Western Cape Government
Provincial Treasury

Provincial Economic Review and Outlook
2017

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About the Provincial Economic Review and Outlook

The Western Cape Provincial Economic Review and Outlook (abbreviated PERO) is an annual research publication produced by the Provincial Treasury of the Western Cape Government aimed at informing policymakers, departments and municipalities on key economic issues that will impact policy, planning and budgeting. The first PERO was published in 2005.

The PERO is a form of economic intelligence which provides an objective review and analysis of past and forecasted economic variables. It explores the relationship between the provincial economy and national economy as well as the global economy in terms of our major trading partners; the trends in provincial economic growth within the spatial context; the performance of its industries and their value chains, the drivers and constraints that affect the domestic and export production of these industries; labour force dynamics, particularly the demand side; and labour market dynamics and socio-economic developments of the Western Cape economy. The PERO provides the research at an aggregate provincial level and a spatial focus at a municipal district level.

The Western Cape Government is committed to alleviating poverty, improving welfare and growing the provincial economy whilst enabling an environment conducive to employment creation through appropriate policy initiatives. For policy targeting, growth and development to be effective it requires an improved understanding of the real economy, in particular of sector and industry activity, their prospects and the constraints they face. The evidence-based approach supports good governance, financial sustainability, economic sustainability and facilitates the creation of public value.

The PERO provides evidence-based research for the Western Cape by presenting an expectation of how well the provincial economy will perform over the medium term. As such, the PERO informs and guides the provincial planning and budget policy formulation of the Western Cape Government.

Foreword

The 2017 Provincial Economic Review and Outlook (PERO) appraises recent economic developments and presents insights into opportunities to enhance the Western Cape economy amid the restrained economic outlook. The 2017 PERO, in conjunction with the 2017 Municipal Economic Review and Outlook (MERO), which reflects on the economic development issues taking a spatial focus at a district level and municipal level, further complements and strengthens the approach to evidence-based practices, provincial and municipal policy formulation, alignment, integrated planning and budgeting.

Despite improvements in the global economic environment, South Africa's economic performance remains weak. While the risks facing the international and national economy impact on the Western Cape economy, capitalising on the region's strengths and economic opportunities, within key sectors such as the agri-processing, tourism, ICT sectors, supported by improved business confidence, remain key to enhancing growth in the Province.

While some improvement in socio-economic conditions are evident, faster and more inclusive economic growth is essential to increase employment and reducing social ills. The impact of climate change, which is likely to be long term in nature, are also being experienced and the Province finds itself in a severe water crisis. This will require new and innovative ways to deal with water resource management in the Western Cape as it directly impacts on potential economic opportunities.

The Western Cape Government continues to focus on initiatives that are responsive to the current economic and socio-economic challenges and therefore focuses on outcomes related to increasing growth and jobs, improving education and health, investment in public infrastructure and spatial economic development. The research informs key strategic planning and budgeting, in an integrated manner, within and across the spheres of government, to improve Governments' collective impact for inclusive economic growth.

I wish to express my sincere word of appreciation to my Cabinet colleagues, staff at the Provincial Treasury, provincial departments, municipalities and the research teams for their valuable contributions. These will guide the Western Cape Government in responding to various challenges faced by the Province and enable us to take advantage of the opportunities presented in this research.

Dr Ivan Meyer
Minister of Finance
29 September 2017

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Acronyms

ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
API	Agri-Processing Index
ART	Anti-Retroviral Treatment
BER	Bureau for Economic Research
BoE	Bank of England
BPO	Business Process Outsourcing
BRICS	Brazil, Russia, India, China and South Africa
CCO	Contact Centre Outsourcing
CPI	Consumer Price Index
CSP	Community, Social and Personal Services
ECB	European Central Bank
EU	European Union
Fed	Federal Reserve Bank
FOMC	Federal Open Market Committee
FPL	Food Poverty Line
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GTL	Gas-to-Liquids
GVA	Gross Value Added
HDI	Human Development Index
HIV	Human Immune Virus
ICT	Information and Communication Technology
ILO	International Labour Organization
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LBPL	Lower Bound Poverty Line
LFPR	Labour Force Participation Rate
LMDS	Labour Market Dynamic Survey
MDR	Multiple Drug Resistant
MERO	Municipal Economic Review and Outlook

MPC	Monetary Policy Committee
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NEET	Not in Education, Employment or Training
NSC	National Senior Certificate
OSSB	Offshore supply base
PBoC	People's Bank of China
PCFI	Public Corporation Fixed Investment
PERO	Provincial Economic Review and Outlook
PMI	Purchasing Managers Index
PNP	Policing Needs and Priorities
PSDF	Provincial Spatial Development Framework
PSG	Provincial Strategic Goal
PSP	Provincial Strategic Plan
PWC	PricewaterhouseCoopers
QES	Quarterly Employment Statistics
QLFS	Quarterly Labour Force Survey
RCTA	Revealed comparative trade advantages
RDP	Reconstruction and Development Programme
RMB/BER	Rand Merchant Bank/Bureau for Economic Research
R/USD	Rand to United States Dollar
SA	South Africa
SADC	Southern African Development Community
SAMPI	South African Multidimensional Poverty Index
SAPS	South African Police Service
SARB	South African Reserve Bank
SIC	Standard Industrial Classification
SOE	State-Owned Enterprises
SPI	Social Progress Index
Stats SA	Statistics South Africa

TDCA	Trade Development and Cooperation Agreement
TB	Tuberculosis
TDR	Total Drug Resistant
TNPA	Transnet National Ports Authority
UBPL	Upper Bound Poverty Line
UIF	Unemployment Insurance Fund
UK	United Kingdom
UNDP	United Nations Development Programme
US	United States
WCG	Western Cape Government
WCWSS	Western Cape Water Supply System
XDR	Extreme Drug Resistant

1

Introduction and executive summary

1.1 Background

The Western Cape Provincial Economic Review and Outlook (PERO) serves as economic intelligence which informs policymakers, departments and municipalities about key economic issues that will impact planning, policy-making and budgeting. The PERO enables the Western Cape Government to engage in evidence-based planning and budgeting practices. It supports good governance, financial and economic sustainability, and facilitates the creation of public value. The 2017 PERO provides a review and analysis of macroeconomic trends, priority and key development sectors, labour market dynamics and socio-economic factors. The PERO also focuses on specific economic opportunities to enhance and transform the regional economy.

The report highlights areas of comparative and competitive advantage which can be strengthened by a holistic approach to economic development in the Province. It supports the policy and planning process through an Integrated Management approach which includes national, provincial and municipal spheres of government.

Integrated Management drives joint planning and implementation amongst the three spheres of government. It aims to support coordination, collaboration and coherence across Western Cape Government (WCG) departments, between the WCG and municipalities, across municipalities, and with the national organs of state operating within the Western Cape. This integrated approach, realises the economic development potential of each locality and region. It is enhanced by applying a spatial logic to planning and investment.

The PERO focuses on an aggregate provincial review and its spatial disaggregation to a district level. The Municipal Economic Review and Outlook (MERO), its companion report, provides a comprehensive overview of the recent economic performance and outlook for the Western Cape economy at district and municipal levels. These authorities obtain economic and socio-economic intelligence from it for evidence-based decision-making, planning and budgeting at all levels of government and the private sector.

The analyses in the PERO is based on the latest data from Statistics South Africa, Quantec, Bureau for Economic Research (University of Stellenbosch), Development Policy Research Unit (University of Cape Town), and other relevant data sources, including data provided by WCG departments and entities.

1.1.1 Policy and institutional initiatives

The National Development Plan (NDP) 2030, launched in 2012, provides a detailed blueprint for socio-economic transformation. It presents a strategic plan for eliminating poverty and reducing inequality by 2030. The NDP calls for a fast-growing economy and the removal of structural impediments with the objective of sustainable increases in employment.

The Provincial Strategic Plan (PSP) 2014 - 2019 is closely aligned with the NDP and the Medium Term Strategic Framework 2014 - 2019 (the national implementation framework for the NDP). As with the NDP, the overriding objective of the WCG's PSP is to progressively reduce poverty through a virtuous cycle of growth, employment and development.

The WCG has identified five Provincial Strategic Goals (PSGs) to deliver on its vision and to help realise the objectives of the NDP. These five PSGs include:

- Provincial Strategic Goal 1: Create opportunities for growth and jobs;
- Provincial Strategic Goal 2: Improve education outcomes and opportunities for youth development;
- Provincial Strategic Goal 3: Increase wellness and safety and tackle social ills;
- Provincial Strategic Goal 4: Enable a resilient, sustainable, quality and inclusive living environment; and
- Provincial Strategic Goal 5: Embed good governance and integrated service delivery through partnerships and spatial alignment.

In addition, several "Game Changers" have been prioritised to catalyse the implementation of the PSGs. These Game Changers include Energy Security, Apprenticeships, Alcohol Harms Reduction, Better Living Model, eLearning, After Schools Programme and Broadband.

The national and provincial policy framework is set within the global policy context. In 2015, the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) were adopted. The SDGs builds on the Millennium Development Goals and seeks to complete what could not be achieved previously, specifically in reaching the most vulnerable.

These goals continue the focus on development priorities such as poverty eradication, health, education, food security and nutrition, but also set out a range of economic, social and environmental objectives. New goals reflect dynamics in the global environment, for example sustainable industrialisation, access to energy, justice and equality. The SDGs are universal in nature and therefore applies equally to the developed and developing world.

The United Nation's Sustainable Development Goals

The Sustainable Development Goals are a universal call to action to end poverty, to protect the environment and to ensure that all people enjoy peace and prosperity.

Goal 1:	End Poverty	Goal 2:	End Hunger
Goal 3:	Well-being	Goal 4:	Quality Education
Goal 5:	Gender Equality	Goal 6:	Water and Sanitation for All
Goal 7:	Affordable and Sustainable Energy	Goal 8:	Decent Work for All
Goal 9:	Technology to Benefit All	Goal 10:	Reduce Inequality
Goal 11:	Safe Cities and Communities	Goal 12:	Responsible Consumption by All
Goal 13:	Stop Climate Change	Goal 14:	Protect the Ocean
Goal 15:	Take Care of the Earth	Goal 16:	Live in Peace
Goal 17:	Mechanisms and Partnerships to reach the Goals		

Source: United Nations, 2016

1.2 Executive summary

1.2.1 Macroeconomic performance and outlook

The cautious optimism expressed in the 2016 PERO of slightly higher growth in 2016 in advanced economies did not materialise as economic output moderated for that year. Growth in emerging and developing economies remained unchanged with the result that global economic growth slowed to 3.2 per cent in 2016. The outlook for 2017 is more optimistic: Global growth in the second half of 2016 was higher than the first half and continued to improve in the first two quarters of 2017. The more optimistic economic outlook for the global economy in 2017 and 2018 is the result of a firming growth outlook for the US, Europe and some other developed economies (notably Canada), rather than emerging and developing economies as in previous years.

China's continued efforts at 'rebalancing' its economy to growth stemming from internal demand, and the moderation of outlook (or even recession) in the other emerging market economies resulted in continued steady economic performance. Even Sub-Saharan Africa no longer outperformed its emerging and developing economy peers with growth of only 1.3 per cent in 2016 from 3.4 per cent in 2015.

The IMF outlook for Sub-Saharan Africa is for economic output to rebound to 2.7 per cent in 2017, increasing further to 3.5 per cent 2018, despite expectations that growth in Nigeria will remain sluggish on the back of depressed commodity prices. This outlook - the outlook for the global economy - is buoyed by moderate risk expectations, including higher than anticipated growth in the Euro Area and the gradual 'normalisation' of monetary policy in advanced economies, in spite of the uncertainty around the impact of Brexit.

Economic activity in South Africa slowed even further from the 1.3 per cent growth in 2015 to 0.3 per cent in 2016. The domestic factors impacting on growth included continued political uncertainty and tepid business and consumer confidence. Although South Africa entered a technical recession in the first quarter of 2017 (its first in eight years), quarter-on-quarter growth of 2.5 per cent (from a low base) in the second quarter of 2017 may give hope that the country has turned the corner. After a drought-related decline in the previous year, agriculture led the recovery with an increase of 33.6 per cent (from a low base) in the second quarter. This was supported by GDP growth in mining and trade and especially finance. Even manufacturing showed modest growth after a worrying decline in previous quarters.

Although the South African economy expanded in the second quarter of 2017, it may not be enough to change the generally restrained outlook for the economy. A modest recovery is projected with a marginal expansion of around 1 per cent in 2018. Downside risks to even this modest expectation include political actions that could accelerate downgrades of South Africa's credit ratings; a large sell-off in foreign holdings of South African bonds; and lower business and consumer confidence.

While the Western Cape performs relatively well compared to the other provinces, the pace of growth in 2016 is less than a third of what it was in 2007 before the start of the global financial recession. The provincial economy grew in step with the national economy in 2016, but there are indications that the gap will be more pronounced, albeit less so than before.

The Province's economy is more services-orientated and is less exposed to the mining sector and the volatility associated with it. Yet, the relative importance of agriculture and agri-processing for exports from the Province infuses volatility into the provincial economy, especially given the uncertainty brought about by climatic changes and the water crisis prevailing in the Province. With manufacturing output growth expected to remain lacklustre, growth in the Western Cape is predicted to moderate to 0.5 per cent in 2017 before recovering to 1 per cent in 2018. This is well below its long-term average in spite of the recovery of agriculture in 2017.

The Western Cape cannot detach itself from the risks facing the global and national economy. However, certain risks such as those related to climate change may have a greater impact on the Western Cape than the rest of South Africa. Conversely, there is upside potential from a higher than anticipated growth in the Euro Area and the relative services orientated economy of the Western Cape which will benefit consumer spending in the Province should there be a further decline in inflation.

1.2.2 Development of the Western Cape economic sectors

The Regional Gross Domestic Product (GDPR) growth in the Western Cape has slowed in line with the national economy over the past five-year period. The moderation is mainly driven by slower growth in the services sector, although muted growth was exacerbated by the impact of the drought on agriculture. Over the longer term, the services sector has been increasing its share of the provincial economy, mainly at the expense of a smaller secondary sector.

The decline in the contribution of the Western Cape's secondary industry stems mainly from the manufacturing sector. This decline, to a share of 15 per cent, is due to significantly slower growth in the manufacturing sector which was hampered by rising competition from imports. This came on the back of higher local cost pressures stemming mainly from increased electricity tariffs and wage increases outstripping productivity improvements.

Within manufacturing, the food, beverages and tobacco subsector - a key part of the Province's broader agri-processing value chain, remains the largest, although its contribution to manufacturing output has declined over the past twenty years. Its declining share was taken up mainly by the expansion of the petroleum products, chemicals, rubber and plastic subsector. The agriculture sector, specifically the commercial poultry sector has recently been affected by the highly pathogenic Avian Influenza. A number of measures have since been implemented to prevent the further spread of the disease and to avoid further negative effects on production, employment and market access.

More recently, the transport equipment subsector was, on average, the fastest growing manufacturing subsector. Making up only 7 per cent of manufacturing output in 2015, the subsector contributed about a quarter of the overall value added in the industry over the last five years.

The City of Cape Town remains the economic hub of the Western Cape, contributing around 72 per cent to the total provincial economy. As in most other districts in 2015, the largest contribution to economic growth (68.1 per cent) in the City came from finance, insurance, real estate and business services. Generally, in the Western Cape, agriculture, forestry and fishing recorded negative growth in recent times and over the past decade. This is disconcerting given the important role of the sector in providing employment opportunities for lower skilled labour in rural districts.

