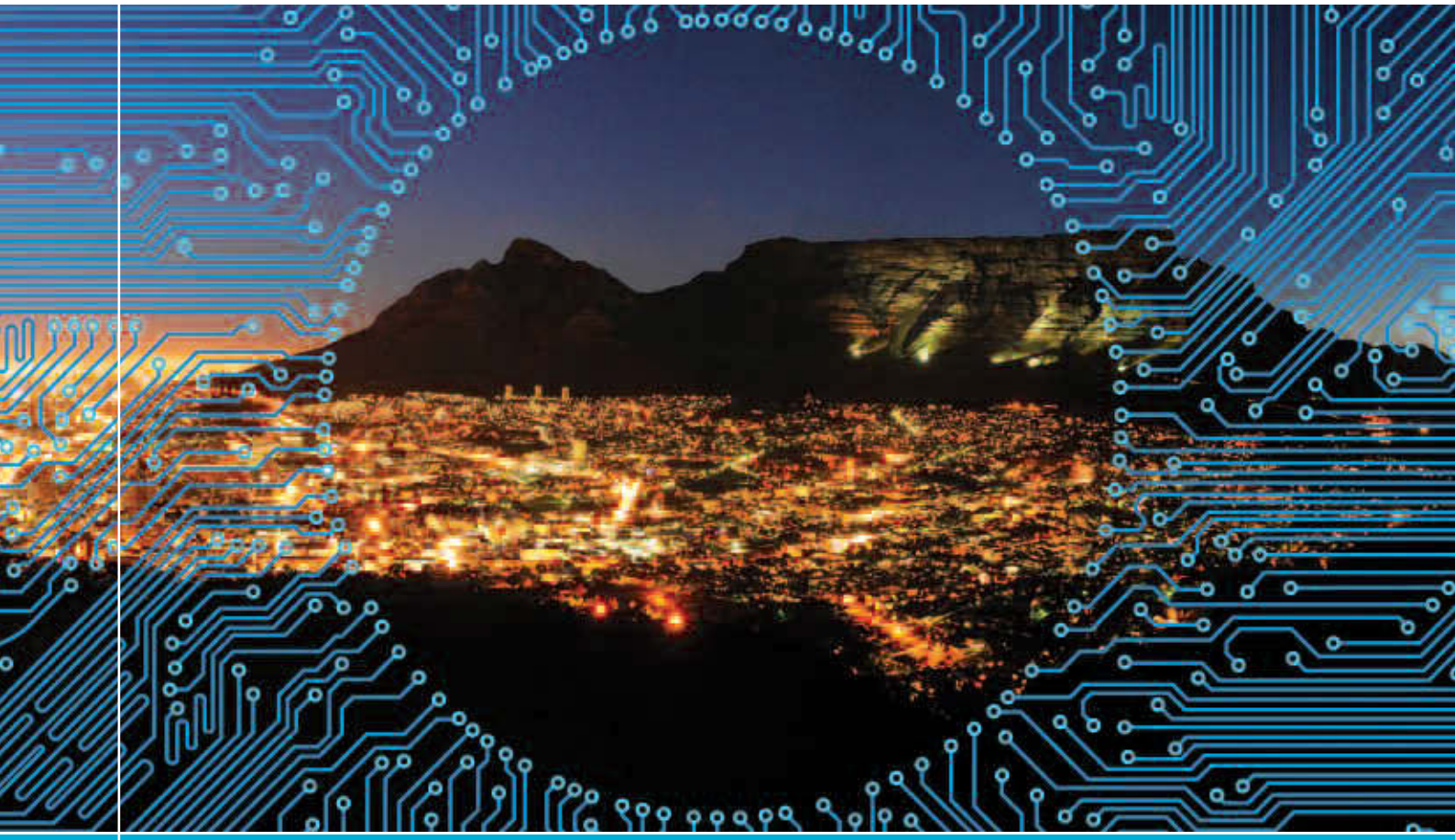
CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD



EPIC

Economic Performance Indicators for Cape Town

Quarter 4 (October–December) **2015**

Sector focus: Electronic and electrical components

Making progress possible. Together.

Document navigation shortcuts

- Entries on the Contents pages link to the relevant page.
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This document is available from the City of Cape Town's Department of Economic Development website at: https://www.capetown.gov.za/en/visitcapetown/Pages/EPIC.aspx.

Foreword

Despite the fact that it is often said that "economics is the painful elaboration of the obvious", the current turbulent state of South Africa means that more than ever we as citizens, public representatives and officials need to get to grips with what is happening in our economy and understand what lies behind these trends.

Continuing where we left off last year, 2016 has seen further uncertainty and volatility in the national economy driven by events within the country and globally.

As this issue of *EPIC* goes to press, uncertainty and volatility prevails in the national economy, in spite of the reappointment of Minister Pravin Gordhan to the Finance portfolio and the tabling of a national budget widely recognised as sending the right signals to the market.

It is not clear whether this frenetic activity will be sufficient to prevent a downgrade of the national credit rating and the retention of the country's credibility as an investment destination. I certainly hope a downgrade is avoided.

While economic activity in Cape Town is unavoidably affected by the weak performance of the national economy, there are reasons to be optimistic about the direction that Cape Town is taking.

Moodys recent update of its rating of the City recognised the strength of the local economy and highlighted the City's prudent financial management and the diversity of Cape Town's economy as evidence of this.

Furthermore, the latest Quarterly Labour Force Survey, reported on in this issue of *EPIC*, similarly highlights progress in reducing unemployment in the City, which now stands at 20,5% – four percent lower than the national rate.

However, despite these laudable accomplishments and a rosier outlook than the rest of the country, we still have a lot of hard work to do to attract investment and grow employment in the City. We are committed to doing this work.

We are able, willing and ready to make our contribution to economic growth by making sure that the economic infrastructure is in place.

By providing up-to-date economic information and analysis, the quarterly *EPIC* publication provides a basis for improved decision-making.

I encourage you to engage with its contents as the basis for this critical conversation on our City's economic future, enabling us to make progress possible. Together.

P. de Lille

Patricia de Lille
Executive Mayor

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Introduction

This is the 11th 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 fourth quarter of 2015, covering the period 1 October to 31 December 2015.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development strategies. In order to know what must be done, it is essential to understand the nature, composition and performance of the local economy. 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 effectively serve the purpose of promoting 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 Trade and Investment 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 Department of Trade and Investment.

Produced by the Economic Research Unit

Manager: Economic Research: Tim Hadingham
Author and editor-in-chief: Paul Court
Authors: Monique Petersen, Dilshaad Gallie, Nicole Mack, Yoliswa Tiwe and Kay Williams
E-mail: economic.research@capetown.gov.za

Chapter contributions
Wesgro IQ: Jacyntha Twynam and Julius Okiror

Additional sources of information and analysis
Planning and Building Development Management, City of Cape Town: Marius Crous
Wesgro IQ: Latecia Hendricks
Cape Town Tourism: Marisah Nieuwoudt

A multiplicity of other data and information sources were used in the publication, including Statistics South Africa, 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 of this publication.

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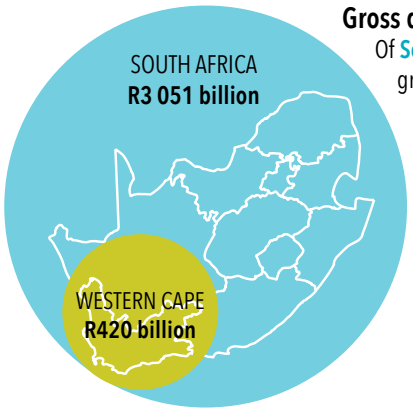
Published by the Integrated Strategic Communications, Branding and Marketing Department, City of Cape Town.

wesgro
cape town & western cape
tourism, trade & investment

CAPE TOWN AT A GLANCE



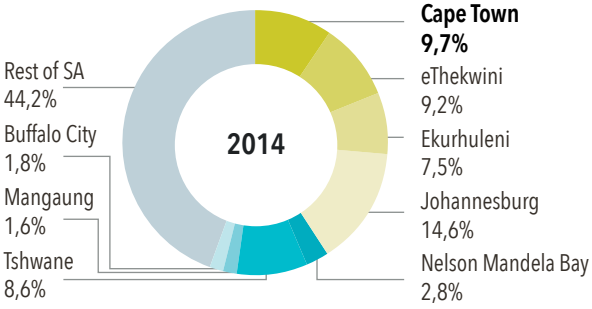
Gross domestic product (GDP)

Of South Africa's R3 051 484 million gross domestic product generated in the fourth quarter of 2015, the Western Cape[1] accounted for R420 0137 million.

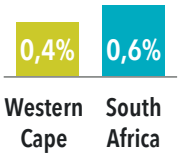
Source: Quantec, March 2016.

13,76%

Gross geographic product (GGP) contributions



Source: Own calculations based on IHS Global Insight ReX regional data 2015.

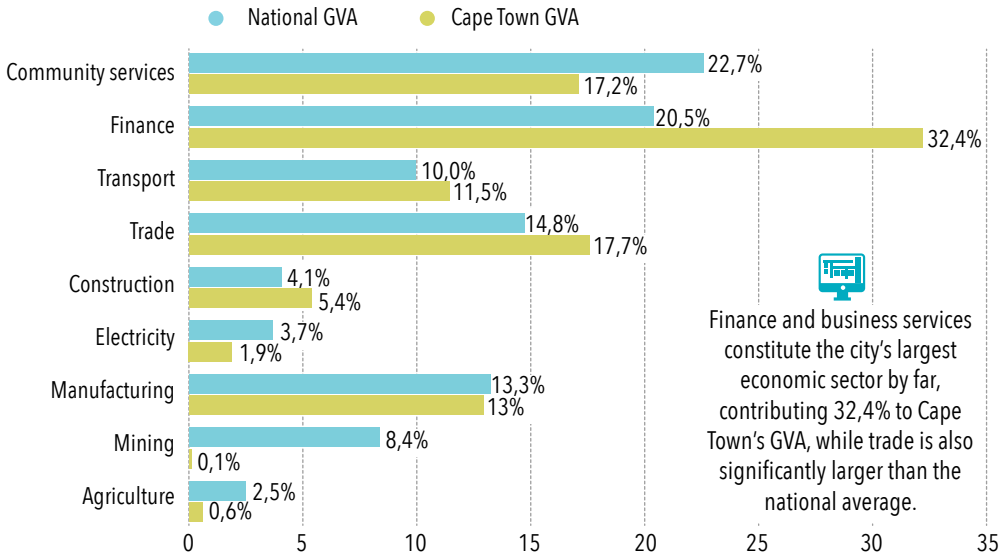


GDP growth

During the fourth quarter of 2015, the Western Cape had a quarter-on-quarter GDP growth of 0,4%, against a national growth of 0,6%.

Source: Quantec, March 2016.

Cape Town's gross value added (GVA) versus national GVA 2014



Finance and business services constitute the city's largest economic sector by far, contributing 32,4% to Cape Town's GVA, while trade is also significantly larger than the national average.

Source: Own calculations based on IHS Global Insight ReX regional data 2015.

5,4%

Inflation

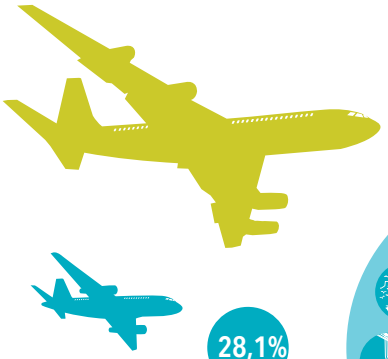
During the fourth quarter of 2015, the Western Cape had a higher rate of inflation – 5,4% – than the rest of South Africa at 5,2%.

Source: Stats SA, Consumer Price Index December 2015.

Air passenger movements

Of the 9 354 423 passenger movements through South Africa's three international airports[2] during the fourth quarter of 2015, 2 632 959 were through Cape Town International Airport.

Source: ACSA, March 2016.



28,1%

Passenger vehicle sales

Of the 99 442 new passenger vehicles sold in South Africa during the fourth quarter of 2015, 12 308 were sold in the Western Cape.

Source: NAAMSA, March 2016.

Cargo tonnage handled at ports

During the fourth quarter of 2015, 57 854 090 tons of cargo were handled at South Africa's ports, of which the Port of Cape Town handled 1 046 482 tonnes.

Source: Transnet, National Ports Authority, March 2016.

Containers handled at ports

During the fourth quarter of 2015, 1 049 703 containers were handled at South Africa's ports, of which the Port of Cape Town handled 219 852.

Source: Transnet, National Ports Authority, March 2016.

20,9%

Visitor attractions

In the fourth quarter of 2015, tourists and residents made 8 466 299 visits to Cape Town's six major attractions.

Source: Wesgro, March 2016.

1. GDP figures are not available for Cape Town on a quarterly basis so Western Cape figures are used as a proxy.
2. The combined total for South Africa's three international airports.

Population

South Africa has 54 956 920 people:[3] 6 200 098 live in the Western Cape and, of those, 3 957 798 are resident in Cape Town.

Source: Stats SA, City of Cape Town.

Gini coefficient

In 2014, South Africa had a Gini coefficient[4] of 0,64, while Cape Town had a slightly lower value of 0,62.

Source: IHS Global Insight, March 2016.

0,72

Human development index

In 2014, South Africa had an HDI[5] of 0,63, while Cape Town's was 0,72.

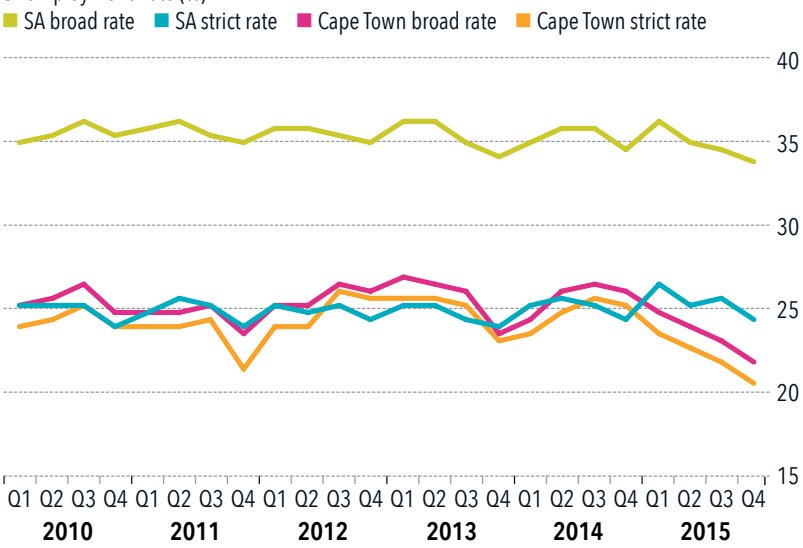
Source: IHS Global Insight, March 2016.

Functional literacy

South Africa has a functional literacy rate of 83,1%, while Cape Town has a rate of 92,4%.

Source: IHS Global Insight, March 2016.

Strict vs broad unemployment rates for Cape Town (Q1, 2010 to Q4, 2015)



Source: Stats SA, March 2016.

7,60%

Working-age population

Of the 36 271 897 people aged 15–64 in South Africa, 2 757 593 are resident in Cape Town.

Source: Stats SA, Quarterly Labour Force Survey (QLFS), February 2016.

7,51%

Unemployment

Of the 5 192 865 unemployed people in South Africa in the fourth quarter of 2015, 390 183 lived in Cape Town.

Source: Stats SA, QLFS, February 2016.

Expanded unemployment rate

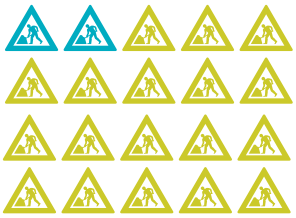
While South Africa had a 33,8% unemployment rate during the fourth quarter of 2015, Cape Town had a lower rate of 21,8%.

Source: Stats SA, QLFS, February 2016.

Labour absorption rate

South Africa had a 44,2% absorption rate – the percentage of the working-age population in employment – in the fourth quarter of 2015, while Cape Town had a higher rate of 54,8%.

Source: Stats SA, QLFS, February 2016.



8,96%

Labour force

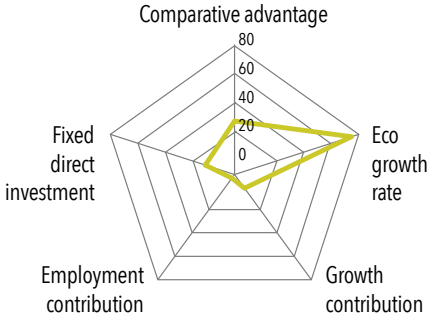
Of South Africa's 21 210 934 labour force participants, 1 901 301 live in Cape Town.

Source: Stats SA, QLFS, February 2016.

SECTOR FOCUS – ELECTRONIC AND ELECTRICAL COMPONENTS

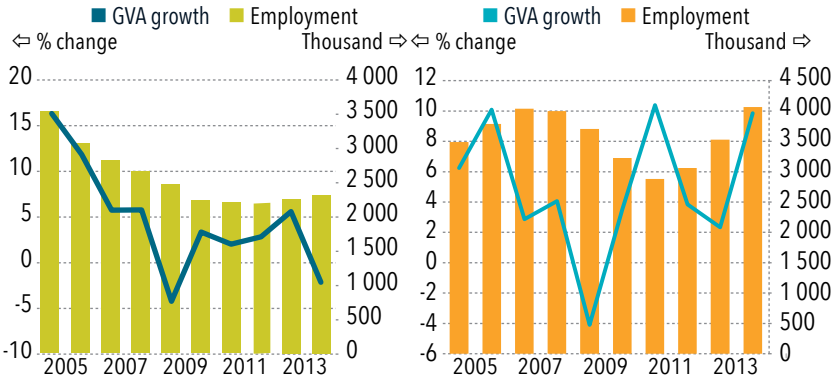
Cape Town has a comparative advantage in the manufacture of electronic products compared to other regions in South Africa. It has also recorded South Africa's largest foreign direct investment in the consumer electronics sector, with Hisense opening a factory in Atlantis and regional offices in Century City.

The economic performance of the electronic and electrical component industry in Cape Town



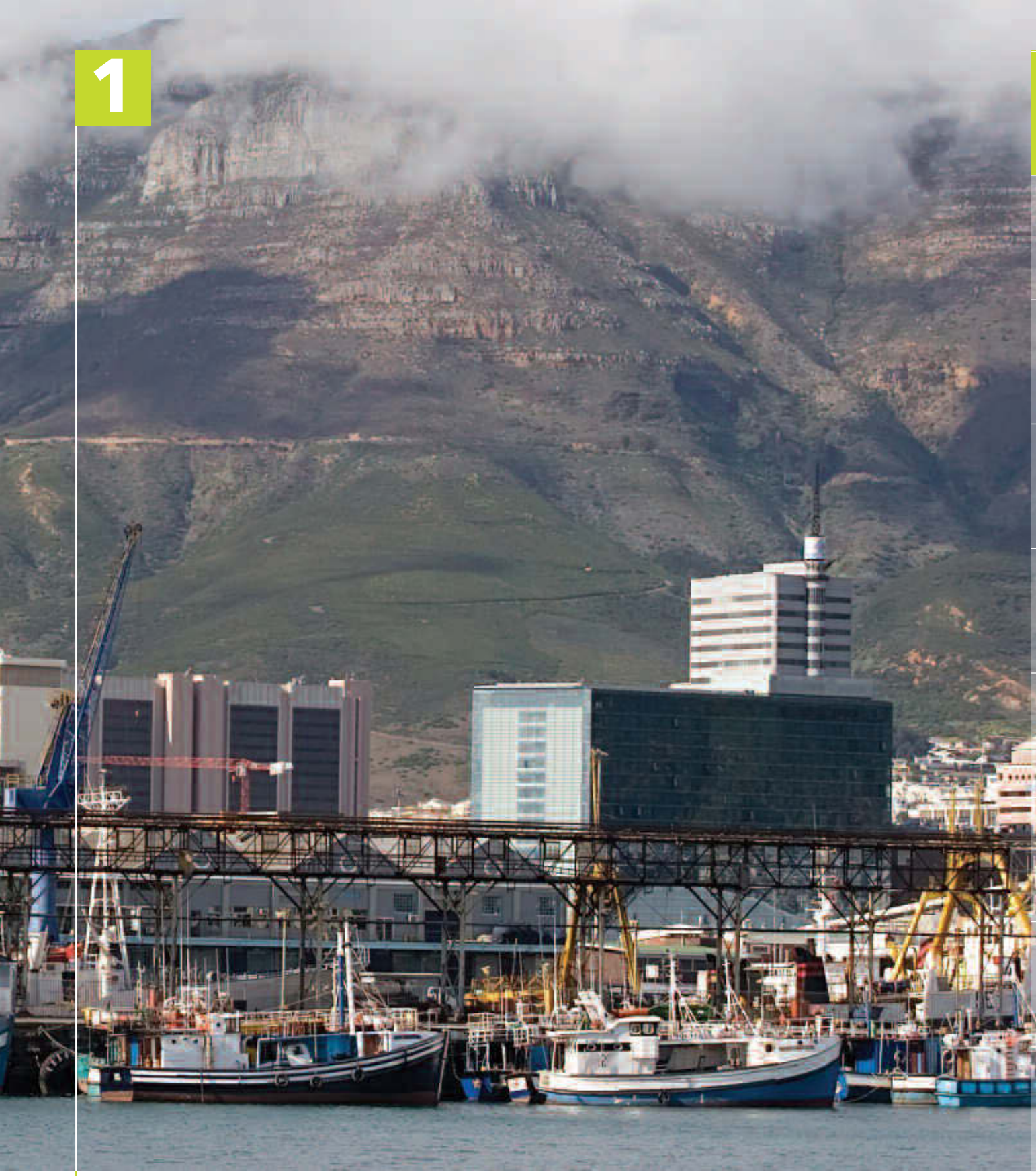
Source: City of Cape Town calculations, data derived from IHS Global Insight.

Comparison of GVA and employment performance of electronic sub-sectors



Source: City of Cape Town calculations, data derived from IHS Global Insight.

3. Mid-year estimates, 2015.
4. The Gini coefficient measures inequality in levels of income. Lower values represent greater equality. Values are for 2014.
5. The human development index (HDI) is a composite statistic of life expectancy, education and income indices. Higher values are better. Values are for 2014.



1

Overview

Cape Town's economy is the second-largest municipal economy in the country and the second-most-important contributor to national employment. The industries in which Cape Town has the most pronounced comparative advantage compared to the country as a whole are fishing, clothing and textiles, wood product manufacturing, electronics, furniture, hospitality, finance and business services.

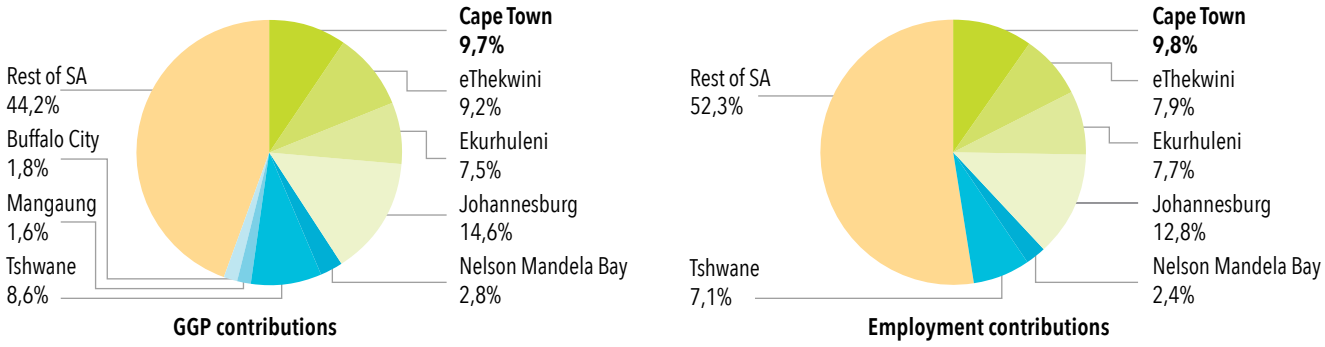
The four largest municipalities account for 37,6% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 9,7% to national gross domestic product in 2014) is the second-largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 14,6% to national GDP in 2014), while eThekwini (9,2%) and Tshwane (8,6%) closely follow behind Cape Town. Together, these four metropolitan municipalities accounted for 42,2% of the country's economic output in 2014.

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 four largest municipalities contribute 42,2% of the country's output value, they account for only 37,6% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

Figure 1: Gross geographic product (GGP) and employment contributions, 2014

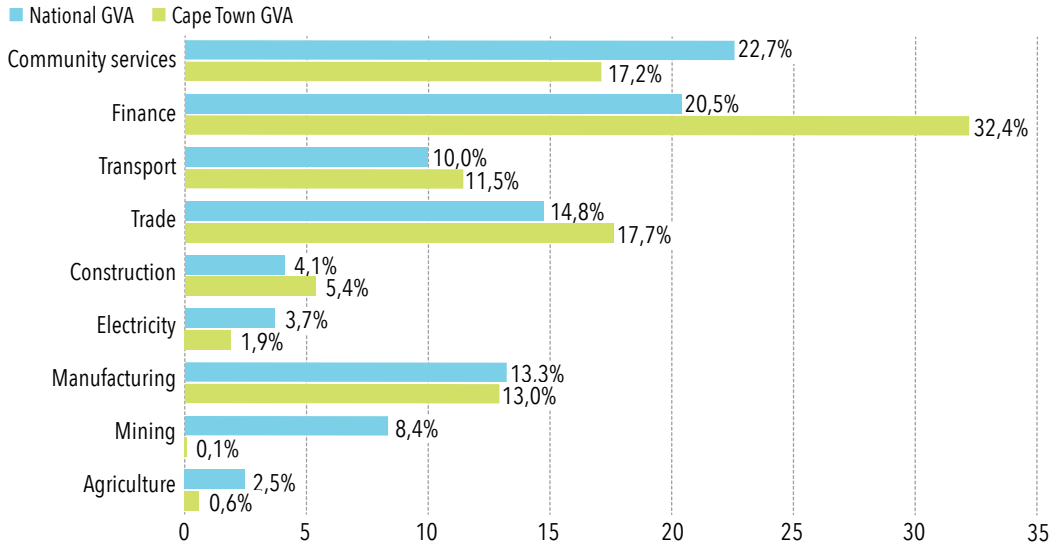


Source: Own calculations based on IHS Global Insight ReX regional data 2015 and Stats SA's QLFS data 2015.

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 32,4% to Cape Town's GVA, whereas it contributes only 20,5% nationally. At the other end of the scale, mining and quarrying contribute only 0,1% in Cape Town, as compared to 8,4% nationally.

Figure 2: Cape Town's GVA versus national GVA, 2014



Source: Own calculations based on IHS Global Insight ReX regional data 2015.

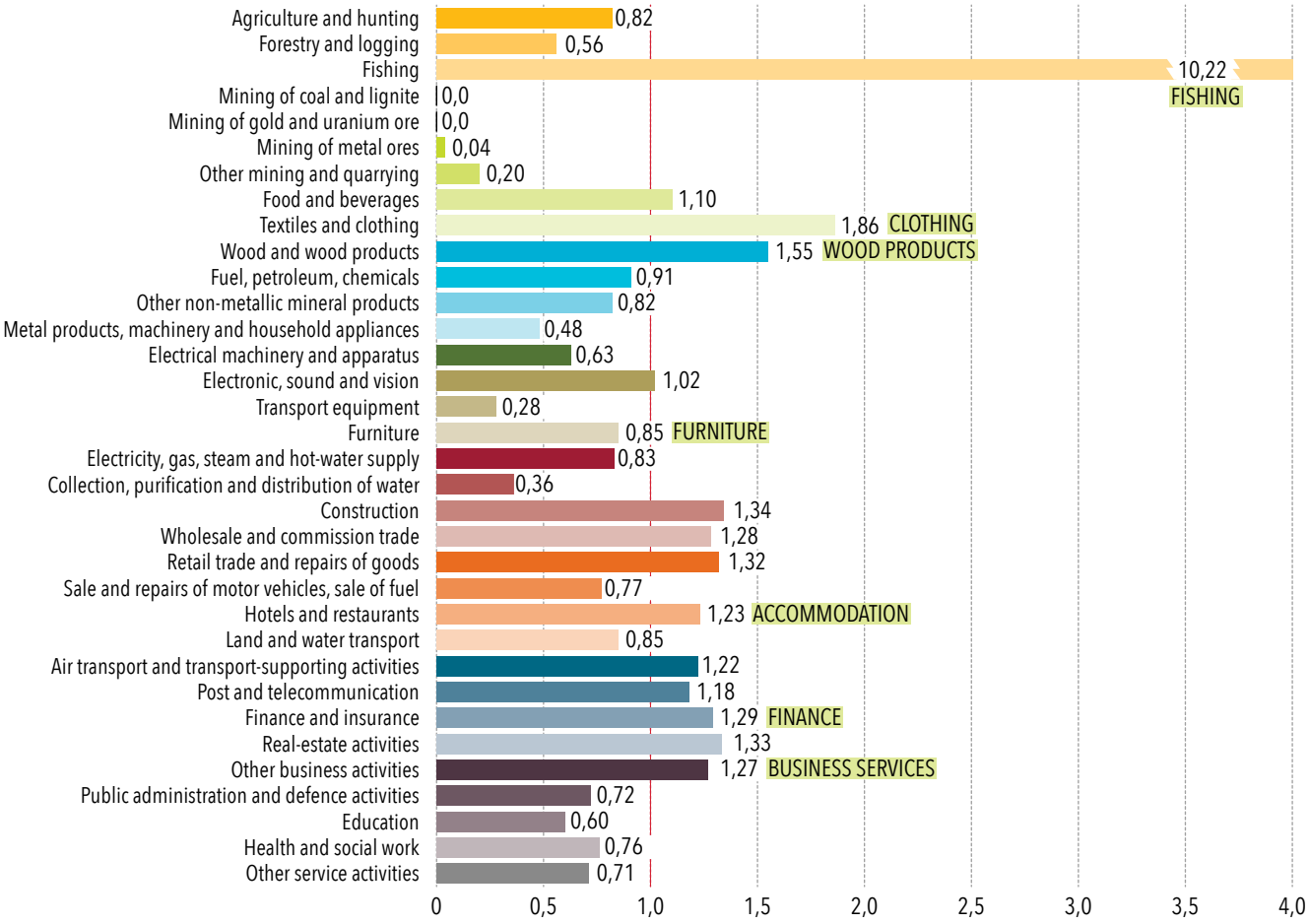
The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, clothing and textiles, wood-product manufacturing, construction, wholesale, retail, finance, real estate and business services.

