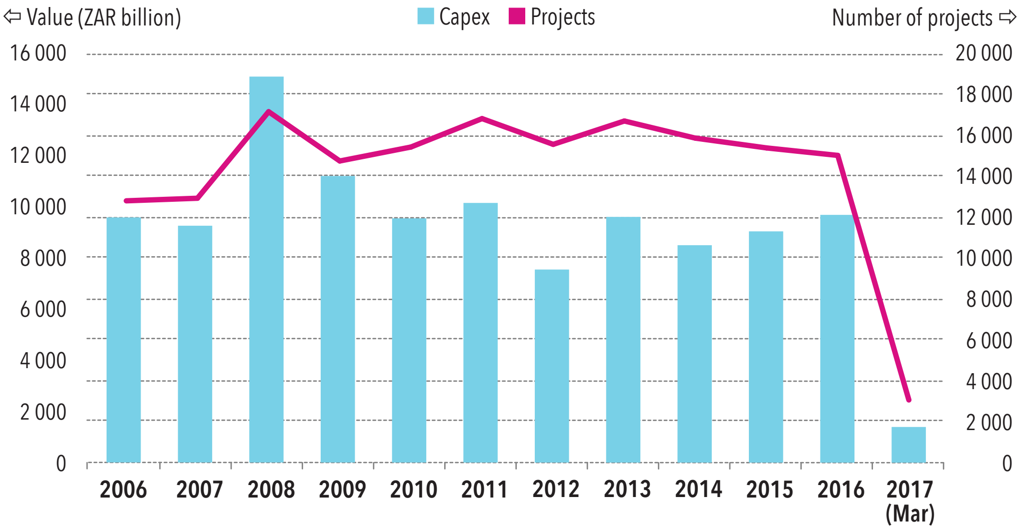
INVESTMENT[12]

Global foreign direct investment (FDI)

Global foreign direct investment (FDI) grew by 7,15% (in capital expenditure [capex] terms) between 2015 and 2016 to reach R9,7 trillion. Project numbers declined by 2,4% between 2015 and 2016 with 365 fewer projects than the previous year. From 2004 to 2016 both capex and projects increased by an annual average growth rate of 4,7% and 3,8% per annum respectively. Over the past three years, the trend line for projects indicates that the number of investments taking place globally is beginning to decrease, however, capex values over the past few years have indicated that the FDI projects are of a greater value. Nevertheless, neither capex nor projects have recovered to their 2008 or post-crisis 2011 values (*Financial Times*, 2017).

From 2004 to 2016 both capex and projects increased by an annual average growth rate of 4,7% and 3,8% per annum respectively.

Figure 27: Global FDI (2006 to March 2017)[13]



Values in ZAR bn	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
• Capex	9 607	9 283	15 131	11 23	9 575	10 180	7 569	9 634	8 525	9 068	9 716	1 400
• Projects	12 826	12 953	17 194	14 780	15 465	16 859	15 598	16 744	15 904	15 426	15 061	3 080

Source: Financial Times, *June 2017.*

12. Investment in this section is defined as cross-border greenfield investments in a new physical project or expansion of an existing investment which creates new jobs and capital investment. Joint ventures are only included where they lead to a new physical operation. Mergers and acquisitions (M&A) and other equity investments are not tracked (FDI markets, 2017).
13. Please note that global FDI figures in this edition may differ from previous editions as the values may have been adjusted for any previous errors as well as exchange rate fluctuations.

Global FDI reached R1,4 trillion in the first quarter of 2017. If the trend in this quarter is repeated throughout the year, total FDI for 2017 will reach around R5,6 trillion, a marked decrease from 2016. In terms of projects there were 3 080 projects recorded in the first quarter of 2017 which would amount to 12 320 projects if the trend was to continue until year end.

The United States attracted the highest number of projects (453) and capex value (R179,7 billion) in the first quarter of 2017. This was followed by the United Kingdom, France and China in terms of projects. When considering the capex value, the United States is followed by the United Kingdom, Vietnam and China. Vietnam uncharacteristically made the top three due to two high-value investments from Samsung in February (R29,29 billion) and Korea Electric Power (R21,68 billion).

The top sub-sectors globally for FDI (in terms of projects) in the first quarter of 2017 were software publishing (except video games) with an 8% share of total projects, followed by clothing and clothing accessories (7,86%) and freight or distribution services (3,18%). Despite services dominating in terms of the number of projects attracted globally, energy has received the bulk of capex with solar, electric and wind making up 17,7% of capex. Data processing and hosting received the second largest share of capex (5,77%).

Cape Town foreign direct investment (FDI)

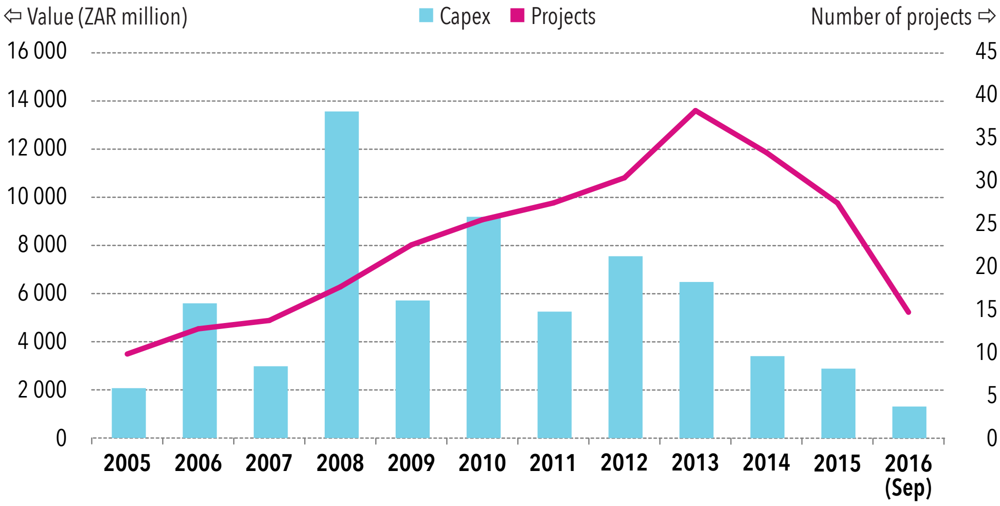
FDI flows into Cape Town in terms of capital investment have not recovered to the precrisis levels attained in 2008. The number of FDI projects received into Cape Town increased from 11 projects in 2003 to 39 projects in 2013, declining to 28 projects in 2015. Although the number of projects decreased in 2014 and 2015, relative to 2012 and 2013, they have remained above the precrisis levels attained in 2008.

From July to September 2016, Cape Town attracted four investment projects worth a combined total of R306,99 million. The sectors for these investments were business services and software and IT services. Through these investments, a total of 54 jobs were created.

Two of the four investments in the third quarter of 2016, with a combined value of R159 million, were made by United Kingdom firms (Struto and TNEI Services). Three of the projects were in business services and estimated to be worth around R80 million each. The software and IT services investment by the United States, via TeamSupport, was worth R68 million. According to Robert C Johnson, chief executive officer of TeamSupport, their motive for investment was because 'Cape Town has become one of the leading technology cities in the Southern Hemisphere and it is full of talented individuals with expertise in customer support.' (*Financial Times*, 2017).

From July to September 2016, Cape Town attracted four investment projects worth a combined total of R306,99 million.

Figure 28: Foreign direct investment (FDI) flows into Cape Town (2005 to September 2016)



Values in ZAR m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
• Capex	2 074	5 605	2 987	13 588	5 725	9 207	5 263	7 569	6 499	3 414	2 895	1 319
• Projects	10	13	14	18	23	26	28	31	39	34	28	15

Source: Financial Times, *June 2017.*

Investment facilitation

Between January and March 2017, Wesgro facilitated three new investment projects into Cape Town. The investments were as follows:

- R200 million in a waste management and renewable energy project creating 37 jobs;
- R5,7 million in a manufacturing project creating 10 jobs; and
- R20 million in a manufacturing project, also creating 10 jobs.

In this quarter Wesgro also facilitated an expansion project in the manufacturing sector worth R1,5 million, creating 12 jobs.

IMAGE COURTESY OF THE CAPE CRAFT & DESIGN INSTITUTE: CCDI'S MAKE IT NEW EXHIBITION, 2014.

Sector focus: The creative economy

Cape Town is fast emerging as a focal point of design activity on the continent. The creative economy, especially craft and design, has the ability to provide differentiation in the international market place and unlock competitiveness. Its value is not only in economic terms, though. Through the products and services generated in the creative industries, Capetonians explore their heritage, identity and values.

IMAGE COURTESY OF THE CAPE CRAFT & DESIGN INSTITUTE: MERVYN GERS CERAMICS.

The creative economy[14], especially craft and design, provides a means for people to explore their creative talents and innovation. It therefore has the ability to provide differentiation in the international marketplace and unlock competitiveness. Its value is not only in economic terms, though. Through the products and services generated in the creative industries we explore our heritage, identity and values. This sharing brings people together and therefore broadens our understanding of each other's cultures, contributing to the emotional and intellectual wellbeing of communities. Cape Town is fast emerging as a focal point of design activity on the continent.

The creative economy in South Africa

The Department of Arts and Culture (DAC) National Mapping Study (2014) showed that the largest domains within the creative economy are design and creative services (31%) and visual arts and crafts (23%). It adds that an historical relegation of creative industries has hidden their true value and their effect on the growth of regional economies and the socioeconomic upliftment of individuals and communities. In contrast, in developed countries such as Canada, Norway and the United Kingdom, the creative industries sector has been elevated in economic discourse as governments have sought to identify the impact of these industries on job creation and economic growth. These governments aim to gain an understanding of the dynamics at play in the development of the sector, with the end goal being the generation of appropriate policies that draw on practical experience of those within the industries, to stimulate growth.

The South African Cultural Observatory (SACO) – a national public research entity of the DAC hosted by Nelson Mandela Metropolitan University in partnership with Rhodes and Fort Hare universities – has been promoting capacity building in this area. It is a leading national think-tank focused on monitoring, mapping, measuring and valuing South Africa's cultural and creative economy. At the recent SACO national conference in May 2017, SACO CEO Professor Richard Haines reiterated that creative industries are a powerful economic driver. He added that data (DAC, 2014) points to the fact that the creative economy contributes 2,9% to South Africa's GDP (around R90 billion) – on par with global averages which sit at 3% according to a 2015 Ernst and Young study.

The creative economy contributes 2,9% to South Africa's GDP (around R90 billion) – on par with global averages which sit at 3%.

The creative economy also contributed 3,6% to total employment in South Africa, and R24 billion in taxes in the 2013/14 period, as well as helping to underpin the empowerment of black South Africans, women and younger people (DAC, 2014). Over 50% of the creative industries and enterprises are owned by black South Africans, 40% are owned by women and more than 30% by young entrepreneurs (DAC, 2014). Creative industries also tend to be more attractive to people under the age of 35, which suggests that they have a strong role to play in combating South Africa's high youth unemployment rate.