The Western Cape experienced a high average export growth rate (13 per cent) over the past decade. Africa overtook Europe as the leading destination for the Province's exports in 2014 and was still the leading destination in 2016. Exports to Africa were mainly destined to other Southern African Customs Union (SACU) members. SACU and the European Union combined account for almost half the Province's exports.

In the Province, the biggest export sector is food, beverages and tobacco which accounted for almost a quarter of exports in 2016. Many of its subsectors constitute the agri-processing value-chain in which the Western Cape has managed, over many years, to maintain a significant comparative advantage. This sector is playing an important role in the Province's growing exports to Africa. Most of the exports from the Province originate in the City of Cape Town and Cape Winelands.

The Western Cape agriculture and agri-processing export sectors - as well as construction and tourism - are at risk from the severe water supply crisis, both directly and through their supply chains. A water shortage has the potential to severely impact on business reputation for reliability and quality, particularly for the export market. Financial risk is emerging as a concern with increasing water tariffs resulting in higher costs for companies and a potential loss of competitiveness. The water crisis, felt across the Western Cape districts, necessitates a longer term move towards measures of water efficiency and interventions to address the existing challenges related to the water supply. Extensive support is therefore being offered by the Province and the City of Cape Town to water sector businesses to enable them to service the demand for water efficiency and supply augmentation products and services. Amid the water crisis, energy security remains a long-term challenge and continues to pose a risk to the economy. Diversifying the energy mix in South Africa therefore remains at the forefront of the economic agenda.

The oil, gas and marine services industry was significantly affected by global trends. In 2015, the rig repair subsector suffered a severe slowdown in response to the weaker oil price and curtailment of crude activity globally and off the African coast. However, Project Khulisa which focuses on productive and enabling sectors and/or have the potential to be catalytic in growing the Western Cape's economy, has driven other initiatives to boost the oil, gas and marine services sector, the most significant being the development of the Saldanha Industrial Development Zone (SBIDZ).

Another provincial initiative to promote Western Cape exports is the development of a halal-relevant food and agri-business subsector targeting the global halal food and product market. The Halal Value Chain Study recognises that Western Cape's most significant opportunity lies in manufactured food products.

Tourism remains an important economic and social activity in the Western Cape. The Province's tourism sector has shown resilience in recent years, despite many challenges, particularly those related to visa regulations. International arrivals continue to grow strongly and contribute to job creation.

Within the digital economy, the offshore business process outsourcing (BPO) industry in the Western Cape presents a significant opportunity for economic growth and employment. The potential of the sector is demonstrated by its substantial growth at both a global and local level. From 2012 to 2016, employment in the Western Cape BPO sector grew at an average annual rate of 84 per cent culminating in 20 500 jobs in 2016. The recent rapid growth has placed additional pressure on the skills pipeline.

1.2.3 Labour market dynamics

The Western Cape's estimated population in 2017 is 6.51 million. Working-age cohorts account for 68.5 per cent of the provincial population. The lower level of dependence on this working-age population compared to South Africa generally, means that the average household in the Western Cape has potentially more resources to spend on the subsistence, healthcare and education of its non-working members. The extent to which this can happen depends on employment and wage rates.

Estimated employment was just under 2.4 million in the Western Cape during the first quarter of 2017, with a 2.7 per cent employment growth per annum over the last five years, implying an employment-to-population ratio of 54.2 per cent in the Province compared to 43.7 per cent in South Africa. For the second quarter of 2017, employment reached 2.4 million, with a 3.0 per cent growth over the period. The bulk of employment growth remains concentrated amongst those between the ages of 25 and 44 years; this group accounts for 55.7 per cent of net new jobs in the Province over the last five years. Employment growth trends continue to favour individuals with higher levels of education. The familiar gender dynamic of males experiencing better labour market outcomes also prevailed.

Community, social and personal services, which includes government, is the largest industry in terms of employment, accounting for 20.7 per cent of formal sector employment followed by financial and business services and wholesale and retail trade which each account for 17.8 per cent. These three industries comprise 56.3 per cent of all formal sector jobs in the Province.

In the Western Cape, growth in employment over the last five years has been underpinned by both the non-agricultural formal sector (41.5 per cent of net new jobs) and the agricultural formal sector (22.1 per cent). The agriculture subsector recorded the fastest growth in employment of 4.9 per cent per year over this period. The second-fastest average growth rate in employment was in the general government subsector with an increase of 3.8 per cent. About 62.2 per cent of formal sector workers are employed in the tertiary sector (services and trade), making the sector the Province's biggest employer. Long-term trends have favoured more highly skilled workers over their less skilled counterparts within formal sector employment in the Western Cape.

Generally, formal sector workers in the Western Cape enjoy more secure forms of employment and more benefits than is the case nationally. Permanent contracts are the most common type of employment contract within the formal sector and are slightly more widespread in the Western Cape than in the country overall. Across a range of benefits, formal sector workers in the Western Cape enjoy a relatively favourable position. It is therefore not surprising that only 26.5 per cent of the employed in the Province in 2015 earn less than R2 501 per month compared with 35.8 per cent nationally.

The combined effect of the above-mentioned factors is that in the Western Cape the unemployment rate is estimated at 21.5 per cent (according to the narrow definition of unemployment) compared to 27.7 per cent for South Africa. For the second quarter of 2017, the unemployment rate in the Western Cape decreased further to 20.7 per cent. The consequence is that the average unemployed member of a household has potentially 0.96 employed members who can provide indirect access to labour market earnings, while in South Africa it is 0.77.

There are relatively few unemployed individuals in the Province who are not actively seeking employment (i.e. discouraged workseekers). However, this number has increased by 19.5 per cent per annum from 64 000 in 2012 to 155 000 in 2017. In contrast with the average unemployment rate in the Western Cape, 15 to 24 year olds in the labour force were twice as likely (41.4 per cent) to be unemployed. Educational attainment has a significant impact on the employment prospects of youth: the rate of unemployment falls as the level of education rises above the secondary level.

The Western Cape stands out amongst most developing regions with only 11.6 per cent of total employment in the informal sector. The informal sector workers in the Province also expressed a significantly higher degree of job satisfaction than in the rest of the country. The rate of job satisfaction for all Western Cape employees in 2017 is 87.3 per cent. Formal sector employed is 89.9 per cent in the Western Cape compared to 77.5 per cent nationally.

In 2017, 63.9 per cent of the provincial population is located within the City of Cape Town, while 31.5 per cent are located in other urban areas within the Province and 4.6 per cent are located in rural areas. This means that a similar spatial distribution is found for the working-age population, the employed and the unemployed. The narrow unemployment rate is somewhat higher in the City of Cape Town and lower in rural Western Cape due to the City being more attractive to workseekers from within and outside the Western Cape. Although the City of Cape Town is home to a large proportion of these unemployed, it does mean that employers there have ready access to a relatively large pool of labour. Workseekers in the City are also less likely to become discouraged. Of the Western Cape's non-searching unemployed, only 40.5 per cent are located in the City of Cape Town itself, with the majority (53.0 per cent) located in the rest of the Province's urban areas.

1.2.4 Socio-economic developments in the Western Cape

Due to the interrelation between economic growth and socio-economic development, the current constrained economic environment may have a negative impact on existing socio-economic conditions. The proportion of households in the Province who fall below the poverty line - and thus considered to be poor - increased after 2011. The slow and protracted economic recovery after 2008 resulted in income inequality increasing across all districts. In contrast, the Human Development Index (HDI) improved across all districts of the Western Cape. Considering that the HDI is a composite index made up of measures such as life expectancy, literacy and income, the increase in the HDI could be attributed mostly to the increase in government expenditure within the social cluster, specifically within health and education.

The Western Cape education context is characterised by increasing learner enrolment, improvements in the National Senior Certificate pass rates - including mathematics and physical science - and positive 2016 mathematics systemic test results, with language pass rates more varied. The Western Cape achieved a matric pass rate of 86 per cent in 2016, with 40.9 per cent of these learners achieving a Bachelor's pass which allows entry into a Bachelor's degree study programme.

The health status of a population is an important indicator of whether economic growth resulted in inclusive human development. Life expectancy has been increasing in the Western Cape and there have been improvements in child and maternal mortality rates too. The number of people tested for HIV and initiated on anti-retroviral treatment (ART) continues to follow an upward trend in the Province. There has been improvement in the treatment of multiple drug resistant TB cases in the Western Cape, although it still has one of the highest tuberculosis (TB) infection rates in South Africa.

Human development improvements are also dependent on housing and municipal services. The proportion of informal housing in the Western Cape remained relatively stable at an estimated 18 per cent of total housing. Almost a third of the households in the Province lived in RDP homes in 2016, higher than the national average of 23 per cent. This was driven by the availability of housing opportunities in the Province since 2004/05.

Municipal services have also made a huge contribution to improvement of the quality of life. Access to municipal services remains high in the Western Cape relative to other provinces, and well above the national average. Satisfaction with both water quality and electricity supply were highest in the Province.

1.3 Policy implications

The 2017 PERO research builds on the previous publications and research implications, particularly by identifying areas of economic opportunity for the Western Cape based on the global and national outlook and province-specific characteristics and through extending the focus on inclusive growth.

Despite some improvements in the global economic environment, South Africa's economic performance remains weak. Amid the continuing constrained national economic environment, the global economy presents a positive outlook which highlights areas of potential positives for the Western Cape. There is upside potential from higher than anticipated growth in the Euro Area and the relative services orientation of the Western Cape which will benefit consumer spending in the Province, should there be a further decline in inflation. An economic approach which includes capitalising on strengths, focusing on driving economic opportunities - for example within the manufacturing, export, agri-processing, tourism, ICT sectors - and instilling business confidence remains key to enhancing growth in the Province. It should also consider major economic development initiatives undertaken by the South African Government which has an impact on the Western Cape regional economy namely

Operation Phakisa, the Industrial Development Zones (IDZ) program, the Special Economic Zones (SEZ) and the Agri-Park Programme.

The impact of the water crisis on the Western Cape economy is likely to be significant, both directly on businesses and through their supply chains. The Western Cape agriculture and agri-processing export sectors - as well as construction and tourism - are at risk from the severe water crisis. The potential impact on business reputation for reliability and quality, particularly in the export market, could be severe. Furthermore, reducing water consumption and increasing own water supply augmentation and storage are likely to remain policy challenges in the Province. It is therefore important that the provincial response to the water crisis is well coordinated taking into account the potential economic implications and sustainable growth considerations.

The proportion of the population in the Province who fall below the poverty line increased while economic recovery after 2009 was slow and resulted in a rise in income inequality across all districts. For growth to be optimally inclusive, labour market dynamics must become a much stronger driver of inclusivity in the Province. Therefore, policies that positively impact on the ability of the working age population to engage in and contribute to the economy will maximise inclusive growth outcomes.

Population and economic activity is concentrated within the City of Cape Town and urban areas within the Province and hence a spatial focus remains key. A large and open regional economy like the Western Cape is not only exposed to competition, but is also under pressure to provide services to people in search of opportunities. Therefore, municipal areas in collaboration with the Province should continuously strive to diversify their economies to gain the most benefit from value chains.

Investment in infrastructure remains critical for the creation of an enabling environment for growth. Infrastructure investment and infrastructure-led growth provides an effective mechanism to support socio-economic transformation and contributes to building economic resilience. Public investment in bulk infrastructure, roads and electrification boost economic growth by crowding in private sector investments as well as providing a solid foundation for social development. Repairs and maintenance is critical to ensure longevity of infrastructure, specifically water-related infrastructure to minimise water losses (in light of the current drought). Due to low economic growth, municipal revenues will be under increased pressure, which means municipalities will have to find the optimal balance between the appropriate basket of services and affordability.

The provincial policy, planning and budgeting process aims to stimulate inclusive growth and foster socio-economic development within the Province. However, given the key provincial risks related to energy security, the current drought, food security and lately the Avian Influenza epidemic risk within the poultry industry, there is a need to reinvigorate and strengthen economic policies to enhance the economy.

The growing provincial population coupled with muted economic conditions, will increase demand for public services such as education and healthcare.

Despite the improvements in socio-economic conditions, social ills, such as crime and substance abuse, remain a challenge. Faster and more inclusive economic growth is essential if these social ills are to be reduced.

1.4 Inclusive growth

1.4.1 The concept of inclusive growth

The concept of inclusive growth emerged from a decades-long debate about the definition and policy implications of growth targeted at addressing inequality. In the literature the concept is continuing to evolve, as is the application thereof. The key focus of inclusive growth, as outlined in the 2015 PERO, is to ensure that all members of society - particularly the poor and vulnerable - have access to not only the benefits of economic growth and development, but also the productive opportunities and markets that bring it about.

The 2016 PERO drew attention to a recent development in the evolution of the concept, namely the 'role of the entrepreneurial state in inclusive growth'. The 2017 PERO throws the spotlight on innovation as an essential ingredient of inclusive growth: without a conscious and deliberate infusion of inclusivity into the innovation process it might not be inclusive.

It is argued[1] that for economic growth to be sustainable at a high enough rate for it to achieve permanent inclusive growth, the growth must be smart. This refers to growth fuelled by innovation focused on improving the performance and quality of education outcomes, strengthening research and promoting innovation and knowledge transfer in a digital society. This is especially important for an economy faced with multiple social challenges and critically dependent on remaining economically competitive in a global world. The Western Cape is such an economy. Only through constant innovation can an economy continue to increase productivity and competitiveness, and thereby raise incomes for all, especially the bottom 40 per cent of society. Some writers refer to this idea as 'inclusive innovation'. Not only must innovation lead to accelerated growth, it must also increase inclusivity. In the next section we briefly review how the Western Cape has fared in this regard.

1.4.2 Inclusive growth in the Western Cape

Inclusive growth is about how to unlock new sources of productive employment and how to translate economic growth into broad-based progress in living standards, and not primarily about the development outcomes of economic growth. Nevertheless, these outcomes provide a useful starting point for a review of inclusive growth in the Western Cape.

[1] See, for example: Farinha, L.M., Ferreira, J.J.dM., Gouveia, J.J.B. (2014); George, G., McGahan, A.M., Prabhu, J. (2012); Schillo, R.S., Robinson, R.M. (2017).

Poverty provides a direct, but narrow, indication of the inclusiveness of economic growth. In the Western Cape, as was shown in Chapter 5, there has been a modest reduction in poverty, but it was affected by the global financial recession and the slow and stuttering return to growth since then. This illustrates very clearly that inclusive growth in the Province, as measured by the incidence of poverty, is not robust in the face of harsh macroeconomic conditions.

The HDI - a more comprehensive metric of the extent to which economic growth has benefited the Western Cape population - has increased consistently over the last six years (see the full discussion in Chapter 5). This suggests a less pessimistic conclusion about economic inclusiveness than the poverty measure. However, an unpacking of the causes of this difference gives insight into the nature of inclusive growth in the Western Cape.

Poverty is largely determined by the primary or labour market incomes of households. Household income is the product of the wage rate (and by implication the labour market dynamics that determine it, such as education, age, industrial sector and occupation) and employment. It was estimated[2] that in 2011 in the Western Cape 9.4 per cent of the employed earned a wage less than R1 000 (in 2016 prices) per month and 49.2 per cent earned between R1 001 and R4 500 per month. In 2015, these proportions changed to 8.1 per cent and 45.6 per cent. Even though these are simple indicators, they suggest that employed people in the Province benefited from growth in that about 5 per cent of them moved into income categories above R4 500 per month. Moreover, these are based on estimates of real wages so that declining real wages can be ruled out for the average worker. The implication of this is that inclusivity was probably positively affected by changes in wage income. That leaves employment as a labour market factor that could impact inclusivity.