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.

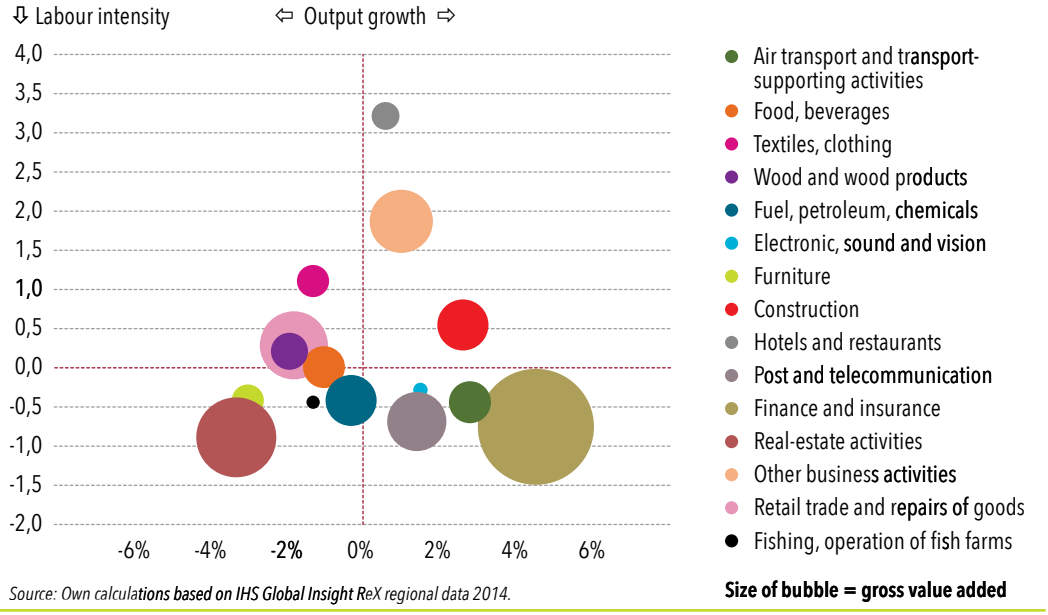
The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, clothing and textiles, wood-product manufacturing, construction, wholesale, retail, finance, real estate and business

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



Source: Own calculations based on IHS Global Insight ReX regional data 2014.

Figure 4: Industry performance for Cape Town



Source: Own calculations based on IHS Global Insight ReX regional data 2014.

A number of tertiary sector activities are the fastest-growing industries in the city, with finance, business services, hospitality, and post and telecommunication growing above the average rate.

services. 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, business services, retail trade, and real-estate activities. A number of these industries are also the fastest-growing in the city, with finance, business services, hospitality, and post and telecommunication growing above the average rate. Unfortunately, a number of these industries are below 0 on the y-axis, indicating that they are capital-intensive as opposed to labour-intensive. This is true of post and telecommunication as well as finance and insurance. Industries that are growing fast, are labour-intensive, and therefore offer good opportunities for employment creation, are construction, business services, and hotels and restaurants (a good proxy for tourism).

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

2

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.

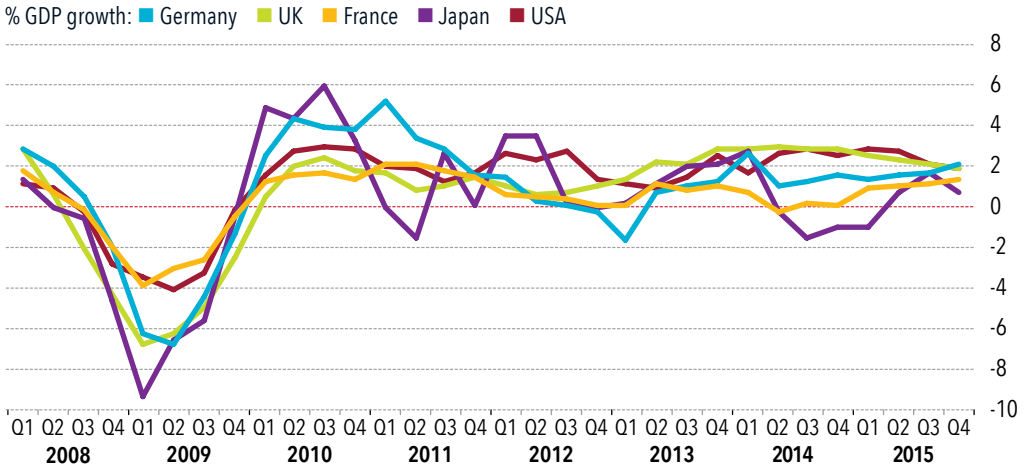
RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

Despite lower GDP growth figures in the United States and United Kingdom, both economies managed to maintain an annual average growth rate of 2,4% and 2,2% respectively for 2015.

The fourth-quarter GDP growth figures reflect a mixed performance by developed countries. While GDP growth slowed in the United States (from 2,1% in the third quarter to 2,0% in the fourth quarter), in the United Kingdom (2,2% to 2,1%) and in Japan (1,7% to 0,7%), both Germany (1,7% to 2,1%) and France (1,1% to 1,4%) experienced improved growth figures. Germany once again experienced an improvement, this time from 1,7% to 2,1%, and the French economy increased slightly from 1,1% to 1,4%. Despite lower GDP growth figures in the United States and United Kingdom, both economies managed to maintain an annual average growth rate of 2,4% and 2,2% respectively for 2015. In the United States, this satisfactory performance contributed to the Federal Reserve leaving its target range for its federal funds rate unchanged by the end of 2015. Despite recent improvements, the German and French economies struggled in 2015, predominantly due to weak international trade.

Figure 5: Economic growth trends in developed countries



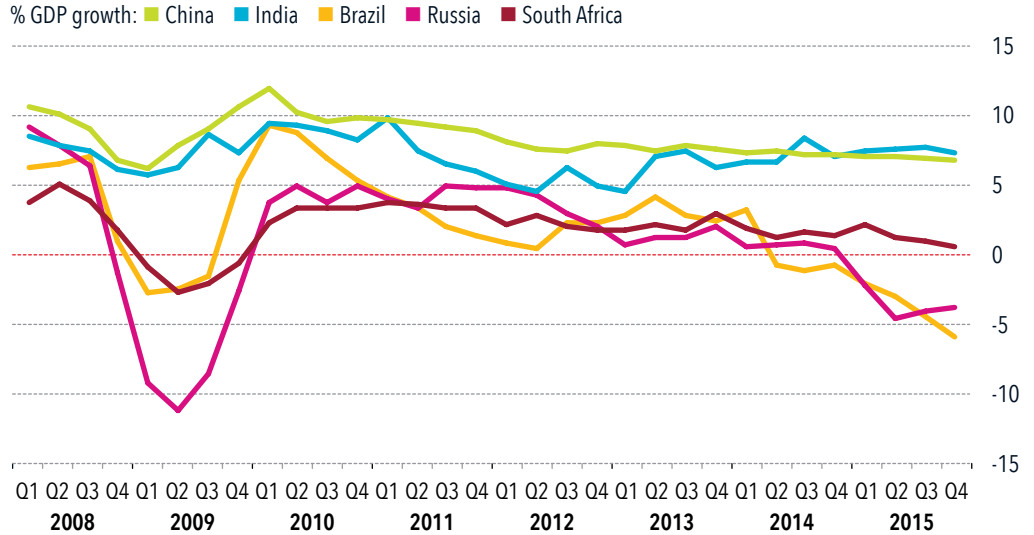
Source: Trading Economics, March 2016.

Emerging economies

Growth trends in emerging economies in the last few years present a different picture from those in developed economies, as figure 6 indicates. BRICS countries (Brazil, Russia, India, China and South Africa) have achieved much higher growth rates during this time, with an average rate of 4,3% since the beginning of 2010, compared to 1,6% for developed countries. However this disparity in growth rates narrowed markedly in 2015; with developed economies averaging 1,59% and the BRICS economies averaging 1,64%. This reinforces the view that economic growth has peaked in a number of these countries and is now beginning to slow. Four out of the five BRICS countries recorded declining growth rates in the fourth quarter of 2015, the most noticeable of which was the Brazilian economy which posted a growth rate in the fourth quarter that was 1,4 percentage points lower than in the previous quarter, therefore moving the economy even deeper into recession. The -5,9% growth rate

The disparity in growth rates between developed and emerging economies narrowed markedly in 2015; with developed economies averaging 1,59% and the emerging economies averaging 1,64%. This reinforces the view that economic growth has peaked in a number of these countries and is now beginning to slow.

Figure 6: Economic growth trends in emerging economies



Source: Trading Economics, March 2016.

recorded by Brazil in the fourth quarter can largely be attributed to sharp declines in investment and consumption spending. Although Russia's year-on-year growth rate increased by 0,3 percentage points, they also remain in a technical recession with an economic contraction of -3,8% in the fourth quarter of 2015. South Africa's year-on-year growth rate decreased further from 1,0% to 0,3% in the fourth quarter. On the other end of the spectrum, although slowing, the Chinese economy still managed to grow at well in excess of 6%, while the Indian economy continues to be the strongest performing BRICS country.

Global economic outlook

The International Monetary Fund's (IMF) updated *World Economic Outlook* (2015c), published in January 2016, shows that global growth is projected[6] at 3,1% in 2015. This forecast remains unchanged from the previous forecast and remains lower than the rate achieved in 2014. Growth is expected to strengthen again in 2016, albeit having been revised down by a further 0,2 percentage points to 3,4%.

Following an improvement from -0,4% growth in 2013 to 0,9% growth in 2014, the IMF's outlook remains positive for the Eurozone and its forecast for that region in 2015 remains unchanged (1,5%), with only a slight upward revision of 0,1 percentage points for 2016 (1,7%).

The IMF's growth projections of 6,9% and 6,3% for China in 2015 and 2016 respectively remained unchanged. Slowing growth in China is expected to have important regional effects in emerging Asian markets. The upbeat forecasts for India of 7,3% growth in 2014 and 7,5% in 2016 also remained unchanged.

The IMF (2015c) has revised sub-Saharan Africa's economic growth projection for 2015 further downward to 3,5% from its previous projection of 3,8%, and has also revised its 2016 forecast for the region to 4,0%, down from an earlier 4,3%. This downward revision reflects a continuous deterioration in domestic economic conditions in 2015. The forecasts for South Africa's economic growth have been revised slightly downward to 1,3% for 2015 (from a previous forecast of 1,4%) and 0,7% for 2016 (from 1,3%). The reasons for South Africa's lower growth prospects compared to neighbouring countries are unpacked in more detail in chapter 4. In general, developing countries are expected to continue to lead global economic growth, with a rate of 4,0% predicted in these countries for 2015. Developed countries, however, are expected to close this gap slightly in 2015, with an expected growth rate of 1,9% (revised from 2,0%).

The IMF has revised sub-Saharan Africa's economic growth projection for 2015 further downward to 3,5% from its previous projection of 3,8%, and has also revised its 2016 forecast for the region to 4,0%, down from an earlier 4,3%.

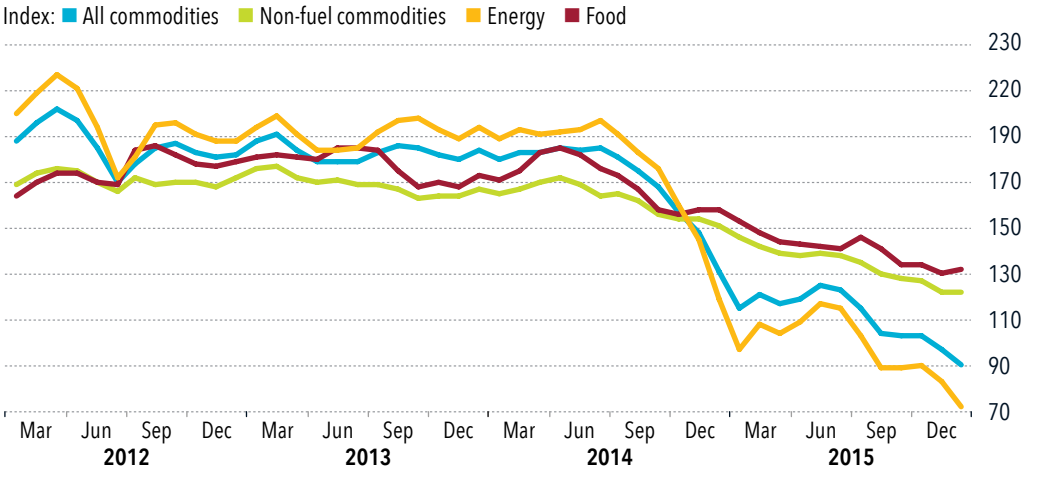
COMMODITIES

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 continued its decline in the fourth quarter of 2015. Falling from 103,48 index points at the end of the third quarter to 90,45 index points at the end of the fourth quarter.

The very slight initial decrease in the index from 103,48 index points in September to 103,47 index points in October can be attributed to the decline in agriculture, offsetting gains in energy and metals. The further drop to 97,47 index points in November was mostly driven by a price decrease in metals and agriculture, which remains under pressure due to weak demand and abundant supply. The El Nino event could affect both agricultural and fuel prices as the demand for both heating and cooling would change. The further drop to 90,45 index points in December can be attributed to the sustained price decrease in energy, metals and agriculture specifically from a declining oil price, as global supply continues to outpace demand.

Figure 7: World commodity indices (January 2012 to December 2015)



Source: IMF, March 2015a.

6. Most countries' fourth quarter GDP figures were not available at the time of the IMF's update.

For 2015 commodity prices fell 30,7%, led by a 39,3% drop in energy prices, 19,1% drop in non-fuel prices, followed by declines in metals and agriculture prices of 30% and 15% respectively.

The substantial decrease in agricultural prices ensured that the index closed at its lowest level (90,45) in many years. Indeed, for 2015 commodity prices fell 30,7%, led by a 39,3% drop in energy prices, 19,1% drop in non-fuel prices, followed by declines in metals and agriculture prices of 30% and 15% respectively.

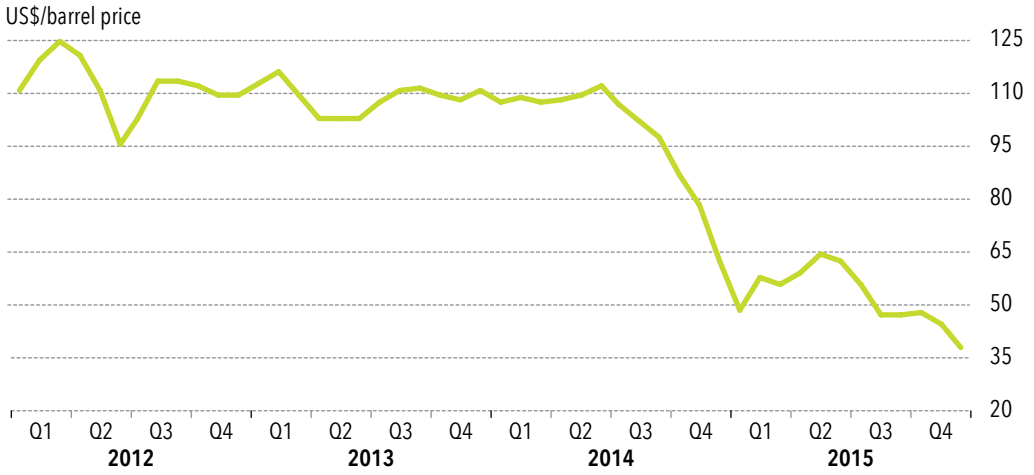
When the fuel price is removed, a slightly different trend to that observed for the all-commodities index emerges. The non-fuel commodities index continued its slow but steady downward trend in the fourth quarter, falling from 126,91 index points to 121,71 index points between October to December 2015. This can be attributed to metal and agricultural prices continuing their declining trend due to strong supply and weak demand. The El Nino event raises the possibility of food price increases, especially for commodities like sugar, in the near future. (IMF, 2016b).

Brent crude oil

The price of Brent crude oil slightly increased for the first month of the fourth quarter from $47,23 per barrel at the end of the third quarter to $48,12 per barrel by the end of October, but resumed its downward trajectory thereafter recording a price of $37,72 in December.

Overall in the fourth quarter, the price per barrel dropped by $9,51. The decrease in the oil price over this period can be attributed to sustained oil production growth in Organization of the Petroleum Exporting Countries (OPEC) members, and

Figure 8: Brent crude oil (January 2012 to December 2015)



Source: IMF, March 2016a.

subdued aggregate demand growth. Other supply-side factors influencing the price decrease include a rapid increase in US oil output, receding geopolitical risks and significant dollar appreciation. On the demand side, the United Nations Climate Change Conference, COP21, saw further commitments from countries to reduce their carbon emissions; affecting oil demand in the medium to long term, adding to the likelihood of continued low oil prices in the short term (IMF, 2015b).

The decrease in the oil price over the fourth quarter can be attributed to sustained oil production growth in Organization of the Petroleum Exporting Countries (OPEC) members, and subdued aggregate demand growth.

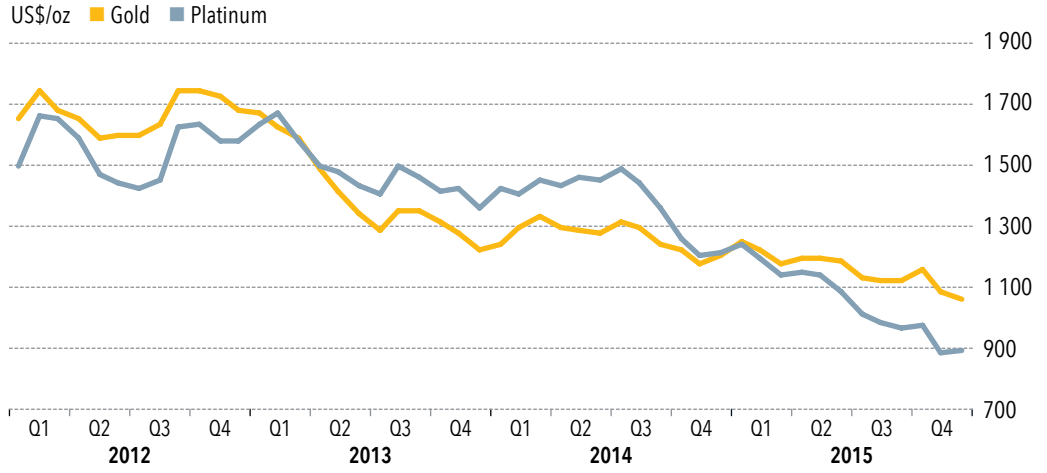
Gold and platinum

The gold price at the end of the third quarter of 2015 was $1 124,77/oz and increased slightly to $1 159,25/oz at the beginning of the fourth quarter of 2015 before decreasing to $1 060,80/oz by the end of the fourth quarter (JM Bullion, 2015b).

The decrease in gold prices in the latter part of the fourth quarter is unusual as this quarter usually sees an increase in prices on the back of higher demand related to gold purchases in India for festivals such as Dhanteras, Diwali and the wedding season. The gold price is also usually supported in this quarter by seasonal promotional activity such as Women's Day in Vietnam and Christmas. However, the effects of macro-economic fundamentals such as uncertainty over the management of the Chinese economy (which has had a wide effect on all commodity prices), the increase in US interest rates and the growing strength of the dollar has overshadowed any price gains related to higher demand during this period.

The platinum price fluctuated throughout the fourth quarter starting at $976,91/oz at the beginning of the quarter and finishing at $890,50/oz at the end of the quarter. Despite negative publicity around diesel engine emissions there was a strong increase in automotive platinum demand in the fourth quarter due to increased vehicle sales in Western Europe and increased platinum loading on vehicles. However this increase in demand was more than offset by 'the seasonal fall of 15% in jewellery fabricator requirements' and the swing from significant investment to disinvestment, leading to the platinum price dropping by a total vaue of $86,41/oz in the fourth quarter. (World Platinum Investment Council, 2016b).

Figure 9: Monthly averaged price of gold and platinum (January 2012 to December 2015)



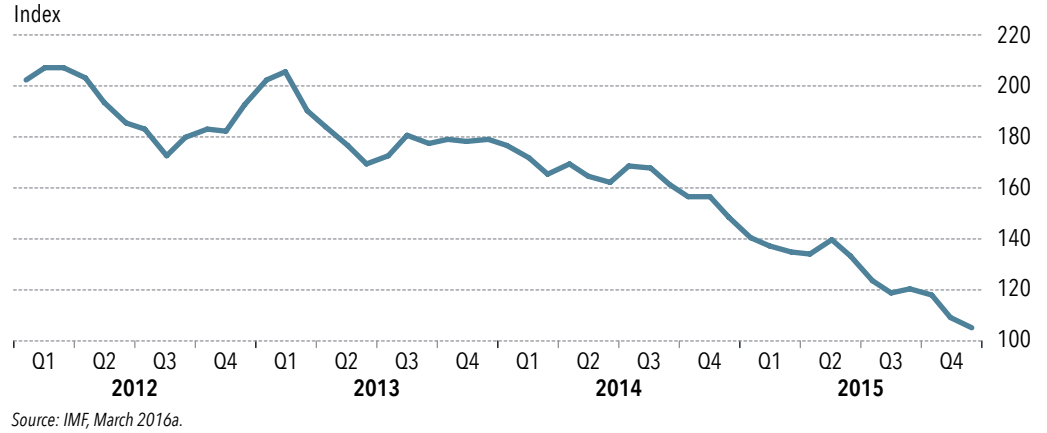
Source: World Bank, March 2016.

The decrease in gold prices in the latter part of the fourth quarter is unusual as this quarter usually sees an increase in prices on the back of higher demand related to gold purchases in India for festivals such as Dhanteras, Diwali and the wedding season.

Non-precious metals

The metals index continued its downward trend from the end of the third quarter of 2015, at 120,58 index points to 105,06 index points at the end of the fourth quarter of 2015. This continuous decrease of 15,52 index points can be attributed to the decreasing demand for steel from China together with robust supply of metals by major global producers.

Figure 10: Metals index (January 2012 to December 2015)



Source: IMF, March 2016a.

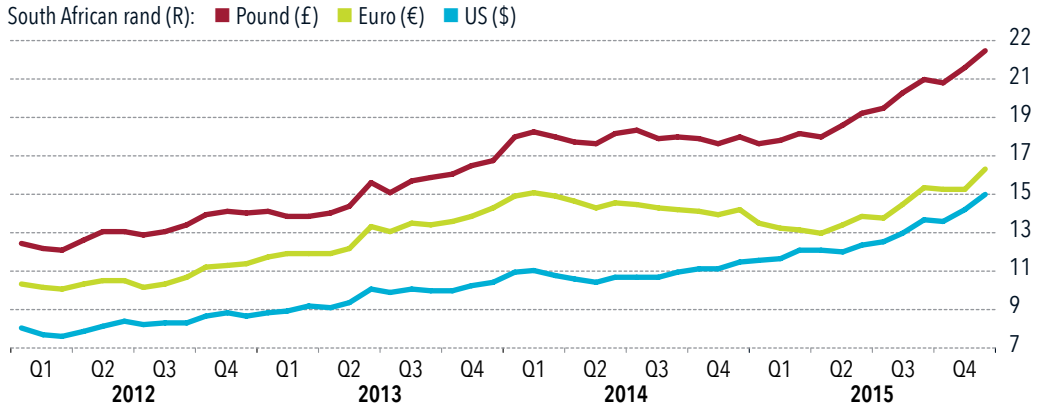
3

Exchange rates

To measure the performance of the South African rand, its exchange rate is compared to seven other currencies, namely the United States dollar ($), the British pound (£), the euro (€), the Brazilian real (BRL), the Russian rouble (RUB), the Indian rupee (INR) and the Chinese yuan (CNY).

Despite an appreciation in October, the overall performance of the rand weakened when compared to the developed-economy currencies in the fourth quarter, depreciating particularly steeply by the end of December. Figure 11 illustrates the performance of the rand against the three major developed-economy currencies for the period January 2012 to December 2015, and shows this extensive depreciation against all developed economy currencies during the fourth quarter, with the rand closing at R14,94 against the dollar; R22,39 against the pound and R16,25 against the euro by the end of December. The weakened performance of the rand against the dollar comes after the Federal Reserve's much-anticipated

Figure 11: South African nominal exchange rates (January 2012 to December 2015)



Source: South African Reserve Bank, March 2016.

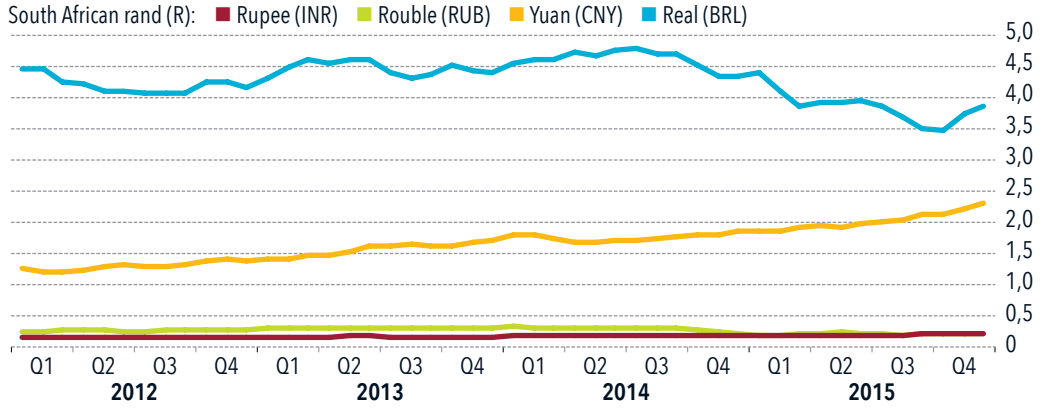
hiking of the interest rate in December. Further interest rate increases in 2016 can be expected to place more pressure on emerging currencies as investors shift funds from 'riskier' investment destinations to the United States.

EU economies recovered slightly in the fourth quarter, strengthening the euro. Following the trend of the US, the UK is likely to tighten its monetary policy in the second half of 2016 which could result in further weakness of the rand against the pound. Aside from changes in the monetary policies of some of the world's major economies, the rand's performance has also been dampened by domestic factors such as poor economic growth, the increase in the current-account deficit and political instability at the national level.

Figure 12 illustrates the South African rand's performance against other emerging markets that form part of the BRICS partnership. As indicated in figure 12, the real, yuan and rupee have gained value against the rand while the rouble has remained consistent with its recordings against the rand.

The weakened performance of the rand against the dollar comes after the Federal Reserve's much-anticipated hiking of the interest rate in December. Further interest rate increases in 2016 can be expected to place more pressure on emerging currencies as investors shift funds from 'riskier' investment destinations to the United States.

Figure 12: BRICS nominal exchange rates (January 2012 to December 2015)



Source: South African Reserve Bank, March 2016.