A maturing creative economy in Cape Town and the Western Cape

In the Western Cape, the provincial government and the City of Cape Town have both been key players in supporting the development of the local creative economy since the late 1990s. In 2001, both supported the initiation of the Cape Craft and Design Institute (CCDI) and later the establishment of similar support agencies in the visual arts, performing arts, film, music, furniture and fashion industries.

14. According to the South African Cultural Observatory (SACO) the creative economy, essentially, is the sum total of all creative and cultural industries and arts, culture and heritage sector activities traded on the market.

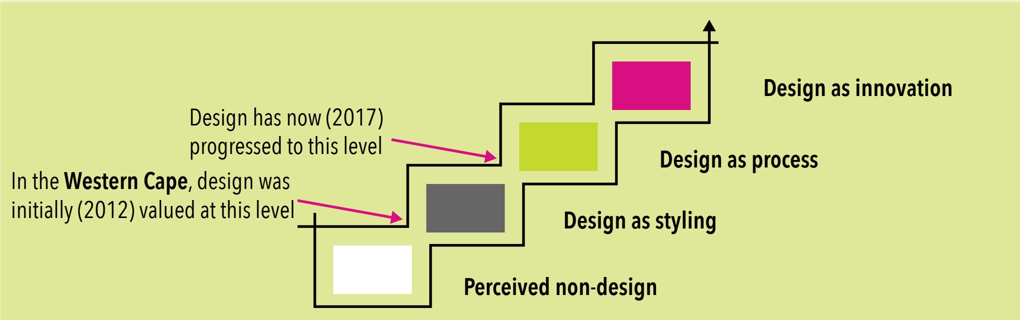
In 2012, the Western Cape Government's Department of Economic Development and Tourism (DEDAT) collaborated with the CCDI and other key role players to develop a design strategy to unlock innovation in the province – the first strategy of its kind in South Africa. It focused on developing the creative economy of the Western Cape aligned to the indicators of impact of the National Development Plan, and estimated that between 50 000 and 80 000 people work in design-related businesses in the Western Cape.

Designers in the province range from the technologically resourced graphic designer and the highly skilled ceramicist producing high-value goods to the wireworker applying latent design skill to market supplied ideas, product developers, ICT systems designers and architects. Designers operate at every link in the product-to-market chain. Despite the diversity in the industry, the initial assessment of the sector in the Western Cape in 2012 was that it was positioned relatively low on the design maturity measure (see graphic below).

Designers in the province range from the technologically resourced graphic designer and the highly skilled ceramicist producing high-value goods to the wireworker applying latent design skill to market supplied ideas, product developers, ICT systems designers and architects.

Figure 29: The design maturity ladder

THE DESIGN MATURITY LADDER The 'design maturity ladder' offers a metric with which to position the relative maturity of design in an organisation. Based on the various metrics measured in the local design survey and other stakeholder engagements, Western Cape organisations are positioned relatively low on the design ladder.



Perceived non-design. No special attention is paid, with product development being done by company staff who usually lack expertise in the field of design.

Design as styling. Companies at this stage are slightly more aware of the role of design in business, but on a very superficial level, with design being considered only as part of the aesthetics of the final product. Companies have some engagement with professional designers.

Design as process. Design of the product is adapted to the task at hand and is more focused on the needs of the end user. It will also typically require a multidisciplinary approach and therefore more resources.

Design as innovation. The final and most advanced stage of the ladder, where designers work with senior management to develop innovative approaches within significant parts, if not all of, the company.

Source: CCDI, 2012.

In 2017 the Western Cape Department of Economic Development and Tourism undertook an Assessment and Baseline Study of the Western Cape Design Ecosystem, in which 140 design-ready and 70 business-ready designers were interviewed. The study shows that Western Cape businesses appeared to have moved up on the design maturity ladder since the 2012 study, and now appear to be positioned between levels two and three on the ladder.

Some of the key findings of the 2017 study are that:

- Designers are using design to serve and meet client needs.
- The majority of designers use the product/surface (object-making) discipline – fashion, jewellery, industrial, product, textile, furniture – most often.
- Most businesses use in-house teams for their design work. The businesses employ between one and five personnel as designers.
- Businesses reported predominantly using local designers based in the Western Cape.
- The majority of designers reported client bases predominantly in the Western Cape.
- Most designers do not have their products manufactured overseas.
- The majority of businesses indicated that their primary location of choice for the manufacture of locally designed products would be the Western Cape.
- The majority of businesses have indicated that design budgets have increased between 11% and 30% over the past three years.
- Businesses reported improvements in efficiency, products and services as well as annual turnover and the number of products or services they were able to offer or bring to market because of the use of design processes.
- Many businesses reported that design practices led to their company profiles being raised as well as greater levels of innovation.

IMAGES COURTESY OF THE CAPE CRAFT & DESIGN INSTITUTE. FAR LEFT: WORLD DESIGN CAPITAL CLOCK TOWER. LEFT: PRODUCT SUPPORT FACILITIES.

An important contributor to Cape Town's development as a design hub was its designation as World Design Capital 2014 (WDC2014). Cape Town hosted over 460 Transformative Design Projects throughout 2014.

The significance of Cape Town being the World Design Capital 2014

The Western Cape Design Strategy has helped to facilitate progress and positioned Cape Town, and the province at large, as a hub of design and innovation on the continent and globally. An important contributor to Cape Town's development as a design hub was its designation as World Design Capital 2014 (WDC2014). Cape Town hosted over 460 Transformative Design Projects throughout 2014. The WDC2014 designation was a trigger for many projects to either start or accelerate their activities, for collaborations to be born, new networks to be developed and for the public sector to adopt new ways of working.

Design retail in Cape Town

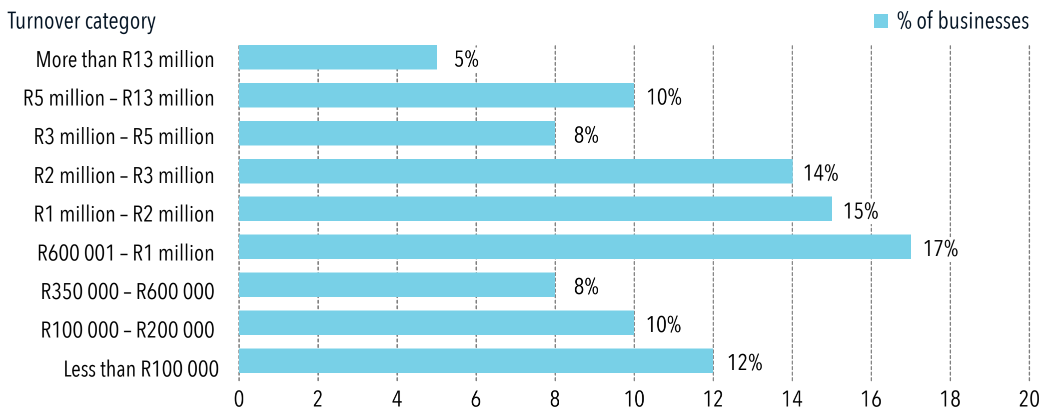
On account of the creative economy's cross-cutting nature, embedded as it is in many industries, reliable and up-to-date economic performance statistics are not always readily available. In the absence of these statistics, use needs to be made of trends in the retail of design/creative products.

A new survey from the CCDI focused specifically on a sample of independent retailers of locally designed and manufactured products – a relatively new growth area in local retail – and looked at data from the 2015 financial year. The researchers selected 60 survey respondents from the CDDI's list of 250 design retailers, all of whom fall into two categories:

1. 'Dedicated' retailers, who have a physical retail outlet/s and an online shop that sell design goods produced by a few designers. These retailers are not involved in the design and manufacturing of products.
2. 'Hybrid' retailers, who are involved in the entire design goods value chain. They design, manufacture and sell their branded products in their own physical retail outlet/s and online shop. Their retail channels either exclusively or predominantly sell their branded manufactured goods.

The findings of the design retail survey are as follows:

Figure 30: Distribution of design retail businesses by turnover



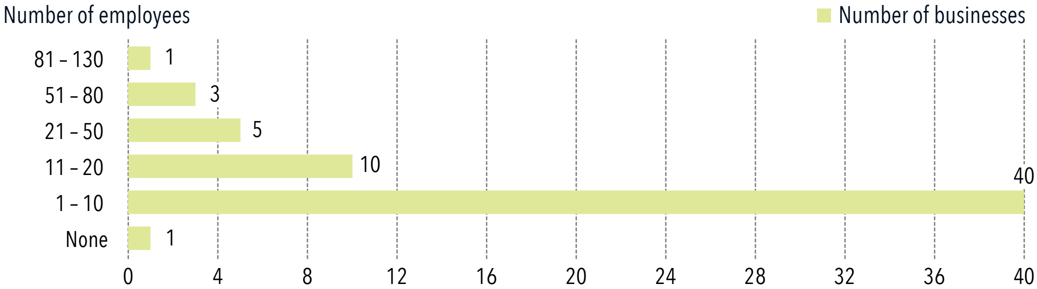
Source: CCDI, 2017.

IMAGES COURTESY OF THE CAPE CRAFT & DESIGN INSTITUTE. FAR LEFT: MISO WOODSTOCK WORKSHOP. LEFT: CCDI'S MAKE IT NEW EXHIBITION 2014.

- The combined turnover of the design retailers' surveyed is estimated at up to R200,4 million. Most design retailers' turnover falls into the R600 001 and R3 million band.
- Foreign tourists were design retailers' main customers (46% of respondents attribute over 50% of their sales to them). Locals followed closely behind in second place (35%), with domestic tourists lagging behind in third place (13%).
- The retailers employed up to 1 220 full-time employees on the top end of the estimate. A typical design retailer in the sample creates between one and 10 direct jobs and 70% of employees' highest qualification is a matric. Design retailers' contribution to job creation includes jobs created by suppliers. These are estimated at up to 1 980 indirect jobs for the 60 respondents.
- Almost half (47%) of respondents indicated that their suppliers are based in Cape Town.
- There are strong, mutually beneficial linkages between the design, tourism and lifestyle sectors (85% of respondents agreed). The design retail sector creates an 'experience' that supports the development of tourism and lifestyle sectors, whereas these aforementioned sectors increase the demand for design products, especially among consumers with a high-level of disposable income.

The design retail sector creates an 'experience' that supports the development of tourism and lifestyle sectors.

Figure 31: Number of employees reported by design retailers



Source: CCDI, 2017.

The growth in the local retail sector is also evident in key hubs. The Watershed at the V&A Waterfront represents a significant investment by the private sector. The V&A invested R50 million in the makeover of the space. This investment has proven its value. In its first year of trading, The Watershed reported an exceptional 300% increase in retail trade for the 150 craft and design businesses trading at that site (CCDI, 2017). There has also been strong growth in the last five to 10 years in retail, tourism and culture nodes in areas such as Woodstock, Bree Street, Long Street and Kalk Bay, and the proliferation of weekend markets around Cape Town – all driven by local creatives, whether in craft and design or food and entertainment (CCDI, 2017).