Over the last five years employment in the Western Cape grew by an annual average of 2.7 per cent (see full discussion in Chapter 4). The working-age population, including in-migration, grew at an annual average of 2.2 per cent. This suggests that there has been an improvement over this period in terms of the proportion of the working-age population in employment. This impression is slightly blurred by the growth rate of 2.8 per cent in the expanded labour force. This slightly faster growth in the expanded labour force could be the result of a minor increase in the proportion of the working-age population not in the labour force, probably because they are studying[3].

The overall impression is of employment or labour market incomes not having had a strong negative impact on the inclusivity of economic growth in the Western Cape, although its impact might have been neutral on balance, rather than positive. The unemployment rate is lower and the rate of non-searching unemployment (discouraged workseekers) still low compared to similar jurisdictions.

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[2] The estimate is based on income category data for the two years. The CPI inflation rate and interpolation between income categories were used to calculate these estimates.

[3] School enrolment in the Province has increased over this time, but the available information does not allow a deeper analysis.

The conclusion that can be drawn from the analysis is that the improvements in and relatively favourable HDI scores is largely the result of government's social programmes targeting education, health and living conditions, amongst others, although labour market dynamics have not had a negative impact on the outcomes of economic growth and might even have had a small positive impact. For growth to be optimally inclusive and sustainable, labour market dynamics must become a much stronger driver of inclusivity in the Province. In the next section an approach that could give momentum to *inclusive* innovation in the Western Cape is briefly outlined.

1.4.3 Strengthening inclusive growth in the Western Cape

The challenge to policymakers is that inclusive innovation does not happen automatically. Although an important driver of economic growth, innovation has the potential to contribute to increasing economic and social inequalities[4]. However, with an appropriate approach to policy and implementation, the potential of innovation to be inclusive can be strengthened. It has the potential to address social and economic exclusion, as well as promoting innovation. This section briefly outlines such an approach for the Western Cape.

There is a broad consensus amongst scholars and practitioners that innovation cannot only serve economic growth and competitiveness, but that it must also serve other societal objectives, notably that of inclusivity[5]. Additional objectives could include, for example: promoting a green economy, agriculture and food security, education for a competitive digital economy or sustainable water production and consumption.

The approach outlined here has already been applied to global warming and environmental concerns internationally[6]. It is therefore more readily transferable to the Western Cape and its concern with sustainable water supply. Moreover, this approach has already been applied implicitly in the Province in the development and implementation of some of the Khulisa Projects.

Knowledge is a key resource in the innovation process as its circulation in the innovation system of a region stimulates new knowledge. The key role players in a region (government, business, tertiary education institutions, civil society) are intertwined through knowledge circulation and dissemination. By influencing each other with knowledge a virtuous cycle is sustained that promotes new and inclusive innovation.

The essence of this process is illustrated by the manner in which coordination and cooperation facilitated the promotion of the oil, gas and marine services priority sector in the Western Cape, albeit not necessarily with all the role players contributing to their full potential. It may also offer an example of how the sustainable water supply objective of the Province can be advanced in a manner that supports inclusive innovation and development. Some of this may already be happening in the Western Cape, although not structured within an intentional and coherent framework.

4 Fisher, E. and Rip, A. (2013)

5 Schillo, R.S., Robinson, R.M. (2017)

6 Carayannis, E. G., and Campbell, D. F. J. (2012); Carayannis, E. G., and Rakhmatullin, R. (2014)

1.5 Conclusion

The 2017 PERO is a key form of economic intelligence which facilitates evidence-based policy, planning and budgeting practices. It provides an updated review and analysis of past and forecasted economic growth, key labour market dynamics as well as socio-economic development trends within the Province. Amid the adverse economic conditions, taking a more holistic approach to regional economic development through Integrated Management is key to enhancing the regional economy.

2

Macroeconomic performance and outlook

Key findings

- Reviewing past performance, the IMF found that global GDP growth slowed to 3.2 per cent in 2016 from 3.4 per cent in 2015. The slowdown was largely due to softer growth in advanced economies while growth in emerging and developing economies remained unchanged.

- Looking ahead, global output is predicted to improve marginally to 3.5 per cent in 2017 and 3.6 per cent in 2018. The source of future global growth is broad-based with an uptick expected for advanced as well as emerging and developing economies in 2017. However, the growth momentum in advanced economies is predicted to slow somewhat in 2018 on the back of tighter monetary policy and the Brexit related slowdown in the UK.

- Despite the global economic improvement, South Africa's economic performance remains downbeat. Growth for the full year of 2017 is expected to remain as weak as in 2016 (0.3 per cent) following the economy's fall into a technical recession in the first quarter of 2017. Low growth in consumer spending along with a continued contraction in private sector fixed investment is being compounded by political and institutional uncertainty. Growth is expected to recover in 2018.

- In the Western Cape, economic growth is expected to weaken in line with the national economy. However, the magnitude of growth itself is much lower than in previous years. In addition, the growth outlook for the Western Cape is soured, relative to the rest of the economy, by the persisting drought which also threatens employment.

2.1 Introduction[1]

This chapter reviews economic growth in the Western Cape and its expected prospects against the background of the global and national economy and highlights the risks to the expected performance.

The global economic environment has improved to better-than-expected growth in the United States and Euro Area, while Chinese growth has stabilised. However, uncertainty regarding economic policy, politics and geopolitics remains. Domestically, the national economy has underperformed. After moving into a technical recession during the first quarter of 2017, growth recovered by 2.5 per cent (quarter-on-quarter) in the second quarter of 2017. That being said, the outlook remains clouded by the uncertain political and institutional environment as well as low business and consumer confidence.

The chapter concludes with a review and forecast for the Western Cape economy. The interlinkages between the Western Cape and the rest of South Africa and the world remain a key feature of regional growth. The expected subdued domestic economic performance will have a negative effect on the Province. In addition, persisting drought conditions in the Province has added to this risk. In contrast, the Province could benefit from the expected global growth by expanding provincial exports.

2.2 Developments in the global economy

2.2.1 Global economic performance

According to the International Monetary Fund (IMF), global economic growth slowed to 3.2 per cent in 2016 from 3.4 per cent in 2015. The slowdown came predominantly from advanced economies, while growth in emerging and developing economies, as a group, remained unchanged. Despite the slower growth recorded for the full year, global growth in the second-half of 2016 was noticeably better than in the first half of 2016. Thus far, the global economic performance continued to improve in 2017.

Performance of advanced economies

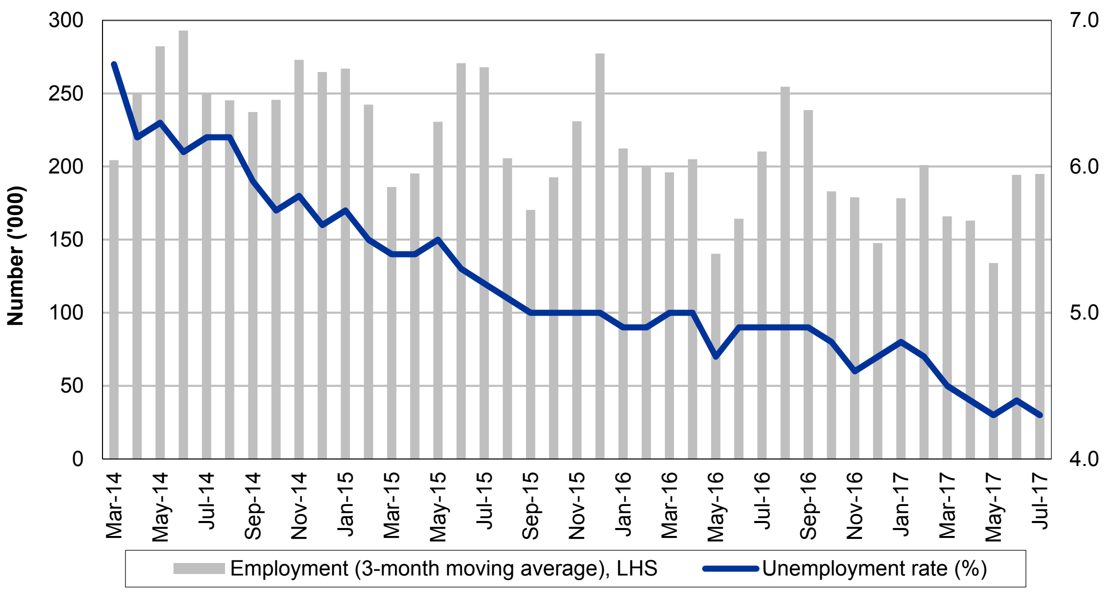
Economic output in advanced economies moderated to 1.7 per cent in 2016 from 2.1 per cent in 2015. The slowdown was due to softer growth in the United States (US) and the United Kingdom (UK). For the rest, the slowdown was less severe and some countries, including Germany, France and Canada, managed to register higher growth in 2016 compared to 2015.

1 All international data as of 7 August 2017 and national data as of 5 September 2017.

In the US, economic growth decelerated to 1.6 per cent in 2016 from 2.6 per cent in 2015. The economy received a marked boost in confidence towards the end of 2016 in the run up to the presidential election and the inauguration of the new President in January 2017. President Trump promised an expansionary fiscal policy stance through tax incentives and increased infrastructure spending which resulted in the so-called "Trump bump[2]". The economy expanded by only 1.2 per cent quarter-on-quarter in the first quarter of 2017 but output rose by 2.6 per cent in the second quarter. Much of the rebound was due to more robust consumer spending at the expense of savings.

Consumption has been further supported by continued employment gains. The US labour department reported an average monthly rise in non-farm payroll employment of 187 000 during 2016 (although, lower than the average of 226 000 in 2015) and an average of 180 000 for the first six months of 2017. The downward trend of US unemployment continues with an unemployment rate of 4.3 per cent in July 2017 (see Figure 2.1).

Figure 2.1 US employment trends, 2014 - July 2017



Source: US Bureau for Labor Statistics, 2017

Against the backdrop of improved economic growth (and the prospect of it being sustained) and continued labour market gains, the Federal Open Market Committee (FOMC) of the US Federal Reserve Bank (Fed) decided to continue with its course of monetary policy "normalisation"[3]. It lifted the benchmark interest rate by 25 basis points in December 2016 and again in March 2017. Since the interest rate hikes, inflation has moderated to below the Fed's target of 2 per cent which means further rate hikes will likely only continue at a very slow pace.

2 Commodity prices also benefitted from this event.

3 Following the global financial recession, advanced economies monetary policy interest rates were reduced to close to zero for several years. Following the improved global economic outlook, advance economies began anticipating the gradual raising of monetary policy interest rates to more "normal" levels.

The Euro Area economy registered a 1.8 per cent rise in output in 2016 compared to 2.0 per cent in 2015. On an individual economy basis, however, growth was mixed. Both Germany and France recorded small improvements in economic activity in 2016. However, growth in some of the periphery countries weighed on the overall performance in 2016. For example, Portugal's growth rate slowed to 1.4 per cent in 2016 from 1.6 per cent in 2015.

According to Eurostat, economic growth in the Euro Area remained robust in the first half of 2017. After rising by 0.5 per cent (quarter-on-quarter) in the first quarter of 2017, GDP growth accelerated to 0.6 per cent in the second quarter. Growth came in at 2.1 per cent (on an annualised basis) in the second quarter of 2017.

Underpinning the improved performance was a greater-than-anticipated rise in domestic demand, particularly the fixed investment component of it. In addition, much of the euro-related political uncertainty originating particularly from the Netherlands and France (late-2016 and first half of 2017) has eased, boosting confidence of both investors and consumers. Indeed, the ifo[4] Institute for Economic Research's Business Climate Index reached a record high (its third in succession) of 116 index points in July 2017, leading commentators to describe German business sentiment as "euphoric".

Similar to the US, the EU monetary authorities have taken a more hawkish incline to policy recently, although monetary policy settings have thus far remained unchanged. Despite the further interest rate hikes in the US since the start of the year the Euro appreciated against the US dollar, mainly due to more robust growth expectations in the Euro area.

GDP growth in the UK slowed to 1.8 per cent in 2016 from 2.2 per cent in 2015. The softer momentum has continued into 2017. On an annualised basis, economic output rose by 1.7 per cent in the second quarter of 2017, from 2 per cent in the first quarter. Despite this moderation, growth has held up better than analysts predicted when the Brexit vote was concluded. Some of the support has come in the form of looser monetary policy. The Bank of England (BoE) cut the benchmark interest rate by 25 basis points to 0.25 per cent in August 2016. This was an attempt to stem the tide of softer growth. Rising inflation, partly due to the weaker British Pound since Brexit, further complicates matters in the UK. Consumer inflation for June 2017 was registered at 2.6 per cent year-on-year, down from 2.9 per cent in May 2017, but well above the BoE's 2 per cent target. This has weighed on real consumer income growth.

In contrast to the US and the UK, economic growth in Canada jumped to 1.5 per cent in 2016 from below 1 per cent in 2015. This continued into 2017. GDP growth in April was recorded at 0.2 per cent month-on-month, the sixth consecutive expansion. This has prompted calls for the Bank of Canada to tighten monetary policy, especially in light of a booming housing market which has stoked fears of a potential asset bubble.

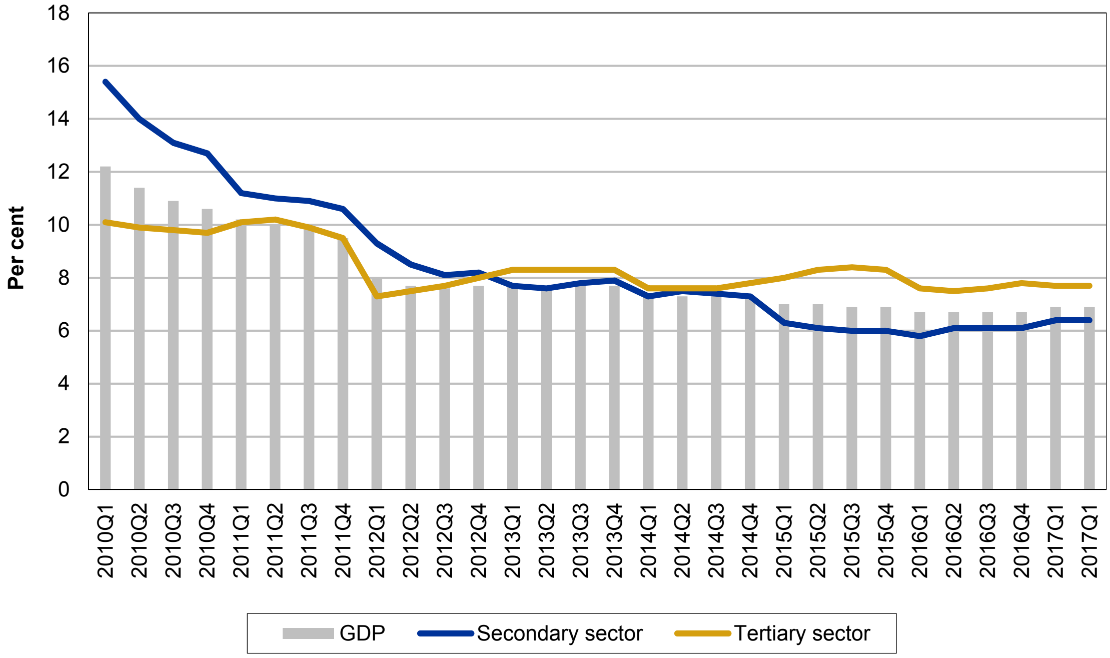
4 ifo (lowercase) is the English abbreviation used for "Information and Forschung" (German name).