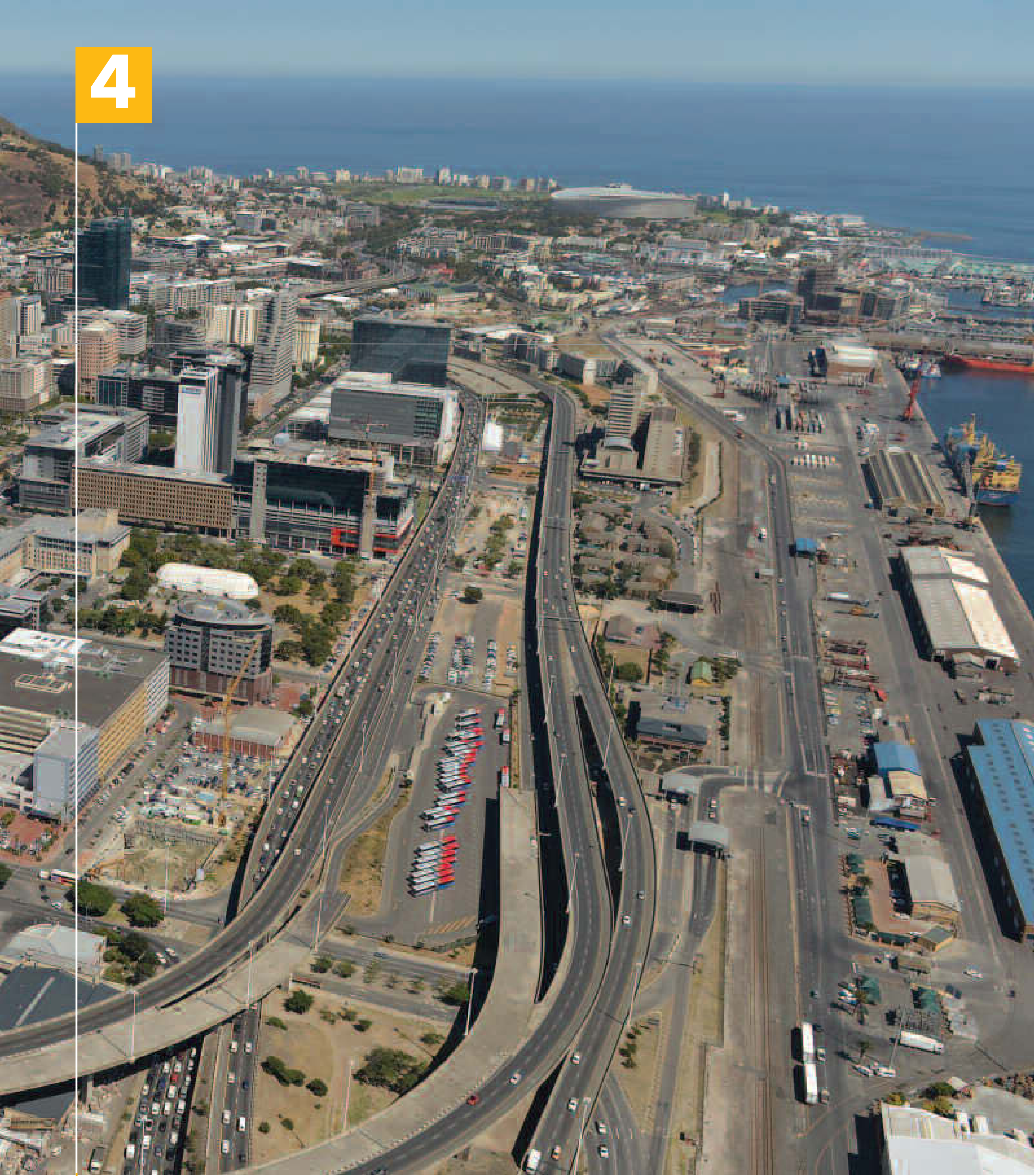
The yuan steadily increased against the rand throughout the fourth quarter despite the Chinese central bank cutting the reference rate[7] to the lowest recorded since 2011 in an effort to remain competitive in the face of rival Asian economies. Unfortunately domestic factors in South Africa, including the looming spectre of a potential 'junk status' credit rating and political uncertainty at the national level, meant that the rand could not gain ground on the yuan during this period. Furthermore, the yuan was acknowledged by the IMF in November 2015 to be a major world currency and joined the dollar, euro, yen and the pound, although it will only officially be added in October 2016. This could increase the demand for the currency and result in continued depreciation of the rand against the yuan in the near future.

The Brazilian real has been affected by poor economic growth and high inflation as Brazil entered a recession that resulted in the weakest performance against the dollar by any of the world's major currencies during December 2015. However, during the fourth quarter and despite challenging conditions in Brazil, the real appreciated against the rand. The Indian rupee performed well overall in the fourth quarter as economic growth in the country remains relatively strong in comparison with the rest of the emerging economies, while the Russian rouble continued its decline.

Unfortunately domestic factors in South Africa, including the looming spectre of a potential 'junk status' credit rating and political uncertainty at the national level, meant that the rand could not gain ground on the yuan during the fourth quarter.

7. An interest rate benchmark upon which a floating-rate security or interest rate swap is based. Read more: Reference rate definition at Investopedia http://www.investopedia.com/terms/r/referencerate.asp#ixzz42Z5Ep05i.

4



Domestic economic performance

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

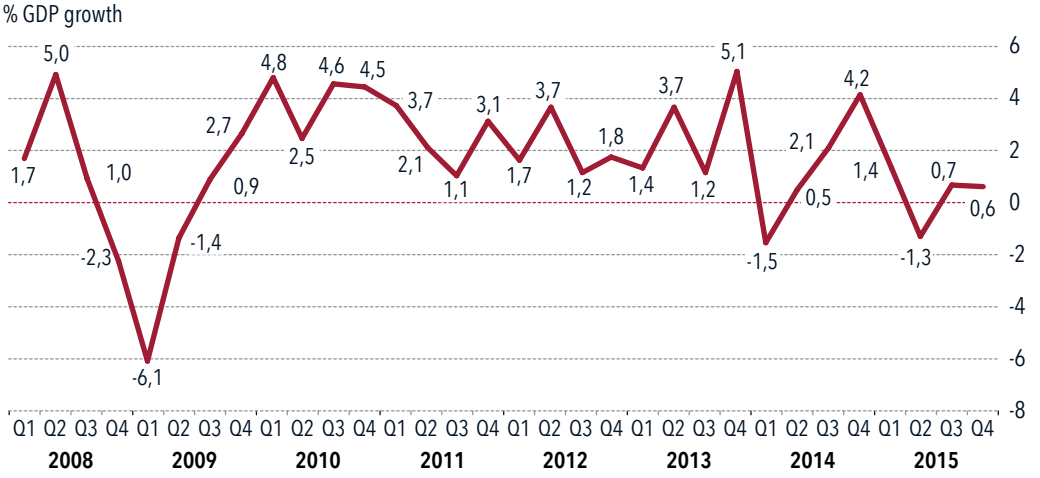
Quarter-on-quarter gross domestic product (GDP) growth rate

South Africa's economy grew by 0,6% on a quarter-on-quarter basis in the fourth quarter of 2015, having slowed from the 0,7% growth rate achieved in the third quarter. The growth figure was slightly below Bloomberg's 0,8% market consensus and came on the back of a strong decline in agricultural output and related value chains as drought conditions worsened nationwide.

South Africa's economy grew even slower on a year-on-year basis, recording a rate of 0,3% in the fourth quarter. The slower than expected growth in the fourth quarter pushed annual growth for 2015 down to 1,3%, 0,2 percentage points lower than what was recorded in 2014 and the lowest it has been since the recession in 2009. Two consecutive years of economic growth of not more than 1,5%, with little improvement forecast for 2016, renders the National Development Plan's target growth rate of 5%–7% as simply unrealistic and points to the need for significant structural interventions to kick-start economic growth.

The slower than expected growth in the fourth quarter pushed annual growth for 2015 down to 1,3%, 0,2 percentage points lower than what was recorded in 2014 and the lowest it has been since the recession in 2009.

Figure 13: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 4, 2015)



Source: Stats SA, March 2016.

Sectoral determinants of GDP growth in South Africa

The weak performance of the economy in the second quarter was driven by substantial contractions within primary and secondary sectors paired with insipid growth in the tertiary sector. The slight recovery (1,5%) in the mining sector was not sufficient to counterbalance the 14% decline in the agricultural sector as a result of the drought conditions affecting production in field crops, resulting in a 2% decline in primary sector value-add in the fourth quarter.

Following a short-lived recovery in the third quarter, the secondary sector contracted by 1,5% in the fourth quarter. Output in the metal, wood products and automotive manufacturing industries drove the 2,6% contraction in the manufacturing sector. Growth was recorded in the utilities sector (0,8%), though this masked a longer term decline as evidenced in a year-on-year rate of -3,2%. The construction sector was more consistent growing at 1,1% quarter on quarter and year on year.

The tertiary sector continued to grow at a rate (1,5%) that was substantially below its 10-year average rate, as low consumer confidence and rising costs constrained spending.

The tertiary sector continued to grow at a rate (1,5%) that was substantially below its 10-year average rate, as low consumer confidence and rising costs constrained spending. Within the sector, finance, real estate and business services grew by 1,9%, contributing 0,4 percentage points to overall economic growth. Growth of 2,8% for wholesale and retail trade, also contributing 0,4 percentage points to economic growth, surprised on the upside and is believed by Stats SA to reflect strong growth in the catering and accommodation industry led by the rebound in foreign tourist arrivals in December. General government and personal services grew by 1,0% and 0,6% respectively while transport contracted by 0,2%.

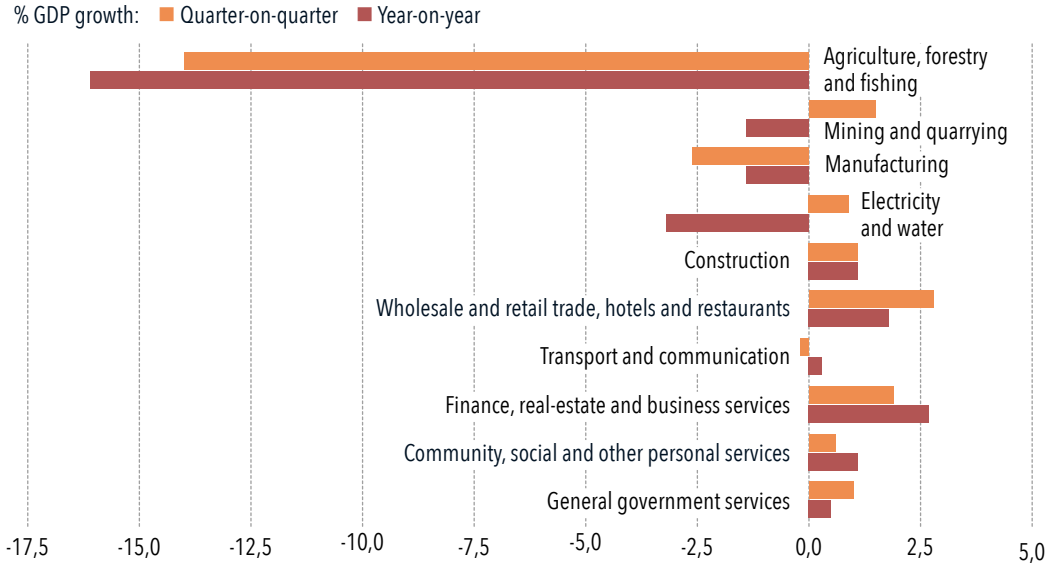
Figure 14 shows that only agriculture and manufacturing experienced both quarter-on-quarter (-14,0% and -2,6%) and year-on-year declines (-16,1% and -1,4%). For 2015, as a whole the agricultural sector was the worst performing (-8,4%) followed by utilities (-1,0%), while the finance sector was the largest growth driver (2,8%).

Economic growth outlook for South Africa

The tertiary sector has been the main source of growth in the South African economy since 2008, and has often counterbalanced the volatility of the mining and manufacturing sectors. However, the dampened performance of the tertiary sector over the last two years has exposed the country to the volatility of the primary and secondary sectors. Some of the factors which undermined growth in the productive sector of the economy and restrained growth in the tertiary sector in 2015 are expected to remain in 2016, leading many analysts to predict that the South African economy is set for a rough ride in the next two years.

As the main drag on economic growth in the fourth quarter, the performance of the primary sector in the short to medium

Figure 14: Sectoral GDP growth rates for South Africa (Quarter 4, 2015)



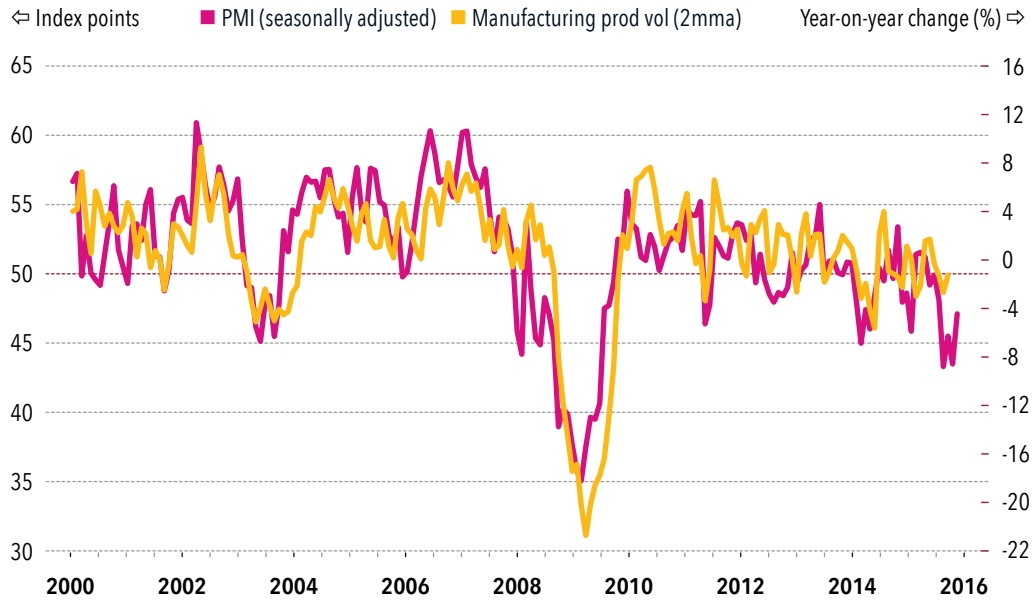
Source: Stats SA, March 2016.

Weakening commodity prices (especially in iron ore) have resulted in announcements of production cutbacks by some mining companies, which suggests that mining will be under pressure to post output gains in coming quarters, let alone compensate for losses in the agricultural sector.

term will play a strong role in determining whether the country can keep its head above recessionary waters. In this respect the drought that has besieged the agricultural sector is expected to persist, which will result in further contractions in agricultural production. Weakening commodity prices (especially in iron ore) have resulted in announcements of production cutbacks by some mining companies, which suggests that mining will be under pressure to post output gains in coming quarters, let alone compensate for losses in the agricultural sector.

The manufacturing sector is large enough to offset some of the imminent losses in the primary sector but its immediate prospects look uncertain. The Barclay's Purchasing Managers' Index (PMI)[8], remained below the 50 point neutral mark for the seventh straight month in February 2016, but nevertheless did increase by 3,6 points from January. The fact that this increase was relatively broad based (three out of the five sub-indices improved in February) and that the PMI leading indicator moved above one for the first time in a year, provides hope that production 'can pick up in coming months' (BER, 2016). However mitigating against these potentially positive signals are escalating input costs (the price index rose by more than four percentage points in February), weak export demand and weak production in upstream industries including those in the mining and agricultural sectors. The prospects for the manufacturing sector are likely to be divided between manufacturing industries which can take advantage of the weak exchange rate and can tap into global demand for exports, and those that are heavily reliant on imported commodity inputs and Chinese demand.

Figure 15: Purchasing managers' index for South Africa



Source: Barclays & BER, March 2016. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

8. 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.

Considering the aforementioned downside risks to growth in the primary and secondary sectors and that growth in the tertiary sector is also likely to be subdued due to rising interest rates increasing inflation, the BER (2015a) believe that their forecast growth rate of 0,8% for 2016 may be an overestimation of the economy's performance in 2016. This could translate into negative quarter-on-quarter growth rates at some stage during the year.

ECONOMIC GROWTH IN THE WESTERN CAPE

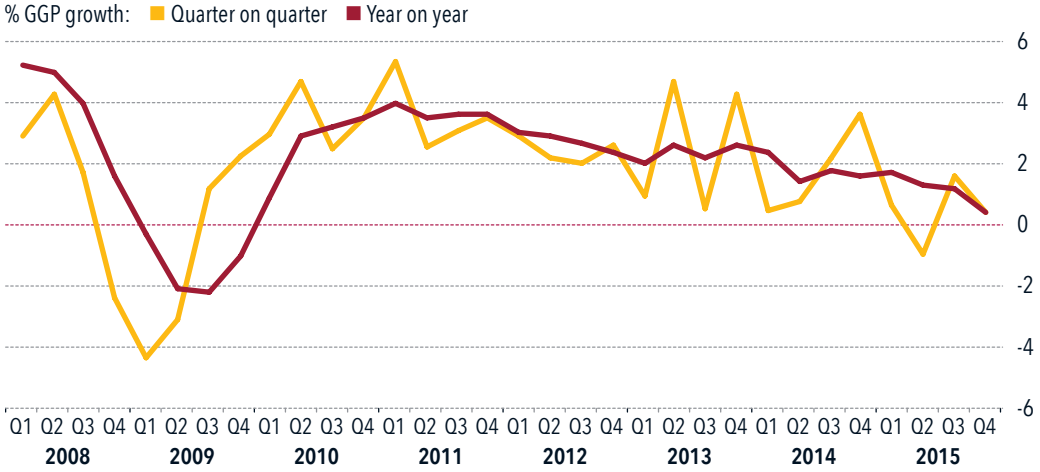
Quarter-on-quarter gross geographic product (GGP) growth rate

The Western Cape economy contributes around 15% of national GDP, and is strongly influenced by national economic conditions (Quantec 2015). The impact of the drought and the slowing of manufacturing production, both of which are more strongly represented in the province than at a national level, weighed heavily on the provincial economy, yielding a quarter-on-quarter growth rate of just 0,4% in the fourth quarter. On a year-on-year basis the Western Cape economy grew slightly faster than the national economy but growth remained at 0,4%.

The impact of the drought and the slowing of manufacturing production, both of which are more strongly represented in the province than at a national level, weighed heavily on the provincial economy, yielding a quarter-on-quarter growth rate of just 0,4% in the fourth quarter.

While GGP 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 75% of the provincial economic output (IHS Global Insight 2015). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate has been 0,5 percentage points. If this were to hold in the second quarter of 2015, the city's growth rate would be in the region of -0,1% to 0,9%. However, considering the nature of the drivers of growth (and contraction) in the Western Cape in the third quarter, it is more likely that the city performed markedly better than the province in the fourth quarter.

Figure 16: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 4, 2015)



Source: Quantec, March 2016.

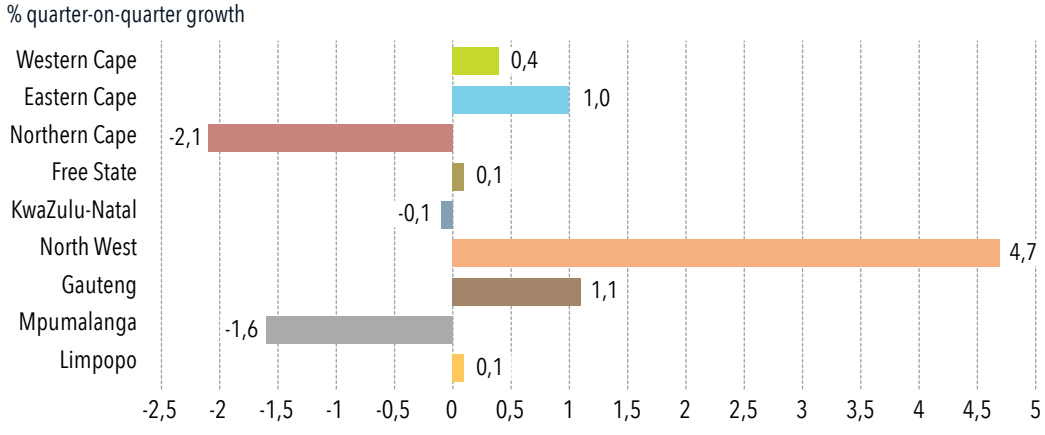
Provincial economic growth comparisons

A comparison of economic growth rates between provinces reveals that all of the provincial economies struggled in the fourth quarter of 2015 with the Northern Cape and Mpumalanga both experiencing economic contractions, more than likely reflecting the impact of drought conditions on farmers in these two relatively rural provinces. The province that performed best was the North West, which benefited from a boom in platinum mining production. The Gauteng economy, as the least agricultural dependent economy, grew at 1,1% in the fourth quarter.

Cape Town is not significantly affected by declines in the primary sector but the city is strongly affected by the performance of the tertiary sector, which accounts for almost 80% of the City's GDP. Considering that the largest decline in provincial output came from a sector that is not strongly represented in Cape Town (agriculture), and that the highest increase in production came from two sectors that are strongly represented (wholesale and retail trade, and finance and business services), one can expect the city's economy to have outperformed the provincial economy in the fourth quarter of 2015.

The province that performed best was the North West, which benefited from a boom in platinum mining production. The Gauteng economy, as the least agricultural dependent economy, grew at 1,1% in the fourth quarter.

Figure 17: Provincial comparisons of real GGP growth rates (Quarter 4, 2015)



Source: Quantec, March 2016.

Sectoral drivers of economic growth in the Western Cape

The Western Cape's growth performance by sector largely mirrors the trends in the national economy. In the fourth quarter of 2015, however, there was a significant disparity between the growth rate recorded for mining in the Western Cape (-1,6%) and that recorded at a national level (1,5%). This can be explained by the different types of mining activities conducted, with platinum and gold mining dominating the national industry, and mainly quarrying dominating the industry in the Western Cape. In contrast the agricultural sector largely followed the national trend, contracting by 13,4% in the Western Cape (compared to 14,0% nationally). The largest contributor to economic growth in the Western Cape in the fourth quarter was the wholesale and retail trade sector, which recorded a growth rate of 3,0% (0,2 percentage points higher than the sector's growth rate nationally in the fourth quarter). This is reflective of the strong performance of the tourism industry

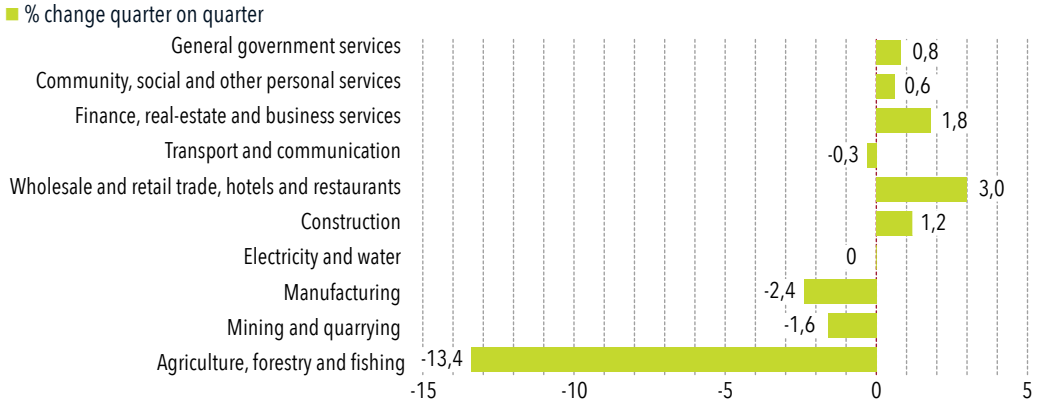
The largest contributor to economic growth in the Western Cape in the fourth quarter was the wholesale and retail trade sector, which recorded a growth rate of 3,0% – 0,2 percentage points higher than the sector's growth rate nationally in the fourth quarter. This is reflective of the strong performance of the tourism industry in the Western Cape during the festive season.

in the Western Cape during the festive season. The finance sector was the second largest contributor to economic growth in the Western Cape in the fourth quarter, albeit with a relatively low growth rate of 1,8%.

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, 80% of the Western Cape's finance and business services, 74% of wholesale and retail trade, and 69% of manufacturing can be attributed to the metropolitan area (Quantec 2015). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the fourth quarter. However, these sectors' greater contribution to the city's economy means that they would have had a larger effect on the city's 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 29%. 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 less than 1% to Cape Town's GGP. The performance of the city's economy in the fourth quarter would have been dependent on whether the city's gains in the tourism industry and retail industry more generally could outweigh the losses in the manufacturing sector.

Figure 18: Sectoral real GGP growth rates in the Western Cape (Quarter 4, 2015)



Source: Quantec, March 2016.

Growth outlook for Cape Town and the Western Cape

The main sources of growth for both the Western Cape and Cape Town in the fourth quarter of 2015 were the wholesale and retail trade, and finance and business services sector. Although the finance sector recorded a positive growth rate, it was nevertheless well below its historical trend and reflective of the enduring weakness of business and investor confidence. Similarly, the tourism sector aside, retail spending looks likely to remain highly constrained in the fourth quarter as interest rate hikes, electricity price increases and a weak exchange rate continue to take their toll on consumer confidence. Manufacturers serving the domestic market will also remain under pressure during 2016, particularly manufacturing industries reliant on agricultural production.

There are, however, opportunities for Cape Town to rise above the general malaise of the South African economy by exploiting the potential of international demand. In this regard Cape Town's manufacturing exporters should be encouraged to take advantage of the current weakness of the rand to expand their export share. In addition, exported services such as offshore business process outsourcing and tourism present a significant opportunity for the city as they are not dependent on domestic consumers, but can leverage Cape Town locational competitiveness factors to attract international consumers. Tourism, in particular, having recently shed unnecessary regulatory encumbrances, has the potential to really drive growth in 2016. The ability of the city's economy to realise these opportunities will determine whether the city can pull away from the rest of the country and move onto a higher growth path in 2016.

5 Inflation

Although the inflation rate still remains below 6%, the recording for December 2015 was the highest it has been since December 2014.

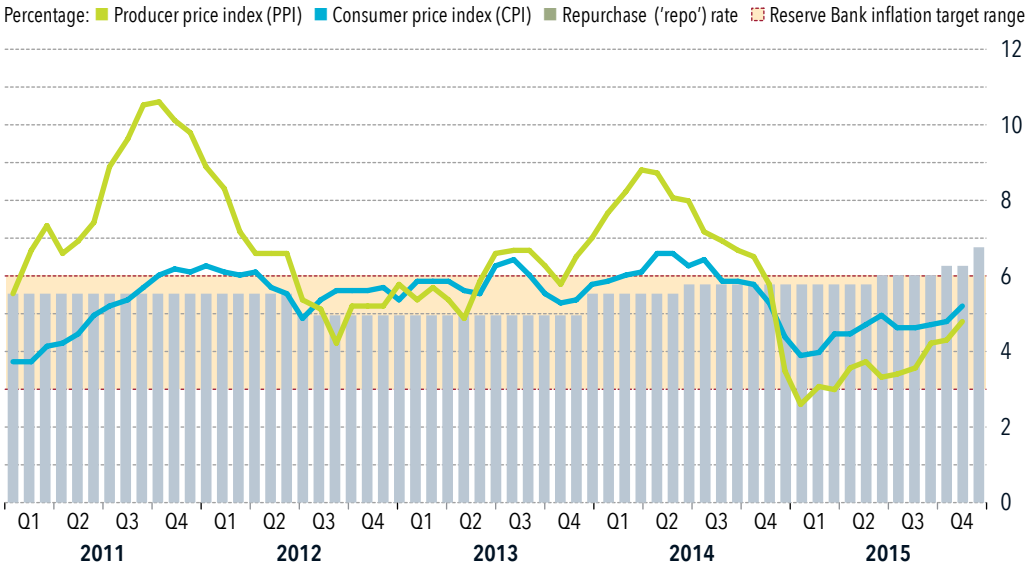
SOUTH AFRICA'S INFLATION OVERVIEW

Overall, the headline consumer price index (CPI) increased for the fourth quarter of 2015. At the end of December 2015 the CPI increased to 5,2% from 4,6% at the end of September 2015. It is evident from the figure below that inflation experienced an increasing trend in the fourth quarter with a rate of 4,7% recorded in October 2015, rising to 4,8% in November and further to 5,2% in December. Although the inflation rate still remains below 6%, the recording for December 2015 was the highest it has been since December 2014 (5,3%). Despite the upward trend in inflation, 2015 recorded the lowest CPI figures of the last five years, as each month logged an inflation rate of below 6%.