These developments bear out that there has been a growing awareness over the past 10 years of the value of craft, hand-made, artisanal and bespoke products in particular. There has been a cyclical move from mass production/consumption towards more individual, unique products that have a clearer provenance. 'It is through the work of creative entrepreneurs that a local contemporary aesthetic and local innovation emerges that are much more sustainable than a reactive response to external trends' (Elk, 2017).

There has been strong growth in the last five to 10 years in retail, tourism and culture nodes in areas such as Woodstock, Bree Street, Long Street and Kalk Bay, and the proliferation of weekend markets around Cape Town – all driven by local creatives, whether in craft and design or food and entertainment.

IMAGE COURTESY OF THE CAPE CRAFT & DESIGN INSTITUTE: RAIN AFRICA.

> “What is clear, and valid across the board, is that for people working in the sectors within the creative economy it is a committed life choice, and a lifestyle choice – these individuals and businesses display a remarkable resilience in the face of adverse economic circumstances. While there has indeed been a historical relegation which has had the effect of hiding the true value of the creative industries, Cape Town is emerging as a global hub for creativity and innovation – the City's sleeping giant is stirring.
>
> *– Erica Elk, Executive Director, CCDI*

Key challenges and opportunities for the creative economy

The national DAC study in 2014 pointed to a number of challenges that existed in the creative economy, including access to funding/ financial support, market challenges, access to the latest technology and staff availability.

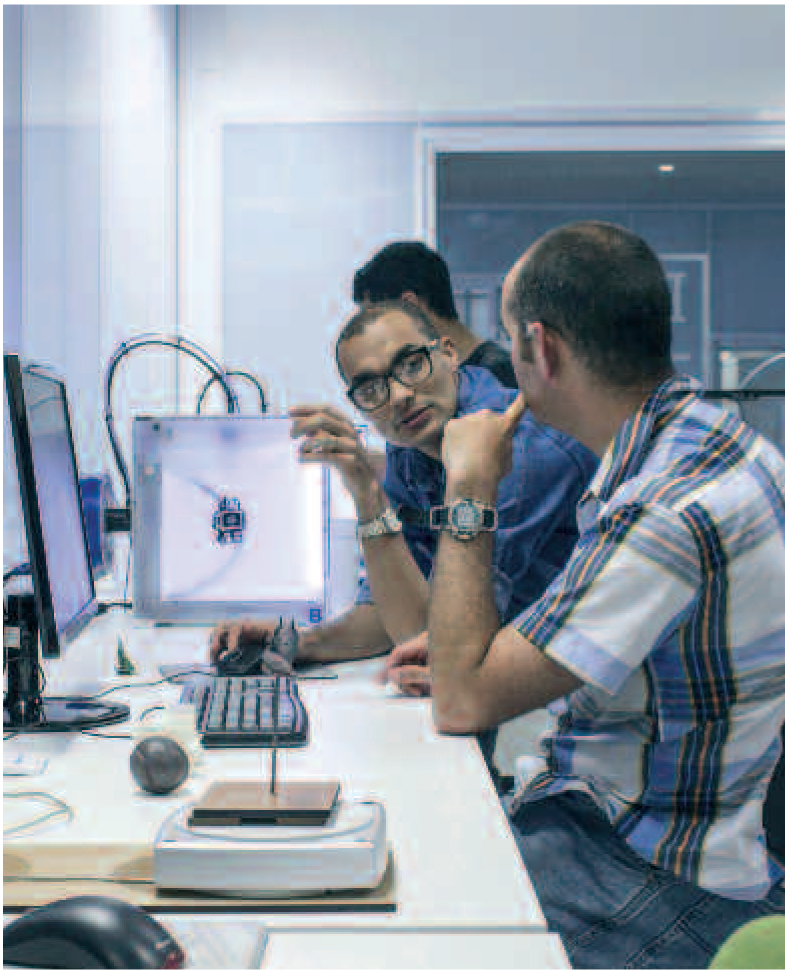
Nationally, the 2017 SACO conference raised key new challenges for the creative economy. Off the back of over 50 presentations by leading researchers, academics, practitioners, artists, officials and consultants who attended the conference, the following emerging trends and insights were identified:

1. Manufacturing is radically changing as automation becomes standard practice, leading to loss of jobs. The creative industries offer not only an 'occupation', as in something to do, but a 'vocation' as in a passion pursuit and an opportunity for us to express what fundamentally makes us human – our creativity, ingenuity and expression.
2. Prioritise educating the youth for the future – our economy needs resourceful and resilient people who are able to think laterally, problem solve and generate new ideas that manifest in innovative products, services, and solutions. Creativity nurtures these skills and aptitudes.
3. More research on a more regular basis will assist in revealing the real value of the creative economy on national, provincial and city levels – this will enable a deeper understanding of trends and key growth nodes, challenges and opportunities, and can be used to help further encourage public- and private-sector investment.
4. We can learn from insights into how others are making their creative economies survive, thrive and grow – it is critical to developing South Africa's creative economy. There is a need for strengthening the creative ecosystem.

The Assessment and Baseline Study of the Western Cape Design Ecosystem highlighted some of the challenges local designers are facing. These echoed the national research in terms of the need to have sufficiently skilled and experienced staff, and access to funding/capital. The recommendations from surveyed businesses included increased provision of funding from government for small businesses, additional funding for training and promoting emerging talent, more activities from government to demonstrate what design is and what it can do, developing sector-specific databases, and a greater focus from government and communities on using locally designed and manufactured products.




IMAGES COURTESY OF THE CAPE CRAFT & DESIGN INSTITUTE.



IMAGES COURTESY OF THE CAPE CRAFT & DESIGN INSTITUTE. FAR LEFT: ONEOFEACH. LEFT: CCDI PRODUCT SUPPORT 3D WORKSHOP.

Strategic interventions

The CCDI, as the only national sector development organisation of its kind in South Africa, has been at the forefront of many of the key projects stemming from national, provincial and local government to develop creative businesses, and promote an appreciation and uptake of design in the wider economy.

The CCDI supports over 2 200 businesses in South Africa, with over 3 300 registered on its database. The majority of these businesses are small and have unique challenges that come in the form of capacity constraints, lack of skills and resources such as funding, equipment and technology as well as difficulties in accessing markets.

Despite the challenges, progress is being made and an emerging success story is how South Africa's creative industries have grown and matured at a macro and micro level. This is particularly the case in Cape Town. The creative economy can become a significant high-growth area for the country, with far-reaching impact. While there are challenges, organisations like the CCDI have developed targeted programmes to address the blockages to growth.

The programmes offered by the CCDI include:

- Business development and creativity workshops, largely subsidised, run nationally, to the benefit of small businesses
- Opportunities for creative businesses and designers to better understand and enter the local and international market, including facilitating access to local and international trade shows;
- A product prototyping facility with tools and processes to assist designers and small businesses to generate innovative products;
- Access to seed funds and grants to finance product/service development and business growth;
- Design process facilitation – projects that demonstrate the value of design processes to improve service delivery in healthcare, how design can improve the living conditions in low-income communities, and how design can be applied to other sectors such as agri-processing;
- Projects across the tiers of the education system from pre-school to adult education to develop creative human capacity and the pipeline of new creatives and innovators which the country needs.

An illustration of how investment in the creative industries can have a profound impact is the CCDI Jobs Fund round, which was completed with National Treasury in 2016: 464 jobs were created by the 45 participating creative companies based in the Western Cape. These companies also doubled their combined turnover to R104 million, off an investment of R14,5 million. The average cost per job the CCDI achieved with the funding was R31 298, well below the national average cost per job for the Jobs Fund across all sectors (R52 000).

The CCDI supports over 2 200 businesses in South Africa, with over 3 300 registered on its database. The majority of these businesses are small and have unique challenges that come in the form of capacity constraints, lack of skills and resources such as funding, equipment and technology as well as difficulties in accessing markets.

8 Infrastructure

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


CA 273-965

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

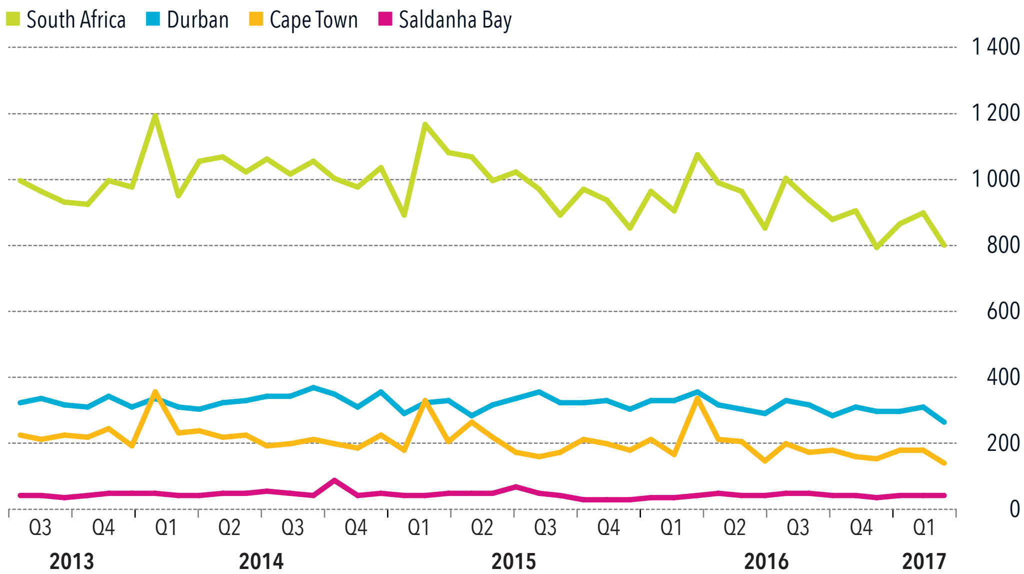
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports decreased by 16 vessels from 2 573 in the fourth quarter of 2016 to 2 557 in the first quarter of 2017. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the first quarter of 2017 was 501 vessels – representing an increase on the previous quarter's figure of 496 vessels. This meant the Port of Cape Town accounted for 20% of total vessels in the first quarter of 2017, unchanged from its 20% contribution in the first quarter of 2016. On a year-on-year basis, vessel arrivals in Cape Town in the first quarter of 2017 decreased by 55 vessels. The Port of Saldanha, the closest to the Port of Cape Town, sees far fewer vessel arrivals per month (averaging 50 vessels per month over the first quarter of 2017), as it currently focuses on the shipment of bulk cargo, predominantly steel and iron ore, and does not have container-handling facilities, which limits the volume of vessels utilising the port. The average tonnage per vessel handled at Saldanha, however, is substantially higher than at Cape Town. On average, the Port of Durban has more vessel movements than Cape Town, the exception usually being in the peak fishing month of April.