Performance of emerging and developing economies

After slowing to 4.3 per cent in 2015 from 4.7 per cent in 2014, growth in emerging and developing economies remained unchanged in 2016. This means that growth in emerging and developing economies continued to outpace that of advanced economies.

A large part of the steady economic performance of emerging and developing countries stems from growth in China. It stabilised in 2016 since slowing after 2010. Economic output in China rose by 6.7 per cent in 2016, not far off from the 6.9 per cent registered in 2015. This continued into 2017 with annualised growth of 6.9 per cent recorded for both the first and second quarters. Part of the slower growth momentum is due to China's economic rebalancing act which has seen growth in the tertiary sector (retail, finance and real estate, transport and communication) outstrip that of the secondary sector (manufacturing and construction), largely due to slower growth in the latter (see Figure 2.2). Concerns about China's trade with the US - following Trump's election as US president - have largely abated.

Figure 2.2 Composition of China GDP growth, 2010 - 2017



Source: National Bureau of Statistics, 2017

In Brazil, economic output continued to contract by 3.6 per cent in 2016 following a 3.8 per cent contraction in 2015. However, growth rebounded to 4.3 per cent quarter-on-quarter during the first quarter of 2017, albeit following a 2.2 per cent quarterly contraction in the fourth quarter of 2016. While the real economy gained some momentum in the first quarter of 2017, political uncertainty reappeared. This has weighed on confidence and has caused the Brazilian real to depreciate against the US dollar.

Growth in India moderated from 8.0 per cent in 2015 to 7.1 per cent in 2016. This moderation continued into 2017. India recorded GDP growth of 6.1 per cent quarter-on-quarter in the first quarter of 2017 compared to 7.0 per cent in the final quarter of 2016. Demonetisation[5] by the Indian government in late 2016 - with the aim of curtailing the informal sector - caused a shortage of cash and weighed severely on economic activity. The Nikkei Indian Manufacturing Purchasing Managers' Index (PMI) fell from a 22-month high of 54.4 index points in October 2016 to below the neutral 50-point mark by December 2016. It recovered, but recent figures suggest that growth in the manufacturing sector is slowing once more. Similarly, the Nikkei India Services PMI dropped to 45.9 index points in July 2017 from 53.1 index points in June 2017, a noteworthy decline over a relatively short period.

In Russia, the rate of contraction in economic output moderated to just 0.2 per cent in 2016 from 2.8 per cent in 2015. Although economic output declined for the full year of 2016, growth was somewhat more robust towards the end of the year. Factors that inhibited growth included low commodity prices, especially oil, and geopolitical disruptions including US sanctions targeting Russian energy companies.

Growth in Sub-Saharan Africa slowed noticeably in 2016 to 1.3 per cent from 3.4 per cent in 2015. This slowdown was led by the region's two largest economies, Nigeria and South Africa. The Nigerian economy slipped into recession for the full year of 2016, contracting by 1.6 per cent following a 2.7 per cent expansion in 2015. Like many other countries in the region, Nigeria's economy is hampered by its dependence on the oil price and liquidity shortages.

2.2.2 Global economic outlook

The IMF forecasts global economic growth to accelerate to 3.5 per cent in 2017 and to 3.6 per cent in 2018. Much of this growth is predicted to emanate from emerging and developing economies, while growth in advanced economies is set to remain modest (see Table 2.1).

[5] Demonetisation refers to the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

Table 2.1 Global economic outlook, 2017 to 2018

	Size of Global GDP in 2015	GDP Growth (%)		Forecast (%)	
	(%)	2015	2016	2017	2018
World output	**100**	**3.4**	**3.2**	**3.5**	**3.6**
Advanced economies	**60.5**	**2.1**	**1.7**	**2.0**	**1.9**
United States	24.3	2.6	1.6	2.1	2.1
Euro Area	15.6	2.0	1.8	1.9	1.7
Germany	4.5	1.5	1.8	1.8	1.6
France	3.3	1.1	1.2	1.5	1.7
Italy	2.5	0.8	0.9	1.3	1.0
Spain	1.6	3.2	3.2	3.1	2.4
United Kingdom	3.9	2.2	1.8	1.7	1.5
Other advanced economies	20.4	2.0	2.2	2.3	2.4
Emerging and developing economies	**39.5**	**4.3**	**4.3**	**4.6**	**4.8**
Sub-Saharan Africa	2.0	3.4	1.3	2.7	3.5
Nigeria	0.7	2.7	-1.6	0.8	1.9
Middle East and North Africa	3.8	2.7	5.0	2.6	3.3
Emerging and Developing Europe	2.5	4.7	3.0	3.5	3.2
Russia	1.8	-2.8	-0.2	1.4	1.4
Developing Asia	21.3	6.8	6.4	6.5	6.5
China	15.1	6.9	6.7	6.7	6.4
India	2.8	8.0	7.1	7.2	7.7
Latin America and the Caribbean	7.0	0.1	-1	1	1.9
Brazil	2.4	-3.8	-3.6	0.3	1.3
Mexico	1.6	2.6	2.3	1.9	2
Consumer prices					
Advanced economies		0.3	0.8	1.9	1.8
Emerging and developing economies		4.7	4.3	4.5	4.6

Source: International Monetary Fund, 2017

Outlook for advanced economies

According to the IMF, the pace of economic expansion in advanced economies is forecast to accelerate to 2.0 per cent in 2017 before tapering off somewhat to 1.9 per cent in 2018.

In the US, growth of 2.1 per cent is predicted for both 2017 and 2018. The continued gains in the labour market should support higher consumption expenditure while elevated levels of business confidence bode well for fixed investment outlays from the private sector. In addition, the recent depreciation in the US dollar against the euro should result in an uptick in exports. These factors are expected to offset continued monetary policy tightening via both higher interest rates and the US Fed's balance sheet normalisation programme. The latter is aimed at gradually retracting some of the financial support the central bank has offered since the onset of the global financial recession.

Although growth is still reasonably robust, the IMF's forecast for US growth in 2017 and 2018 represents a downward revised estimate from April 2017. This is due to the view that fiscal policy will be less expansionary than previously predicted.

In contrast, the IMF lifted the growth outlook for the Euro Area by 0.2 and 0.1 percentage points to 1.9 and 1.7 per cent in 2017 and 2018. This is largely due to the positive implications of recent quantitative economic data, improved business sentiment, and a lower risk of the common monetary union unravelling. From a regional perspective, economic growth in Germany is predicted to remain stable at 1.8 per cent in 2017 before slowing to 1.6 per cent in 2018. The expectation is that economic output in France will increase by 1.5 per cent in 2017 and a further 1.7 per cent in 2018.

Due to the uncertainty regarding Brexit negotiations along with the current trajectory of weak growth amid rising inflation, the IMF sees a sustained loss of momentum in GDP growth in the UK. In 2017 economic growth is expected to slow to 1.7 per cent. A further slowdown to 1.5 per cent is forecast for 2018.

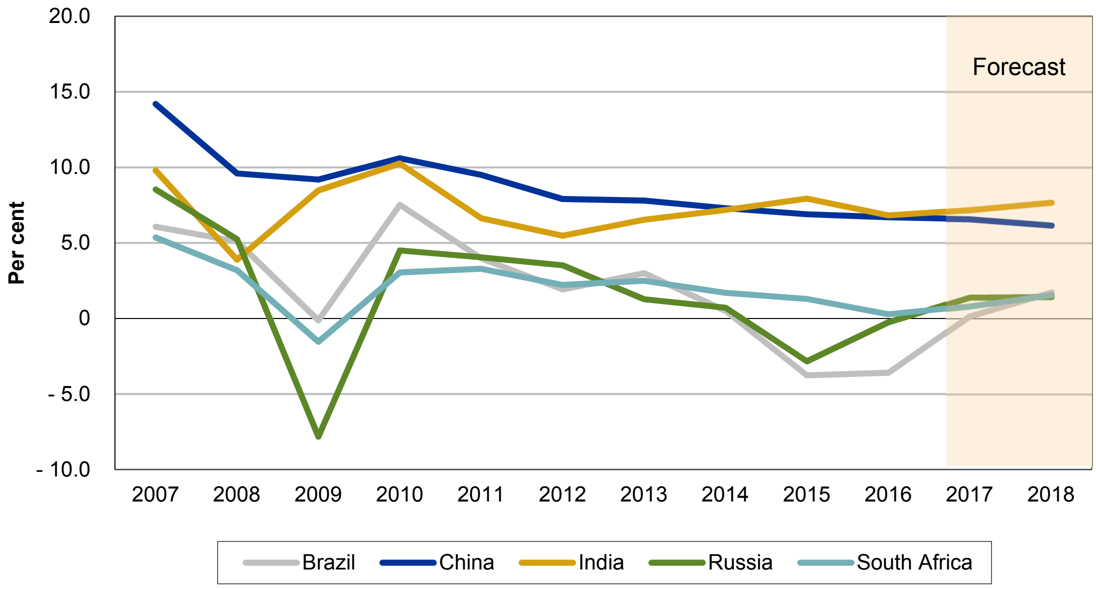
Outlook for emerging and developing economies

The pace of economic growth in emerging and developing countries is forecast to accelerate to 4.6 per cent in 2017. A further acceleration to 4.8 per cent is predicted for 2018.

While growth in emerging and developing countries as a group is set to improve over the short to medium-term, the outlook for China is more restrained. Recent changes in the nature of China's growth - towards internal, services-orientated growth - is expected to remain a feature of the Chinese economy going forward. As a result, economic growth in 2017 is likely to remain stable at 6.7 per cent and slow to 6.4 per cent in 2018.

Despite some of the short-term headwinds, economic growth in India is predicted to rise noticeably on the back of structural and institutional reforms. This is forecast to be most pronounced in 2018 when growth is predicted to register 7.7 per cent from the less exuberant 7.2 per cent in 2017. This implies that India will be the fastest growing economy in 2018. Growth in Brazil and Russia is set to return to positive territory for the full year of 2017. However, growth remains relatively weak in these two countries due to domestic political constraints and the softer than expected commodity price outlook. Economic growth of 0.3 per cent in 2017 and 1.3 per cent in 2018 is projected for Brazil. Similarly, the pace of economic expansion in Russia is set to accelerate to 1.4 per cent in 2017 and 2018. The BRICS countries (Brazil, Russia, India, China and South Africa) are unlikely to add to global growth to the same extent as in previous years (see Figure 2.3).

Figure 2.3 BRICS growth performance, 2007 - 2018



Source: International Monetary Fund, 2017

Growth in economic output in Sub-Saharan Africa is set to rebound to 2.7 per cent in 2017, rising further to 3.5 per cent in 2018. However, growth in the region's biggest economy, Nigeria, is set to remain sluggish as the IMF predicts an economic growth rate of 0.8 per cent in 2017 and 1.9 per cent in 2018.

2.2.3 Global inflation outlook

Inflation in advanced economies and emerging and developing economies moved in opposite directions in 2016. Advanced economy inflation edged higher to 0.8 per cent in 2016 from 0.3 per cent in 2015. In contrast, inflation in emerging and developing economies eased to 4.3 per cent in 2016 from 4.7 per cent in 2015. Much of the uptick in headline inflation in advanced economies is due to higher commodity prices during the second half of last year. This also put upward pressure on inflation in emerging and developing economies, although it was offset by the appreciating currencies which lessened the effect of the higher commodity prices in domestic currency terms.

Looking ahead, global inflation is predicted to accelerate. In advanced economies, inflation is set to increase to 1.9 per cent in 2017 and 1.8 per cent in 2018. This is mainly due to higher domestic demand which could prompt further monetary policy tightening. Inflation in emerging and developing economies is expected to accelerate to 4.5 per cent in 2017 and 4.6 per cent in 2018.

2.2.4 Risks to the global outlook

The risks to the expected global economic outlook are probably more balanced (i.e. neither the risk of the global economy under- or outperforming the forecast dominates) now than in previous years when the risks were largely inclined to result in softer growth than predicted (i.e. 'negative').

- In the US, a downward correction in business sentiment could see employment and investment growth slow. However, this could be countered by higher than predicted growth in the Euro Area. This is especially positive for South Africa, as the Euro Area remains a dominant export destination particularly for the Western Cape.
- The current outlook for monetary policy in advanced economies is for a gradual "normalisation". However, there is the risk that if inflation accelerates more noticeably on the back of higher demand, the monetary authorities may tighten policy more than expected.
- Brexit negotiations have moved at a slow pace and significant uncertainty remains. Should the European Union (EU) take a hard-line to the UK, it will substantially weaken prospects for the British economy. Should the EU be lenient, it could open the door for countries in mainland Europe to also consider leaving the common monetary union.

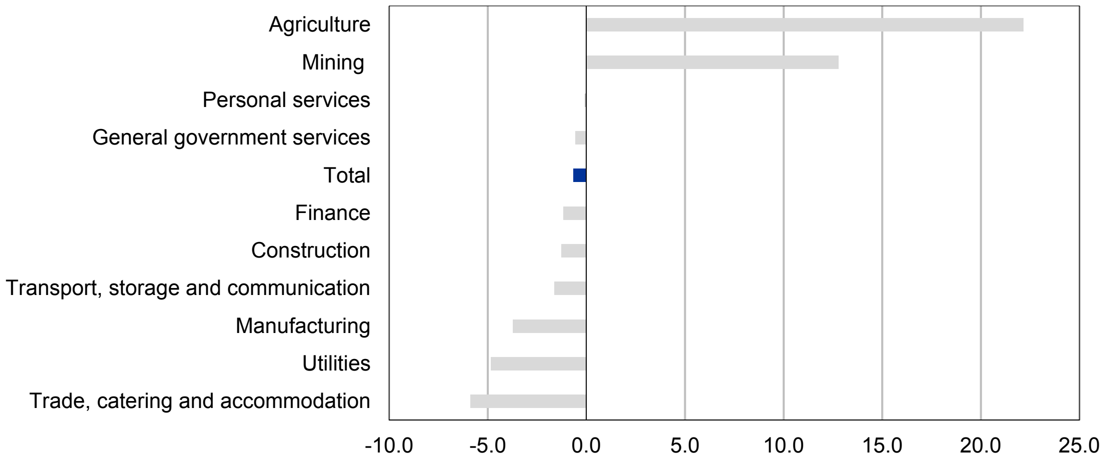
2.3 Developments in the South African economy

2.3.1 Performance of the South African economy

Growth in economic output slowed to 0.3 per cent in 2016 from 1.3 per cent in 2015. Several factors contributed to the frail growth that led to tepid business and consumer confidence. This continued into 2017. The South African economy contracted by 0.6 per cent quarter-on-quarter in the first quarter of 2017 following the 0.3 per cent contraction in the fourth quarter of 2016. This means that South Africa entered a technical recession in the first quarter of 2017, its first in eight years.

Only agriculture and mining GDP increased in the first quarter of 2017, while all other sectors either declined or stagnated (see Figure 2.4). In sum, GDP growth in the primary sector rose by 14.1 per cent quarter-on-quarter in the first quarter of 2017. However, the rebound was partly due to base effects following weaker growth for much of 2016. Growth in the tertiary sector contracted unexpectedly by 2 per cent quarter-on-quarter. This was led by a noticeable fall in output in the trade sector that registered a quarterly decline of 5.9 per cent (subtracting 0.8 percentage points from GDP growth). In the secondary sector, growth also contracted.