Similar to the CPI, the headline producer price index (PPI) increased for the fourth quarter of 2015 when compared to the third quarter of 2015. By the end of December 2015, the PPI had increased by 1,2 percentage points from its rate in September 2015 to 4,8%. While the PPI is still below the CPI it increased significantly over the last quarter, with the gap between the two indexes decreasing from a difference of 1,7 percentage points in July 2015 to a low of 0,4 of a percentage point in December 2015. The key contributors to the PPI in the fourth quarter were food products, beverages and tobacco products (6,2%), wood and paper products (7,6%) and metals, machinery, equipment and computing equipment (4,5%).

Despite the upward trend in inflation, 2015 recorded the lowest CPI figures of the last five years, as each month logged an inflation rate of below 6%.

Figure 19: CPI and PPI trends for South Africa (January 2011 to December 2015)



Source: CPI and PPI extracted from Stats SA, 2016, and repurchase rate extracted from SARB, 2016.

Figure 19 also illustrates the movement of the repurchase rate (repo rate). As indicated on the graph, the repo rate increased in November 2015 by 25 basis points to 6,25% (SARB, 2015) and remained as such for the rest of the quarter. This increase was driven by the inflation outlook for 2016, which sees inflation breaching the upper end of the target range. Future increases in electricity tariffs, a weak outlook for domestic economic growth, the nationwide drought and the ongoing volatility of the exchange rate played an important role in the decision to increase the repo rate. The Monetary

Table 1: Inflation levels by household expenditure groups

Quintiles	Level	Monthly expenditure	Inflation rate as at December 2015
	Average		***5,2%***
1	Very low	R 0 to R1,213/month	5,7%
2	Low	R 1,214 to R 1, 939/month	5,5%
3	Middle	R 1,940 to R 3, 062/month	5,2%
4	High	R 3, 063 to R 6, 596/month	5,2%
5	Very high	R 6, 596 and more	5,3%

Source: Stats SA, March 2016.

Policy Committee was particularly concerned about preventing any second-round inflationary effects. In January 2016, the repo rate increased by a further 50 basis points to 6,75% as inflation increased to 6,2%, confirming the MPC's negative outlook.

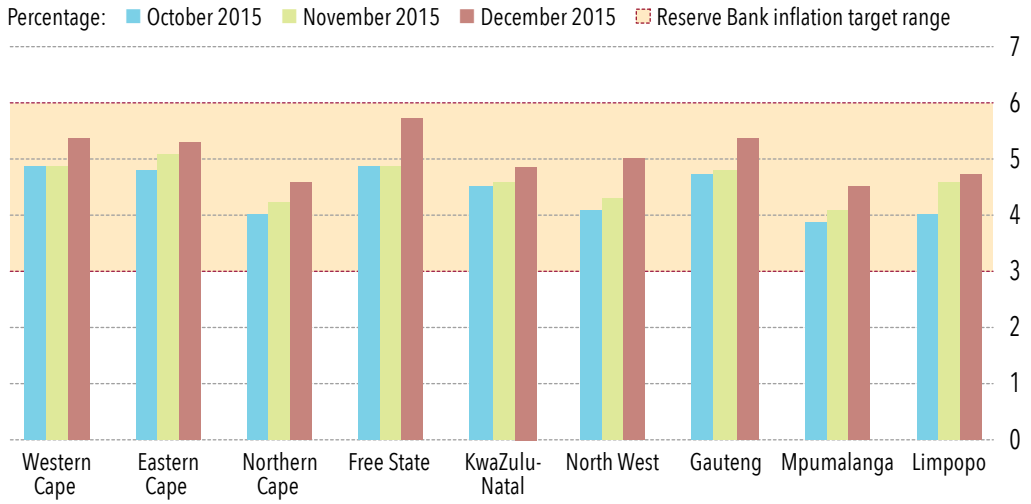
Table 1 (on previous page) indicates how different expenditure groups are affected by inflation. In the fourth quarter of 2015, inflation increased across all quintiles. The fourth quintile experienced the highest increase in inflation during the quarter, but the highest inflation rate (5,7%) was experienced by the population quintile with the lowest level of monthly expenditure. There was a 0,5 percentage point difference between the quintile with the second highest monthly expenditure and the quintile with the lowest. A reason for this disparity could be that the lowest quintile was strongly affected by the increase in food price inflation.

GEOGRAPHICAL INFLATION

The Western Cape recorded a higher inflation rate (5,4%) than the national inflation rate (5,2%) at the end of the fourth quarter of 2015. All of the provinces experienced an increase in inflation compared to the end of the third quarter of 2015. As illustrated by figure 20, the inflation rate increased strongly in the last month of the fourth quarter for all provinces. In December, Mpumalanga recorded the lowest inflation rate at 4,5% and KwaZulu-Natal, the Northern Cape as well as Limpopo also experienced inflation rates below 5%, while Free State recorded the highest inflation rate at 5,7%. Food price inflation in the Western Cape was 5,2% in December 2015 (having increased from 4,6% in November), while nationally it was higher at 6,4% (having increased from 5,4% in November). Alcohol and tobacco inflation for the Western Cape (5,7%, down from 6,8% in November) was lower than the 6,6% recorded nationally (previously 6,9%). Inflation in transport costs (2,2% compared to 1,9% nationally) as well as restaurants and hotels costs (5,3% compared to 5% nationally) were higher in the Western Cape, although lower inflation rates were recorded in the price of health (5,7% compared to 6,3% nationally) and education (8,9% compared to 9,4% nationally).

Food price inflation in the Western Cape was 5,2% in December 2015 (having increased from 4,6% in November), while nationally it was higher at 6,4% (having increased from 5,4% in November).

Figure 20: CPI inflation rate at provincial level (October 2015 to December 2015)



Source: Stats SA, March 2016.

INFLATION OUTLOOK

In 2015 the CPI inflation rate moved comfortably in the target range with February having the lowest recording of 3,9% and December the highest recording of 5,2%. December 2015 marked the 17th consecutive month that the CPI had remained below the upper end of the target range. Although the inflation rate remained below 6% for the year 2015, an emergent upward trend gained full momentum in the fourth quarter as increases in inflation across all three months were recorded.

According to the Monetary Policy Committee's (MPC) November 2015 statement, the decision to raise the repo rate by 25 basis points rested on key factors that added to the deteriorating inflation outlook. Factors such as the continuous depreciation of the South African rand against major world currencies, worsened economic outlook, the current drought situation and an upward movement in food prices all contributed to the decision.

The volatility of the rand, the potential upward pressure in the prices of water and electricity and food price increases will enhance the likelihood that inflation will breach the 6% target level and remain above it for the remainder of 2016.

The volatility of the rand, the potential upward pressure in the prices of water and electricity and food price increases will enhance the likelihood that inflation will breach the 6% target level and remain above it for the remainder of 2016. This informed the MPC's decision to increase the repo rate by 50 basis points in January 2016, with more hikes expected throughout 2016 as the Reserve Bank embarks on a fully fledged rate hiking cycle.

6

Labour market trends

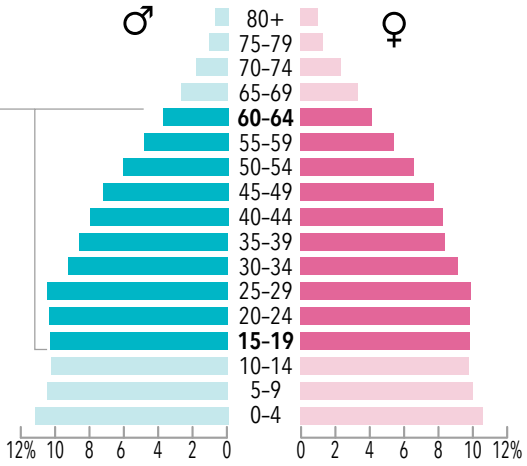
The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic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

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET

THE WORKING-AGE POPULATION

Cape Town has **2 757 593** 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.

2 757 593
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 **46,2%** 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)'.*

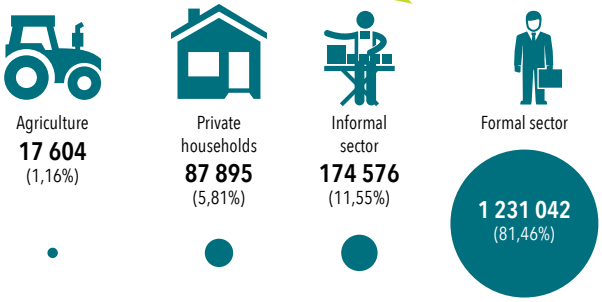
Of the **2 757 593** people who make up the **working-age population**, **1 511 117** – 54,8% – are **employed**. This percentage is also known as the labour absorption rate.

1 511 117
employed people

54,8% labour absorption rate

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

Of the **1 511 117 employed Capetonians**, the majority are employed in the formal sector, with 11,55% in the informal sector.



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

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 **390 184 unemployed people** – 20,5% of the strict 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.*

Strict rate

Searching unemployed / Labour force (employed + searching) =

20,5%

Broad rate

Searching + non-searching unemployed / Broad labour force (employed + searching + non-searching) =

21,8%

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 **421 570 unemployed people** – 21,8% of the broad labour force.

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 his/her 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 youth unemployment rate

45,1% — This refers to people between the ages of 15 and 24 who are not employed. The **strict youth unemployment rate** is **45,1%**, while the **broad youth unemployment rate** is **46,9%**. — 46,9%

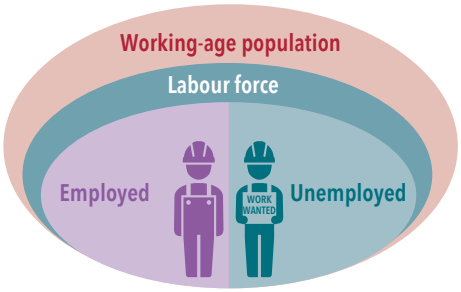
Some unemployed youth are meaningfully engaged in education or training. The **NEET** (not in employment, education or training) indicator captures those youth not actively participating in the economy in any way.

26,5% The youth NEET rate in Cape Town is 26,5%.

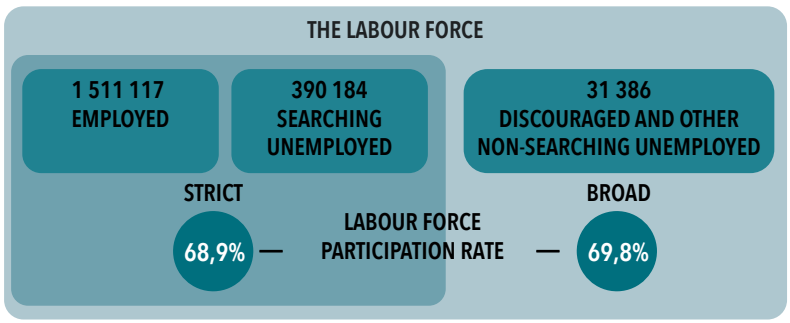
THE LABOUR FORCE

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

Strict labour force = 1 901 301
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 **1 901 301** strong, being made up of **1 511 117 employed people** and **390 184 job seekers**.



Broad labour force = 1 932 687
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 **1 932 687** strong, being made up of **1 511 117 employed people, 390 184 job seekers, 9 406 discouraged** and **21 980 other non-searching unemployed**.



Labour force participation rate

Labour force / 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: Stats SA Quarterly Labour Force Survey (QLFS), City of Cape Town.

Annually, 698 000 more people were employed in South Africa when compared to the fourth quarter of 2014, while 983 000 individuals were added to the labour force.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

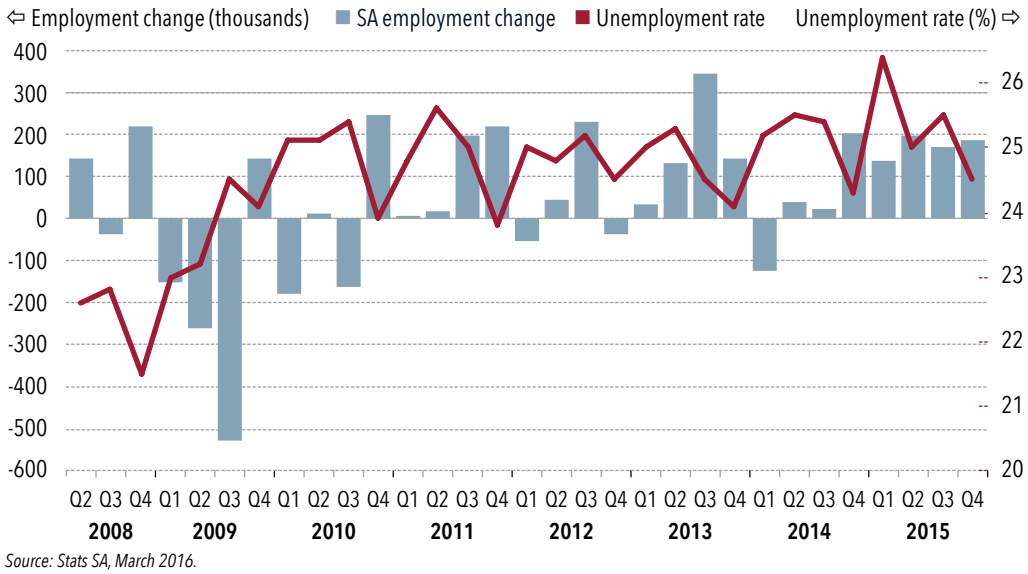
In the fourth quarter of 2015, South Africa's labour force decreased by 35 000 individuals compared to the third quarter. The number of employed people increased by 190 000 to 16,02 million from a previous 15,82 million. This marks the seventh consecutive quarter with an employment increase and was largely on account of employment growth in finance and other business services (113 000), trade (80 000), community and social services (42 000) as well as in the mining sector (37 000). While these four sectors experienced particularly strong employment growth, others experienced declines. Employment losses were led by agriculture (-37 000), manufacturing (-36 000) and construction (-21 000).

Annually, 698 000 more people were employed in South Africa when compared to the fourth quarter of 2014, while 983 000 individuals were added to the labour force. Overall, the majority of the sectors added to employment growth. The largest contributor to year-on-year employment growth was financial and other business services (234 000), followed by community and social services (123 000) and construction (105 000). The first two sectors outperformed the others on both a quarterly and year-on-year basis. There were only two sectors that performed poorly with transport having the highest decline (-52 000). The only sector that displayed negative growth on both a quarter-on-quarter and year-on-year basis was manufacturing (-11 000).

In the fourth quarter, unemployment in South Africa decreased by 225 000 quarter on quarter to a total of 5,19 million people. This resulted in a percentage point decrease in the official unemployment rate to 24,5%. Discouraged work-seekers, who are only included in the expanded measure of unemployment, increased by 53 000 to a total of 2,27 million individuals. The figure below illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, constant employment growth typically leads to decreases in the unemployment rate.

In the fourth quarter of 2015, unemployment in South Africa decreased by 225 000 quarter on quarter to a total of 5,19 million people. This resulted in a percentage point decrease in the official unemployment rate to 24,5%.

Figure 21: Employment trends vs unemployment rate in South Africa (Quarter 2, 2008 to Quarter 4, 2015)



Source: Stats SA, March 2016.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the fourth quarter of 2015, the working-age population of Cape Town increased by approximately 14 000 individuals compared to the third quarter, but decreased by nearly 74 000 individuals on a year-on-year basis. Cape Town's labour force increased by 19 000 individuals to a total of 1,9 million in the fourth quarter, and its labour force participation rate increased by 0,3 percentage points to 68,9%. This remains significantly higher than the national rate of 58,5%, pointing to the greater inclusiveness of Cape Town's labour market.

Table 2: Labour market indicators: South Africa and Cape Town*

Indicator	South Africa			Cape Town		
	Q4:2015	Q3:2015	Q4:2014	Q4:2015	Q3:2015	Q4:2014
Working-age population (000s)	36 272	36 114	35 643	2 758	2 744	2 832
Labour force	21 211	21 246	20 228	1 901	1 882	1 916
Employed	16 018	15 828	15 320	1 511	1 471	1 432
Employed by the formal sector	11 180	10 930	10 911	1 231	1 181	1 224
Employed by the informal sector	2 684	2 721	2 448	175	171	131
Unemployed	5 193	5 418	4 909	390	411	484
Not economically active	15 061	14 867	15 415	856	861	915
Discouraged work-seekers	2 279	2 226	2 403	9	17	5
Other	12 782	12 641	13 012	847	844	909
Unemployment rate (%)	24,5	25,5	24,3	20,5	21,9	25,2
Youth unemployment rate (%) (15-24)	50,4	49,9	48,8	45,1	46,1	53,7
NEET** as % of working-age population	38,2	38,7	39,3	31,9	32,3	36,0
Absorption rate (%)	44,2	43,8	43	54,8	53,6	50,6
Labour force participation rate (%)	58,5	58,8	56,8	68,9	68,6	67,7

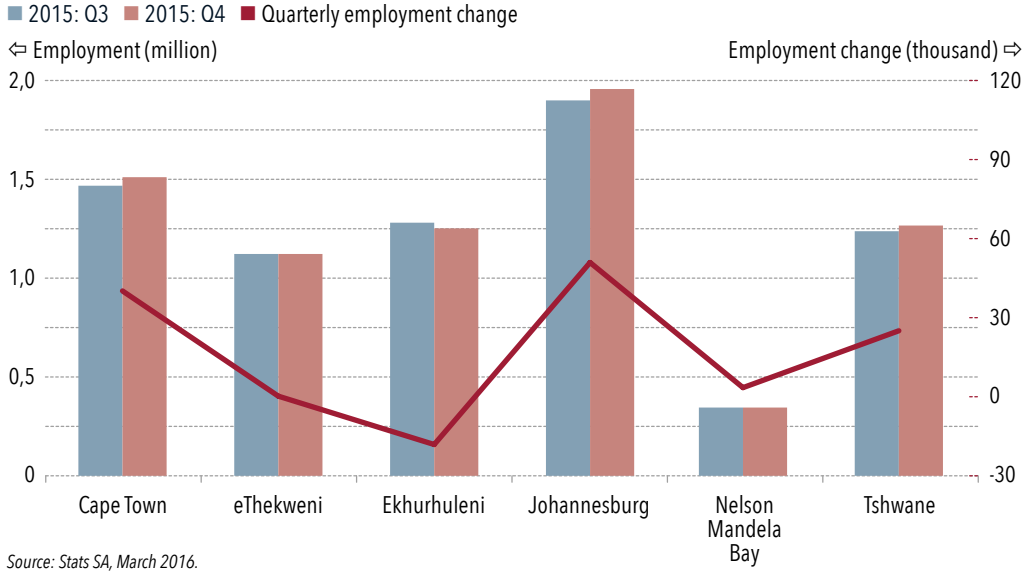
*Source: Stats SA, March 2016. * Figures in tables may not exactly add up due to rounding off. ** Not in employment, education or training.*

The number of people employed in Cape Town in the fourth quarter of 2015 increased by 40 000 individuals on a quarterly basis and by nearly 79 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and reflected an increase of 50 000 in the fourth quarter. Employment also increased in the informal sector by 4 000 quarter on quarter, as well as by 44 000 individuals on a year-on-year basis. With correspondingly strong growth in the formal sector, the informal economy's share of employment has remained the same as the previous quarter (11,6%).

From a static point of view, Cape Town has the second-most employed people in the country, with 1,51 million people employed in the city compared to Johannesburg's 1,94 million. This is to be expected as Johannesburg has a significantly larger population.

The formal sector absorbs the bulk of those employed in Cape Town, and reflected an increase of 50 000 in the fourth quarter. Employment also increased in the informal sector by 4 000 quarter on quarter, as well as by 44 000 individuals on a year-on-year basis.

Figure 22: Employment comparison with other metros (Quarter 3, 2015 to Quarter 4,2015)



Source: Stats SA, March 2016.

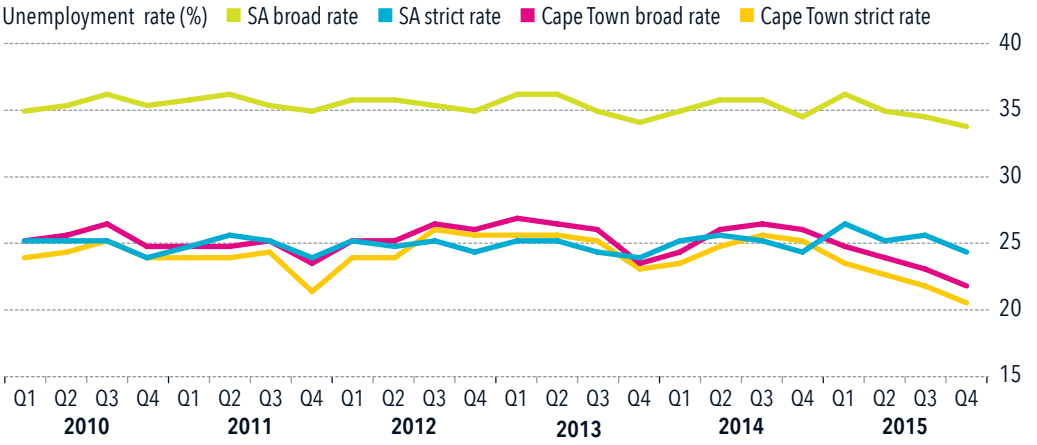
The biggest increase in employment was recorded in Johannesburg (51 497), with Cape Town (40 012) and Tshwane (24 806) following suit.

Turning attention to employment creation in the fourth quarter, as measured by the difference between the third-quarter and fourth-quarter employment levels, there was an increase in employment across the majority of the metros. The only metro to have experienced a decrease was Ekurhuleni (-18 433). The biggest increase in employment was recorded in Johannesburg (51 497), with Cape Town (40 012) and Tshwane (24 806) following suit. On a year-on-year basis, Nelson Mandela Bay shed jobs at the fastest rate (-5,9%), while employment in Tshwane grew fastest (20,9%).

Unemployment in Cape Town

Similar to the national unemployment trends, Cape Town experienced a decrease (-21 000) in the number of unemployed people in the fourth quarter compared to the previous quarter. For Cape Town, this is the lowest number of unemployed individuals (390 184) since the second quarter of 2009. The number of unemployed people in the city also showed a large decrease of approximately 94 000 compared to the corresponding period in the previous year. As a result of decreasing unemployment on a quarterly basis, Cape Town's strict unemployment rate decreased by 1,4 percentage points to 20,5% in the fourth quarter of 2015. This is the fifth consecutive quarterly decline in Cape Town's unemployment rate and is the city's lowest unemployment rate since the first quarter of 2009. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 45,1% in the fourth quarter of 2015, having decreased from 46,1% in the previous quarter. Overall, the youth unemployment rate has decreased substantially when compared to the fourth quarter of 2013 (51,3%). While this is below the national rate of 50,4%, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

Figure 23: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 4, 2015)



Source: Stats SA, March 2016.

Similar to the national unemployment trends, Cape Town experienced a decrease (-21 000) in the number of unemployed people in the fourth quarter compared to the previous quarter. For Cape Town, this is the lowest number of unemployed individuals (390 184) since the second quarter of 2009.

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 23, the two rates of unemployment for Cape Town have remained relatively close over the last few years, although the city's unemployment rates over the last three quarters have slowly started to deviate from South Africa's strict unemployment rate. On average, the expanded unemployment rate in Cape Town is only 1,01% higher than the city's strict rate. Cape Town's strict unemployment rate decreased in the fourth quarter of 2015, and was 4 percentage points lower than the national rate. However, it is important to consider the expanded definition of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 23). South Africa's expanded unemployment rate in the fourth quarter of 2015 was 33,8%, compared to Cape Town's expanded rate of 21,8%. On this basis, Cape Town's labour market can be considered to be 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

Table 3: Official vs expanded unemployment rates (Quarter 4, 2014 to Quarter 4, 2015)

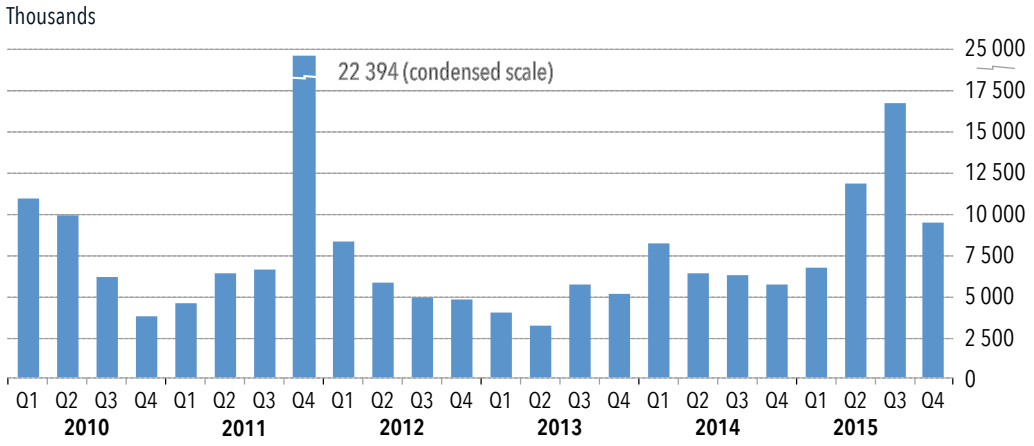
Metro	Official			Expanded		
	2015:Q4	2015:Q3	2014:Q4	2015:Q4	2015:Q3	2014:Q4
Cape Town	20,52	21,85	25,25	21,81	23,21	25,97
eThekwini	15,91	15,74	16,66	24,34	24,87	25,95
Ekurhuleni	30,8	30,33	31,56	33,02	32,71	35,38
Johannesburg	27,9	29,74	22,06	29,16	30,69	25,03
Nelson Mandela Bay	30,65	34,31	33,67	30,65	34,38	33,92
Tshwane	23,42	24,71	20,47	27,45	28,84	27,78

Source: Stats SA, March 2016.

to compare these trends to other metros that have similar labour market dynamics. In the fourth quarter of 2015, Cape Town, Johannesburg, Nelson Mandela Bay and Tshwane experienced quarter-on-quarter decreases in both unemployment rates. Ekurhuleni was the only metro to have experienced slight increases in both these rates. From a static point of view, Ekurhuleni had the highest expanded unemployment rate (33,02%) and the highest official/strict unemployment rate (30,8%), while Cape Town had the lowest expanded unemployment rate (21,81%) and eThekwini the lowest strict rate (15,91%). What is also notable from table 3 is how similar Cape Town's expanded and official unemployment rates are, especially compared to metros such as eThekwini, where the expanded rate is almost 10 percentage points higher than the strict rate.

From a static point of view, Ekurhuleni had the highest expanded unemployment rate (33,02%) and the highest official/strict unemployment rate (30,8%), while Cape Town had the lowest expanded unemployment rate (21,81%) and eThekwini the lowest strict rate (15,91%).

Figure 24: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 4, 2015)



Source: Stats SA, March 2016.

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. According to Stats SA (2015), a discouraged 'is a person who was not employed during the reference period, wanted to work, was available to work/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 his/her skills; lost hope of finding any kind of work'. 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 decreased to 9 406 in the fourth quarter of 2015 from 16 647 in the third quarter.

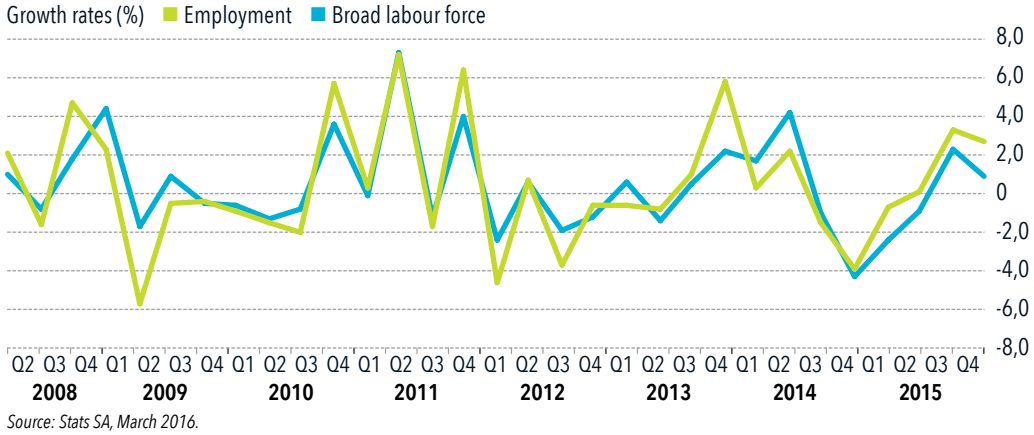
Apart from an outlier in the fourth quarter of 2011, figure 24 shows that the number of discouraged work-seekers has largely been below 10 000 individuals. However, for the second and third quarter of 2015 the number of discouraged work-seekers breached the 10 000 level, nearly tripling since the third quarter of 2014. Fortunately, discouraged work-seekers have decreased to below the 10 000 individuals for the current quarter. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,41%) of the country's total number of discouraged work-seekers. The reasons for this remain largely unclear and require further research.