The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the first quarter of 2017 was 501 vessels – representing an increase on the previous quarter's figure of 496 vessels.

Figure 32: Total number of vessels (October 2013 to March 2017)



Source: Transnet National Ports Authority, June 2017.

Cargo (gross tonnage) and container handling

In the first quarter of 2017, South African ports handled 57,2 million tonnes of cargo compared to 58,9 million in the fourth quarter of 2016 and 53,9 million in the first quarter of 2016. The Port of Cape Town experienced an increase in cargo handling, from 1 million tonnes in the fourth quarter of 2016 to just over 1,5 million tonnes in the first quarter of 2017. There was a year-on-year increase of 38,5% relative to the 1,1 million tonnes handled in the first quarter of 2016. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike the Saldanha and Richards Bay ports). Therefore, it does not have a significant impact on the national cargo-handling performance. The Port of Durban experienced a quarter-on-quarter decrease in cargo handled of 5,7%, whereas the Port of Saldanha experienced a quarter-on-quarter increase of 12,8%. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed a 16,1% increase in cargo handled at the Port of Saldanha and a 1,1% decrease for the Port of Durban.

The Port of Durban is South Africa's main container-handling port and contributed more than half (60%) of the total containers handled in South African ports in the first quarter of 2017. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 21,5% of all

The Port of Cape Town experienced an increase in cargo handling, from 1 million tonnes in the fourth quarter of 2016 to just over 1,5 million tonnes in the first quarter of 2017.

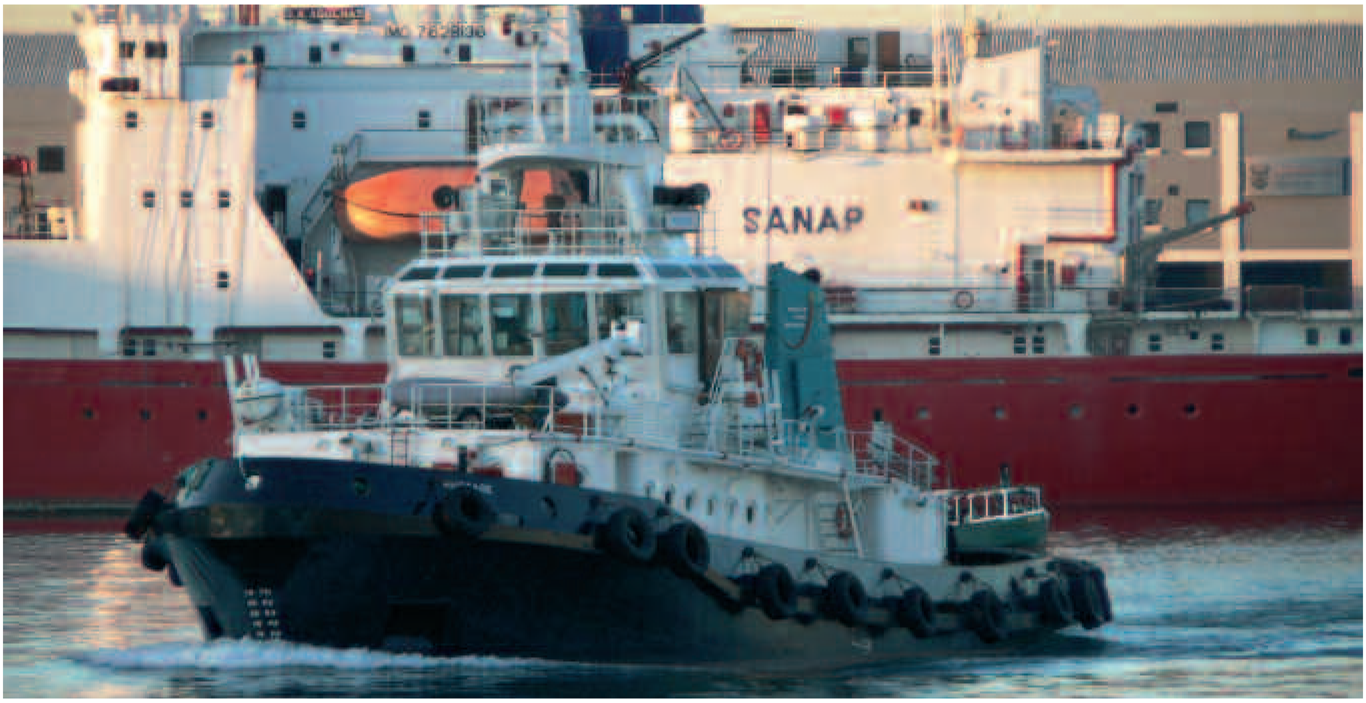
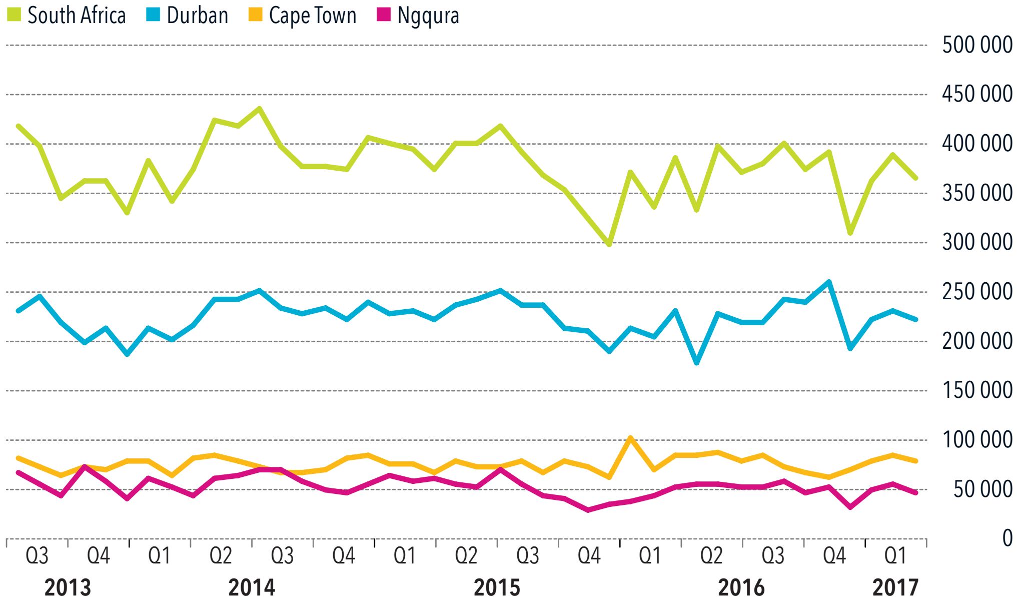


Figure 33: Total containers handled (TEUs) (October 2013 to March 2017)[15]



Source: Transnet National Ports Authority, June 2017.

containers handled in South African ports in the first quarter of 2017.

Container traffic is very seasonal, as figure 33 indicates, so it is more meaningful to compare total containers handled over the period of a year. The number of containers handled at the Port of Cape Town increased from 235 183 in the first quarter of 2016 to 239 936 in the first quarter of 2017 – an increase of 2,02%. In 2013 and 2014, the Port of Cape Town appeared to be losing ground to the Port of Ngqura in terms of container handling, as the latter port recorded a large increase in containers handled in those years. In recent years, Ngqura has slipped notably behind Cape Town with respect to container handling despite recording a year-on-year increase to 151 187 containers handled in the first quarter of 2017 from 117 802 in the first quarter of 2016. While the Port of Ngqura lags behind Cape Town in terms of the volume of containers handled, capacity constraints experienced at the Port of Cape Town mean that Ngqura could overtake it as the country's second-largest container-handling port. That said, 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 number of containers handled at the Port of Cape Town increased from 235 183 in the first quarter of 2016 to 239 936 in the first quarter of 2017 – an increase of 2,02%.

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

CAPE TOWN AIRPORT STATISTICS

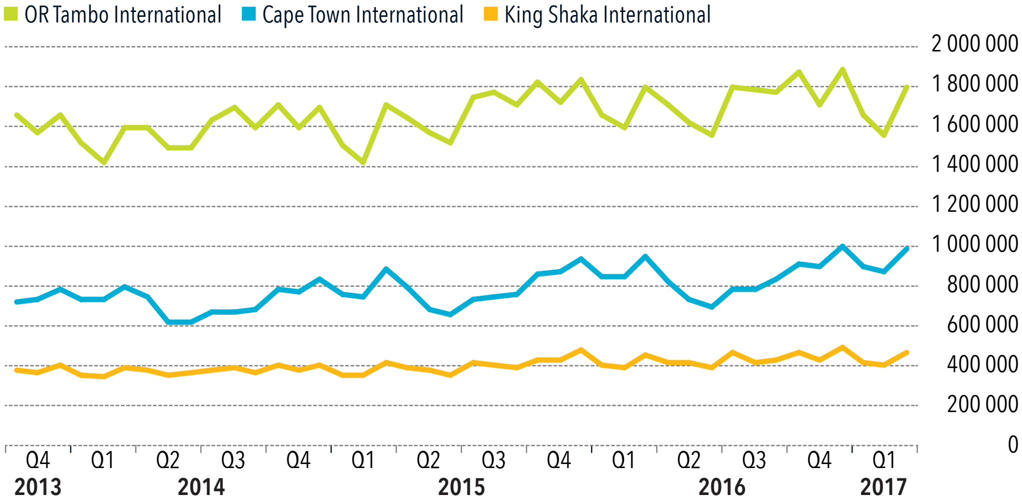
Total passenger movements

Total passenger movements at Cape Town International in the first quarter of 2017 was 4,6% higher compared to the first quarter of 2016, when 2,64 million passenger movements were recorded.

Cape Town International Airport is South Africa's second-busiest airport, after OR Tambo International Airport. It recorded 2,76 million total passenger movements in the first quarter of 2017 compared to 5,01 million passenger movements at OR Tambo International and 1,28 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the first quarter of 2017 was 4,6% higher compared to the first quarter of 2016, when 2,64 million passenger movements were recorded. While King Shaka International also recorded an increase in passenger numbers in the first quarter of 2017 compared to the same period in the previous year, OR Tambo International observed a -0,6% decline in passenger movements, year on year.