Figure 2.4 Quarterly and seasonally adjusted GDP growth by sector, 2017Q1



Source: Stats SA, 2017

The RMB/BER Business Confidence Index, which declined sharply by 11 index points to 29 index points in the second quarter of 2017, revealed that business sentiment in South Africa remained overwhelmingly pessimistic during the second quarter of 2017. Part of this pessimism could be due to political uncertainty, but is also the result of softer demand.

From the expenditure side an important factor behind GDP decline in the first quarter of 2017 was weaker-than-expected consumer spending. According to Stats SA, total consumer outlays declined by 2.3 per cent quarter-on-quarter in the first three months of the year. The quarterly decline shaved 1.4 percentage points from first quarter GDP growth. Apart from spending on services, all the major expenditure categories declined. Compared to the first quarter of 2016 spending growth slowed further to 0.8 per cent.

South Africa's sovereign credit rating

In terms of the 2017 ratings calendar, all three major credit ratings agencies, that is, Standard & Poor's (S&P), Fitch Ratings and Moody's, released their first sovereign credit rating reports for South Africa by June 2017. S&P downgraded the long-term foreign currency sovereign credit rating to "BB+" from "BBB-", a sub-investment grade, with a negative outlook for South Africa. Fitch Ratings downgraded the long-term foreign currency rating to "BB+" from "BBB-", a sub-investment grade, with a stable outlook. Only Moody's downgraded the long-term foreign currency debt to "Baa3" from "Baa2", which remains an investment grade, and assigned a negative outlook for South Africa.

Table 2.2 South Africa's sovereign credit ratings, as at June 2017

	Local currency rating Foreign currency rating		
Long-term debt	**S&P**	**Fitch**	**Moody's**
Investment grade	A-	A-	A3
	BBB+	BBB+	Baa1
	BBB	BBB	Baa2
	BBB-	BBB-	Baa3
Sub-investment grade	BB+	BB+	Ba1
Outlook	Negative	Stable	Negative

According to the three rating agencies, the key drivers for the downgrades include the increased political and institutional uncertainty; the pace of South Africa's economic growth, which remains a ratings weakness, also contributed significantly to the downgrade by all three ratings agencies; the continued erosion of fiscal strength due to rising public debt and contingent liabilities was highlighted as a contributing factor as it poses a threat to fiscal consolidation.

The consequences of the downgrade of South Africa's sovereign credit rating to sub-investment grade may be felt over many years should it result in higher borrowing costs for all South African entities, a weaker exchange rate and lower investment potential and therefore lower economic growth. Increasing inflationary pressures and any future increase in the interest rate will put further pressure on government's ability to service its debt obligations.

Source: National Treasury

2.3.2 Outlook for the South African economy

The poor economic performance in the first quarter of 2017 sours the outlook for the full year of 2017, despite the growth rebounded of 2.5 per cent (quarter-on-quarter) in the second quarter of 2017. The main weakness stems from low fixed investment while some improvement in household consumption growth is expected towards the end of the year. Overall, growth in the South African economy is expected to remain stable at 0.3 per cent in 2017 before accelerating to 0.9 per cent in 2018 (see Table 2.3).

Table 2.3 South African economic outlook[6], 2017 to 2018

	2016	2017f	2018f
Final consumption expenditure, households (%)	**0.8**	**0.6**	**1.4**
Durable goods	-7.3	-2.0	2.3
Semi-durable goods	3.3	-0.9	2.1
Non-durable goods	0.9	0.0	1.3
Services	2.1	1.9	1.1
Gross Fixed Capital Formation (%)	**-3.9**	**-2.1**	**-0.7**
Private	-6.0	-2.8	-0.4
Government	1.1	0.5	-3.3
Public corporations	-1.6	-2.2	1.2
Exports of goods and services (%)	**-0.1**	**1.2**	**1.7**
Interest rates (fourth quarter averages)			
3-month BA rate	7.23	7.28	7.44
10-year Government Bond	9.02	8.74	9.19
Prime overdraft rate	10.41	10.41	10.5
Inflation (annual average %)			
Producer prices	7.1	5.0	5.1
Consumer prices	6.3	5.3	5.1
Nominal wage rate (Private sector)	8.0	5.2	7.7
Exchange rates (annual average)			
R/US dollar	14.71	13.27	13.99
R/Euro	16.29	14.75	15.95
R/Pound sterling	19.99	16.96	18.18
Yen/R	7.4	8.51	8.22
Gross Domestic Expenditure	**-0.8**	**0.4**	**1.0**
Gross Domestic Product	**0.3**	**0.3**	**0.9**
Current account balance (R billion, seas. adj.)	**-141.596**	**-119.513**	**-161.949**
(as % of GDP)	*-3.3*	*-2.59*	*-3.3*

Source: Bureau for Economic Research, 2017 (f denotes forecast)

6 The forecasts were formulated in July 2017.

Final household consumption expenditure

The improvement in household consumption in the second half of 2017 is not expected to offset the weak performance in the first half of 2017. As such, household consumption is set to remain under pressure for much of the year with total growth for 2017 expected to be lower than in 2016. An improvement is predicted for 2018.

From a spending category perspective, the outlook is mixed. Semi-durable goods (such as clothing and textiles) is expected to post a slight rebound in the second quarter of 2017 because much of the first quarter decline was due to technical factors including distorted spending in the fourth quarter of 2016 (due to "Black Friday[7]"). However, other factors such as muted real income growth, higher personal income taxes and weak growth in credit extension are likely to curtail spending.

For non-durable goods (mainly food and beverages) the outlook is more upbeat. Food inflation has moderated due to the bumper domestic crop which should lift volume growth. However, most of the benefit is likely to be felt towards the end of the year. In addition, weak employment prospects and a strained fiscal situation that limits growth in social grants expenditure suggest that even for this category strong growth is not expected through 2018.

While durable goods spending (including vehicles, furniture and appliances) may receive some boost to near-term sales because of price discounting in the vehicle market, the underlying drivers of consumer demand suggest that overall sales of durable goods will remain under pressure. The durable goods target market, i.e. middle to high-income consumers, were hard hit by the personal income tax hikes announced in the 2017 National Budget. This will weigh on their disposable income. Furthermore, minimal real increases recorded for the JSE and house prices have been reflected in stagnant consumer wealth effects during the last several years.

Gross fixed capital formation

Private sector fixed capital formation fared better than expected in the first quarter of 2017. This was largely due to a surprise surge in residential fixed investment which rose by almost 6 per cent quarter-on-quarter. However, a national contraction in real household credit growth and house prices, along with the broader strain on disposable income, means that strong investment in the residential sector is unlikely to be sustained for the remainder of the year.

Excluding the residential sector, the level of private sector fixed investment declined for the sixth consecutive quarter in the first quarter of 2017. The weak GDP growth outlook and, crucially, the expectation that business confidence will remain depressed in 2017 (potentially also in 2018) will likely see private sector fixed investment continue to underperform. Added to this, the new Mining Charter may result in further disinvestment by the major South African mining companies. In contrast, as has been

[7] Black Friday refers to the day after Thanksgiving and is considered the start of the festive season shopping period usually characterised by significant discounts in the United States. In recent years, this convention has become common in South Africa.

the case in recent years with renewable energy, there may well be pockets of private sector investment activity. This includes the communication sector with its increased roll-out of new services, including fibre internet connections. However, this is unlikely to spur major capacity expansion, which is set to be put on hold until there is greater clarity on the domestic policy environment.

Public sector fixed investment is also expected to be under pressure over the forecast horizon. Capital budgets could be cut further once the true extent of the potential government revenue shortfall in 2017/18 becomes clearer. Furthermore, recent sovereign credit rating downgrades, along with governance issues in State-Owned Enterprises (SOEs), limits the public sector's ability to access private capital markets.

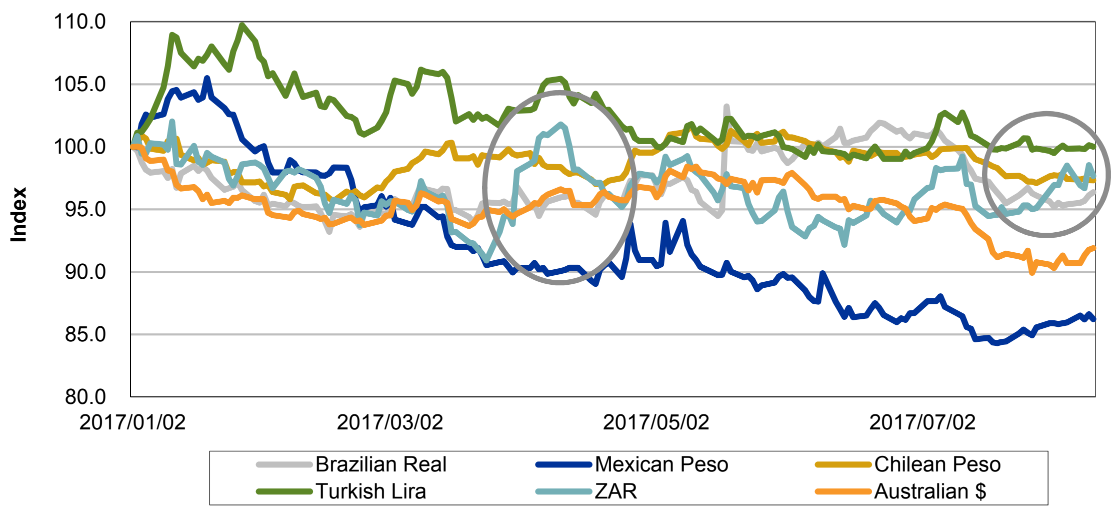
Balance of payments and exchange rate outlook

The rand performed reasonably well against the US dollar during the first half of 2017. It was, on average, 16.6 per cent stronger against the US dollar during the first quarter of 2017 and 12.0 per cent stronger during the second quarter of 2017 compared to a year earlier. Much of this, however, was due to international factors such as a weaker US dollar and increased positive sentiment towards emerging markets in general.

Going forward, it is likely that domestic factors, rather than global factors, will determine the rand's performance. The updated Mining Charter, and the Public Protector's recommendations about the South African Reserve Bank's mandate are some examples of domestic issues which caused the rand to weaken in contrast to its peers (see circled areas in Figure 2.5).

Looking forward, the fiscal situation is of concern. The upcoming 2017 National Medium Term Budget Policy Statement will be an opportunity for the Finance Minister Malusi Gigaba to reiterate that the National Treasury will adhere to the fiscal consolidation targets laid out in the 2017 National Budget. The domestic political and policy environment will remain a key constraint on the rand.

Figure 2.5 ZAR exchange rate versus a selection of peers since the beginning of 2017

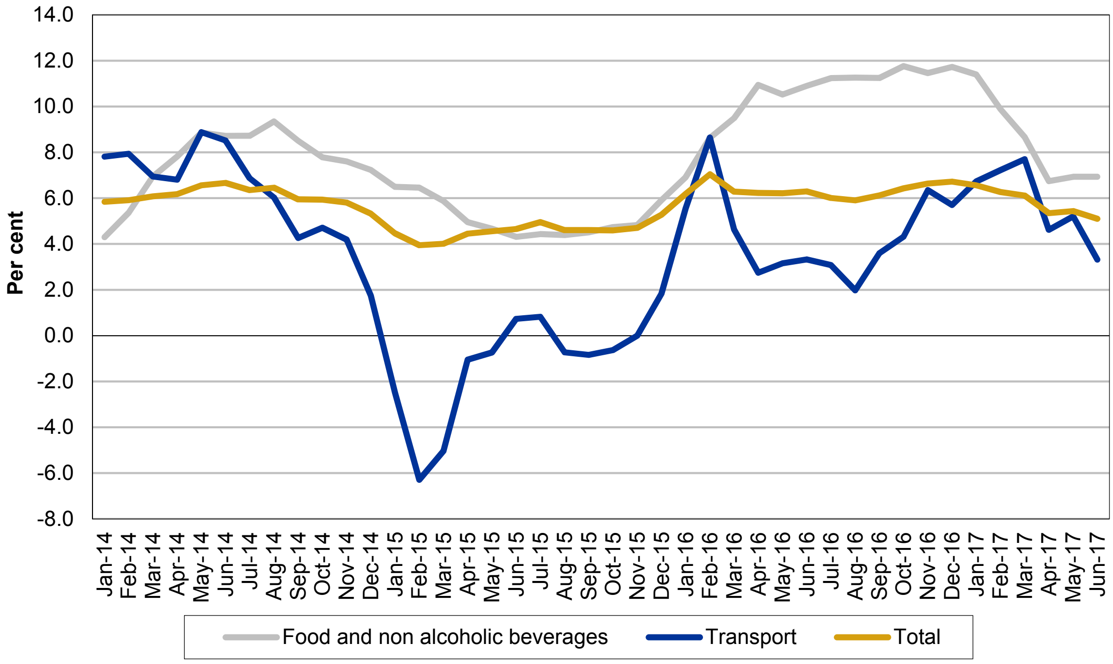


Source: Reuters, own calculations

Inflation and interest rate outlook

Headline consumer inflation (consumer price index CPI) moderated to 5.1 per cent in June 2017 from 5.4 per cent in May 2017 (see Figure 2.6). Inflation has slowed consistently since reaching 6.7 per cent in December 2016.

Figure 2.6 Headline CPI inflation, 2014 - 2017



Source: Stats SA, 2017

The main impetus behind the lower inflation is food and transport inflation. Food inflation in June 2017 came in at 6.9 per cent year-on-year. This is noticeably lower than the 12 per cent recorded in December 2016 (and the 10.8 per cent average for 2016) and partly reflects the effect of higher domestic agricultural production. Transport inflation - partly because of subdued global oil prices, along with the stronger R/USD exchange rate - slowed to 3.3 per cent in June 2017 from 5.2 per cent in May 2017.

These trends (benign food and transport inflation) are predicted to continue for the remainder of 2017 and into early 2018, with a low of 4.3 per cent expected in January 2018.

Against the backdrop of lower business confidence, weak GDP growth and slowing inflation, the South African Reserve Bank (via its Monetary Policy Committee) decided to cut the repo rate (the rate at which it lends to banks) by 25 basis points (0.25 percentage points) at its July 2017 meeting. This is the first rate cut in five years.

2.3.3 Risks to the national outlook

Unlike the risks to the global outlook, the national economy risks are tilted towards the downside i.e. a greater likelihood of a worse than expected economic growth outcome. In addition, many of the risks relate to political uncertainty rather than economic conditions. These include:

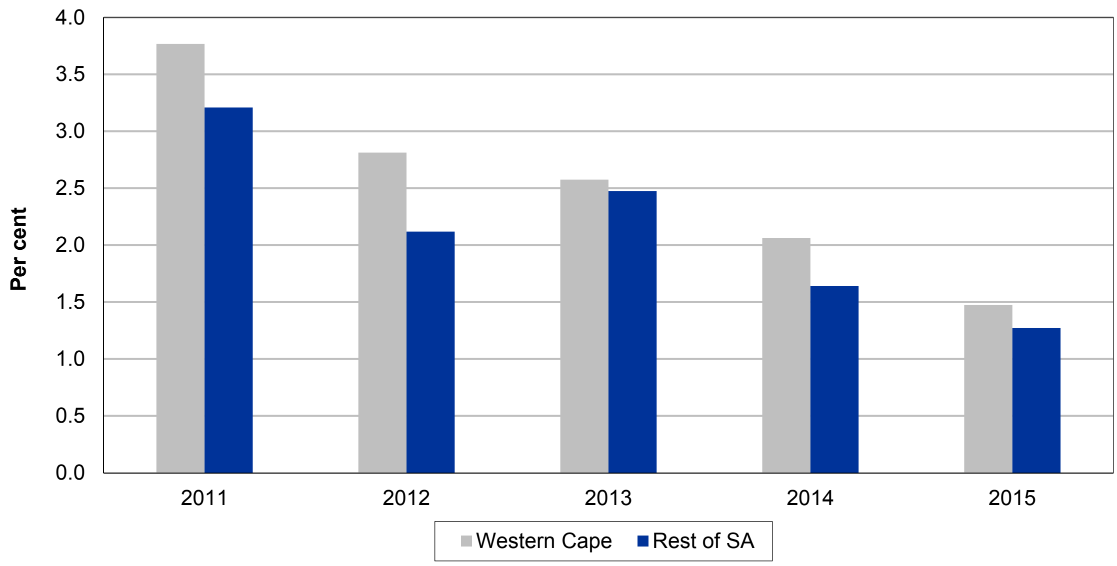
- Continued political uncertainty in economic policy and fiscal matters which could see further multiple downgrades of South Africa's local currency credit ratings to sub investment grade.
- Tied to the previous risk is the risk of a large sell-off in foreign holdings of South African government bonds resulting in sharp foreign capital outflows. The implication would be a weaker-than-expected rand exchange rate, higher inflation and a more negative interest rate environment (i.e. higher rates curtailing growth) than currently forecast.
- Lower business and consumer confidence that may result in even weaker-than-expected employment and fixed investment outcomes.