The number of discouraged work-seekers in Cape Town decreased to 9 406 in the fourth quarter of 2015 from 16 647 in the third quarter.

Labour force and employment

Two factors determine whether the expanded rate of unemployment increases or decreases: a change in the expanded labour force and a change in the level of employment. When the rate of employment growth is exceeded by the rate at which the

Figure 25: Broad labour force and employment growth rates for Cape Town (Quarter 2, 2008 to Quarter 4, 2015)



Source: Stats SA, March 2016.

expanded labour force grows, the expanded unemployment rate increases. However, figure 25 shows that in the fourth quarter of 2015, employment growth exceeded the growth in the broad labour force. This resulted in a decrease in the expanded unemployment rate for the period under review.

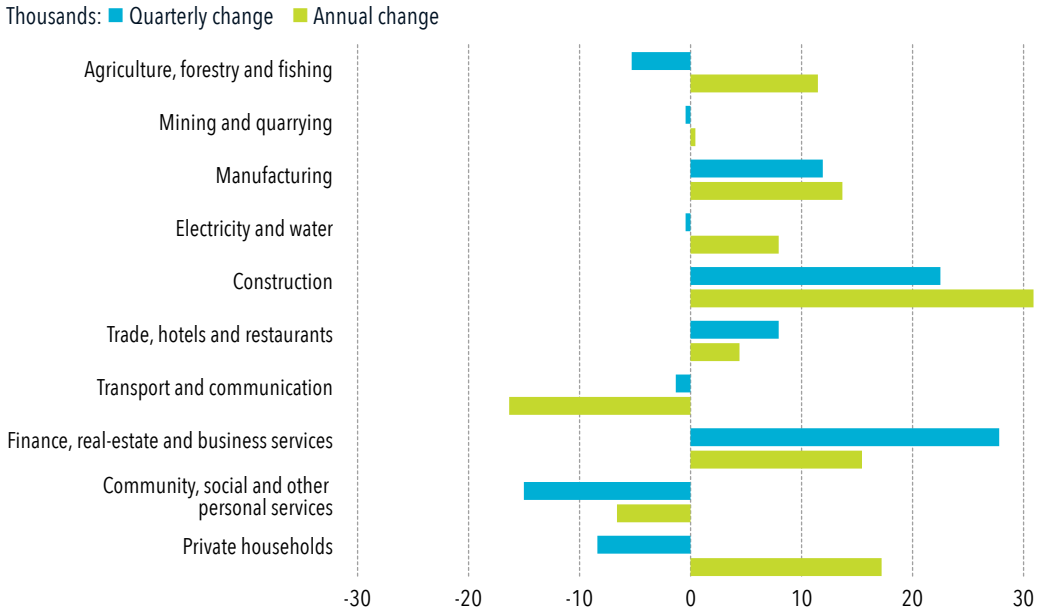
Sector employment trends in Cape Town

Figure 26 displays the level of employment by sector within Cape Town. Overall in the fourth quarter of 2015, four sectors added to employment and six sectors displayed negative growth when compared to the third quarter of 2015. The largest contributors to employment were finance as well as construction, which increased by 28 088 and 22 555 respectively. The sectors that experienced the biggest employment declines were community and social services (-14 927), while private households (- 8 335) and agriculture (-5 289) also reflected negative growth.

The strongest contributing sectors in respect of employment growth were construction, private households and finance, which grew employment by 30 857, 17 400 and 15 438 jobs respectively.

On a year-on-year basis, the sectors performed better overall with the majority recording employment growth. The strongest contributing sectors in respect of employment growth were construction, private households and finance, which grew employment by 30 857, 17 400 and 15 438 jobs respectively. The sector that experienced the biggest year-on-year job losses in the fourth quarter of 2015 was transport (-16 519), followed by community and social services (-6 466).

Figure 26: Quarterly and annual change per sector for Cape Town (Quarter 4, 2015)



Source: Stats SA, March 2016.

Labour market outlook

In the fourth quarter of 2015, Cape Town's labour market performed considerably well when compared to the previous quarter and the fourth quarter of 2014.

The unemployed category declined to below the 400 000 mark, a new low for Cape Town since the second quarter of 2009. The number of discouraged work-seekers also decreased to below 10 000. This decrease is welcomed as the previous two quarters reflected increases which took the number of discouraged work-seekers to 10 000. The fact that unemployment declined in a quarter in which the labour force grew means that employment growth was able to accommodate new labour force entrants. This resulted in decline in both unemployment rates (strict, expanded and youth), while the labour force participation rate and absorption rate increased.

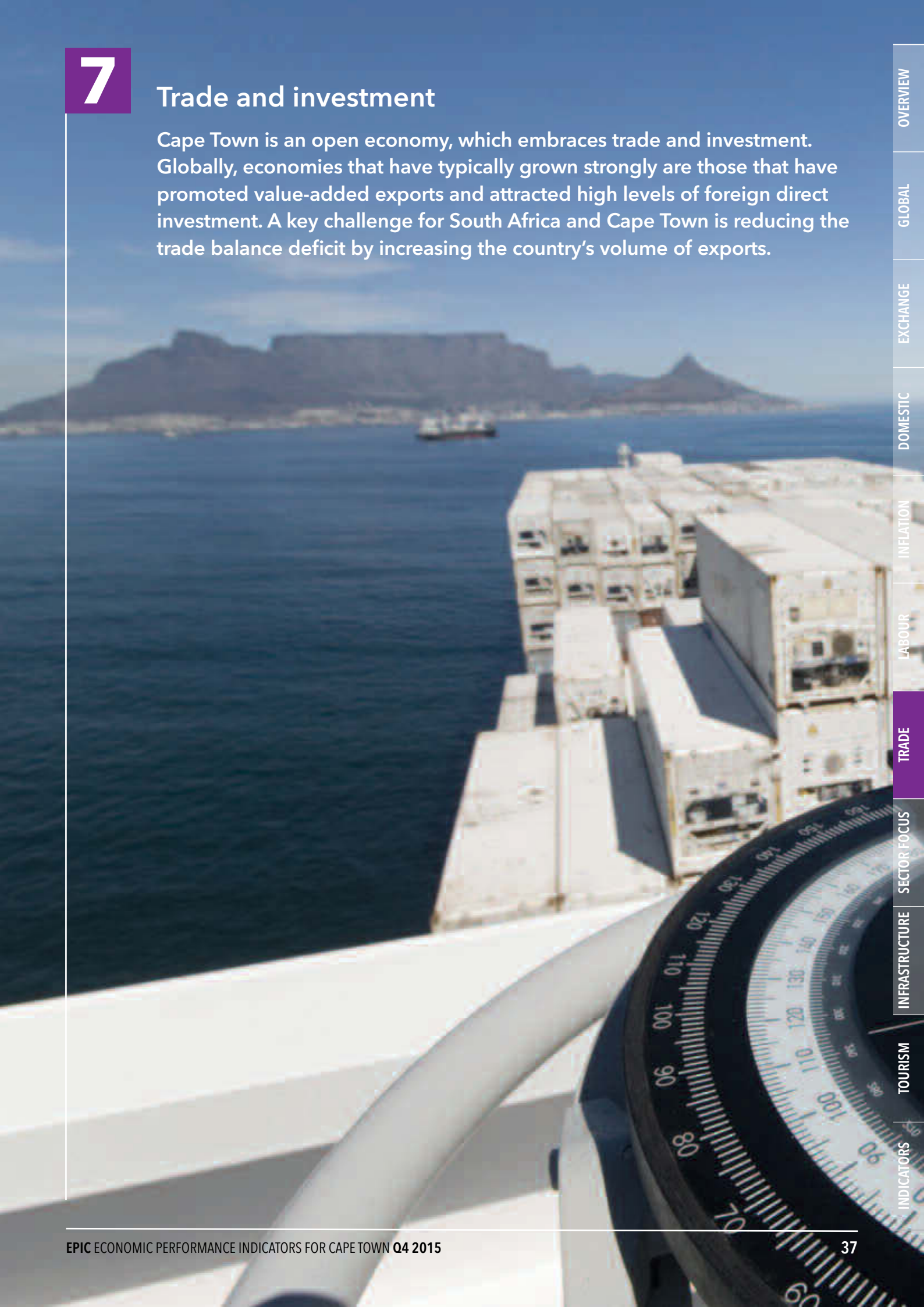
Although South Africa more broadly also experienced positive labour market trends in the fourth quarter, Cape Town's labour market statistics for that period stood out from the rest of the country and from other metros with its broad unemployment rate, as a headline indicator, being 2,5 percentage points lower than the metro with the next lowest figure. The fact that this comes at a time of severe economic strain in the country probably points to the healthier state of the metro economy and the more labour-intensive nature of its recent growth.

In 2016, the best opportunities for employment growth in the city are likely to come from tourism, which is currently experiencing a strong recovery, and business process outsourcing.

The ability of the city to sustain improvements in the labour market will come under strain as the expected sluggish economic growth in the province and country take its toll. In particular the finance and construction sectors, the big job creators of the fourth quarter of 2015, will struggle to overcome weak levels of consumer confidence, high inflation and a rising interest rate in 2016 and may even shed some jobs. In 2016, the best opportunities for employment growth in the city are likely to come from tourism, which is currently experiencing a strong recovery, and business process outsourcing.

7 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.



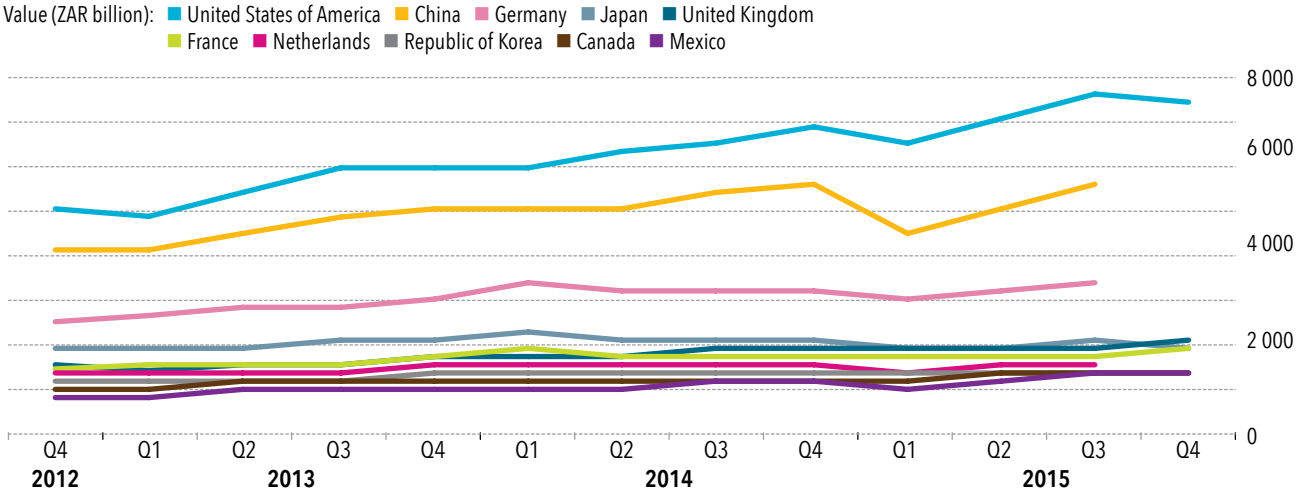
TRADE

A year-on-year assessment of the fourth quarter's import figures indicated that the United States, the United Kingdom, France, Canada and Mexico showed growth in imports.

Global trade

The world's largest importer of goods remains the United States although China, Germany and the Netherlands have not yet reported trade data for the fourth quarter. While global imports increased by 2,7% in the third quarter of 2015[9], only two of the top import markets shown in the figure below experienced positive import growth rates from the third to the fourth quarter of 2015. A year-on-year assessment of the fourth quarter's import figures (for those countries with available data) indicated that the United States (8,2%), the United Kingdom (9,3%), France (5,3%), Canada (0,9%) and Mexico (11%) demonstrated growth in imports. Growth in the United States was driven by growth in the imports of automotives (11%) and electric apparatus for line telephony (17%).

Figure 27: Global imports of goods (Quarter 4, 2012 to Quarter 4, 2015)



Values in ZAR bn	Q4-'12	Q1-'13	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15
United States of America	5 085	4 929	5 551	5 966	5 996	6 099	6 468	6 665	6 867	6 522	7 112	7 666	7 431
China	4 092	4 161	4 519	4 996	5 117	5 141	5 104	5 446	5 564	4 581	5 062	5 623	–
Germany	2 543	2 626	2 786	2 944	3 117	3 427	3 284	3 245	3 232	3 098	3 157	3 423	–
Japan	1 884	1 854	1 882	2 084	2 204	2 370	2 079	2 189	2 166	2 011	1 908	2 112	2 029
United Kingdom	1 533	1 437	1 502	1 632	1 749	1 814	1 807	1 904	1 865	1 855	1 874	2 013	2 039
France	1 474	1 531	1 598	1 637	1 792	1 894	1 835	1 761	1 799	1 691	1 754	1 781	1 895
Netherlands	1 312	1 311	1 361	1 442	1 564	1 634	1 598	1 567	1 566	1 471	1 562	1 610	–
Korea, Republic of	1 129	1 158	1 197	1 257	1 349	1 435	1 379	1 428	1 451	1 312	1 336	1 400	1 377
Canada	1 000	1 003	1 118	1 157	1 163	1 175	1 272	1 277	1 287	1 215	1 339	1 359	1 298
Mexico	847	798	922	971	983	998	1 062	1 105	1 168	1 087	1 209	1 329	1 297

Source: International Trade Centre, March 2016.

South African trade

South African exports have experienced strong and consistent growth since the fourth quarter of 2012, growing by an average of 2,2% per annum from R209 billion in the fourth quarter of 2012 to R262 billion in the fourth quarter 2015, despite a 1% quarter-on-quarter decline in exports in the fourth quarter. Overall, however, 2015 was a good year for South African exports, which increased by 5% on 2014's figures. The impact of this accelerated growth of exports was to reduce the trade balance for South Africa to R19 billion in the fourth quarter, down from R21 billion recorded in the third quarter.

2015 was a good year for South African exports, which increased by 5% on 2014's figures. The impact of this accelerated growth of exports was to reduce the trade balance for South Africa to R19 billion in the fourth quarter, down from R21 billion recorded in the third quarter.

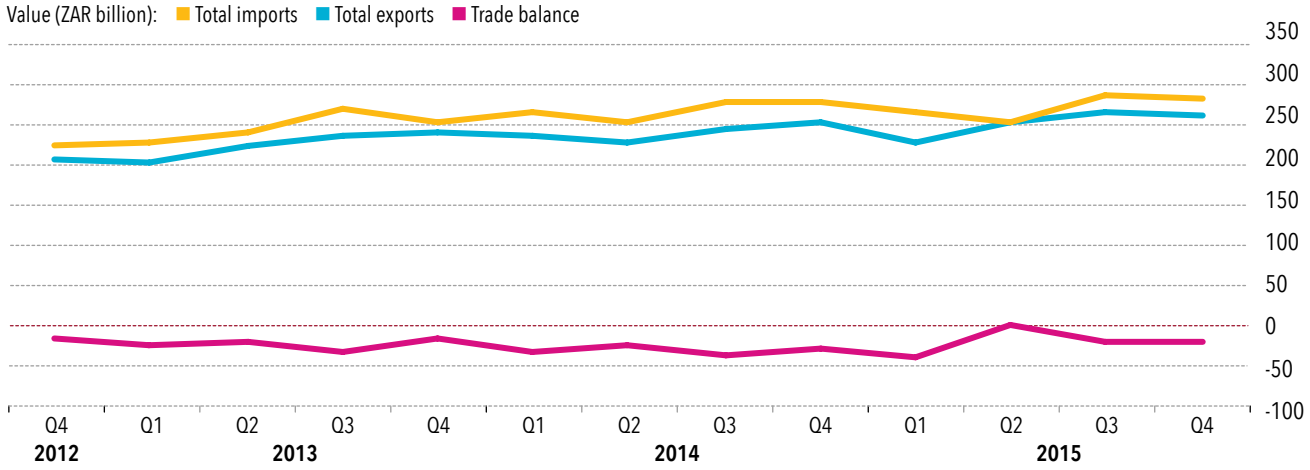
China is South Africa's largest export destination, with exports reaching R22 billion in the fourth quarter of 2015, a decline of 8% from the third quarter. South Africa's exports to China are influenced by the Chinese appetite for South African mineral commodities, especially iron ore and concentrates. The slowing of the Chinese economy and the falling commodity prices have had a negative impact on export volumes to China. South Africa's second-largest export market is the United States (R21 billion), followed by Germany (R16,4 billion), Namibia (R14 billion) and Japan (R13,8 billion). Exports to the United States are driven by iron and steel and automotives exports, which grew by 57% and 36% respectively during the fourth quarter.

Exports to Japan experienced the highest quarter-on-quarter growth rate among South Africa's top 10 markets, growing at 17% in the fourth quarter. This was due to a surge in the export of mineral products and precious metals which grew by 43% and 10% respectively. India was South Africa's second-highest growth market in the fourth quarter with 10% growth, driven by exports of automotives (131%), mineral products and iron and steel products.

9. About half the countries have not reported their import figures for Q4 of 2015

Namibia and Mozambique were South Africa's top export markets in Africa in the fourth quarter of 2015, with exports to Namibia growing by 1,2% quarter on quarter. Growth in exports to Africa have resulted in the continent playing a very important part in South Africa's global trade. Increased exports to Africa will further diversify South Africa's export markets and hedge against external shocks to the economy from the euro area as well as the United States.

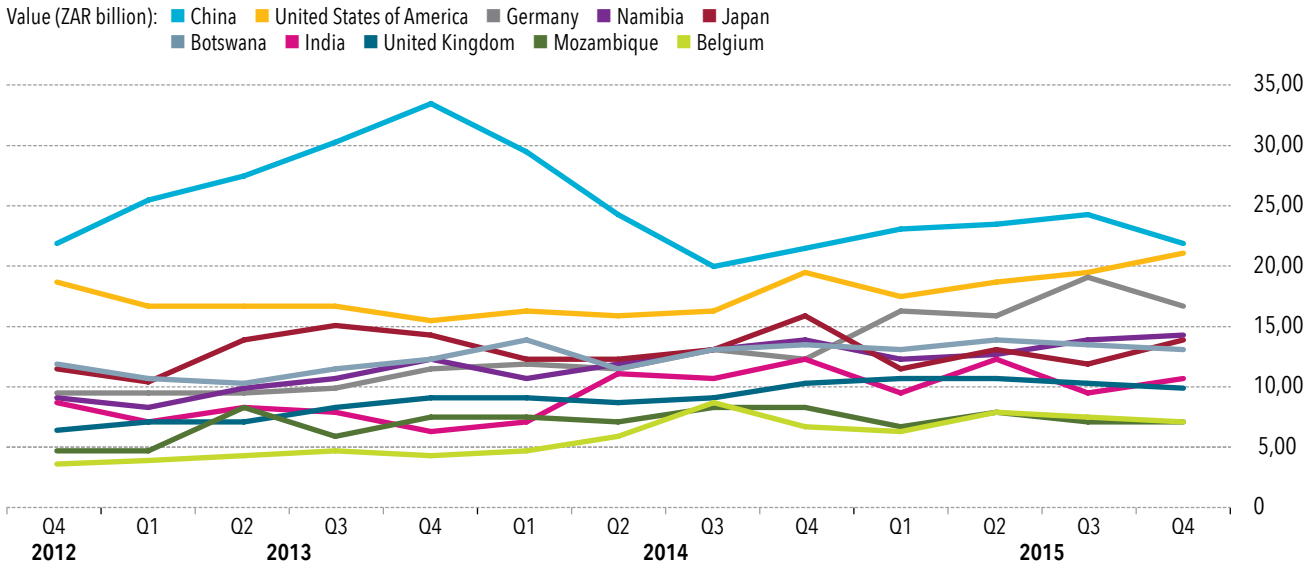
Figure 28: South Africa's exports, imports and trade balance (Quarter 4, 2012 to Quarter 4, 2015)[10]



Values in ZAR bn	Q4-'12	Q1-'13	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15
Exports	209	203	224	238	241	235	230	245	252	228	255	265	262
Imports	225	228	242	272	255	268	255	279	280	267	255	285	281
Trade balance	-16	-25	-19	-34	-14	-33	-25	-35	-28	-39	0	-21	-19

Source: Quantec, March 2016.

Figure 29: South Africa's export markets (Quarter 4, 2012 to Quarter 4, 2015)



Values in ZAR bn	Q4-'12	Q1-'13	Q2-'13	Q3-'13	Q4-'13	Q1-'14	Q2-'14	Q3-'14	Q4-'14	Q1-'15	Q2-'15	Q3-'15	Q4-'15
China	21,5	25,4	27,4	30,0	33,4	29,2	24,2	19,8	21,4	22,9	23,2	24,2	21,8
United States	18,6	16,5	16,6	16,7	15,4	16,1	15,9	16,1	19,4	17,4	18,7	19,5	21,0
Germany	9,4	9,6	9,4	10,0	11,3	11,8	11,5	13,2	12,2	16,2	15,9	19,1	16,4
Namibia	9,0	8,2	9,9	10,6	12,3	10,8	11,7	12,9	13,8	12,4	12,6	13,8	14,0
Japan	11,2	10,3	13,9	15,2	14,2	12,1	12,2	13,0	15,7	11,6	13,1	11,9	13,8
Botswana	11,7	10,7	10,1	11,4	12,3	13,9	11,5	12,9	13,5	12,8	13,7	13,3	12,8
India	8,7	7,0	8,1	7,7	6,1	7,2	10,9	10,5	12,2	9,4	12,1	9,6	10,6
United Kingdom	6,4	7,2	7,0	8,2	9,0	9,1	8,5	9,2	10,1	10,5	10,8	10,3	10,0
Mozambique	4,8	4,5	8,2	6,0	7,4	7,4	7,1	8,2	8,3	6,5	7,8	6,9	7,1
Belgium	3,6	3,8	4,4	4,5	4,3	4,7	5,8	8,5	6,6	6,4	7,7	7,6	7,0

Source: Quantec, March 2016.

10. 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.

Western Cape trade: electronic products

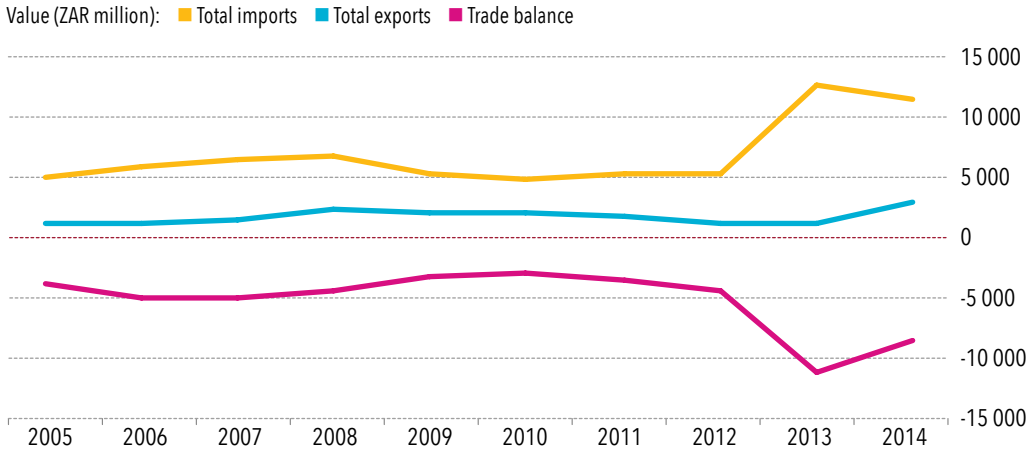
In the absence of quarterly trade data for the Western Cape, this section focuses on different selected trade and investment themes as they pertain to the Western Cape each quarter. In this particular edition, the section focuses on the Western Cape and Cape Town's trade of electronic products (consumer electronics and electronic components), recording 2014 figures.

The province's trade of electronic products increased by 136% in 2014 to reach R3,1 billion from R1,3 billion in 2013. The 2014 electronic products export value was the highest recorded over the 10-year period and the province's global electronic exports accounted for 3% of total provincial exports in 2014. The fastest growth rates in electronics exports in 2014 were recorded for shavers, hair clippers and hair-removing appliances; industrial or laboratory electric furnaces and ovens, and sound and video recording parts and accessories, all of which grew above 1 000% in 2014, albeit off relatively low bases. The province's exports of electronic products increased by an average annual growth rate of 34% between 2005 and 2014.

The Western Cape's global imports of electronic products accounted for 5% of total provincial imports in 2014. Imports of electronic products to the province decreased by 9% in 2014 to R11,4bn from R12,5bn in 2013. Over the period 2005 to 2015 imports of electronic products increased on average by 15,3% per annum. The large growth in imports in 2013, and largely sustained in 2014, was mainly driven by imports of diodes, transistors and similar semiconductor devices, and photosensitive semiconductor devices. The trade deficit reached its second highest level over the 10-year period reaching R8 billion in 2014.

The 2014 electronic products export value was the highest recorded over the ten year period and the province's global electronics exports accounted for 3% of total provincial exports in 2014.

Figure 30: Western Cape electronic products trade (2005 to 2014)



Values in ZAR m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Exports	1 261	1 250	1 588	2 282	1 993	2 060	1 841	1 183	1 322	3 119
Imports	5 009	6 030	6 561	6 740	5 205	4 874	5 295	5 436	12 512	11 421
Trade balance	-3 748	-4 781	-4 974	-4 458	-3 212	-2 814	-3 454	-4 252	-11 190	-8 302

Source: Quantec, March 2016.

Cape Town trade: electronic products

Cape Town accounted for 93% of the Western Cape's total exports of electronic products in 2014 and 92,9% of imports. Exports of electronic products increased by 151% in 2014 reaching R2,9 billion, their highest level over the 10-year period. The fastest growth rates in electronics exports from the city in 2014 were recorded for shavers, hair clippers and hair-removing appliances; industrial or laboratory electric furnaces and ovens, insulating fittings for electrical machines, and sound and video recording parts and accessories that all grew above 1 000% in 2014.

Between 2005 and 2014 export growth in the city has been strong and consistent, as average annual growth in electronics exports reached 35% between 2005 and 2014. Imports, particularly of diode, transistors and semiconductor devices have also been growing very rapidly, which has resulted in a deep trade deficit for the city, particularly in 2014. Overall, imports of electronic products into Cape Town have grown at an annual average rate of 15% between 2005 and 2014.

Between 2005 and 2014 export growth has been strong and consistent, as average annual growth in electronics exports reached 35%.

Figure 31: Cape Town electronic products trade (2005 to 2014)

Values in ZAR m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Exports	1 143	1 215	1 540	2 245	1 857	1 932	1 750	1 046	1 160	2 909
Imports	4 869	5 822	6 236	6 376	4 789	4 620	4 853	4 991	11 364	10 630
Trade balance	-3 726	-4 608	-4 695	-4 131	-2 933	-2 688	-3 103	-3 945	-10 204	-7 721

Source: Quantec, March 2016.

The African region represents the largest share of Cape Town's global exports of electronic products in 2014, accounting for 51%, followed by the European region at 34%. Five of Cape Town's top export markets are from Africa, accounting for 38% of total electronic product exports. China is the largest source market for Cape Town's imports of electronic products accounting for 44% of total imports. The Asian region was the largest source region for Cape Town's imports of electronic products in 2014, accounting for 56%, followed by the European region at 36%.

Table 4: Top 10 trade markets for electronic products from Cape Town (2014)

Rank	Destination /Country	Value 2014 (ZAR m)	% share, 2014	% growth, 2014	% share of Western Cape exports 2014	Source country	Value 2014 (ZAR m)	% share, 2014	% growth, 2014	% share of Western Cape imports, 2014
1	Namibia	559	19,22%	--	92,90%	China	4 690	44,12%	-10,14%	96,60%
2	United Kingdom	544	18,71%	546,93%	99,86%	Germany	1 099	10,34%	-49,58%	90,54%
3	United States	243	8,34%	44,11%	–	Spain	1 023	9,63%	1 089,21%	95,35%
4	Botswana	201	6,91%	–	96,21%	Taiwan	532	5,00%	168,39%	99,05%
5	Germany	147	5,05%	586,68%	98,37%	Italy	400	3,76%	-70,00%	87,00%
6	Angola	143	4,90%	157,63%	99,39%	United States	384	3,62%	2,02%	60,32%
7	Netherlands	118	4,07%	-20,35%	–	United Kingdom	325	3,05%	38,54%	93,74%
8	Mozambique	118	4,07%	52,63%	94,57%	Republic of Korea	225	2,12%	542,84%	99,21%
9	Zambia	92	3,15%	113,02%	76,61%	Brazil	173	1,63%	2 565,61%	99,73%
10	France	89	3,06%	-1,87%	99,43%	Ireland	163	1,53%	-7,89%	99,80%
	Total	**2 909**	**100,00%**	**150,84%**	**93,28%**	**Total**	**10 630**	**100,00%**	**-6,46%**	**93,08%**

Source: Quantec, March 2016.