A quick glance at figure 34 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with these declining in the second quarter when the city enters its winter months. In contrast, OR Tambo International shows a more erratic distribution with a less-defined seasonal trend. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

Figure 34: Total passenger movements at South Africa's major airports (October 2013 to March 2017)

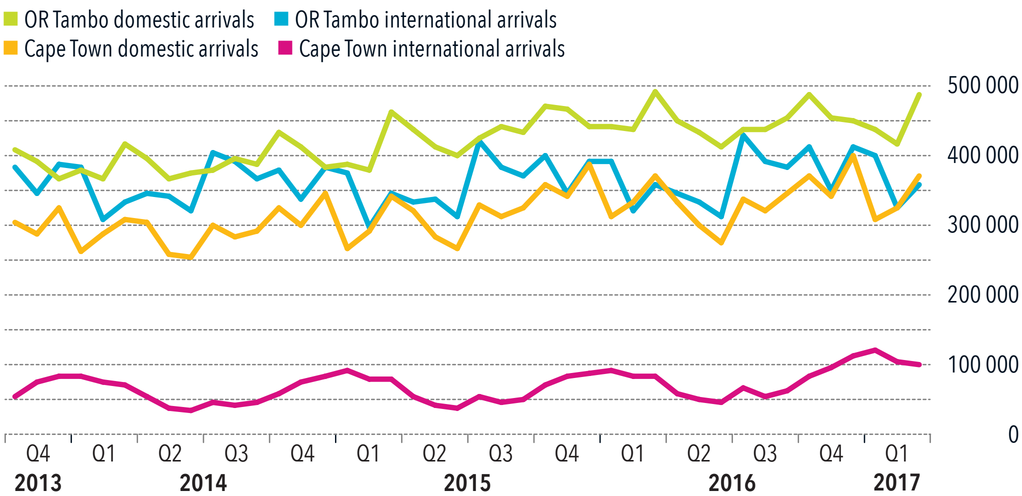


Source: ACSA, June 2017.

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

The direct international proportion of passenger arrivals to Cape Town International for the first quarter of 2017 constituted 24% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 45% of its total passenger arrivals. This reflects the fact that Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. The figure for direct international arrivals highly

Figure 35: International and domestic passenger arrivals for Cape Town and OR Tambo International airports



Source: ACSA, June 2017.

underestimates total international tourist arrivals to the city, as many take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight.

Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with- December to March being the peak period for travel to the city. Cape Town's domestic arrivals, however, show far more variation, with peaks and troughs dispersed throughout the year (clearly visible in figure 35). The total number of passenger arrivals to Cape Town International in the first quarter of 2017 increased by 4,3% year on year, with international arrivals increasing by 25%.

While some of the growth in international arrivals can be attributed to increased occupancy on existing flight routes, the efforts of Cape Town International Airport, Wesgro, provincial government and the City of Cape Town to attract more direct international flights also appear to be paying off. This is evident in the growth of the number of international aircraft arrivals at Cape Town International, which observed an increase of 14,5% quarter on quarter and 32,6% year on year in the first quarter 2017.

Although Cape Town International received the Best Airport in Africa award for 2016 by SkyTrax (SkyTrax World Airports Awards, 2016), if it is to continue being able to accommodate increased tourist numbers it needs to expand its capacity. In line with this, ACSA has proposed the realignment of the runway at Cape Town International to make room for larger aircraft and accommodate greater passenger numbers. The proposal, which includes extending the runway length by 300 metres, would allow between 10 and 14 additional aircraft to land and take off each hour, as well as enable larger aircraft to land at the airport. The project is critical to Cape Town's strategic goals of attracting multinational investment and enhancing its global business and tourist appeal.

The total number of passenger arrivals to Cape Town International in the first quarter of 2017 increased by 4,3% year on year, with international arrivals increasing by 25%.

ELECTRICITY

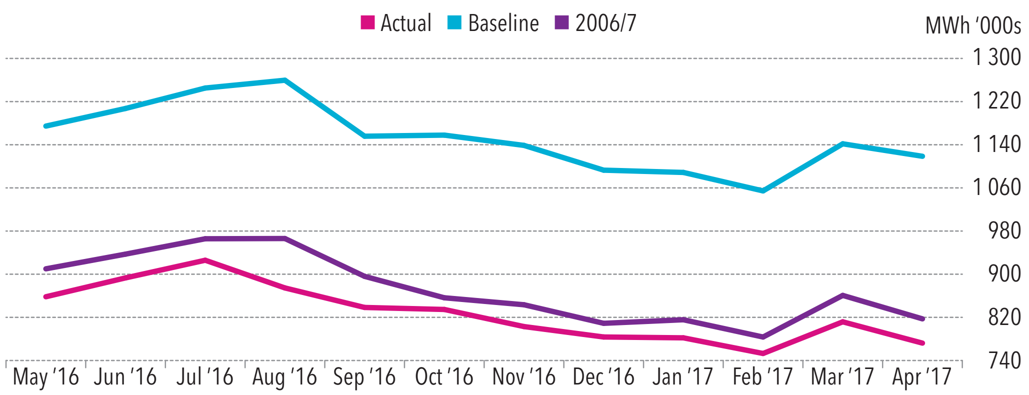
South Africa generates two-thirds of Africa's electricity and is one of the four cheapest electricity producers in the world (Department of Energy, Republic of South Africa, 2016). Eskom, the state-owned electricity utility, generates approximately 95% of the electricity used in South Africa. A review of South Africa's energy mix reveals that almost 90% of the country's electricity is generated in coal-fired power stations and the rest through nuclear, hydropower and renewable energy sources.

Eskom's primary mandate is to ensure energy: security, efficiency and sustainability in South Africa. In 2008 and again in 2015, however, energy security became a pressing economic issue as Eskom battled to balance the supply and demand of electricity. This led to the implementation of a load-shedding programme and resulted in upward pressure on electricity prices as Eskom sought to provide a reliable and predictable electricity supply. Eskom is currently in the third year of the Third Multi-Year Price Determination (MYPD3). In February 2017, the National Energy Regulator of South Africa (NERSA) granted Eskom the right to raise electricity tariffs by 2,2% in 2017/18 as part of MYPD3.

The figure below shows the actual electricity consumption for the period of May 2016 to April 2017 versus baseline electricity consumption (i.e. assuming electricity consumption growth of 3% year on year). As such, the percentage difference between these two is reflected in the '% saving'. Cape Town's actual electricity consumption falls significantly below the baseline (28,6% less in the first quarter of 2017) suggesting that it has been consistently consuming less electricity as more energy-saving measures have been implemented. This is borne out by the fact that energy savings have gone up by 5,2 percentage points from the same time last year. The 2006/7 curve illustrates a projection of electricity consumption before load shedding. After the first set of load shedding in 2008, the City set a target to try and limit electricity consumption to that of our 2006/7 consumption in order to try and prevent further load shedding and to reduce the pressure on the electrical network. Figure 36 illustrates that electricity consumption in Cape Town is still less than its 2006/7 level.

Cape Town's actual electricity consumption falls significantly below the baseline (28,6% less in the first quarter of 2017) suggesting that it has been consistently consuming less electricity as more energy saving measures have been implemented.

Figure 36: City of Cape Town electricity consumption (May 2016 to April 2017)



MWh	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17
Actual	858 456	893 519	926 327	874 846	838 572	834 848	803 055	783 691	782 123	753 045	811 879	772 315
Baseline	1 175 603	1 208 353	1 246 349	1 260 846	1 156 812	1 158 827	1 139 746	1 093 710	1 089 487	1 055 164	1 142 677	1 119 523
2006/7	910 370	937 688	966 230	966 673	896 343	856 572	843 598	809 106	815 724	783 623	860 967	817 387
% Saving	27,0%	26,1%	25,7%	30,6%	27,5%	28,0%	29,5%	28,3%	28,2%	28,6%	28,9%	31,0%

Source: City of Cape Town, Electricity Services Department, April 2017.

9

Tourism developments

In a global climate of relatively subdued economic performance, tourism continues to outshine traditional economic sectors. As an internationally renowned tourist destination boasting iconic and world-class tourist attractions, including one of the New7Wonders of Nature, Cape Town is well placed to take full advantage of the vigorous global growth of the tourism industry.

INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) World Tourism Barometer for January 2017, international tourist arrivals grew by 3,9% year on year in 2016, reaching a total of 1,235 million. This constituted an increase of about 46 million additional tourists compared to the same period in 2015. Arrivals growth in the third quarter picked up after a slow second quarter, and continued to increase into the fourth quarter. The UNWTO reported that 2016 was the seventh consecutive year of sustained growth following the 2009 global financial crisis.

China was the largest source of tourism expenditure in 2016, with expenditure by Chinese tourists growing by US$11 billion to US$ 261 billion.

In terms of regional year-on-year performance, growth in international arrivals for the period of January to December 2016 was driven by Asia and the Pacific (8,4%), while Africa rebounded strongly with growth of 8,1% after two weaker years. The UNWTO Tourism Barometer for March 2017 reflected on international tourism spending in 2016. China was the largest source of tourism expenditure in 2016, with expenditure by Chinese tourists growing by US$11 billion to US$ 261 billion. This constituted an annual growth rate of 12% in local currency terms, built on a 6% increase in outbound Chinese tourists. These increases meant that China remained the leading source market in the world, a position it has held since 2012. The UNWTO further notes that China's increasing tourism expenditure over the last number of years has benefited destinations in Asia, including Japan, the Republic of Korea, Thailand as well as other distant destinations such as the US and Europe.

US tourism expenditure increased by 8% to US$122 billion in 2016, while the number of outbound American travellers increased by 8%. The US was followed by Germany, the UK and France as tourism expenditure for these countries increased to US$81 billion (5%), US$63 billion (13,8%) and US$ 41 billion (6,7%), respectively. Together with China, these nations were the five top tourism spenders in 2016. In contrast, outbound tourism for some commodity exporters such as Russia and Brazil declined due to their weaker economy and currencies, resulting in lower tourism expenditure by these countries.

According to the most recent World Tourism Barometer (January 2017) forecasts for tourist arrivals, Asia and the Pacific as well as Africa are expected to grow between 5-6%, Europe between 2-3%, the Americas between 4-5% and the Middle East between 2-5% in 2017.

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS IN SOUTH AFRICA

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. As table 6 shows, in March 2017, 805 857 foreign tourists visited the country. Tourist arrivals to South Africa decreased by 3,6% year on year for the period. Arrivals from other parts of Africa (South Africa's largest tourist source market) decreased by 8,1% with arrivals from the overseas market increasing by 9,5%. The growth in overseas tourist arrivals can be attributed to the strong performance in the country's leading overseas tourist source markets and continuous security concerns in many other parts of the world making South Africa a more favourable tourist destination.

Within the European region, the UK, Germany, France and the Netherlands were South Africa's largest tourist source markets.

Examining arrivals from the overseas market, Europe remains South Africa's biggest regional overseas tourist market. It accounted for 155 780 tourist arrivals in March 2017, having grown by 8,9% year on year. Within the European region, the UK, Germany, France and the Netherlands were South Africa's largest tourist source markets. Of these, arrivals from France and Netherlands grew more strongly (by 38,2% and 16,4% respectively) than arrivals from the UK (-0,2%) and Germany (9,6%). While these countries were the largest source markets in terms of absolute tourist arrivals, Sweden (20,1%), Hungary (19,7%) and Poland (18,8%), showed high growth rates too. The US was the third largest single overseas source market, after

the UK and Germany, for South Africa in March 2017, with 30 914 tourist arrivals from that country in March 2017 at a year-on-year growth rate of 6,3%.