2.4 Developments in the Western Cape economy

2.4.1 Western Cape economic performance

Over the past few years, economic growth in the Western Cape has consistently outperformed that of the rest of South Africa (see Figure 2.7). This is primarily due to the presence of a fast-growing tertiary sector (particularly finance, insurance, real estate and business services), but also due to the lack of a mining sector presence which decreases the Province's exposure to swings in global commodity prices.

Figure 2.7 GDP growth South Africa (excluding Western Cape) compared to Western Cape, 2011 - 2015

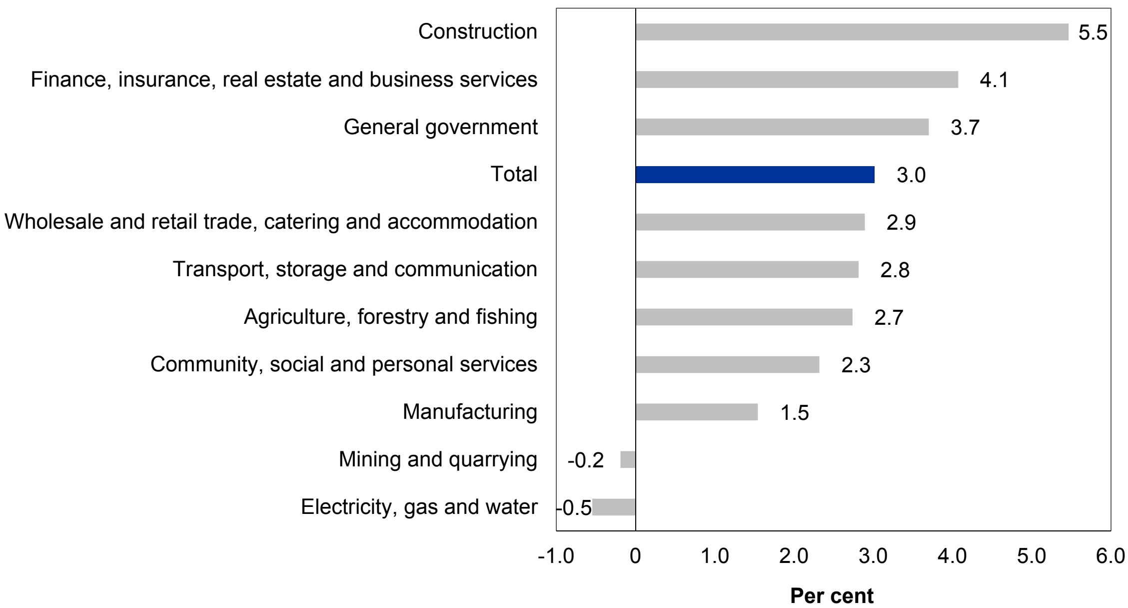


Source: Stats SA, 2017

Output in the Western Cape rose by 1.5 per cent in 2015 compared to 1.3 per cent for the rest of South Africa. Leading growth in the region was the finance, insurance, real estate and business services sector with growth of 3.4 per cent in 2015 representing 23 per cent of economic activity in the region. This was followed by the construction sector which showed growth of 2.2 per cent representing 5.3 per cent of regional economic activity. Most sectors, however, registered softer growth in 2015 relative to 2014. Most notably, the agricultural sector contracted by 2.0 per cent in 2015 compared to growth of 7.6 per cent in 2014. Growth in the transport, storage and communication, personal services and government services sectors also slowed. It was only the finance, insurance, real estate and business services sector within the tertiary sector that saw growth accelerate in 2015.

A longer-term analysis shows that growth in the Western Cape has largely been boosted by three sectors namely: construction (average growth of 5.5 per cent between 2006 and 2015); finance, insurance, real estate and business services (average growth of 4.1 per cent) and general government (average growth of 3.7 per cent). These were the only sectors where the average growth exceeded that of the Province (at 3 per cent). In contrast, the mining and quarrying sector (which has a regional GDP share of only 0.2 per cent) and the electricity, gas and water sector weighed on overall growth (see Figure 2.8).

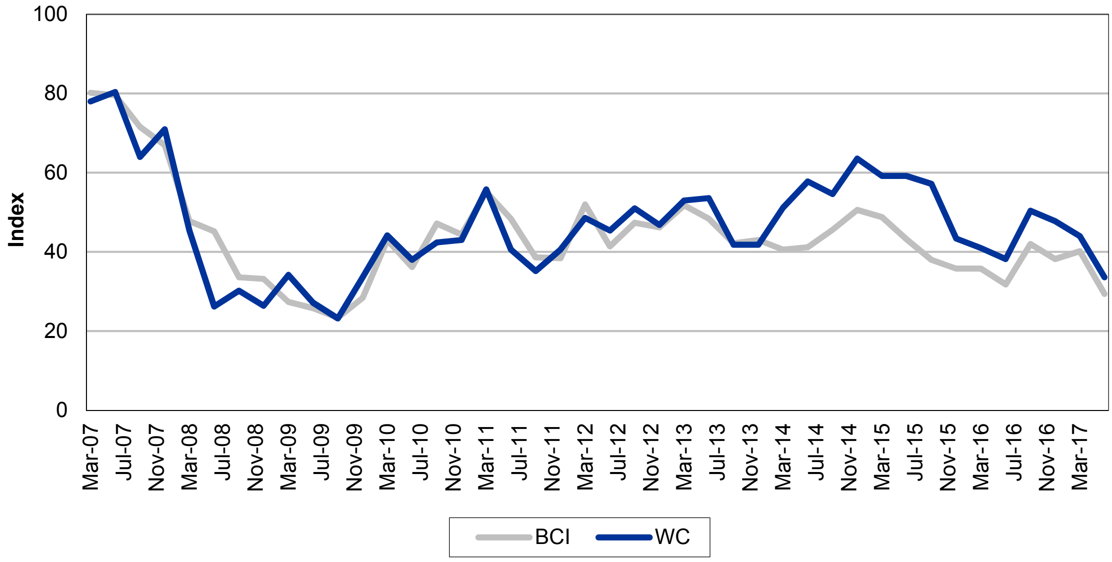
Figure 2.8 Western Cape average output growth rate per sector, 2006 - 2015



Source: Stats SA, 2017

The RMB/BER Business Confidence Index suggests that the gap between the performance of the Western Cape and the national economy continued in 2016. Albeit unofficial, it averaged 37 index points nationally during 2016, while for the Western Cape the average was 44 points. However, the trajectories were different and the gap narrowed throughout the year. While national business confidence in 2016 represents a marginal two-index point drop from the 2015 level, the fall was more than 10 index points in the Province. Leading the fall in Western Cape business confidence was the retail and manufacturing sectors where confidence decreased to 32 and 31 index points from an average of 60 and 48 index points in 2015. In contrast, the average business confidence of building contractors gained 8 index points in 2016. The BER/Quantec estimates put Western Cape GDP growth at 0.8 per cent[8] in 2016 (see Table 2.4).

Figure 2.9 Western Cape compared to South African business confidence, 2007 - 2017



Source: Bureau for Economic Research, 2017

Business confidence declined in the first half of 2017, both nationally and in the Western Cape (see Figure 2.9). The national average stood at 35 index points compared to the Western Cape's 39 index points. This suggests that businesses in the Western Cape are now under as much pressure as businesses nationally, although the source of the concerns may differ.

[8] At basic prices which excludes the impact of taxes and subsidies. Earlier estimates for national GDP were at market prices.

2.4.2 Outlook for the Western Cape economy

Growth in the Western Cape is predicted to moderate to 0.5 per cent in 2017 before recovering to 1 per cent in 2018. The growth outlook over the short to medium-term (2017 and 2018) is set to be well below its long-term average, similar to the national economy.

Table 2.4 Western Cape economic outlook[9], 2017 to 2018

Description	2015	2016e	2017f	2018f	Forecast average (2017 - 2022)
Agriculture, forestry and fishing	-2.0	-7.4	5.3	3.2	2.4
Mining and quarrying	0.9	-5.5	0.8	0.7	0.7
Manufacturing	-0.1	0.6	-0.3	1.9	1.7
Electricity, gas and water	-1.9	-3.3	-0.5	1.9	1.9
Construction	2.2	1.0	0.4	0.9	2.2
Wholesale and retail trade, catering and accommodation	1.7	1.3	-0.2	1.0	2.1
Transport, storage and communication	0.6	0.4	0.6	0.8	1.9
Finance, insurance, real estate and business services	3.4	1.8	0.5	0.5	1.9
General government	1.0	1.1	0.7	0.5	1.5
Community, social and personal services	0.9	1.4	0.3	0.6	0.5
Regional Gross Domestic Product	**1.5**	**0.8**	**0.5**	**1.0**	**1.8**

Source: Bureau for Economic Research/Quantec Research, 2017 (e denotes estimate, f denotes forecast)

Over the forecast horizon, the expected sectoral performance is as follows:

- A slight recovery in agricultural output is predicted for 2017. This is largely due to technical factors such as base effects, since drought conditions have not yet abated in the Province.
- Softer consumer spending because of low consumer confidence and weaker growth in disposable income will weigh on the retail sector. In contrast, tourism in the Province should benefit from the weaker exchange rate, which stimulates international tourism and forces domestic tourists from other provinces to look for domestic destinations instead of travelling abroad. In sum, output in the wholesale and retail trade, catering and accommodation sector is forecast to contract by 0.2 per cent in 2017 before rising by 1 per cent in 2018.
- The finance, real estate and business services sector, which has been the biggest contributor to overall growth in the Western Cape over the last few years, is likely to come under pressure following the prolonged weakness in the economy. This tends to be a lagging sector and is dependent on developments and growth in other sectors which have been weak in recent quarters. In addition, the real estate market in the Western Cape is showing signs of cooling.

9 The forecasts were formulated in July 2017.

- The value added in the construction sector is likely to grow at a slower pace in 2017 and 2018 compared to 2016. This is due to moderating public sector infrastructure spending on the back of fiscal constraints and a cooling property market.
- Growth in the value added by the general government sector is slower over the full forecast horizon. This is mainly due to the constrained fiscus which is unlikely to be a temporary phenomenon. Average growth of only 1.5 per cent is predicted between 2017 and 2022, noticeably lower than the total growth rate. This implies that it is unlikely that this sector will provide the same support to growth as was the case in the recent past.

2.4.3 Risks to the provincial outlook

The Western Cape cannot detach itself from the risks facing the global and national economy. However, some of these risks will have a greater impact on the Western Cape:

- The main downside risk relates to the drought in the Western Cape. Not only does it directly impact the agricultural sector but also the rest of the value chain which includes the agri-processing sector. Further to this, additional negative effects in the form of employment losses and lower exports are expected.
- On the upside, the growth in the Euro Area should disproportionately benefit the Western Cape. However, this is dependent on whether production (particularly in agriculture) comes on board.
- The Western Cape is more services orientated than the rest of the country. Therefore, a further decline in inflation (which could open the door for additional monetary policy loosening) should benefit consumer spending in the Western Cape disproportionately by increasing real wages.

2.5 Conclusion

The outlook for the global economy is reasonably upbeat, led by a more pronounced improvement in growth in advanced economies in 2017 particularly for the US and Euro Area. However, weaker growth in the UK due to Brexit, along with tighter monetary policy, is expected to weigh on the performance of advanced economies in 2018. In contrast, economic output in emerging and developing economies is predicted to accelerate to 4.6 per cent in 2017 and then further to 4.8 per cent in 2018. There is buoying growth in the emerging and developing economies with India expected to be the fastest growing economy in 2018. However, growth in the rest of the BRICS countries is not expected to be stellar. In fact, barring India, this group of countries is unlikely to provide the same support to global growth as was the case in the past.

After slipping into a technical recession during the first quarter of 2017, the South African economy rebounded by 2.5 per cent in the second quarter of 2017. Nonetheless, a weakening bias persists for the full year of 2017. This is underpinned by softer consumer spending due to low employment and credit growth as well as a higher personal income tax burden. In addition, low business confidence is expected to stifle private sector investment throughout 2017 and 2018, albeit to a lesser degree. This continues within an environment of political and policy uncertainty with further rating downgrades a persistent concern.

The Western Cape economy is not immune to developments on a national level. While the Province outperformed national growth in 2016, the momentum is projected to be slower than in previous years. Overall, the Western Cape economy is projected to grow by 0.5 per cent in 2017 with a more meaningful expansion in 2018 of 1.0 per cent. Over the longer horizon, economic activity is forecast to rise by an average of 1.8 per cent per year between 2017 and 2022.

3

Development of the Western Cape economy: Sectoral and spatial dimensions

Key findings

- Economic and employment growth in the Province culminated in a relatively bigger services sector (the biggest job creator in the Western Cape) and a smaller mining sector. Going forward, job growth is expected to slowdown for the rest of the economy.

- The Western Cape is in the midst of a severe water crisis. By end August 2017, the Province has received 30 per cent less rainfall than in a normal winter season with Western Cape main dam levels at 32.7 per cent of total capacity as opposed to 59.4 per cent in the previous year. With the provincial water supply currently at risk, the possible implications on the underlying socio-economic conditions could be dreadful.

- The manufacturing sector share to the economy declined between 1995 and 2015, the only sector to contract over this period in the Province and nationally. As a result, manufacturing employment in the Western Cape declined from 248 006 in 2011 to 240 450 in 2016.

- Business Process Outsourcing presents a significant opportunity for economic growth and employment in the Western Cape based on exceptionally high output and employment growth rates over the past four years.

3.1 Introduction

Chapter 2 reviewed the Western Cape economic growth performance and outlook against a global and national background. Chapter 3 extends this review by analysing the performance in the Western Cape in more detail. In addition, Chapter 3 sets the stage for the analysis of labour market dynamics in Chapter 4 as well as the socio-economic development review in Chapter 5. The focus of Chapter 3 is the sectoral economic performance of the Province. In addition to the Western Cape key economic sectors as identified by Project Khulisa, which are agri-processing, tourism and oil & gas, other provincial sectors that also have the potential to support economic growth and employment are discussed. The economic impact of the water crisis will be highlighted.