An analysis of Cape Town's export products shows that diodes, transistors and similar semiconductor devices comprised the largest electronic product exported from the city in 2014, accounting for 19% (R561 million) of total electronic exports. The top 10 electronic export products account for 70% of Cape Town's exports of electronic products in 2014. Among the top 10 exports, discs, tapes, solid-state non-volatile storage devices was the fastest growing, followed by diodes, transistors and similar semiconductor devices.

In 2014, electric generating sets and rotary converters were the largest electronic products imported into Cape Town, valued at R2 billion (19% share), followed by diodes, transistors and similar semiconductor devices accounting for R1,7 billion (16%).

Table 5: Top 10 electronic export and import products for Cape Town (2014)

	Top 10 exports from Cape Town, 2014			Top 10 imports to Cape Town, 2014		
Rank	Product	Value 2014 (ZAR m)	% growth, 2014	Product	Value 2014 (ZAR m)	% growth, 2014
1	Diodes, transistors and similar semiconductor devices photosensitive semiconductor devices	561	751,64%	Electric generating sets and rotary converters	1,983	79,97%
2	Parts suitable for use solely or principally with the apparatus of headings 85.25 to 85.28	317	43,64%	Diodes, transistors and similar semiconductor devices, photosensitive semiconductor devices	1,743	-50,29%
3	Refrigerators, freezers and other refrigerating or freezing equipment, heat pumps	290	227,12%	Electric instantaneous or storage water heaters and immersion heaters	968	24,87%
4	Discs, tapes, solid-state non-volatile storage devices, 'smart cards'	223	929,80%	Refrigerators, freezers and other refrigerating or freezing equipment, heat pumps	520	-9,51%
5	Electric instantaneous or storage water heaters, immersion heaters, electric space heating apparatus	211	63,83%	Dishwashing machines, machinery for cleaning or drying bottles	483	125,30%
6	Electrical apparatus for switching or protecting electrical circuits	92	136,06%	Telephone sets, including telephones for cellular networks or other wireless networks	416	36,60%
7	Air-conditioning machines, comprising a motor-driven fan and elements for changing the temperature	91	110,33%	Air or vacuum pumps, air or other gas compressors and fans	404	23,18%
8	Automatic data processing machines and units thereof, magnetic or optical readers	83	116,21%	Air-conditioning machines	400	1.41%
9	Air or vacuum pumps, air or other gas compressors and fans	81	96,01%	Automatic data-processing machines and units thereof, magnetic or optical readers	362	29,33%
10	Insulated wire, cable	79	199,11%	Discs, tapes, solid-state non-volatile storage devices, 'smart cards'	357	10,58%
	Total	**2 909**	**150,84%**	**Total**	**10,630**	**-6,46%**

Source: Quantec, March 2016.

INVESTMENT

Global foreign direct investment (FDI)

Global FDI grew by 7,8% in terms of capital expenditure (capex) to reach R8,9 trillion in 2015, while investment project numbers saw a decline of 5% in 2015 with 753 fewer projects than the previous year. This indicated that the average FDI investment project in 2015 was of greater value than previous years. The value of investment in 2015, although increasing from 2014, has not yet reached the levels seen from 2006 to 2011. Both capital expenditure and the number of projects have also yet to recover to 2011 values.

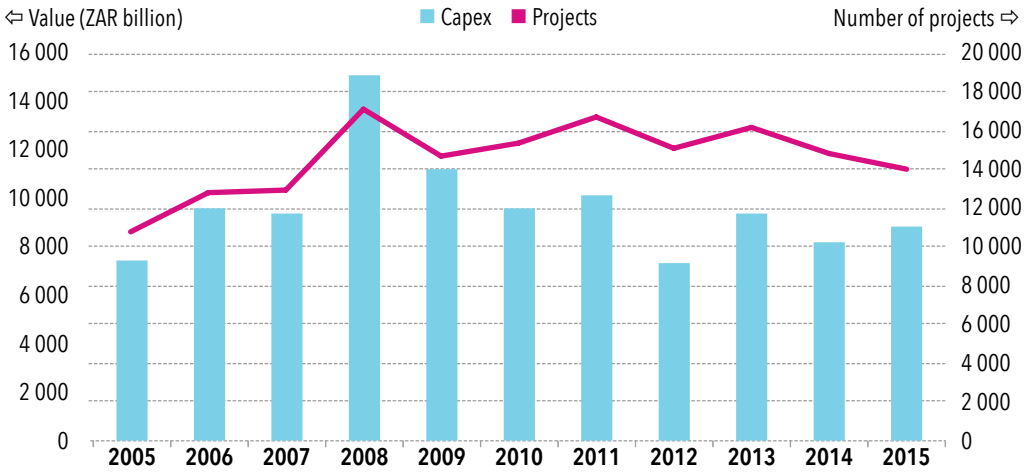
India attracted the largest capex investment in the quarter valued at R204 billion. Other emerging markets that dominated inward FDI by capex were China, Pakistan and Indonesia ranking third, fifth and sixth respectively.

Between October 2015 and December 2015 a total of 3 404 FDI projects were recorded globally, representing a total capital investment of R2,3 trillion, which is an average investment of R676 million per project.

The United States attracted the highest number of projects (352) and was the fourth largest in terms of capex (R84 billion) in this quarter. India attracted the largest capex investment in the quarter valued at R204 billion. Other emerging markets that dominated inward FDI by capex were China, Pakistan and Indonesia ranking third, fifth and sixth respectively. Egypt was the top-ranking African country (24th) receiving 17 projects with a capex value of R22 billion, followed by Nigeria in 29th place receiving 12 projects with a capex value of R17 billion. South Africa was the 10th-highest-ranking African country (58th overall) in the quarter, receiving R8 billion worth of investment.

The top sectors globally for FDI (in terms of projects) in the fourth quarter of 2015 were software publishers, except video games, with a 13% share of total projects followed by textiles (11%) and business services (8,4%). Despite services dominating in terms of the number of projects attracted globally (33% share), energy received the bulk of capex (32% share). Oil and gas extraction received an 18% share of capex, followed by alternative/renewable energy (14% share).

Figure 32: Global FDI (2005 to December 2015)[11]



Values in ZAR bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capex	7 431	9 580	9 436	15 180	11 242	9 606	10 156	7 380	9 415	8 277	8 918
Projects	10 813	12 829	12 969	17 201	14 773	15 450	16 814	15 130	16 271	14 860	14 107

Source: Financial Times, March 2016.

Cape Town foreign direct investment (FDI)

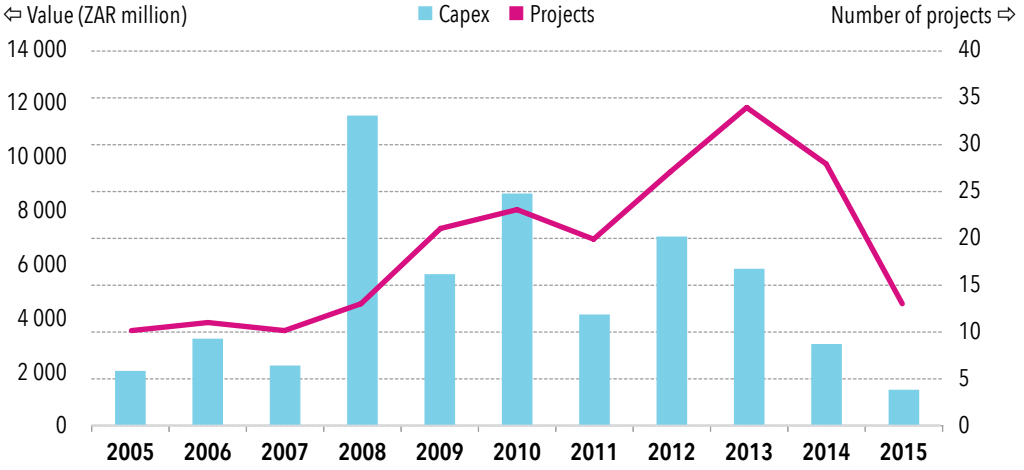
FDI flows into Cape Town in terms of capital investment have not recovered to the precrisis levels attained in 2008. The number of FDI projects received into Cape Town increased from 10 projects in 2005 to record levels in 2014 (28 projects) and to 13 projects by September 2015. The growth trend in project numbers from 2005 to 2015, despite the recent decline, indicates that more companies are investing into Cape Town than previous years despite lower levels of capital investment.

From July 2015 to September 2015, Cape Town attracted two investment projects worth R208 million. Both investments were made by Chinese businesses, with the China Construction firm being the largest investing company at R129 million. The second largest investment of R80 million was by China Classification Society, which set up a new office in Cape Town aimed at strengthening Sino-African cooperation in shipping.

The investments into Cape Town during July 2015 to September 2015 were into the business services sector and the financial services sector. These investments are estimated to have created around 33 jobs.

From July 2015 to September 2015, Cape Town attracted two investment projects worth R208 million. Both investments were made by Chinese businesses, with the China Construction firm being the largest investing company at R129 million.

Figure 33: Foreign direct investment (FDI) flows into Cape Town (2005 to September 2015)[7]



Values in ZAR m	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capex	2 074	3 276	2 233	11 569	5 612	8 705	4 165	7 095	5 901	3 002	1 352
Projects	10	11	10	13	21	23	20	27	34	28	13

Source: Financial Times, March 2016.

Investment facilitation

Between October and December 2015, Wesgro facilitated one new investment project in Cape Town. The investment was a black economic empowerment project in the agribusiness sector, valued at R30 million, which created 35 jobs.

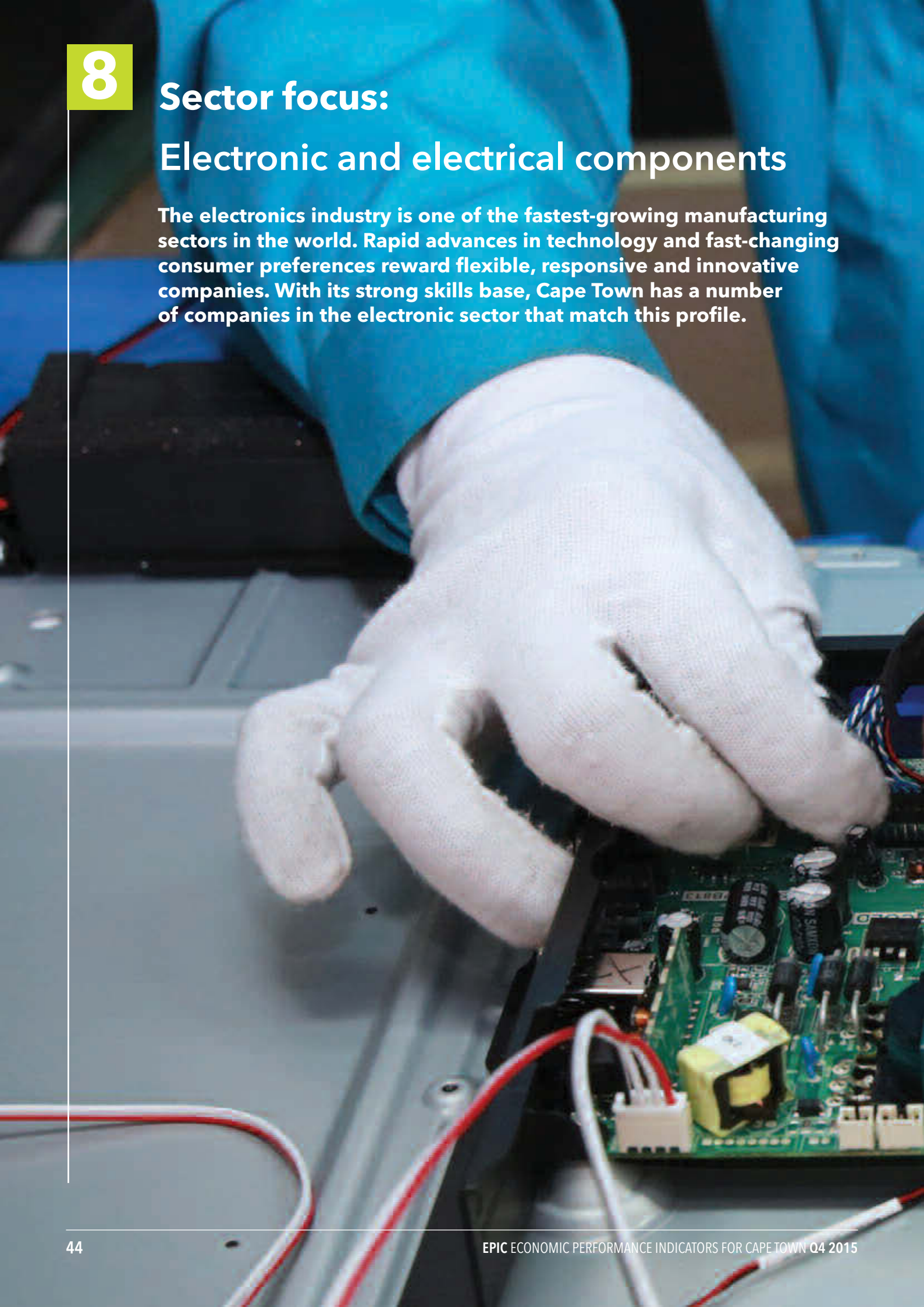
11. Global FDI figures in this edition may differ from previous editions as values may have been adjusted for any previous errors as well as exchange rate fluctuations.

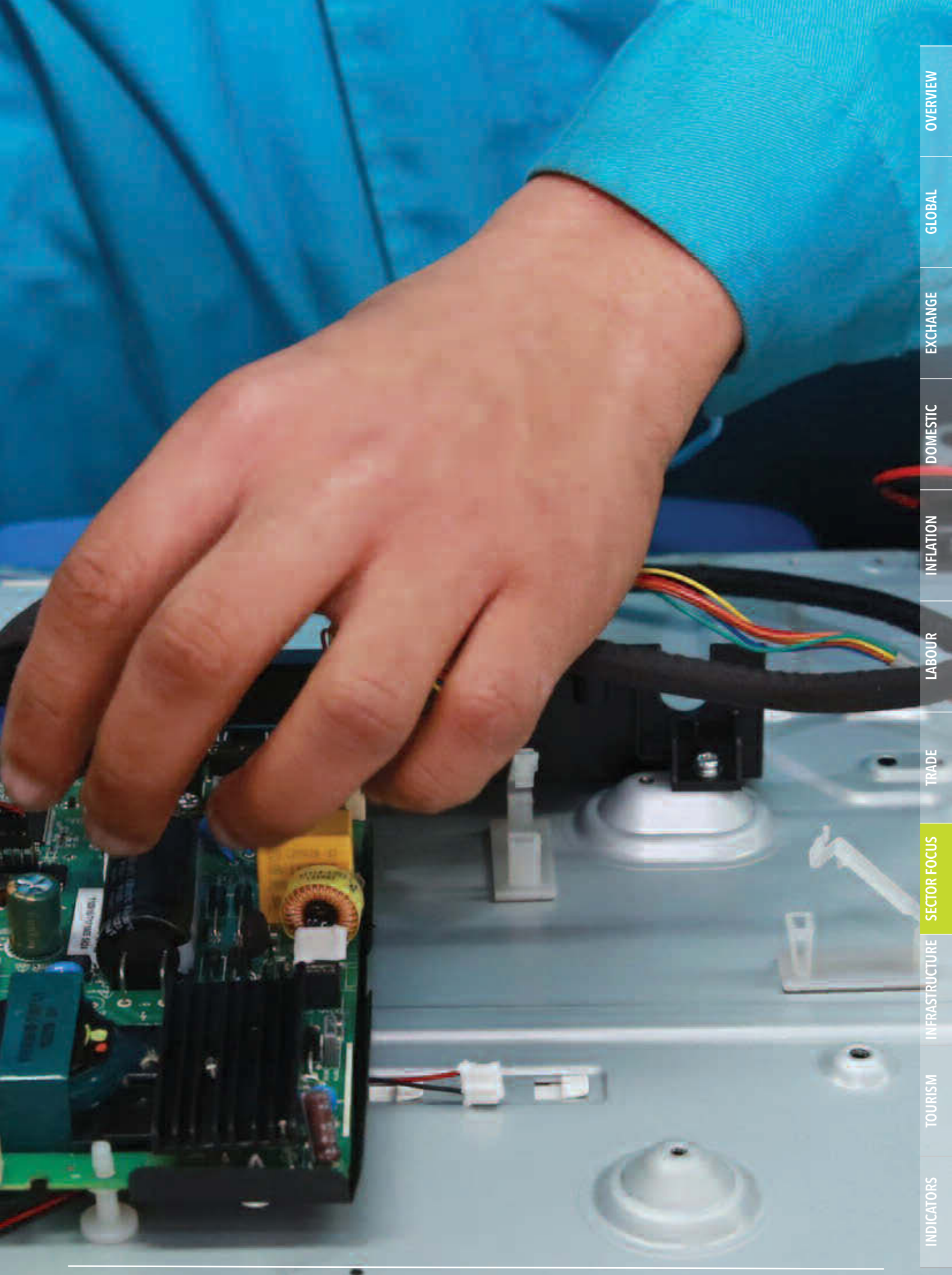
8

Sector focus:

Electronic and electrical components

The electronics industry is one of the fastest-growing manufacturing sectors in the world. Rapid advances in technology and fast-changing consumer preferences reward flexible, responsive and innovative companies. With its strong skills base, Cape Town has a number of companies in the electronic sector that match this profile.





Ever-shifting technology possibility frontiers, and rapidly evolving consumer tastes and preferences, have resulted in an industry which rewards companies that are flexible, responsive and innovative.

The electronics industry is one of the fastest growing manufacturing sub-sectors in the world. Global hardware production by the electronics industry is expected to have risen by 14% between 2014 and 2015 driven largely by the production of smartphones and flatscreen televisions (JEITA, 2015). Ever-shifting technology possibility frontiers, and rapidly evolving consumer tastes and preferences, have resulted in an industry which rewards companies that are flexible, responsive and innovative. With its strong skills base, Cape Town has a number of companies in the electronic sector that match this profile. The industry in Cape Town has a location quotient above one, both on a static and dynamic basis, which indicates that Cape Town has a comparative advantage in the manufacture of electronic products compared to other regions in South Africa. It has also recorded South Africa's largest foreign direct investment in the consumer electronics sub-sector, with Hisense opening a factory in Atlantis and regional head offices in Century City. This chapter aims to take a more in-depth look at the importance of the electronic sector to the city's economy and identify some of the opportunities that exist to grow it.

THE NATURE OF CAPE TOWN'S ELECTRONICS AND ELECTRICAL COMPONENT INDUSTRY

Table 6: Defining the electronic and electrical component industry in Cape Town using Standard Industrial Classification (SIC) codes

Main division	Sub-divisions	Examples of Cape Town companies	Examples of relevant products by identified companies
26 – Manufacture of computer, electronics and optical products	Manufacture of electronic components and boards	• Trax Interconnect • Montar Manufacturing • African Space Innovation Centre • New Space Systems	Metal core boards PCB (aluminium and copper), transceiver modules, miniature carrier boards, components for circuit boards, components for satellites
	Manufacture of computers and peripheral equipment	• Amalgamated Appliance Holdings	Desktop computers
	Manufacture of communication equipment	• Tellumat • ETSystems • Quantum Telecommunications • Electro Boards • Nedlog • SSE Cape	Switchboards, antennas, transmitters, remotes, radars
	Manufacture of consumer electronics	• Hisense	Televisions
	Manufacture of measuring, testing, navigating and control equipment; watches and clocks	• Scientific Manufacturing • Masskot • Pinnacle Instruments • Rhomberg Instruments	Medical instruments/appliances for testing and measuring, scale instruments, temperature measuring equipment
	Manufacture of irradiation, electromedical and electrotherapeutic equipment	• Sheer Mobility • Winfar Surgical	Wheelchairs, blood pressure equipment
	Manufacture of optical instruments and photographic equipment	• Simera • Aircoptics	Digital lenses, digital cameras
27 – Manufacture of electrical equipment	Manufacture of electric motors, generators, transformers and distribution and control apparatus	• ETSystems	Garage door motors
	Manufacture of batteries and accumulators	• Jinko Solar	Cells (solar)
	Manufacture of wiring and wiring devices	• Tank Industries	Fibre optic cables, adaptors
	Manufacture of electric lighting equipment	• LED SA Lighting • Freeplay Energy	LED lights, solar lanterns, solar flashlights
	Manufacture of domestic appliances	• Hisense • AEG	Refrigerators, dishwashers, ovens

IMAGES COURTESY OF HISENSE

The term 'electronics industry', though common parlance, is not an uncomplicated one. Typically the manufacture of consumer electronics such as televisions and radios, and sometimes white goods such as fridges and microwaves are considered to constitute the electronics industry. However the category becomes more blurred when considering whether the production of electronic components, cellular phones, or the assembly of small aerial satellites, or drones should be included. This is made especially difficult by skills convergence in the industry, whereby certain transferrable engineering skills have allowed companies to undertake a range of different production activities and have led to a degree of value chain convergence.

South Africa's updated standard industrial classification identifies two major manufacturing sub-sectors which, for the purposes of this analysis will be considered to form the electronics and electrical components industry. Table 6 looks at some of the key manufacturing activities within these sub-sectors along with examples of companies in Cape Town which undertake these activities.

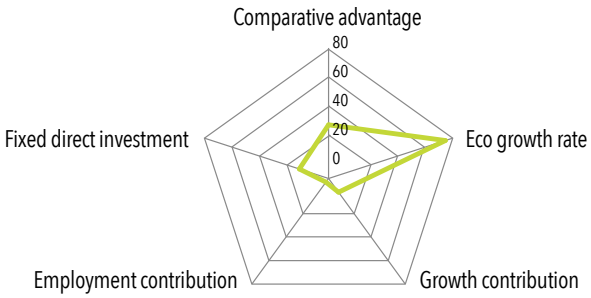
Cape Town has strong company representation in the following sub-sectors:

- Satellite technology
- Circuit board and contract manufacturing
- Audio-visual product manufacturing, including televisions
- Telecommunications (not cellphones)
- Medical technology

Industries that are not strongly represented in Cape Town but are major global industries, include appliance (white good) manufacturers and mobile phone manufacturers.

Industries that are not strongly represented in Cape Town, but are major global industries, include appliance (white goods) manufacturers and mobile phone manufacturers.

Figure 34: The economic performance of the electronic and electrical component industry in Cape Town



Key indicator table

GVA/share 2014	0,60%
Location quotient	1,1
FDI value 2003–2015	R1 697 million
GVA growth rate 2005–2014	4,4%
Growth contribution	0,60%
Employment	6 380
Export value in 2014	R2 909 million

Source: City of Cape Town calculations, data derived from IHS Global Insight.

SIZE AND IMPACT OF THE SECTOR IN CAPE TOWN

According to Wesgro (2014) there were 50 electronics manufacturers and development companies in the Western Cape in 2013, the majority of which were based in Cape Town. Figure 34 assesses the contribution of the electronics industry[12] to Cape Town's economy, as indexed against the highest performing sector in each of the five categories. While the industry is a comparative advantage sector for Cape Town, with a location quotient of 1,1, it does not enjoy as profound a comparative advantage as the manufacturing sector with the highest comparative advantage – the clothing and textiles sector which has a location quotient of 2,2. Electronics manufacturing's share of gross value added in Cape Town was 0,6% in 2014, which is also relatively low compared to the largest manufacturing sector – fuel, petroleum and chemicals with a GVA share of 3,5%. The electronics industry was, however, the fastest growing manufacturing sector in Cape Town over the period 2004–2014, growing at an average rate of 4,4%.

According to Wesgro (2014) there were 50 electronics manufacturers and development companies in the Western Cape in 2013, the majority of which were based in Cape Town.

12. Specifically the manufacturing component and not retail, distribution or services

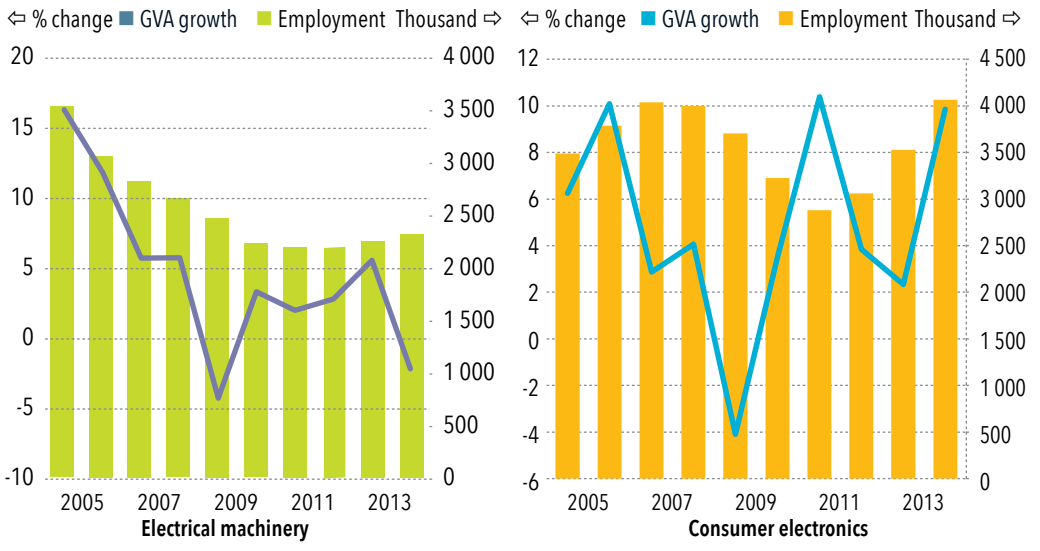
Recent employment and growth trends

While the electronics and electrical components sector grew strongly in terms of value addition in the last 10 years, like many manufacturing industries in South Africa, it has shed jobs over this period – at a rate of over 5% per year. However the industry, as earlier defined, is a large one and aggregate statistics may miss some of the dynamics within the subindustries. In order to take into account the trends in the subindustries, figure 35 compares the growth rates and employment figures for the electronics and appliance subsector (consumer electronics) and the electrical machinery and apparatus subsector (components and industrial products).

The difference in the performance of these two subsectors over time is quickly apparent. While the consumer electronics subsector has grown by 4,9% per annum on average, the electrical machinery subsector has grown more slowly at 3,9%. However, it is in terms of employment that the disparity is most pronounced. Although both subsectors shed employment during the recession, the electrical machinery subsector has struggled to make these losses up, while the consumer electronics subsector recorded its highest employment level over the last 10 years in 2014. The strong growth in employment in the consumer electronics subsector over the last three years can in part be attributed to the large investments which have recently gone into the sector in Cape Town.

The consumer electronics subsector recorded its highest employment level over the last ten years in 2014. The strong growth in employment in the consumer electronics subsector over the last three years can in part be attributed to the large investments which have recently gone into the sector in Cape Town.

Figure 35: Comparison of GVA and employment performance of electronic subsectors



Source: City of Cape Town calculations, data derived from IHS Global Insight.

IMAGES COURTESY OF HISENSE

TRADE AND INVESTMENT IN ELECTRONICS

The findings from Chapter 7 would seem to suggest that much of the positive growth impetus in the electronics and electrical components industry is through exports. Some of the findings of that section are summarised below:

- Electronic exports from Cape Town grew on average by 35% between 2005 and 2014, and particularly steeply at 151% between 2013 and 2014.
- Cape Town's top market for electronic exports was Namibia, which accounted for 19% of Cape Town's electronic exports.
- Overall Cape Town had a trade deficit in electronic products, importing more than it exported.
- Cape Town's biggest exports were in diode transistors and similar devices (Wesgro, 2016).

In addition to providing the city with valuable foreign exchange receipts through the export of electronic products, the industry has also received a significant amount of foreign direct investment. Between January 2003 and September 2015 16 FDI projects totalling R1,7 billion were made in the electronics industry in Cape Town[13] (*Financial Times*, 2016). Job creation stemming from FDI in the electronics industry between 2003 and 2015 amounted to 1 246 jobs, at an FDI value of R1,17 million per job (*Financial Times*, 2016). This places FDI in the electronics and electrical component industry among the most labour-intensive in the manufacturing sector with only consumer product manufacturing (predominantly furniture) recording higher employment creation per rand spent on FDI.