Tourist arrivals to South Africa from most emerging markets increased year on year in March 2017. Tourist arrivals from Russia and Brazil increased by 30,6% and 140,8% respectively, year on year. In contrast, tourist arrivals from China and India experienced declines of -6,5% and -1,5% year on year, respectively.

Tourist arrivals from Russia and Brazil increased by 30,6% and 140,8% respectively, year on year.

Table 6: International tourist arrivals in South Africa

Region	March 2017	March 2016	% change	% change Jan–Mar 2016 to Jan–Mar 2017
Europe	155 780	151 938	2,5%	8,9%
Russia	816	660	23,6%	30,6%
North America	39 985	36 622	9,2%	7,1%
Central and South America	9 352	4 736	97,5%	101,2%
Brazil	5 546	2 274	143,9%	140,8%
Australasia	10 036	10 150	-0,9%	-0,9%
Asia	25 906	25 484	1,7%	1,1%
China	8 412	9 804	-14,2%	-6,5%
India	7 323	6 546	11,9%	-1,5%
Middle East	8 555	6 710	27,5%	16,7%
Overseas total	249 641	235 640	5,9%	9,5%
Africa	552 601	665 668	-17,0%	-8,1%
Total	**805 857**	**904 594**	**-10,9%**	**-3,6%**

Source: South African Tourism, June 2017.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourist accommodation in Cape Town

Accommodation spending typically constitutes the largest portion of total visitor spend at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in table 7 were derived from a survey of an average of 80 tourism accommodation establishments in the Cape Town metro area for the first quarter of 2017.

Occupancy rates at city accommodation establishments increased by an average of 0,1 percentage points in the first quarter of 2017 compared to the same period in 2016. The month of February recorded the highest occupancy rate (89,9%) with a year-on-year increase of 0,7 percentage points. In contrast, March recorded a year-on-year decrease of -1,5%. On a year-on-year comparison, the average room rate and revenue per room increased in the first quarter of 2017 by R196 and R166, respectively. Overall, tourist accommodation in Cape Town did well in the first quarter of 2017, compared to the corresponding period last year. All three accommodation performance indicators for Cape Town reported positive growth rates.

Occupancy rates at city accommodation establishments increased by an average of 0,1 percentage points in the first quarter of 2017 compared to the same period in 2016. The month of February recorded the highest occupancy rate (89,9%) with a year-on-year increase of 0,7 percentage points.

In terms of an occupancy breakdown by type of establishment, the highest average occupancy rate in the first quarter of 2017 was achieved by hotels (84%). All establishment types experienced average occupancy rate increases compared to the fourth quarter of 2016, except for self-catering facilities, which recorded a decline of 2,5 percentage points year on year. Hotels achieved the highest quarter-on-quarter growth rate in average revenue per room (19,7%), followed closely by guesthouses (19,1%).

Table 7: Income derived from tourist accommodation – Cape Town

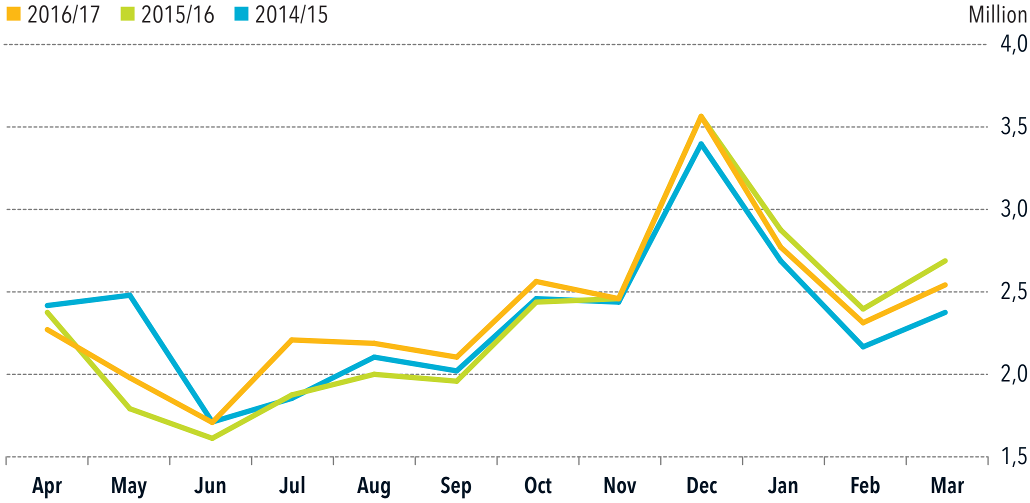
Indicator	January		February		March		First-quarter average	
	2017	2016	2017	2016	2017	2016	2017	2016
Occupancy rate	77,1%	75,9%	89,9%	89,2%	82,6%	84,1%	83,2%	83,1%
Average room rate	R2,048	R1,797	R2,281	R2,037	R1,951	R1,858	R2,093	R1,897
Revenue per room	R1,578	R1,364	R2,050	R1,818	R1,613	R1,562	R1,747	R1,581

Source: Cape Town Tourism, June 2017.

Performance of Cape Town's top visitor attractions

For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These include the city's most popular tourist attractions for which visitor information is available, and encompass a diverse set of sights and sounds. The six attractions are the world-famous Table Mountain (specifically the Table Mountain Aerial Cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 37 illustrates the cumulative number of visits by tourists to these attractions since April 2014. While all of them are open to everyone – resident or non-resident, domestic, regional or international – they attract large proportions of tourists, and are used in this section as a proxy for tourism demand in Cape Town.

Figure 37: Total visits to Cape Town's major (top six) tourist destinations (2014 to 2017)



Source: Derived from Wesgro data, May 2017.

Foreign tourism in the city has no doubt benefited from an increasing number of direct flight options, while local tourism has been bolstered by an increasing number of domestic travellers seeking local holiday destinations as they try to reduce travelling costs in tough economic conditions.

From figure 37, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality as higher tourist volumes are experienced in the summer period between November and March, followed by a decline during winter months and increasing slightly during the third quarter as weather conditions start improving. The first quarter of 2017 reported a quarter-on-quarter decrease of -11,04% in visitors to the top six attractions. When the impact of seasonality is removed by comparing the visitor statistics on an annual basis, the figure shows that visits to Cape Town's top attractions were lower than they had been in the corresponding period in 2016, with a 3,96% year-on-year decrease in the number of visitors.

It is important to note that the visitor attraction data are strongly skewed to the V&A Waterfront. The V&A contributed approximately 82% of the total number of visits to the six attractions analysed in the first quarter of 2017. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends. When the V&A Waterfront figure is removed, the number of visits to the five attractions decreases to 1 355 673 in the first quarter of 2017, representing a year-on-year increase of 7,99%.

The continued strong performance of Cape Town's tourism market on a year-on-year basis in the first quarter of 2017 suggests the city was a favourable destination for visitors. Foreign tourism in the city has no doubt benefited from an increasing number of direct flight options, while local tourism has been bolstered by an increasing number of domestic travellers seeking local holiday destinations as they try to reduce travelling costs in tough economic conditions.

Most-visited tourist attractions

Table 8 indicates that, in terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town. However, for reasons described above, a more accurate reflection of the performance of major tourist attractions in Cape Town can be derived from the performance of the other five attractions. In this respect, the Table Mountain National Park Cape of Good Hope recorded the second-highest number of visits (349 131) while the Table Mountain Aerial Cableway section had the third-highest number of visits (333 554) in the first quarter of 2017.

Table 8: Ranking of the most-visited tourist attractions in Cape Town*

Rank*	Quarter 1, 2017	Quarter 4, 2016	Quarter 1, 2016	Year-on-year growth rate (%)	Quarter-on-quarter growth rate (%)
V&A Waterfront	6 284 525	7 170 868	6 700 140	-6,20%	-12,36%
Table Mountain Aerial Cableway	333 554	370 734	318 401	4,76%	-10,03%
Table Mountain National Park: Cape of Good Hope	349 131	353 777	311 368	12,13%	-1,31%
Kirstenbosch National Botanical Garden	291 781	309 755	268 913	8,50%	-5,80%
Table Mountain National Park: Boulders Beach	271 501	267 479	241 988	12,20%	1,50%
Robben Island	109 706	115 282	114 648	-4,31%	-4,84%
Total	**7 640 198**	**8 587 895**	**7 955 458**	**-3,96%**	**-11,04%**
Total (excluding V&A Waterfront)	1 355 673	1 417 027	1 255 318	7,99%	-4,33%

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

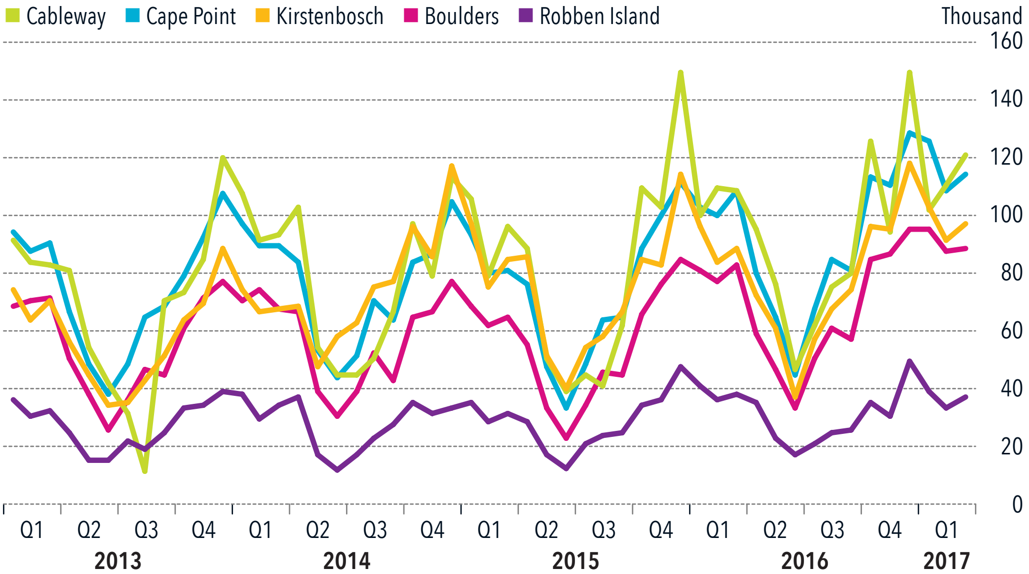
Source:Derived from Wesgro and Cape Town Tourism data, May 2017.

While most of the attractions recorded quarter-on-quarter declines in number of visits, on a year-on-year basis all five attractions, except Robben Island, recorded an increase in the number of visits. Robben Island observed a year-on-year decline of 4 942 visitors in the first quarter of 2017. Boulders Beach recorded the highest year-on-year growth rate of 12,20%, with the number of visits increasing by 29 513. The Table Mountain Park: Cape of Good Hope recorded the second-highest year-on-year growth rate, increasing by 12,13%.