3.2 A sectoral overview of economic growth and employment

The findings of the comparative sector overview are considered within the broader context of the national and global economic and policy environment. The impact of nationally-determined factors, such as wage rates, labour legislation, taxation, energy and skills availability, cannot be ignored when interpreting the findings pertaining to the Province.

3.2.1 Western Cape economic growth[1]

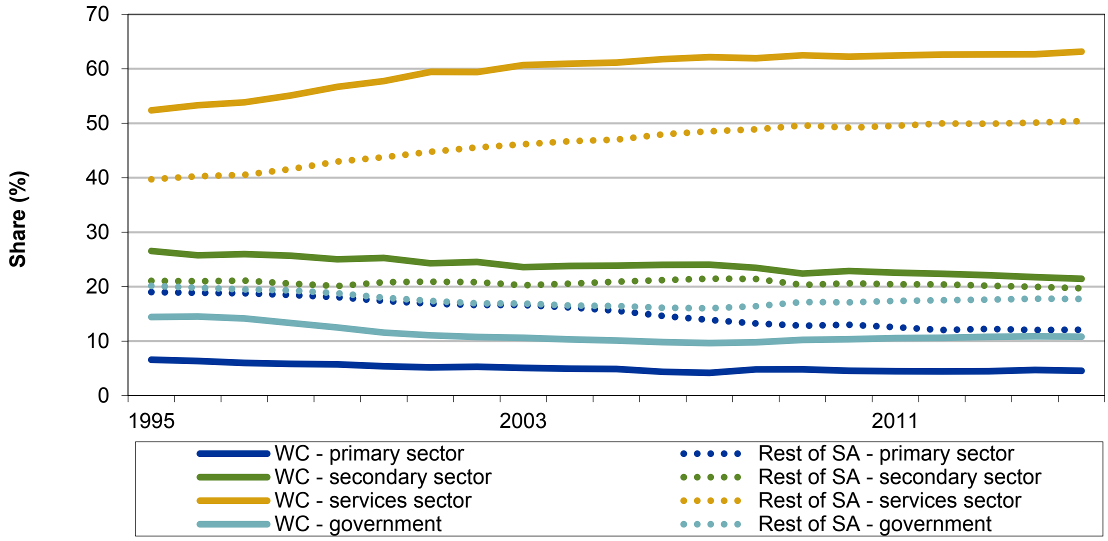
Economic growth in the Western Cape economy has, on average, outpaced the national average over the past years. As mentioned in Chapter 2, this is mainly due to the services-orientated nature of the provincial economy as well as the significantly smaller mining sector. Over the past two decades, the share of the services sector[2] has increased in both the Western Cape and the rest of the national economy. However, the starting point of the Western Cape's share was significantly higher. In 2015, the services sector (excluding the government sector) made up almost two-thirds (63 per cent) of the provincial economy compared to just half of the national economy (see Figure 3.1). When the government sector is included with the services sector, the full contribution of the tertiary sector increases to 74 per cent (compared with 68 per cent in the rest of the economy).

The growth in the share of the tertiary sector has mainly come at the expense of a smaller secondary sector in the Western Cape. Its share declined from 27 per cent in 1995 to 21 per cent in 2015. In the rest of South Africa, faster growth in the tertiary sector led to the share of the primary sector declining from 19 per cent to 12 per cent.

1 The latest available year using actual GDPR data is 2015. GDPR data for 2016 is only available as estimates.

2 The services sector consists of wholesale and retail trade, catering and accommodation; transport, storage and communication; finance, insurance, real estate and business services and community, social and personal services.

Figure 3.1 Long-term sectoral composition of the Western Cape and rest of South Africa, 1995 - 2015



Source: Quantec Research, 2017

The decline in the contribution of the Western Cape's secondary industry stems mainly from the manufacturing sector, of which the share fell from 21 per cent in 1995 to 15 per cent in 2015. This is due to significantly slower growth in the manufacturing sector (1.8 per cent on average) compared to the provincial economy (3.2 per cent). The manufacturing sector was hampered by rising competition from imports which, for example, negatively impacted growth in the clothing and textile subsector (larger in the provincial economy than nationally). This came on the back of higher local cost pressures stemming mainly from increased electricity tariffs and wage increases outstripping productivity improvements. Over the past decade, the manufacturing sector was also held back by local supply-side constraints, most importantly disruptive industrial action in the manufacturing and allied mining sectors as well as the national electricity shortage. The latter resulted in load-shedding and large industrial users were forced to cut back on electricity usage and thus production.

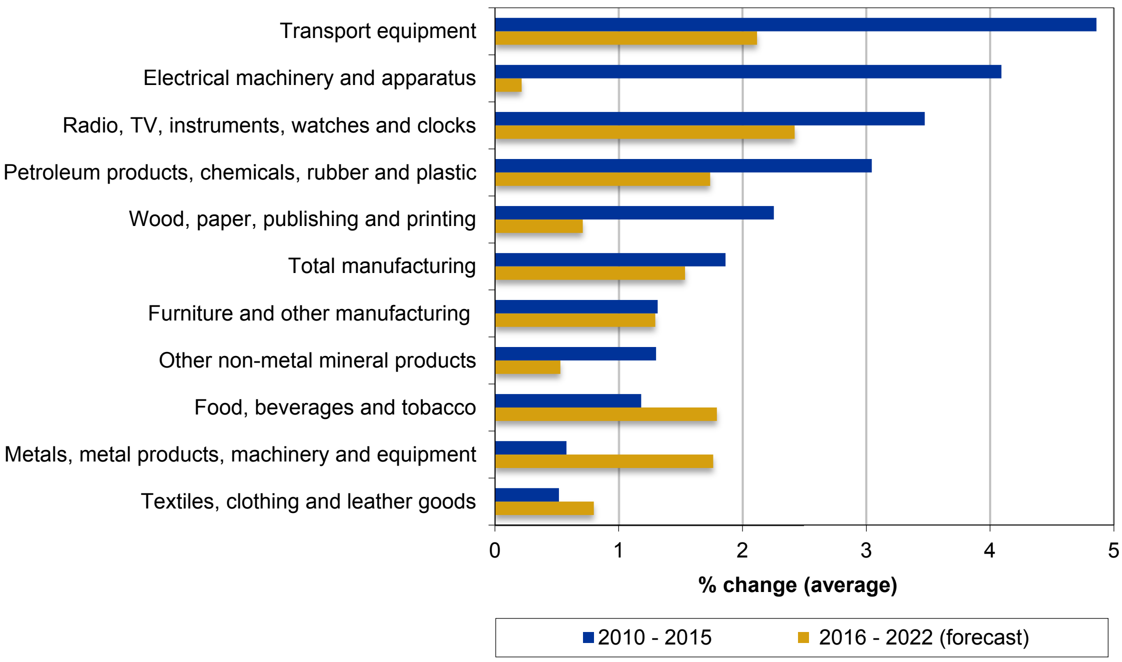
The overall manufacturing sector figure masks a widely divergent experience at a subsector level. Within manufacturing, the food, beverages and tobacco subsector (a key part of the Province's broader agri-processing value chain) remains the largest, although its contribution to manufacturing output has declined from 34 per cent in 1995 to 29 per cent in 2015. Over this same period, the contribution of the petroleum products, chemicals, rubber and plastic subsector expanded from 15 per cent in 1995 to 21 per cent in 2015, and the transport equipment subsector increased from 4 to 7 per cent.

More recently, the transport equipment subsector was, on average, the fastest growing manufacturing subsector from 2010 to 2015 (4.9 per cent growth), albeit from a very low base (see Figure 3.2). Making up only 7 per cent of manufacturing output in 2015, the subsector contributed about a quarter of the overall value added in the industry from 2010 to 2015. The second-fastest growing sector was the electrical machinery and apparatus subsector (growth of 4.1 per cent), followed by the radio, television, instruments, watches and clocks subsector (3.5 per cent growth) and the petroleum products, chemicals, rubber and plastic subsector (3.1 per cent growth). As the second-biggest subsector, it alone was responsible from more than half of the value added in manufacturing from 2010 to 2015. The last two subsectors are also expected to continue to experience relatively strong growth over the short-term forecast period, albeit at slower rates than before. On the other hand, growth in the electrical machinery and apparatus subsector is forecast to slow more significantly, reflecting a normalisation from very strong growth in the preceding years.

From 2010 to 2015, the slowest growing subsectors were textiles, clothing and leather goods (0.5 per cent) as well as metals, metal products, machinery and equipment (0.6 per cent). Growth in both sectors is expected to improve over the forecast horizon. Factors stimulating growth in the clothing sector include the lagged impact of previous industrial policy support and increased local demand for domestically produced clothing. As the biggest manufacturing subsector, the recovery in the food, beverages and tobacco subsector should help lift overall manufacturing growth. About a third of the expected value added from 2016 to 2022 is likely to come from this subsector alone. However, this subsector is very vulnerable to fluctuations in the broader agricultural sector. Should the current drought and water scarcity persist, growth in this sector could turn out significantly weaker.

The lacklustre long-term performance of the Western Cape manufacturing sector is disappointing because this sector is often identified as a key job creating sector.

Figure 3.2 Economic growth per manufacturing subsector, 2010 - 2022



Source: Quantec Research, 2017

3.2.2 Western Cape sector employment

Key labour market dynamics are discussed in detail in Chapter 4. This section links the recent economic growth performance with job growth on a sector level, albeit in longer term trends and forecasts.

In line with the slightly better economic performance in the Western Cape, job growth was also slightly faster compared to the rest of South Africa (see Table 3.1). From 2011 to 2016, employment in the Western Cape increased by an annual average of 2.5 per cent, slightly outperforming the 2.3 per cent growth recorded in the rest of the country.

The agriculture subsector recorded the fastest growth in employment of 4.9 per cent per year over this period. However, this is mainly due to an exceptionally large increase of 23.4 per cent (from 184 129 to 227 202 jobs) in 2015. The rest of South Africa registered even sharper job growth in the agriculture sector in 2015 (from 634 770 to 799 549 jobs or 26.0 per cent increase). However, to some extent these figures are distorted by a change in the sample used for the Quarterly Labour Force Survey by Stats SA in 2015 compared to the sample used in preceding years. It is likely that these jobs were already in existence before 2015, but were only captured by the updated sample (thereby overstating actual job growth in that specific year). Excluding the anomalous 2015 figure (see section 4.2 in Chapter 4), average job growth from 2011 to 2016 slows from 2.5 per cent to 1.2 per cent in the Western Cape and from 2.3 per cent to 1.1 per cent in the rest of South Africa.

The second-fastest average growth rate was recorded in the construction subsector with an increase of 3.7 per cent from 2011 to 2016. The construction sector was responsible for 11.2 per cent (34 047) of the total number of jobs created.

Employment in the services sector rose by an average of 2.7 per cent per year between 2011 and 2016. The services sector is the Province's biggest employer and added the most jobs to the provincial economy (193 166 which is 64 per cent of the jobs created from 2011). Within the services sector, the community, social and personal services subsector recorded the fastest growth rate of 3.8 per cent, followed by the transport subsector which expanded by 2.9 per cent. On the other hand, employment in the communication subsector grew by an average of only 0.2 per cent from 2011 to 2016.

The only sector to contract, on average, from 2011 to 2016 was the manufacturing sector - in line with the national trend. Total employment in the sector declined from 248 006 in 2011 to 240 450 in 2016. The contraction was broad based with seven out of ten subsectors recording negative average growth rates (see Annexure A). The biggest average decline was seen in the textiles, clothing and leather goods subsector (-2.6 per cent), followed by furniture and other manufacturing (-2.2 per cent). The transport equipment (1.4 per cent), food, beverages and tobacco (1.1 per cent) as well as electrical machinery and apparatus (0.7 per cent) subsectors managed to record positive growth over the period.

Table 3.1 Employment trends per sector, 2011 - 2022[3]

Sector	Western Cape Share (%) 2016	Western Cape Average growth 2011 - 2016	Western Cape Average growth 2017 - 2022 (forecast)	South Africa (excluding WC) Share (%) 2016	South Africa (excluding WC) Average growth 2011 - 2016	South Africa (excluding WC) Average growth 2017 - 2022 (forecast)
Agriculture	9.0	4.9	-0.8	5.9	5.2	0.3
Manufacturing	9.7	-0.7	0.1	8.5	-0.9	-0.1
Construction	8.1	3.7	1.1	8.3	5.2	0.6
Services	60.8	2.7	1.2	60.6	2.6	1.0
General government	12.0	2.4	0.3	12.8	1.9	0.2
Other	0.4	1.9	0.5	3.9	-0.9	0.0
Total	**100**	**2.5**	**0.8**	**100**	**2.3**	**0.7**

Source: Quantec Research, 2017

Going forward, agriculture employment is likely to contract over the forecast period - particularly in the earlier years as the impact of the drought and water shortage is expected to weigh on job creation - while manufacturing is forecast to improve, albeit an average annual growth of only 0.1 per cent from 2017 and 2022. All the other subsectors are expected to register slower growth from 2017 to 2022 compared to the preceding five years. Growth in the general government employment, both in the Province and the rest of the economy, will likely slow significantly as fiscal consolidation curtails government expenditure. As a result, overall job growth is expected to remain very poor over the forecast period, averaging only 0.8 per cent from 2017 to 2022. This is only slightly better than the 0.7 per cent growth forecast for the rest of the economy.

3.2.3 The spatial aspect of economic growth

The Western Cape economy at district level provides for important economic intelligence required to make informed policy and resource allocation decisions at a regional level. As illustrated in Figure 3.3, the City of Cape Town remains the predominant contributor to economic output in the Province at 72 per cent in 2015, followed by Cape Winelands (11 per cent) and Eden (8 per cent). In 2015, the economy of the City of Cape Town was 6 times larger than Cape Winelands (2nd largest) and 145 times larger than the Central Karoo District (smallest).

3 A full table with all the subsector data is included in Annexure A.

Figure 3.3 Economic output contribution per district, 2015

Source: Quantec, 2017, Own calculations

In 2015, the Overberg District had the highest economic growth rate (1.7 per cent) followed by Eden (1.6 per cent) and Cape Winelands (1.6 per cent), with Central Karoo (0.2 per cent) recording the lowest growth rate, (see Table 3.1). From 2005 to 2015, Overberg (3.6 per cent) recorded the highest average annual growth rate followed by Eden (3.2 per cent) and both Central Karoo and West Coast (3 per cent).

In 2015, the agriculture, forestry and fishing sector experienced negative growth rates in all Western Cape districts except the City of Cape Town, most likely as a result of the persistent drought. As a result, the sector was subsequently the largest negative contributor to economic growth recorded for the Central Karoo. Furthermore, the sector provided a substantially negative contribution to economic growth for the Cape Winelands, Overberg and West Coast districts. From 2005 to 2015, the agriculture, forestry and fishing sector made the largest and second largest average contribution to economic growth for the West Coast (22.9 per cent) and Central Karoo (22.8 per cent) districts respectively, thereby reflecting the historical importance of the sector to these district economies.