The standout investment in the electronics and electrical components industry (specifically in the consumer electronics subsector) during this period was the double investment by Chinese electronics giant Hisense in the development of a factory in Atlantis (R411 million) and regional head offices in Century City (R260 million). Hisense is the world's fourth largest producer of TV products (6,2% market share) and South Africa's fourth largest producer of refrigeration products. The Atlantis factory specialises in the production of televisions, producing up to 1 700 a day, and refrigeration units (1 200 per day) for sale domestically and to the broader African market (Hisense, 2015). The decision to locate Hisense's factory and head offices in South Africa and Cape Town specifically was informed by the company's desire to tap into the potential of growing middle-class consumers in sub-Saharan Africa.

Between January 2003 and September 2015 16 FDI projects totalling R1,6 billion were made in the electronics industry in Cape Town. Job creation stemming from FDI in the electronics industry between 2003 and 2015 amounted to 1 246 jobs, at an FDI value of R1,17 million per job.

CAPE TOWN'S COMPETITIVENESS IN THE ELECTRONICS AND ELECTRICAL COMPONENTS INDUSTRY

As indicated earlier Cape Town has a technical comparative advantage in the electronics and electrical components industry, but in order to better realise the potential of the sector it's necessary to know what factors determine this comparative advantage. In this regard the following factors identified in Wesgro's report on the industry (Wesgro, 2014) can be highlighted:

- Well-established and technically advanced existing electronics companies
- Prevalence of innovative design thinking and strong systems integration
- Strong engineering skills, provided by four excellent universities

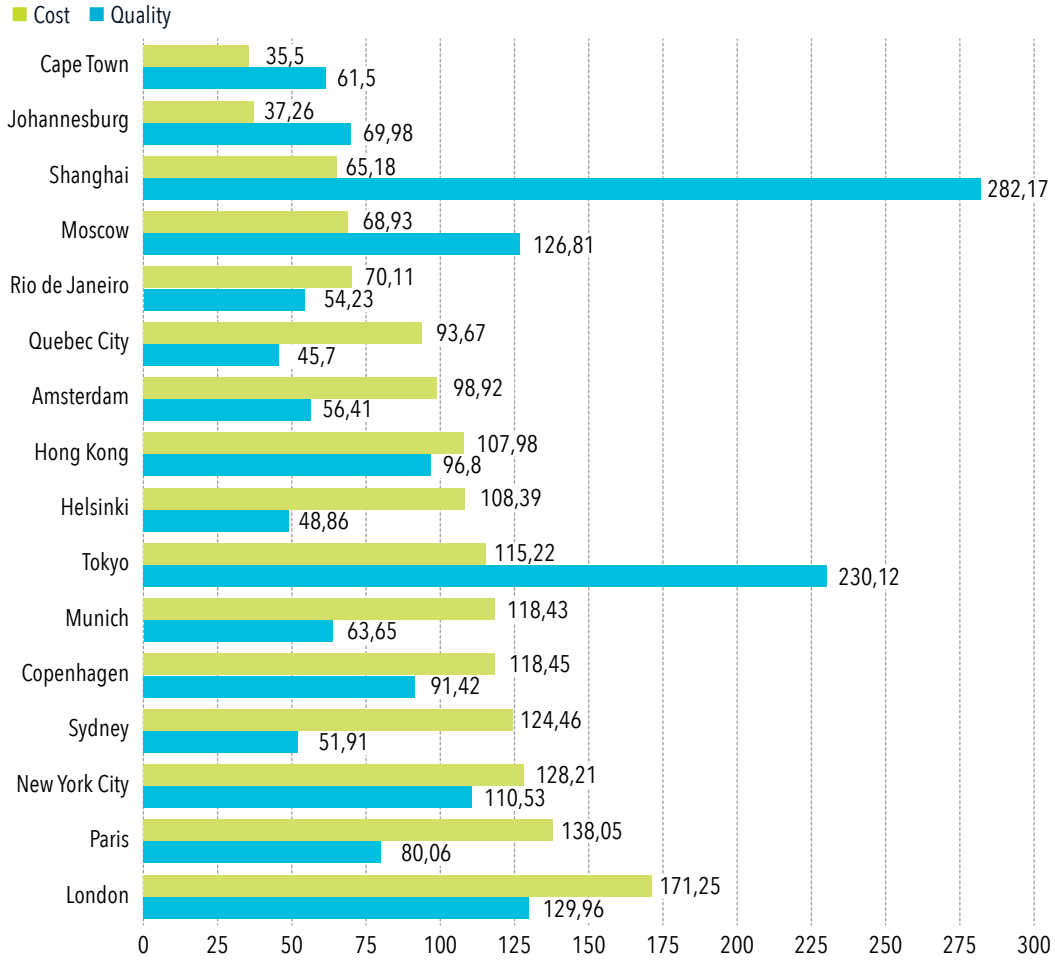
13. This includes a minority of investments in logistics and distribution.

While Cape Town ranks 11th in terms of quality, it ranks first in terms of cost, meaning it is the cheapest of the benchmarked countries in which to set up a consumer electronics manufacturing plant.

- Established African export markets for electronic products and good infrastructural connectivity to these markets
- Relatively low cost destination

The graph below benchmarks Cape Town's competitiveness as a location for setting up a consumer electronics manufacturing plant (such as Hisense) against 16 other global cities. While Cape Town ranks 11th in terms of quality, it ranks first in terms of cost, meaning it is the cheapest of the benchmarked countries in which to set up a consumer electronics manufacturing plant. Overall, Cape Town ranks third out of 17 cities suggesting that the city is very competitive as a destination for FDI into the electronics manufacturing industry.

Figure 36: Benchmarking of Cape Town for electronics FDI



Source: FDI Benchmarking 2014.

IMAGES COURTESY OF HISENSE

KEY TRENDS AND OPPORTUNITIES IN THE ELECTRONIC AND ELECTRICAL COMPONENTS INDUSTRY

The electronics industry is highly dynamic, constantly evolving as new technologies like 3-D printing, virtual reality, the internet of things and drone technology, to name a few, reinvent the way people live, play and interact. Identifying all the latest trends in the industry is difficult, but five key trends that will have an impact on the global electronics industry are listed below.

South African spending on consumer electronics alone is expected to grow at 7,3% a year to $10,6 billion in 2018 (Wesgro, 2014). This will be driven primarily by PDA/smartphone sales followed by PC sales and domestic mobile handsets.

Surging domestic demand and emergent African demand

South African spending on consumer electronics alone is expected to grow at 7,3% a year to $10,6 billion in 2018 (Wesgro, 2014). This will be driven primarily by PDA/smartphone sales followed by PC sales and domestic mobile handsets. Currently the domestic market is overwhelmingly supplied by imported products, and there is a massive opportunity for locally produced products to penetrate the market. This opportunity also extends beyond South Africa to the rest of sub-Saharan Africa. African markets currently account for 51% of Cape Town's electronic exports, and there is certainly opportunity to further grow exports in the region (Wesgro, 2014).

Smart homes in smart cities

'The stage is set for the truly smart, connected home. Disparate, connected devices throughout the home will be able to communicate both with each other and users, through a smart-home controller or hub.' (CES, 2016). The ability of devices to access information uploaded onto the internet or cloud by other devices, a concept commonly referred to as the internet of things will enable the home environment to be customised to the consumers' needs. This will change the way home appliances and consumer electronics are produced. It's not only homes that will become smarter but cities too, thanks to the internet of things and other technological developments. The Consumer Technology Association (2016) describes a 'smart city' as 'simply a city that uses digitized, connected, sensorized technological solutions to meet its growing needs and opportunities'. As with smart homes, the shift toward smart cities will have immense implications for the way in which things such as street lights or traffic systems are produced.

Skills and activity convergence

A growing number of electronics and electrical component companies in Cape Town (and globally) are making a diverse array of products, thereby bridging a number of previously disparate skillsets. It is becoming increasingly difficult to classify companies in one SIC category. For instance, Simera, a technology company in Somerset West, provides structural engineering guidance on terrestrial satellites, develops optical lenses for orbiting satellites, and develops advanced drone technology. The skills they look for among staff are structural and electrical engineering skills (including design), but they could as easily require computer engineering, mechanical engineering and software development. For companies to keep pace with technological and consumer preference changes they need to be able to draw on a base set of engineering skills that is transferable across the product space.

The importance of plastic in the electronic value chain

Euromonitor (2016) reports that electronic component producers increased their spending on plastic by 73% in 2014. The increasing popularity of smart devices is fuelling the demand for plastic which 'provides the best cost-quality ratio in mobile

IMAGES COURTESY OF HISENSE

IMAGE COURTESY OF NEW SPACE SYSTEMS

The increasing popularity of smart devices is fuelling the demand for plastic which 'provides the best cost-quality ratio in mobile phones and other consumer electronics products, making use of other materials such as metals and glass less apparent. (Euromonitor, 2016)

phones and other consumer electronics products, making use of other materials such as metals and glass less apparent' (Euromonitor, 2016). The implication is that capacity in the plastics supply chain will need to be developed if the electronics and electrical equipment industry is to keep up with consumer demand.

The age of the consumer

Developments in e-commerce particularly on mobile-based applications, allows consumers to be fully informed about their consumption choices, enabling rapid price comparison of products (EIU, 2015). This trend toward more informed consumers plays itself out even more sharply in the field of consumer electronics wherein a plethora of review and product-ranking websites exist online. This puts pressure on producers to keep prices as low as possible while ensuring that they pack as many specs onto each device as possible.

A SNAPSHOT OF THE SPACE TECH AND AEROSPACE INDUSTRY IN CAPE TOWN

The electronics and electrical component industry is not limited to terrestrial products, but includes the manufacture of a wide range of components for orbiting satellites, as well as for unmanned aerial vehicles (drones). Space technology in particular is one of the fastest growing sectors in the broader electronics industry, especially as its potential for smarter urban planning is increasingly realised. Space tech manufacturing in Cape Town includes the manufacture of optical payloads, transmission devices including radio and radar, electric boards and integrated units, on-board computers as well as the assembly of nano satellites (nanosats) and drones (although small scale).

Cape Town and the broader Western Cape region are considered to be the space hub of South Africa, with a strong cluster of companies in the aerospace and space technology field. These include, among others, SCS Space; Cube Space; New Space Systems; SSE; S-Plane; Simera; Denel Space Teq and the African Space Innovation Centre at CPUT. Most of the companies in this industry are clustered around Somerset West and Stellenbosch. This follows an historical precedent, as engineers working at the apartheid government's main space programme facility, Houwteq in Grabouw, typically chose to live in either Somerset West or Stellenbosch so that their children could attend the schools there. At its peak this facility employed up to 400 people, many highly skilled, a large proportion of whom still form the basis for Cape Town's competitive advantage in space technology today. The clustering of skills in and around Cape Town is further supported by the location of the South African National Space Agency in Hermanus, only 40 minutes away, in 2010.

The space tech industry is brimming with opportunity, for example:

- The manufacture of nanosats and nanosat components
- Utilising satellite technology to provide services to government spatial planners and to the logistics industry
- Teaming up with consumer electronics manufacturers to exploit production complementarities
- Leveraging the Cape's universities to ensure skills provision
- Taking advantage of the fibre optical cable infrastructure
- Marketing Cape Town as a space hub for Africa.

9

Infrastructure

Cape Town is home to South Africa's second-busiest airport as well as its second-busiest container-handling seaport, 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.

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, but 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.

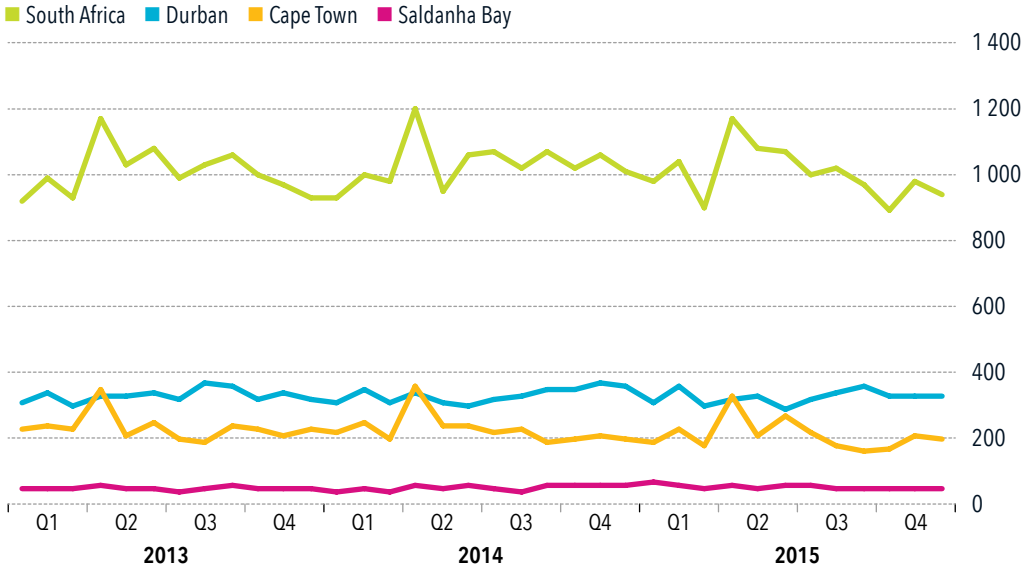
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports decreased by 185 vessels from 2 981 in the third quarter of 2015 to 2 796 in the fourth quarter of 2015. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the second quarter of 2015 was 580 vessels (accounting for 21% of total vessels). This represented an increase on the previous quarter's figure of 555 vessels. On a year-on-year basis, vessel arrivals in Cape Town in the fourth quarter decreased by 27 vessels, while Cape Town's share of national vessel arrivals increased from 19% to 21%. The Port of Saldanha, the closest port to the Port of Cape Town, sees far fewer vessel arrivals per month, 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, except 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 second quarter of 2015 was 580 vessels (accounting for 21% of total vessels). This represented an increase on the previous quarter's figure of 555 vessels.

Figure 37: Total number of vessels (January 2013 to December 2015)



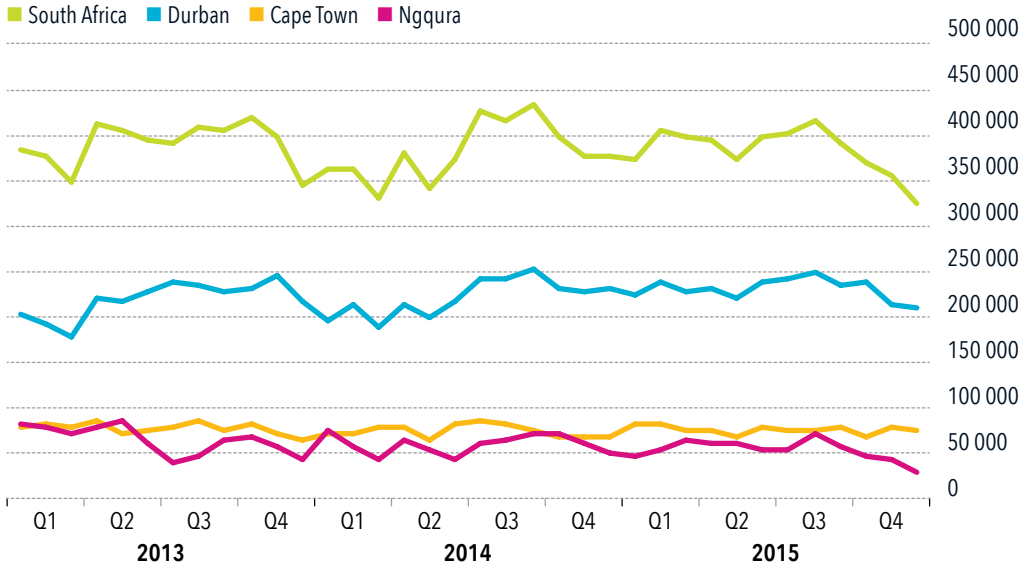
Source: Transnet National Ports Authority, March 2016.

Cargo (gross tonnage) and container handling

In the fourth quarter of 2015, South African ports handled 57,9 million tonnes of cargo compared to 56,9 million in the third quarter and 59,5 million in the corresponding period in 2014. The Port of Cape Town experienced a decrease in cargo handling, from 1,24 million tonnes in the third quarter to 1,04 million tonnes in the fourth quarter of 2015. There was however an increase of 36,4% from the 767 337 tonnes handled in the corresponding period in 2014. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike Saldanha and Richards Bay). Therefore, it does not have a significant impact on the national cargo-handling performance. At the ports of Durban and Saldanha, which are much larger cargo handlers than Cape Town, the Port of Durban experienced a quarter-on-quarter increase in cargo handled of 12,2%, whereas the Port of Saldanha experienced a decrease in the fourth quarter of 5,1%. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed a 15,75% decrease in cargo handled at the Port of Saldanha and a 0,76% increase for the Port of Durban.

The Port of Durban is South Africa's main container-handling port and contributed more than half (63%) of the total containers handled in South African ports in the fourth quarter of 2015. 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% of all containers handled in South African ports in the fourth quarter of 2015.

Figure 38: Total containers handled (TEUs[14]) (January 2013 to December 2015)



Source: Transnet National Ports Authority, March 2016.

Container traffic is very seasonal, as figure 38 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 204 784 in the fourth quarter of 2014 to 219 852 in the fourth quarter of 2015 – an increase of 7,36%. In 2013, 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 that year. This trend was reversed in 2014, when the Port of Ngqura recorded a decrease in containers handled for the year. Despite performing well in the first half of 2015, the Port of Ngqura recorded a decline in containers handled year on year in the fourth quarter (178 453 for the fourth quarter of 2014 compared to 115 967 for the fourth quarter of 2015). While the Port of Ngqura still lags behind Cape Town in terms of the volume of containers handled, capacity constraints experienced at the Port of Cape Town mean that Ngqura may in future overtake it as the country's second-largest container-handling port. That being said, however, Transnet has approved plans for a multibillion-rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

The number of containers handled at the Port of Cape Town increased from 204 784 in the fourth quarter of 2014 to 219 852 in the fourth quarter of 2015 – an increase of 7,36%.

14. 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

Cape Town International Airport is South Africa's second-busiest airport. It recorded 2,63 million total passenger movements in the fourth quarter of 2015 compared to 5,38 million passenger movements at OR Tambo and 1,33 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the fourth quarter of 2015 were higher compared to the fourth quarter of 2014, when 2,37 million passenger movements were recorded. Similarly, OR Tambo International and King Shaka International recorded increases in passenger numbers in the fourth quarter compared to the same period in the previous year.

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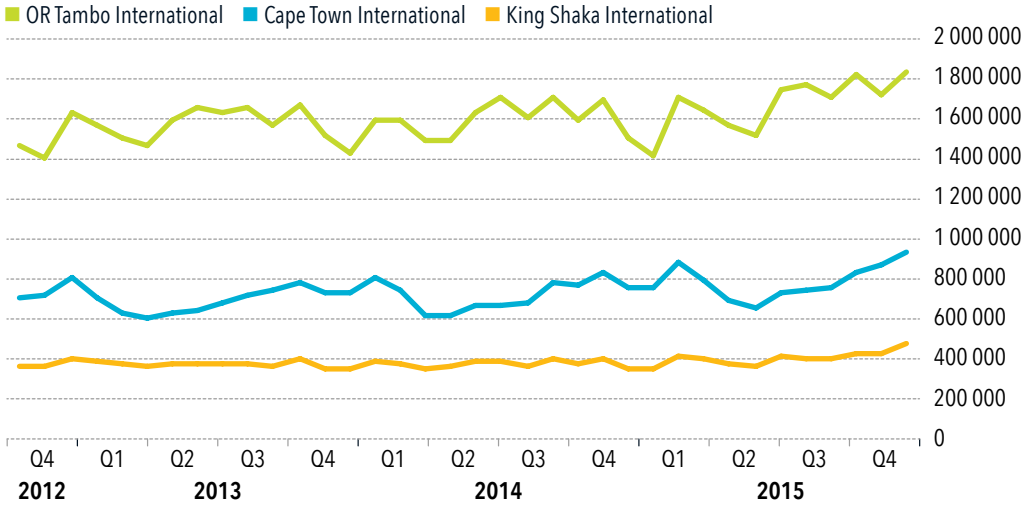
A quick glance at figure 39 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with these declining in the second quarter when Cape Town enters its winter months. In contrast, OR Tambo International shows a more erratic distribution with a less-defined seasonal trend. This 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 39: Total passenger movements at South Africa's major airports (October 2012 to December 2015)

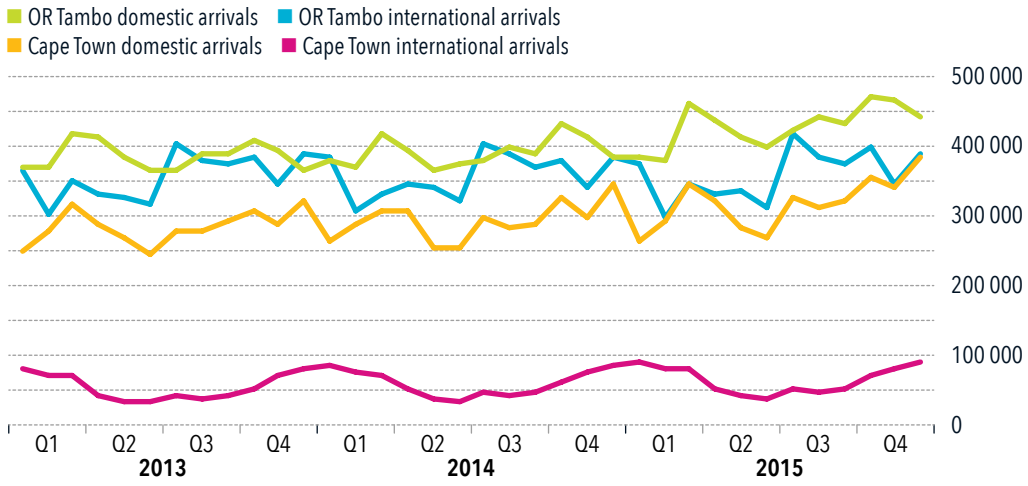


Source: ACSA, March 2016.

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

The direct international proportion of passenger arrivals to Cape Town International for the fourth quarter of 2015 constituted 18,1% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 45,1% 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. While Cape Town International hosts 15 international airlines with 89 international flights a week, the figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many international tourists take advantage

Figure 40: International and domestic passenger arrivals for Cape Town and OR Tambo International airports



Source: ACSA, March 2016.

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 the summer months of 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 39). The total number of passenger arrivals to Cape Town International in the fourth quarter of 2015 increased by 11,2% year on year, with international arrivals increasing by 9,2%.

While Cape Town International remains behind OR Tambo International in terms of passenger movements and number of flights available, Cape Town is an increasingly popular tourist destination. In order to respond to increasing tourist visits, the airport needs to expand its capacity. In line with this, ACSA has proposed to realign 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 (SRK Consulting, 2014). 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 fourth quarter of 2015 increased by 11,2% year on year, with international arrivals increasing by 9,2%.

ELECTRICITY

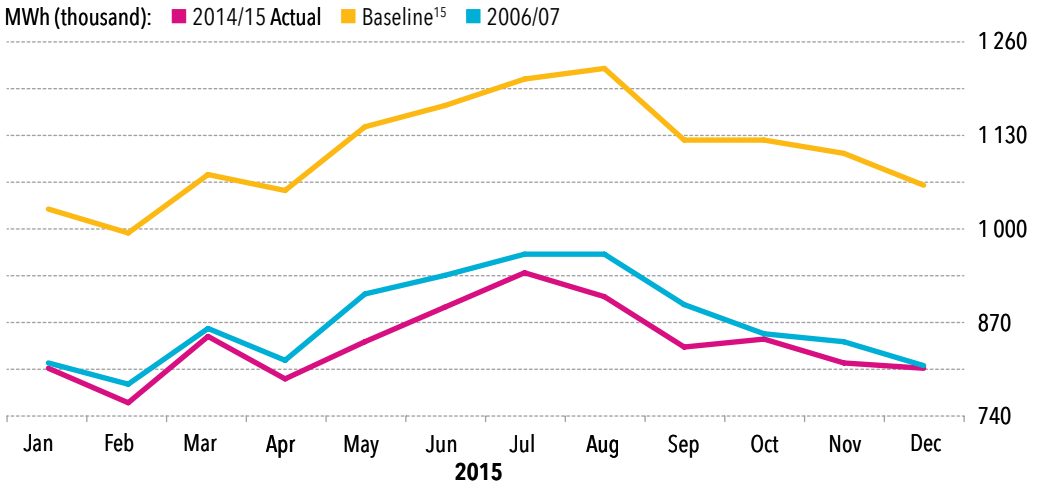
South Africa generates two-thirds of Africa's electricity and is one of the four cheapest electricity producers in the world (Department of Energy, Republic of South Africa, 2015). A review of South Africa's energy mix reveals that the country is largely reliant on coal, with some nuclear, hydro and renewable energy sources also contributing to the country's energy mix. Electricity is an important element of economic infrastructure and the availability, reliability and affordability of electricity supply are key considerations in the location decisions of major investors.

In 2015, energy security became a pressing economic issue as Eskom battled to match the demand for electricity from businesses and households with existing sources of supply, which either required significant maintenance and renewal or were still under construction. This resulted in the implementation of a load-shedding programme and upward pressure on electricity prices as Eskom sought to provide a reliable and predictable electricity supply. Load shedding is a short-term measure aimed at minimising the social and economic costs of the crisis while longer-term improvements are made to infrastructure, and a less vulnerable energy mix including coal, solar, wind, hydro, gas and renewable energy is developed.

Figure 41 depicts the City's baseline consumption forecast, the actual consumption of electricity over the last year, as well as the period of 2006/7 as the benchmark, being the period when the problems with electricity supply first started to emerge. The difference between the baseline forecast and actual consumption is reflected as the rate of energy savings achieved for the period as a result of energy-saving and energy-efficiency measures. In the fourth quarter of 2015, the rate of savings continued to experience fluctuation going from 24,6% in October, increasing to 26,5% in November and dropping to 24,0% in December.

In the fourth quarter of 2015, the rate of savings continued to experience fluctuation going from 24,6% in October, increasing to 26,5% in November and dropping to 24,0% in December.

Figure 41: City of Cape Town electricity consumption (January 2015 to December 2015)



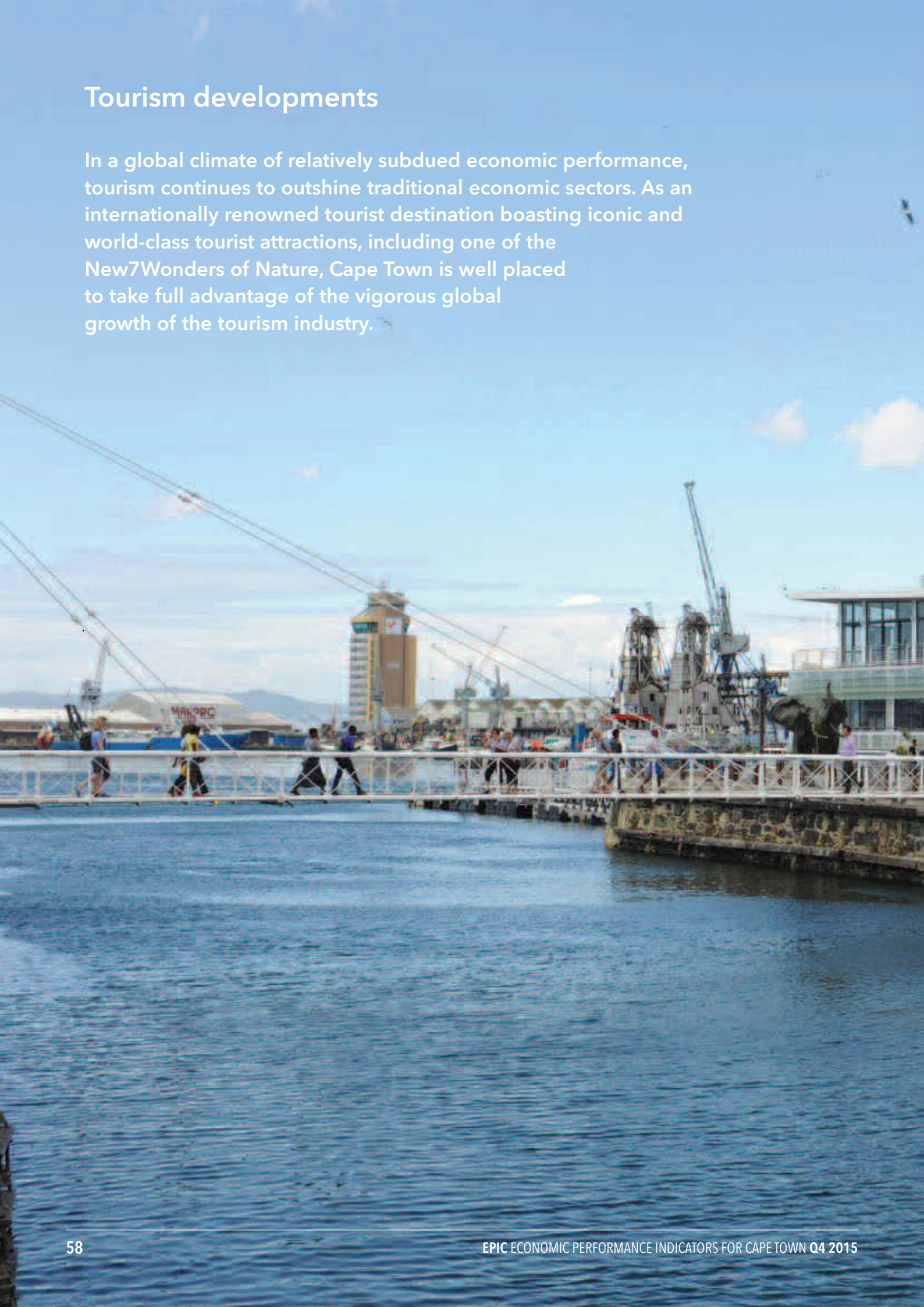
	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Actual	807 219	758 549	851 822	793 437	843 766	890 009	938 458	906 671	837 773	847 784	813 528	807 084
Baseline	1 026 946	994 593	1 077 083	1 055 258	1 141 362	1 173 158	1 210 047	1 224 122	1 123 118	1 125 074	1 106 550	1 061 854
2006/7	815 724	783 623	860 967	817 387	910 370	937 688	966 230	966 673	896 343	856 572	843 598	809 106
% Saving	21,4%	23,7%	20,9%	24,8%	26,1%	24,1%	22,4%	25,9%	25,4%	24,6%	26,5%	24,0%

Source: City of Cape Town 2016a.