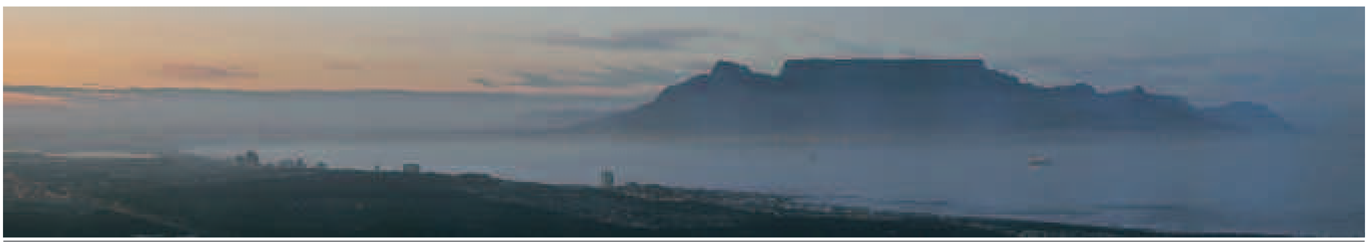
As figure 38 shows, all attractions are subject to strong seasonality, with peak visitor activity occurring in the summer period from November to March. The lowest tourist visitor numbers are seen during the period May to July, which are Cape Town's winter months. Overall, in the first quarter of 2017 Cape Town's visitor attraction statistics demonstrated strong performance compared to the same period last year.

The Table Mountain National Park: Cape of Good Hope recorded the second-highest number of visits (349 131) while the Table Mountain Aerial Cableway section had the third-highest number of visits (333 554) in the first quarter of 2017.

Figure 38: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Wesgro and Cape Town Tourism data, May 2017.



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Additional indicators

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

BUILDING DEVELOPMENTS

This section focuses on building developments recorded by the City of Cape Town for the first quarter of 2017. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, building plan submissions and building plans completed are key indicators of the level of economic development occurring within the city.

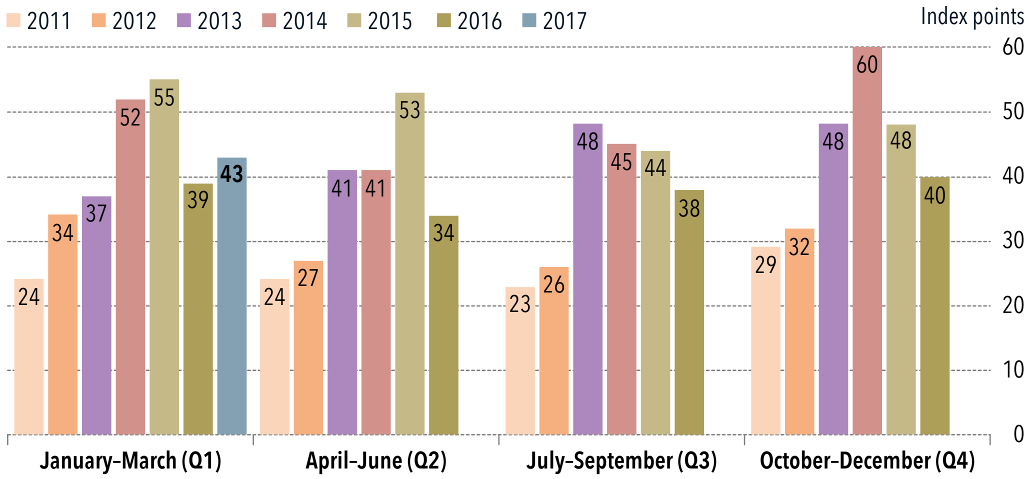
The building confidence index rose from 40 points in the fourth quarter of 2016 to 43 points in the first quarter of 2017.

Construction industry overview

The economic growth chapter showed that output in the national construction industry contracted by -1,3% quarter on quarter in the first quarter of 2017. Similarly, on a year-on-year basis the sector observed a decline of -0,02% in the first quarter of 2017. The Western Cape construction industry also contracted at rates of -0,2% and -1,3% on a year-on-year and quarter-on-quarter basis, respectively.

The First National Bank (FNB)/BER (2017) composite Building Confidence Index (BCI) 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. The building confidence index rose from 40 points in the fourth quarter of 2016 to 43 points in the first quarter of 2017. Confidence increased by 4 index points on a year-on-year basis.

Figure 39: Building confidence index (2011 to 2017)



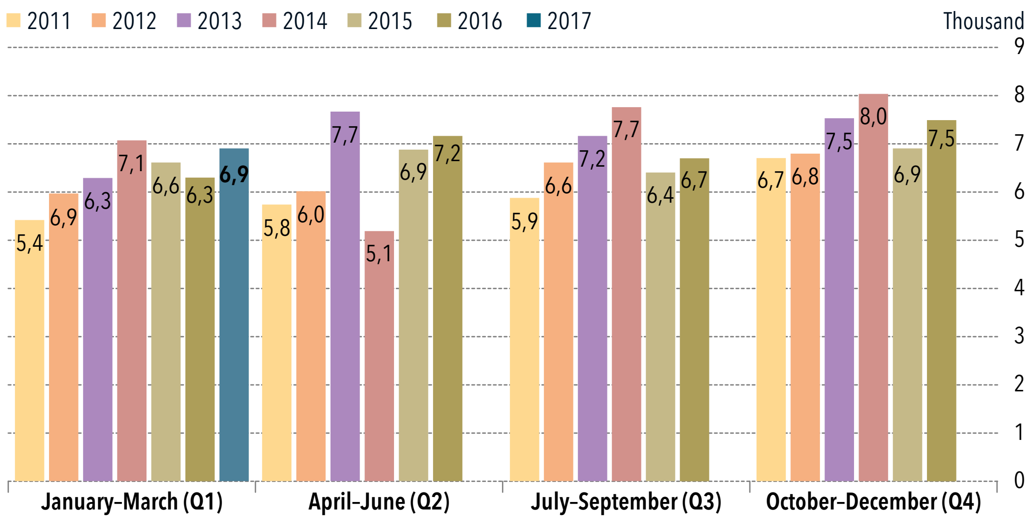
Source: BER, 2017b.

Building plan applications in Cape Town

Building plans submitted to the City of Cape Town in the first quarter of 2017 declined by 8,3% from the previous quarter. Figure 40 provides an annual comparison of the number of building plans submitted in each of the quarters over the past six years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted to the City of Cape Town in the first quarter of 2017 increased by 9,7% compared to the corresponding period in 2016.

Building plans submitted to the City of Cape Town in the first quarter of 2017 increased by 9,7% compared to the corresponding period in 2016.

Figure 40: Building plans submitted (2011 to 2017)



Source: Transport Development Authority: Business Support Department – City of Cape Town, June 2017.

Building plans completed

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

Cape Town experienced an upward trend (58,8% increase year on year) in the number of completed building plans in the first quarter of 2017.

Table 9: Building plans completed in the first quarter of 2017

	Cape Town		South Africa	
Measure	**Number/value**	**Year-on-year change**	**Number/value**	**Year-on-year change**
Building plans completed	6 308	58,8%	N/A	N/A
Value of building plans completed	R4 016 million	47,5%	R16 088 million	23,7%

Source: Transport Development Authority: Business Support Department – City of Cape Town, June 2017; Statistics South Africa, 2017.

Table 9 reviews the number of completed building plans in Cape Town in the first quarter of 2017. It suggests that Cape Town experienced an upward trend (58,8% increase year on year) in the number of completed building plans in the first quarter of 2017.

The table also compares the value of building plans completed in Cape Town and South Africa in the first quarter of 2017. In Cape Town these completions amounted to R4 billion, which accounted for 25% of the total value (R16 billion) of building plans completed in South Africa's larger municipalities. Cape Town recorded a year-on-year increase of 47,5% in the rand value of building plans completed during the first quarter. Similarly, South Africa recorded a year-on-year increase of 23,7%. The increase in the rand value of building plans completed in Cape Town was driven by year-on-year increases across most forms of building plan completions, including residential (99,3%), additions and alterations (53%) and minor works (43,8%), however, non-residential declined by 42,7% year on year.

COMMERCIAL PROPERTY DEVELOPMENTS

Cape Town's services industry represents the largest sector of the economy, as measured by Gross Value Add (GVA). Within this broad sector, the finance sector is also the fastest growing sector of the city's economy and comprised 32% of the city's GVA in 2016 (IHS Global Insight, 2017). Considering the importance of the services sector to the city's economy, an understanding of the factors that underpin its performance provides useful insights into Cape Town's economic performance as a whole. In addition to being the largest sector of the economy, the services industry is also the largest consumer of office space and the uptake thereof is an indication of business confidence in an economy (Rode, 2015). In light of this, this section provides an overview of commercial property trends in Cape Town as a means of understanding trends in business confidence in the city's economy. Commercial property is here understood to encompass two categories of property development, namely office or banking space and shopping or retail space.

Performance of Cape Town's office and banking property market

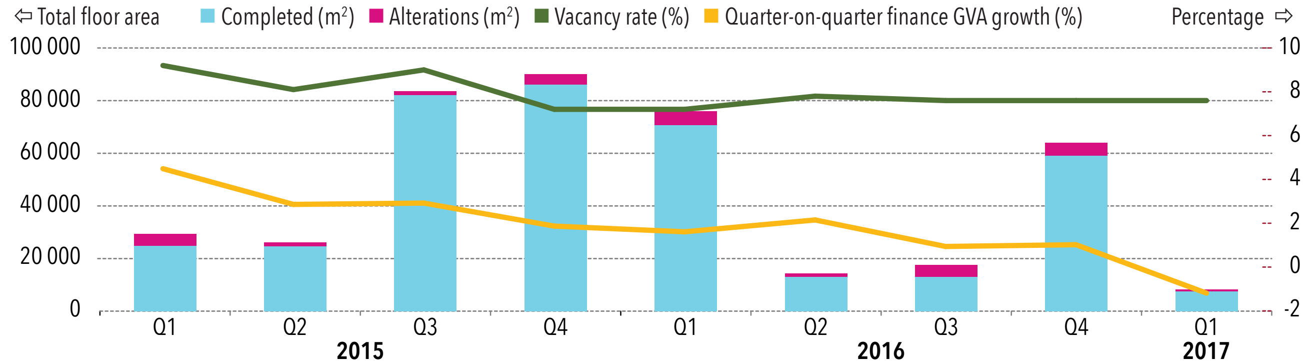
The performance of the commercial property market can be tracked in a number of ways. An indicative trend analysis is provided in figure 41 by review of observed variation in the quarterly office vacancy rate[16], the total floor area of completed office buildings added to the office property stock, 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 service sector is the largest in Cape Town and as such this indicator is a useful measure of economic activity.

In the first quarter of 2017, construction on 7 548 m^2 of new office or banking space was reported to have been completed and 622 m^2 of office or banking space alterations were completed. This represents a significant decrease in completions when compared to the fourth quarter in which construction on 59 005 m^2 of new office or banking space was completed and 5 008 m^2 of office or banking space alterations were made. While there was a quarter-on-quarter decline in new completions and alterations, the Jones Lang LaSalle (JLL) Cape Town Office Market Report notes that the city's positive global image of doing business remains strong and, as such, it is likely that the decline is not likely to have a dramatic impact on developments in the city. Global corporates and international companies continue to either expand their presence or open office in Cape Town thus the demand for office and banking property and rental rates continue to grow. The substantial addition to the office developments at the end of 2016 has left office developments largely unchanged in the first quarter of 2017 (JLL, 2017).

In the first quarter of 2017, construction on 7 548 m^2 of new office or banking space was reported to have been completed and 622 m^2 of office or banking space alterations were completed.

16. Rode (2015) defines this as the floor area available for leasing at any given time, irrespective of whether there is still a valid lease over the space. Here it is expressed as a percentage of the stock in rentable m².

Figure 41: Office/banking space sector developments (January 2015 to March 2017)



	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17
• Total floor area of alterations office/banking space	4 480	1 605	1 444	4 075	5 203	1 294	4 540	5 008	622
• Total floor area of completed office/banking space	24 777	24 551	82 139	86 014	70 671	13 045	12 951	59 005	7 548
• Office vacancy rate	9,20%	8,10%	9,00%	7,20%	7,20%	7,80%	7,60%	7,60%	7,60%
• Q-on-Q change in finance, real estate and business services GDP	4,49%	2,86%	2,92%	1,87%	1,61%	2,15%	0,94%	1,02%	-1,19%

Source: Transport Development Authority: Business Support Department, City of Cape Town, August 2016; Jones Lang LaSalle (JLL), November 2016; and Quantec, June 2017.

The office vacancy rate in the first quarter of 2017 remained at its fourth quarter rate of 7,6%, with the Cape Town Central Business District vacancy rate contributing the highest vacancies at 11,5%.

As figure 41 shows, the office vacancy rate in the first quarter of 2017 remained at its fourth quarter rate of 7,6%, with the Cape Town Central Business District vacancy rate contributing the highest vacancies at 11,5% (JLL, 2017). The finance and business services sector reported a decrease in GVA of -2,2 percentage points to -1,2% compared to the previous quarter's growth of 1%. According to the South African Property Owners Association (SAPOA), a sustained improvement in the office vacancy rate (i.e. return to the natural vacancy rate), depends on the strength of key economic drivers such as economic growth and business confidence.

While it might prove insightful to contrast economic growth with the evolution of building completions and the office vacancy rate, readers are cautioned that there tends to be a significant lag between these relationships. In the case of GDP and the office vacancy rate, in particular, this lag can be up to 12 months. Vacancies are a function of supply meaning that vacancies may still increase with GDP if there happens to be an excess supply of office space. In general, however, vacancies are sticky downwards due to the contractual obligations of rental agreements. Similarly, in terms of the relationship between GDP and building completions, the effects of changes in the former are often lagged by a number of quarters (McGaffin and Viruly, 2016). Overall, these relationships are best assessed through the use of econometric modelling analyses and over a longer (annualised) time series.

In the first quarter of 2017, there were seven new commercial buildings completed, with a total rand value of R68 million and a combined total floor area of 9 192 m².

Top commercial developments

In the first quarter of 2017, there were seven new commercial buildings completed, down by four from the previous quarter, with a total rand value of R68 million and a combined total floor area of 9 192 m². Office or banking space developments accounted for four of these buildings and shopping space accounted for the remainder.

Table 10: Top commercial property developments – Cape Town

No.	Area	Property segment	Building description	Rand value	Total floor area (m²)
1	Tygerberg	Office/bank space	Laboratory	32 740 330	4 291
2	Somerset West	Office/bank space	Offices	11 716 720	1 754
3	Bellville	Office/bank space	Offices	9 266 250	1 059
4	Somerset West	Shopping space	Shops	5 580 470	741
5	Tygerberg	Shopping space	Shop	3 733 320	509
6	Strand	Office/bank space	Offices	2 982 340	444
7	Cape Flats	Shopping space	Shop	2 823 840	394

Source: Transport Development Authority: Business Support Department, City of Cape Town, June 2017.

Future developments

According to JLL's Cape Town Office Market Outlook report for the first quarter of 2017, both the rental and vacancy rates suggest a continued growth in the city's office rental market (JLL, 2017). Two major office developments are due for completion in the near future, namely the KPMG building in the CBD which accounts for 16 000 m² – set to be completed in the first quarter of 2018 – and the Waterway House development which accounts for 15 000 m² and is now reaching completion. In Century City the construction of the 18 300 m² Sable Park has begun and two office blocks have already been leased.

The finance sector, which drives much of the business activity in the city, shows potential to be resilient in the face of the credit rating downgrade to sub-investment grade. However, the impact that this will have on the commercial property sector may only reveal itself in forthcoming quarters given the lag impact which economic growth trends have on property developments. Currently, demand remains strong and continues to boost rental rates in Cape Town (JLL, 2017).

NEW VEHICLE SALES

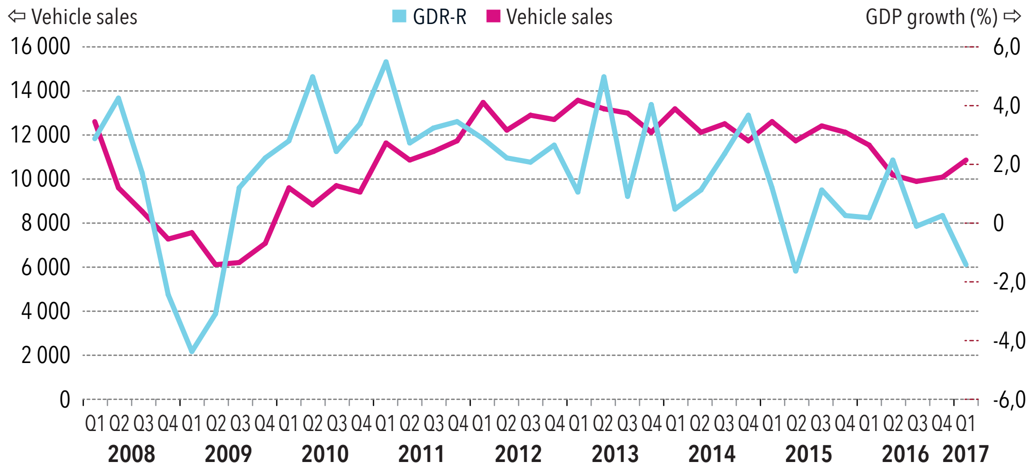
This section tracks new vehicle sales in the province on a quarterly basis. Typically, vehicle sales – especially passenger vehicle sales – are considered to mirror trends in the business cycle and are often regarded as a leading indicator for GDP growth. New vehicle sales are sensitive to changes in economic indicators like the interest rate, inflation, disposable income, and consumer and business confidence levels. As such an analysis of vehicle sales can provide an indication of the current stage or health of the business cycle. If sales decrease consistently, the economy is likely to be in a contraction phase while if sales reflect a sustained growth trend then the economy may be entering an expansion phase.

In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). The total vehicle sales in the Western Cape increased from 15 622 vehicles sold in the fourth quarter of 2016 to 16 315 in the first quarter of 2017. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw a decrease of 740 from the 17 055 total vehicle sales in the corresponding period in 2016 in the Western Cape. Passenger vehicle sales, which are the private consumer segment of the market, increased slightly from 10 109 in the fourth quarter of 2016 to 10 841 in the first quarter of 2017 in the Western Cape. Year-on-year results saw a decrease of 750 vehicles (-6.47%) from the 11 591 passenger vehicles sold in the corresponding period in 2016. Nationally there was a 1% increase in the number of passenger vehicles sold in the first quarter of 2017 compared to the corresponding period in 2016.

The year-on-year decrease in passenger vehicle sales in the Western Cape during the first quarter is seemingly in line with the prevailing macroeconomic conditions in the country. This includes a contraction in the manufacturing sector in the first quarter of 2017 as well as low consumer spending levels (BER, 2017).

The total vehicle sales in the Western Cape increased from 15 622 vehicles sold in the fourth quarter of 2016 to 16 315 in the first quarter of 2017.

Figure 42: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 1, 2017)



Source: NAAMSA, Stats SA, June 2017.

Figure 42 plots the total passenger vehicle sales per quarter alongside the quarter-on-quarter GDP-R for the Western Cape. The SARB includes new passenger vehicle sales as one of the variables in its leading indicator for GDP growth, with the assumption that new passenger vehicle sales and GDP growth are positively correlated and that passenger vehicle sales 'lead' GDP growth. This assumption is not unique to the Reserve Bank as passenger vehicle sales have been used as a leading variable in a number of leading indicator models.

It is not immediately clear from figure 42 which indicator leads which, although it would appear that vehicle sales are far less erratic than GDP and respond to long-term trends not short-term movements. This said, the actual nature of this relationship can only be fully appreciated when one isolates the impact that passenger vehicle sales have on GDP through the use of regression analysis. The City of Cape Town is currently working on a composite leading indicator for GDP growth, which will analyse these relationships in more detail.

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LIST OF ABBREVIATIONS

ACSA	Airports Company South Africa
CAPEX	capital expenditure
City	City of Cape Town
BCI	Building Confidence Index
BER	Bureau for Economic Research
BREXIT	British Exit
BRICS	Brazil, Russia, India, China and South Africa
CBD	Central Business District
CCDI	Cape Craft and Design Institute
CPI	consumer price index
DAC	Department of Arts and Culture
DEDAT	Department of Economic Development and Tourism
EUR	euro
FDI	foreign direct investment
FNB	First National Bank
GBP	British pound
GDP	gross domestic product
GDP-R	regional gross domestic product
GGP	gross geographic product
GVA	gross value added
HDI	Human Development Index
ICT	information and communications technology
INR	Indian rupee
IMF	International Monetary Fund
JLL	Jones Lang Lasalle
MPC	Monetary Policy Committee
MYPD3	Third Multi-Year Price Determination
NAAMSA	National Association of Automobile Manufacturers of South Africa
NERSA	National Energy Regulator of South Africa
NPA	National Ports Authority
OPEC	Organization of the Petroleum Exporting Countries
PMI	(Absa) Purchasing Managers' Index
PPI	producer price index
QLFS	Quarterly Labour Force Survey
SA	South Africa
SACO	South African Cultural Observatory
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAPOA	South African Property Owners Association
SARB	South African Reserve Bank
SASA	South African Sugar Association
UK	United Kingdom
UNWTO	United Nations World Tourism Organisation
US	United States
USD	US dollar
US Fed	United States Federal Reserve Bank
V&A	Victoria and Alfred Waterfront
WDC2014	World Design Capital 2014
WEO	World Economic Outlook
ZAR	South African rand

CITY OF CAPE TOWN
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STAD KAAPSTAD

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