15. The baseline is the amount of electricity the City makes provision for based on historical trends.

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.



10

INTERNATIONAL TOURISM DEVELOPMENTS

In terms of regional performance, growth in international arrivals in 2015 was marginally stronger for advanced country destinations than for emerging ones. This was driven by the continued strong growth of arrivals in Europe (5%), constituting 56,9% of global growth.

According to the United Nations World Tourism Organisation's (UNWTO) *World Tourism Barometer* for January 2015, a record 1 184 million global tourist arrivals were reported for 2015. This constituted 51 million new tourist arrivals (an increase of 4,4%) compared to 2014. It was the sixth consecutive year in which tourist arrivals grew by 4% or more, outpacing global economic growth during this time.

In terms of regional performance, growth in international arrivals in 2015 was marginally stronger for advanced country destinations than for emerging ones. This was driven by the continued strong growth of arrivals in Europe (5%), constituting 56,9% of global growth. Within Europe, arrivals growth was particularly strong in Central and Eastern Europe (6%) and Northern Europe (6%). Asia and the Pacific recorded a 5% increase, or 13 million additional tourists in 2015, led by Oceana (7%) and Southeast Asia (5%).

International arrivals to the Americas also grew by 5%, principally driven by the Caribbean and Central America (7%), which benefited from strong outbound tourism from the United States as a result of a strengthening dollar and improved economy. The Middle East consolidated its improved performance of 2014, posting an arrivals growth rate of 3%. In contrast, Africa recorded a 3% decline in tourist arrivals, with the beach resort attacks in North Africa weighing heavily on the arrivals growth figure (-8%) in that region. Sub-Saharan Africa, however, also recorded a decline in arrivals in 2015, although arrivals had picked up in the fourth quarter. This is likely to be reflective of the poor performance of South Africa's tourism industry in 2015.

China remained the world's leading source of tourist income in 2015, growing tourism receipts at a healthy double-digit rate. The United States and the United Kingdom both also strongly contributed to tourism expenditure in 2015 (with receipts growth of 9% and 6% respectively). In contrast a weakening currency and struggling economy in both Brazil and Russia resulted in a decline in tourism expenditure by these two countries.

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. In December 2015, 892 720 foreign tourists visited the country. Tourist arrivals decreased by 4,5% year on year for the period, with arrivals from Africa (South Africa's largest tourist source market) decreasing by 7,7%, while arrivals from the overseas market increased by 6,0%, reversing a number of months of decline. The growth in the overseas market in December can be attributed to the weakening of the rand and the easing of the onerous regulatory measures relating to visas. Weaker growth from Africa may continue to reflect concerns around xenophobia, following violence in the earlier part of 2015.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market and accounted for 151 794 tourist arrivals in December 2015, having grown by 2,9% year on year. Within the European region, the United Kingdom, Germany and the Netherlands were South Africa's largest source markets. While arrivals from the Netherlands slowed somewhat year on year (-1,2%) and arrivals growth from Germany was very sedate (0,7%), there was a 14,4% increase in tourist arrivals from the United Kingdom. The strong growth in tourists from the United Kingdom is largely due to the rand's gradual devaluation against the pound over the past year. The second largest overseas source market for South Africa in December 2015 was the United States, with tourist arrivals from that country increasing by 9,5%.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market and accounted for 151 794 tourist arrivals in December 2015, having grown by 2,9% year on year.

Tourist arrivals from emerging markets followed mixed trends. Tourist arrivals from Brazil declined by 14,0% year on year, perhaps as a result of the recession in the Brazilian economy. In contrast tourist arrivals from both Russia and China experienced notable growth (6,3% and 135,6%) respectively. While the Russian tourist arrival growth figures came off a low base

Table 7: International tourist arrivals in South Africa

Region	December 2015	December 2014	% change	% change Jan–Dec 2014 to Jan–Dec 2015
Europe	151 794	147 555	2,9%	-3,5%
Russia	930	875	6,3%	-30,4%
North America	35 114	32 640	7,6%	-4,4%
Central and South America	4 910	5 253	-6,5%	-22,7%
Brazil	3 032	3 525	-14,0%	-24,9%
Australasia	15 121	14 916	1,4%	-10,0%
Asia	22 805	17 020	34,0%	-6,7%
China	7 990	3 391	135,6%	2,2%
India	6 354	6 250	1,7%	-8,5%
Middle East	4 779	3 964	20,6%	1,4%
Overseas total	234 523	221 348	6,0%	-4,9%
Africa	657 287	711 769	-7,7%	-7,3%
Total	**892 720**	**934 699**	**-4,5%**	**-6,8%**

Source: South African Tourism, March 2016.

and translated to an increase of only 55 tourists, growth in the Chinese market was truly remarkable, translating into over 4 000 new arrivals. Chinese tourists were perhaps the most strongly impacted by South Africa's stricter visa regulations and the easing of these regulations certainly seems to have boosted tourist numbers from China. Despite the Indian economy growing strongly, tourist arrivals to South Africa only increased by 1,7%. This perhaps points to something of a missed opportunity and underscores the importance of South Africa's efforts to target tourists from emerging markets.

While overseas tourist arrivals grew relatively strongly in December, the annual figures for 2015 show a 4,9% reduction. These figures are out of sync with global tourist arrivals which grew at a very robust 4,4% in 2015, and while sub-Saharan Africa as a whole may have recorded a decline in arrivals, this is as much an outcome of South Africa's weak performance as it is any other exogenous factors. This points to specific domestic factors negatively impacting on tourist arrivals to South Africa in 2015. In this respect the impact that the more onerous visa regulations had on the tourist industry cannot be underestimated. The easing of some of these regulations and a weak exchange rate led to a bumper festive season in terms of tourist arrivals in December, especially in the Western Cape, and points to a much more upbeat forecast for 2016.

Chinese tourists were perhaps the most strongly impacted by South Africa's stricter visa regulations and the easing of these regulations certainly seems to have boosted tourist numbers from China.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourist accommodation in Cape Town

Accommodation spending typically constitutes the largest portion of total visitor spending at a destination and therefore 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 6 were derived from a survey of 74 tourism accommodation establishments in the Cape Town metro area.

Occupancy rates at city accommodation establishments increased by an average of 3,8 percentage points in the fourth quarter of 2015 compared to the fourth quarter of 2014. Occupancy rates increased year on year in each month in the fourth quarter with November, in particular, performing very well and recording an occupancy rate of 83,4% – 6,2 percentage points higher than at the same time in the previous year. The average room rate and revenue per room both saw increases of R125 and R144, respectively. Overall, tourist accommodation in Cape Town performed strongly in the fourth quarter of 2015.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in November were achieved by hotels (85,3%). All establishment types experienced occupancy increases, with bed-and-breakfast establishments having the highest occupancy rate increases (8,9%) and backpacker establishments the lowest (0,5%). Backpacker establishments did however experience the largest increase in revenue per room (29,5%), which suggests that price increases may have been responsible for relatively low occupancy growth. Spatially, the highest occupancy rates in the city in November were experienced in the northern suburbs (89,8%).

Occupancy rates increased year on year in each month in the fourth quarter with November, in particular, performing very well and recording an occupancy rate of 83,4% – 6,2 percentage points higher than at the same time in the previous year.

Table 8: Income derived from tourist accommodation – South Africa

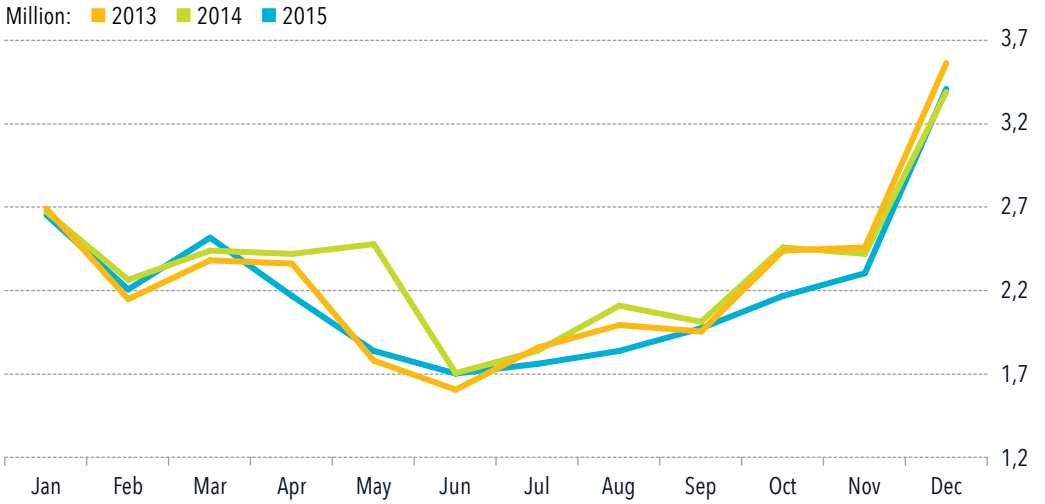
Indicator	October		November		December		Fourth-quarter average	
	2015	2014	2015	2014	2015	2014	2015	2014
Occupancy rate	66,1%	65,7%	83,4%	77,2%	73,6%	69,0%	74,4%	70,6%
Average room rate	R1 171	R1 068	R1 426	R1 345	R1 649	R1 456	R1 415	R1 290
Revenue per room	R774	R702	R1 189	R1 038	R1 214	R1 004	R1 059	R915

Source: Cape Town Tourism, December 2015.

Performance of Cape Town's top visitor attractions

In 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 42 indicates the cumulative number of visits by tourists to these attractions since January 2013. While all of them are open to everyone – resident or non-resident, domestic or international – they attract large proportions of tourists, and are used in this section as a proxy for tourism demand in Cape Town.

Figure 42: Total visits to Cape Town's major (top six) tourist destinations (2012 to 2015)



Source: Derived from Wesgro data, March 2016.

Table Mountain Aerial Cableway managed to record the second-highest visitor numbers for the fourth quarter of 2015, with 362 419 visits, while the Table Mountain National Park Cape of Good Hope section recorded the third-highest number of visits (300 259).

From figure 42, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality. The fourth quarter of 2015 recorded a 45,33% quarter-on-quarter increase in the number of visits to these attractions. This typifies the seasonal nature of tourism activity in Cape Town, as higher tourist volumes are experienced in the summer months of December to March, following low tourist numbers during the winter months preceding it. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, shows that the fourth quarter of 2015 yielded a 2,34% increase in visits compared to the corresponding period in 2014.

It is important to note, however, that the visitor attraction data are strongly skewed by the V&A Waterfront. The V&A contributed approximately 85% of the total number of visits to the six attractions analysed for the period under review. 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 is removed, the number of visits to the five attractions decreases to 1 291 381 in the fourth quarter of 2015, but representing a 10,12% year-on-year increase over 2014 figures. One of the reasons for this sharp year-on-year increase is that during the festive season in 2015 Cape Town's tourism industry experienced record-breaking figures.

Table 9: Ranking of the most-visited tourist attractions in Cape Town

Rank	Q4 2015	Q3 2015	Q4 2014	Year-on-year growth rate %
V&A Waterfront	7 174 918	5 127 242	7 100 002	1,06%
Table Mountain National Park: Cape of Good Hope	300 259	176 752	275 832	8,86%
Table Mountain National Park: Boulders Beach	227 233	125 224	207 906	9,30%
Table Mountain aerial cableway	362 419	147 987	289 967	24,99%
Kirstenbosch National Botanical Garden	283 054	178 988	299 373	-5,45%
Robben Island	118 416	69 528	99 649	18,83%
Total	8 466 299	5 825 721	8 272 729	2,34%
Total (excluding V&A Waterfront)	1 291 381	698 479	1 172 727	10,12%

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

Source: Wesgro, March 2016.

Most-visited tourist attractions

Table 9 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, Table Mountain Aerial Cableway managed to record the second-highest visitor numbers for the fourth quarter of 2015, with 362 419 visits, while the Table Mountain National Park Cape of Good Hope section recorded the third-highest number of visits (300 259).

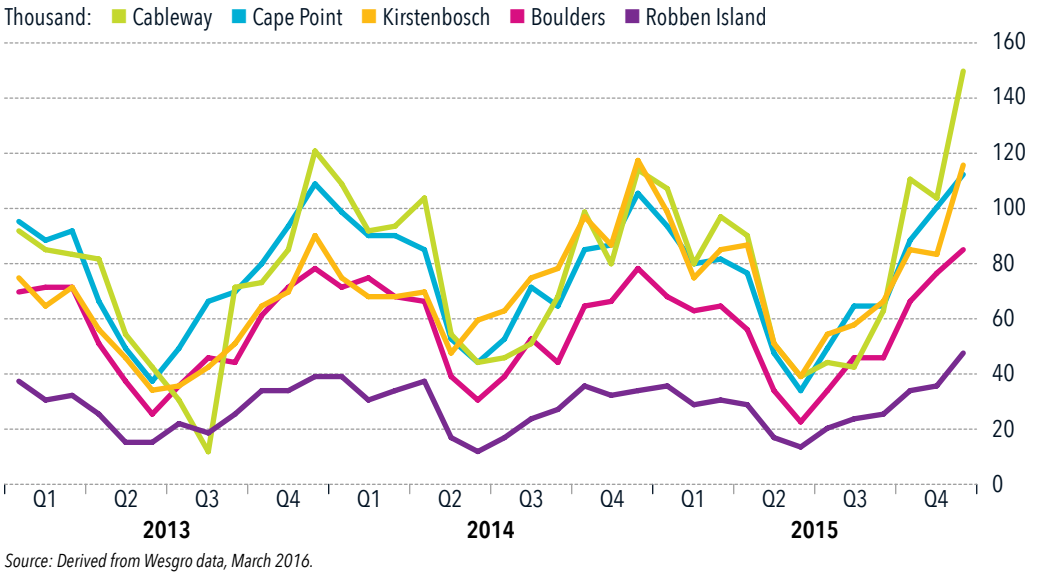
Overall, the city's tourism ended the year on a high with record-breaking performances reported for some of the six top attractions. All the attractions recorded a positive quarter-on-quarter growth rate as the Table Mountain Aerial Cableway improved by 214 432 to a total of 362 419 visits in the fourth quarter, having experienced low numbers of visits in the previous quarter. This is the result of more favourable weather conditions during the fourth quarter. On a year-on-year basis, Table Mountain Aerial Cableway recorded a visit growth rate of 24,99%. All attractions except for the Kirstenbosch National Botanical Garden (which declined by 5,45%) recorded an increase in the number of visits compared to the previous year. This decline in figures for the Kirstenbosch National Botanical Garden is based on the high figures reported in 2014 after the opening of the Boomslang aerial boardwalk. Visits to Robben Island continued to increase (18,83%) due to the improved ferry services. Boulders Beach and the Cape of Good Hope also experienced increases in the fourth quarter (9,30% and 8,86%, respectively).

The significant improvement in statistics in the fourth quarter can be attributed to a number of factors. These include the Cape Town Sevens at the beginning of December and the England vs SA cricket test match, which saw the city welcoming a number of English supporters. The local tourism sector enjoyed a further boost as international visitors took advantage of the weak rand.

All attractions are subject to strong seasonality, with peak visitor activity occurring in the period November to March. The lowest visitor numbers are seen during the period May to July, which are Cape Town's winter months. The fourth quarter of 2015 surpassed the fourth quarter of 2014, except for the Kirstenbosch National Botanical Garden which reported a decline in figures.

The significant improvement in statistics in the fourth quarter can be attributed to a number of factors. These include the Cape Town 7's at the beginning of December and the England vs SA cricket test match which saw the city welcoming a number of English supporters.

Figure 43: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Derived from Wesgro data, March 2016.

11

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 and passenger vehicle sales are two 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

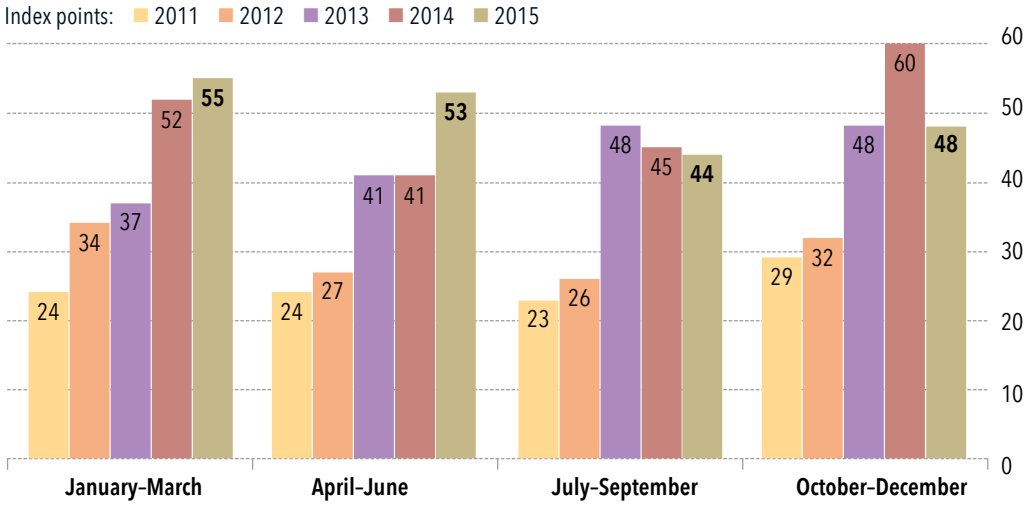
This section focuses on building developments recorded by the City of Cape Town for the fourth quarter of 2015. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, building plan submissions and building plans completed are key indicators of the level of economic development occurring within the city.

CONSTRUCTION INDUSTRY OVERVIEW

Chapter 4 showed that output in the national construction industry grew by 1,1% quarter on quarter in the fourth quarter of 2015. The industry recorded a year-on-year growth rate of 1,8%, making it the second-fastest-growing industry in South Africa on a year-on-year basis. The Western Cape construction industry performed similarly (1,2%) on a quarter-on-quarter basis but grew significantly more slowly (1,2%) on a year-on-year basis in the fourth quarter.

The First National Bank (FNB)/BER (2015b) composite building confidence index captures the percentage of architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions. The building confidence index rose from 44 points in the third quarter of 2015 to 48 points in the fourth quarter of 2015. However, confidence declined by 12 index points on a year-on-year basis.

Figure 44: Building confidence index (2011 to 2015)



Source: BER, 2016b.

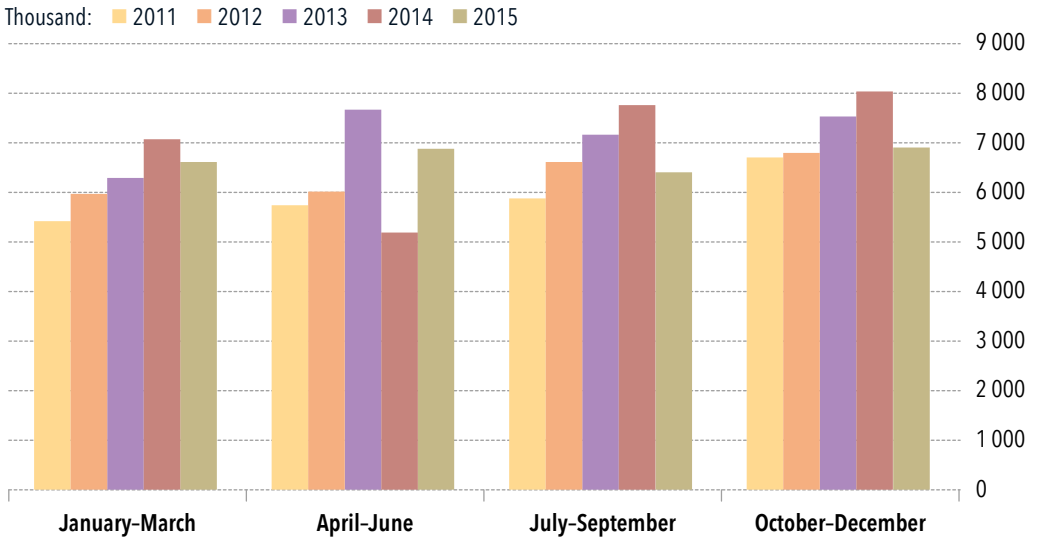
Chapter 4 showed that output in the national construction industry grew by 1,1% quarter on quarter in the fourth quarter of 2015. The industry recorded a year-on-year growth rate of 1,8%, making it the second-fastest-growing industry in South Africa on a year-on-year basis.

BUILDING PLAN APPLICATIONS IN CAPE TOWN

Building plans submitted in the fourth quarter of 2015 decreased by 14,29% compared to the corresponding period in 2014 and may be an outcome of the weak growth of the South African economy in 2015 and the (related) reduced confidence by the building sector compared to the same period in 2014.

Building plans submitted to the City of Cape Town in the fourth quarter of 2015 increased by 7,73% from the previous quarter. However, figure 4 provides an annual comparison of the number of building plans submitted in each of the quarters over the past four years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted in the fourth quarter of 2015 decreased by 14,29% compared to the corresponding period in 2014 and may be an outcome of the weak growth of the South African economy in 2015 and the (related) reduced confidence by the building sector compared to the same period in 2014.

Figure 45: Building plans submitted



Source: City of Cape Town, March 2016c.

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. Building plans completed represent actual construction activity, as opposed to building plans submitted, which represent 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.

Table 10: Building plans completed in the fourth quarter of 2015

	Cape Town		South Africa	
Measure	**Number/value**	**Year-on-year change**	**Number/value**	**Year-on-year change**
Building plans completed	4 774	14,07%	N/A	N/A
Value of building plans completed	R3 863 million	-9,49%	R16 439 million	-1,99%

Source: City of Cape Town, December 2015c; Stats SA 2016.

Table 10 compares the number of completed building plans in Cape Town in the fourth quarter of 2015 to the number of completed building plans in South Africa over the same period. The figures for both Cape Town and the country reflect a downward trend in terms of value.

The value of building plans completed in Cape Town in the fourth quarter amounted to R3,8 billion, which accounted for 23,52% of the total value (R16,4 billion) of building plans completed in South Africa's larger municipalities. In the fourth quarter, Cape Town recorded a year-on-year decrease of 9,49% in the value of building plans completed while South Africa recorded a year-on-year decrease of 1,99%. The decrease in the value of building plans completed in Cape Town was driven by non-residential building plans, which decreased by 39%, while all other categories increased; residential building plans by 11%, minor works by 51%, and additions and alterations by 59%.

NEW VEHICLE SALES

This section will track 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.

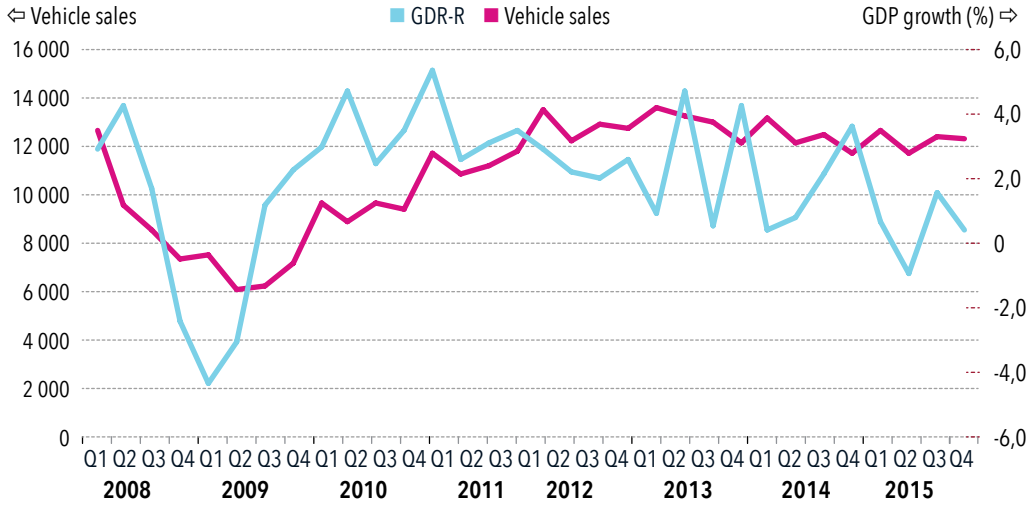
In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). The total vehicle sales in the Western Cape decreased from 18 260 vehicles sold in the third quarter of 2015 to 18 106 in the fourth quarter. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw an increase of 807 from the 17 299 total vehicle sales in the corresponding period in 2014; this year-on-year increase is nearly double that experienced in the previous quarter (417). Passenger vehicle sales, which are the private consumer segment of the market, decreased from 12 436 in the third quarter of 2015 to 12 308 in the fourth quarter of 2015 for the Western Cape. Year-on-year results saw an increase of 565 vehicles (4,8%) from the 11 743 passenger vehicles sold in the corresponding period in 2014. This indicates a possible turnaround for the sector as it has been experiencing negative year-on-year sales since the fourth quarter of 2013. Nationally there was a 6,3% decrease in the number of passenger vehicles sold in the fourth quarter of 2015 compared to the corresponding period in 2014. The year-on-year increase in vehicle sales in the Western Cape during the fourth quarter is seemingly at odds with the prevailing macroeconomic conditions in the country, which include low levels of consumer confidence and increasing interest rates. This is perhaps indicative of stronger economic growth in the Western Cape and a more upbeat view among consumers and businesses.

Figure 46 plots the total passenger vehicle sales per quarter alongside the regional gross domestic product (GDP-R) for the Western Cape. The South African Reserve Bank (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 46 which indicator leads which and it would appear that a more direct relationship has emerged in the last three quarters. 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 working on a composite leading indicator for GDP growth, which will analyse these relationships in more detail.

Passenger vehicle sales, which are the private consumer segment of the market, decreased from 12 436 in the third quarter of 2015 to 12 308 in the fourth quarter of 2015 for the Western Cape.

Figure 46: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 4, 2015)



Source: NAAMSA, March 2016.

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LIST OF ABBREVIATIONS

ACSA	Airports Company South Africa
BER	Bureau of Economic Research
BRICS	Brazil, Russia, India, China and South Africa
CPI	consumer price index
FDI	foreign direct investment
GDP	gross domestic product
GDP-R	regional gross domestic product
GGP	gross geographic product
GHS	General Household Survey
GVA	gross value added
HDI	human development index
IMF	International Monetary Fund
MPC	Monetary Policy Committee
NAAMSA	National Association of Automobile Manufacturers of South Africa
NDP	National Development Plan
NPA	National Ports Authority
OPEC	Organisation of the Petroleum Exporting Countries
PMI	(Barclays) Purchasing Managers' Index
PPI	producer price index
QLFS	Quarterly Labour Force Survey
SARB	South African Reserve Bank
SIC	standard industrial classification codes
Stats SA	Statistics South Africa
UK	United Kingdom
UNWTO	United Nations World Tourism Organisation
US	United States

CITY OF CAPE TOWN
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