Table 3.2 GDPR growth rates and contribution to economic growth, 2005 - 2015

Economic growth rate (%)

	Cape Metro		West Coast		Cape Winelands		Overberg		Eden		Central Karoo	
Sectors	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)
Agriculture, forestry and fishing	0.0	3.6	-1.4	3.4	-3.3	1.7	-3.6	1.1	-2.7	1.5	-2.9	4.0
Mining and quarrying	1.1	-0.2	0.6	-0.7	-0.9	-0.1	6.3	0.5	0.9	-0.2	1.5	0.7
Manufacturing	-0.3	1.5	1.3	2.1	-0.6	-0.3	2.2	3.8	0.5	2.3	0.4	1.0
Electricity, gas and water	-1.9	-0.8	-3.1	-1.6	-1.2	1.1	-1.8	-0.3	-1.8	-0.8	0.1	1.1
Construction	2.3	5.1	0.8	5.5	3.6	7.6	2.2	5.8	0.2	4.0	-1.1	5.2
Wholesale and retail trade, catering and accommodation	1.5	2.6	2.3	3.5	3.0	4.3	2.9	4.1	1.6	2.8	0.3	2.0
Transport, storage and communication	0.5	2.6	-1.7	0.9	1.4	3.8	1.7	4.6	1.5	3.9	-1.9	0.5
Finance, insurance, real estate and business services	3.1	3.8	3.8	4.5	4.9	5.7	4.3	4.6	4.4	4.8	3.7	4.3
General government	1.1	3.9	0.9	3.6	0.3	3.0	0.3	3.0	0.0	2.7	1.4	4.2
Community, social and personal services	0.7	2.0	1.9	3.4	1.8	3.3	1.3	2.8	1.0	2.6	2.0	2.9
Total	**1.5**	**2.9**	**0.9**	**3.0**	**1.6**	**3.2**	**1.7**	**3.6**	**1.6**	**3.2**	**0.2**	**3.0**

Contribution to economic growth (%)

	Cape Metro		West Coast		Cape Winelands		Overberg		Eden		Central Karoo	
Sectors	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)	2015	2005 - 2015 (Avg)
Agriculture, forestry and fishing	0.0	1.7	-32.0	22.9	-23.7	6.2	-25.5	4.0	-11.4	3.3	-302.5	22.8
Mining and quarrying	0.2	0.0	0.8	-0.3	-0.1	0.0	0.3	0.0	0.2	0.0	0.4	0.0
Manufacturing	-3.0	8.6	30.0	15.0	-6.1	-2.0	16.7	13.7	4.5	10.6	6.1	0.9
Electricity, gas and water	-2.6	-0.6	-4.8	-0.9	-1.2	0.6	-1.8	-0.2	-2.3	-0.6	2.7	1.5
Construction	6.5	6.5	3.6	6.4	11.6	9.9	7.3	8.5	0.7	6.2	-28.4	6.9
Wholesale and retail trade, catering and accommodation	15.6	14.1	37.0	16.8	32.2	21.9	29.5	20.1	17.3	15.4	27.7	10.4
Transport, storage and communication	3.9	9.9	-14.0	2.3	7.4	9.9	9.4	12.0	9.0	11.1	-148.3	2.5
Finance, insurance, real estate and business services	68.1	40.6	57.0	19.3	70.0	36.7	57.8	29.2	77.7	40.3	276.1	18.3
General government	8.1	14.4	9.4	11.5	1.6	9.1	1.3	7.2	-0.3	8.2	157.3	27.1
Community, social and personal services	3.3	4.8	13.0	7.0	8.3	7.6	5.1	5.4	4.5	5.7	108.9	9.5
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Quantec, 2017, Own calculations

As opposed to the relative large impact on districts attributed to negative growth recorded for the agriculture, forestry and fishing sector, the electricity, gas and water sector which also recorded negative growth rates in 2015, had a negligible effect on the growth rates of the district economies. The reason being the difference in economic contribution by the two sectors to the provincial economy. In 2015, agriculture, forestry and fishing contributed 4.3 per cent as opposed to the electricity, gas and water sector with a 1.9 per cent contribution to the provincial economy.

In 2015, the finance, insurance, real estate and business services sector made the largest positive contribution to economic growth to all districts, which conforms to the historical trend for this sector. From 2005 to 2015, the finance, insurance, real estate and business services sector was also the largest average contributor to economic growth in the three largest districts by economic output, (the City of Cape Town, Cape Winelands, and Eden) as well as the Overberg District. The sector therefore remains a key contributor to the economic well-being of the Province.

3.3 Western Cape trade profile

The Western Cape recorded an annual average export growth rate of 13.2 per cent from 2007 to 2016. Over the same period, imports grew at a significantly slower pace of 9.0 per cent annually. In 2016, exports from the Western Cape totalled R121.09 billion, an increase of 3.8 per cent from 2015, slightly lower than 2015 growth of 6.5 per cent. This growth was largely due to the depreciating rand which declined from R12.75 to the USD in 2015 to R14.71 in 2016. Imports totalled R192.14 billion in 2016, declining by 2.1 per cent from 2015.

Similar to the national economy, the Province generally runs a trade deficit. The Western Cape ran a R71.05 billion trade deficit in 2016 which was about R8.73 billion less than recorded in 2015 (R79.78 billion). If petroleum oils (both crude and refined petroleum oil) trade are excluded from the Western Cape's trade figures, there would be a significantly smaller trade deficit. This is due to petroleum oils contributing such a significant amount to imports (40 per cent) of the Western Cape.

3.3.1 Trade source and destination markets

In 2016, Africa was the leading destination for the Province's exports (R45.1 billion) followed by Europe and Asia (R36.27 billion and R20.69 billion). Within Africa exports were mainly destined to other Southern African Customs Union (SACU) members. SACU accounted for 20 per cent of the Province's total exports, second only to the European Union (28 per cent). Together these two sub-regions account for almost half of Western Cape exports in 2016. Namibia was the Western Cape's top export market which together with Botswana made up almost 16 per cent of the Province's total exports (R19.4 billion) in 2016 (see Table 3.3).

The top ten import and export profiles differ as the Western Cape imports oil from several countries which are not key export destinations. The biggest import source market was China (R36.64 billion). Between 2012 and 2016 the value of imports from China increased by 17.6 per cent.

Table 3.3 Top ten export and import markets for the Western Cape, 2016

Rank	Imports	Value 2016 (R bn)	% Share	% Growth 2012 - 2016	Rank	Exports	Value 2016 (R bn)	% Share	% Growth 2012 - 2016
1	China	36.64	19.07	17.61	1	Namibia	12.27	10.13	10.03
2	Saudi Arabia	21.72	11.31	23.34	2	United Kingdom	9.17	7.57	13.35
3	Angola	12.78	6.65	27.64	3	United States	8.98	7.41	22.90
4	Nigeria	12.26	6.38	15.41	4	Netherlands	8.14	6.72	9.79
5	India	11.07	5.76	14.73	5	Botswana	7.11	5.87	-6.16
6	United Arab Emirates	7.96	4.14	17.77	6	Germany	5.22	4.31	11.07
7	Germany	7.86	4.09	15.08	7	Mozambique	3.28	2.71	35.72
8	United Kingdom	7.28	3.79	3.32	8	China	3.13	2.59	20.16
9	United States	6.75	3.51	4.62	9	United Arab Emirates	2.61	2.15	23.31
10	Italy	5.01	2.61	3.64	10	Kenya	2.51	2.07	39.45
Total imports		**192.14**	**100**	**7.67**	**Total exports**		**121.09**	**100**	**17.84**

Source: Wesgro, 2017

Africa Offers Opportunity for Western Cape Exporters

The African market is growing with rising consumer incomes, more open economies, changing consumer needs and an increasing uptake of mobile subscriptions and broadband. The African region presents a number of opportunities for Western Cape companies that are well positioned to take advantage of Africa's industrialisation drive.

The Western Cape is a major exporter of agricultural products, exporting around half of all South Africa's global exports of prepared foodstuffs, fruit and vegetables. The Western Cape alone exports over R3.9 billion worth of apples and pears, fruit juice and wine to the African continent. This is largely due to South African retailers such as Pick n Pay, Shoprite, Spar and Woolworths extending their operations in the sub-continent and sourcing from Western Cape producers.

In 2016, the Western Cape supplied 55 per cent of all fermented beverages like cider into Africa. The Province also accounts for a significant share of Africa's global fruit juice imports (16 per cent), apple and pear imports (16 per cent), citrus imports (23 per cent) and wine imports (20 per cent). Western Cape exports of flat rolled iron and steel (R2.4 billion in 2016) and structures and parts of structures (R195 million) to Africa benefits the construction industry. The largest destination markets for the Province's exports to Africa excluding SACU countries were Mozambique, Kenya, Zambia, Angola, Zimbabwe and Nigeria indicating a demand from both East and West Africa.

Source: Wesgro: Western Cape Trade and Investment Springboard, 2017

3.3.2 Western Cape sector revealed comparative trade advantages[4]

There are significant differences between the export profiles of the Western Cape and South Africa. In the Province, the biggest export sector is food, beverages and tobacco which accounted for 23.5 per cent of exports in 2016[5]. This sector's share of South Africa's[6] total exports is only 5.9 per cent, yet 42.5 per cent of South Africa's food and beverages exports come from the Western Cape. In contrast, South Africa's biggest export sector is mining (contributing 24 per cent to the total) while this is only 9.5 per cent of exports in the Province. Mining exports from the Western Cape have, however, increased over the past five years while mining exports from South Africa have, on average, contracted from 2011 to 2016.

The fastest growing export sectors in the Western Cape were other non-metal mineral products (which include industrial minerals such as clay, limestone and construction materials) which grew by an average of 37.8 per cent from 2011 to 2016, as well as textiles, clothing and leather goods (33.1 per cent over the same period). However, both these sectors are still very small, contributing only 0.7 and 3.0 per cent to Western Cape exports.

Table 3.4 depicts the revealed comparative trade advantages (RTCA) of Western Cape sectors: a level above one signals a comparative advantage relative to the rest of South Africa, while a level below one indicates a comparative disadvantage. The relevant sector's export share of total provincial (regional) exports is expressed as a ratio of the same sector's share of South African exports to calculate a revealed comparative trade advantage ratio. Subsectors with a RTCA above one thus have a larger share of exports in the Western Cape compared to the rest of South Africa, and are thus relatively more important for the Province in terms of overall export performance. Over the years, the Western Cape has managed to maintain its significant comparative advantage in the broader agri-processing value chain and in the services sectors, most notably catering and accommodation and business services.

[4] Note that the historical subsector trade data has been revised using the latest available data and methods, which may result in slight differences in the time series as well as the analysis done compared to previous PEROs. One of the big differences in the revised data set is a decline in petroleum products, chemicals, rubber and plastic exports compared to previous datasets. This because the current dataset takes account of the location of the petroleum refineries itself (which with the exception of the Chevron refinery are outside of the Western Cape) instead of the location of the headquarters which maybe in the Province.

[5] In Annexure B a list of the sector's revealed comparative trade advantage and average growth rates (2010 - 2015) is provided.

[6] In this section, South Africa refers to all nine provinces (including the Western Cape).

Table 3.4 Western Cape revealed comparative trade advantage per subsector, 2001 - 2016

RTCA	2001	2006	2011	2016
Agriculture, forestry and fishing	6.3	5.6	5.8	5.0
Food, beverages and tobacco	4.2	4.6	3.7	4.0
Textiles, clothing and leather goods	3.0	2.3	1.0	2.5
Catering and accommodation	2.5	2.1	2.3	1.9
Radio, TV, instruments, watches and clocks	1.8	2.1	2.3	1.9
Business services	2.2	1.8	2.2	1.8
Construction	2.0	1.6	2.0	1.6
Finance and insurance	1.9	1.5	1.9	1.6
Wholesale and retail trade	1.6	1.3	1.6	1.3
Communication	1.6	1.3	1.6	1.3
Transport	1.4	1.1	1.4	1.2
Community, social and personal services	1.3	1.1	1.3	1.1
Furniture; other manufacturing	0.7	0.8	1.1	0.9
Petroleum products, chemicals, rubber and plastic	1.0	0.8	0.7	0.9
Other non-metal mineral products	1.6	0.4	0.3	0.9
Electrical machinery and apparatus	0.4	0.2	0.3	0.7
Wood and paper; publishing and printing	0.6	0.6	0.4	0.6
Metals, metal products, machinery and equipment	0.7	0.5	0.4	0.6
Mining	0.4	0.6	0.2	0.4
Transport equipment	0.2	0.2	0.5	0.2
Electricity	0.0	0.0	0.0	0.0

Source: Quantec Research, 2017

3.3.3 Spatial aspect of the Western Cape trade profile

The spatial trade profile of the Province reflects the uneven concentration of economic activity. The City of Cape Town was responsible for 65 per cent (R78.7 billion) of total exports in 2016 and Cape Winelands for 24 per cent (R29.4 billion). The two (City of Cape Town and Cape Winelands) regions' share combined account for 89 per cent of total exports in 2016. The other four districts (West Coast, Eden, Overberg and Central Karoo) account for the remaining 11 per cent of total regional exports.

The City of Cape Town, which includes the imports through Cape Town International Airport and the Port of Cape Town, and Cape Winelands are responsible for around 96 per cent of the Western Cape's total goods imports (predominantly crude oil and natural gas). All districts recorded positive import growth from 2012 to 2016 on an annual average basis.

3.4 Water resilience in the Western Cape: economic risks and opportunities

The Western Cape is in the midst of a severe water crisis. As of August 2017, the Province has received 30 per cent less rainfall than in a normal winter season. Table 3.5 shows the extent to which the drought has affected the Province's major water resources over the past year. While much of the drought communication to date has been focused on the City of Cape Town (in terms of both water use reductions and supply augmentation), the problems in other districts are more severe. This is illustrated by the 17.4 per cent level of the Gouritz River Catchment that provides water to Eden.

Table 3.5 Western Cape dam levels, 2016 - 2017

Dam	% Full 28 August 2016	% Full 28 August 2017
Cape Town System Dams (Combined): Wemmershoek, Voëlvlei, Steenbras, Theewaterskloof and Berg River Dams	58.19	33.87
Berg River Catchment	67.67	44.28
Breede River Catchment	54.68	31.64
Gouritz River Catchment	46.70	17.38
Olifants/Doorn River Catchment	99.26	36.39
Western Cape state of dams	**59.48**	**32.73**

Source: National Department of Water and Sanitation

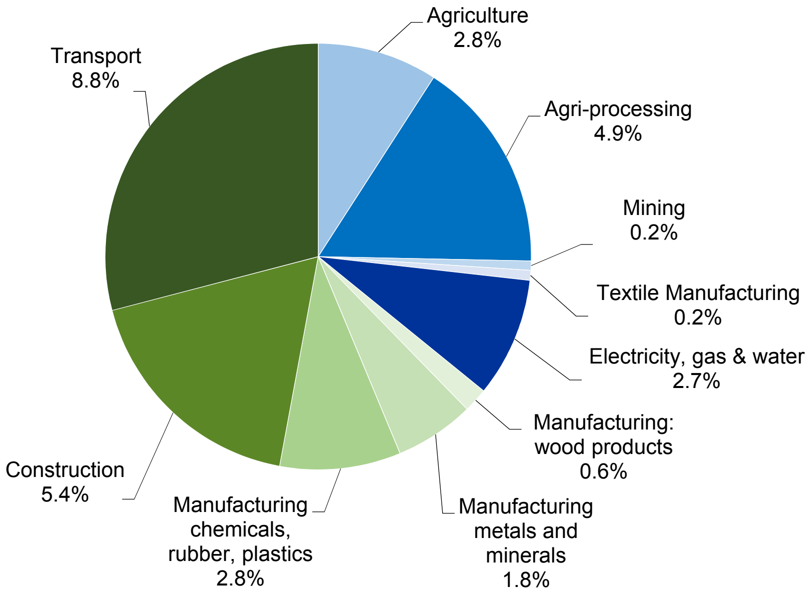
Climatic factors are important causes of the current drought. Climate change impacts are already being experienced and are likely to be long term in nature. Other factors that have exacerbated the crisis include population growth, economic growth, increased water pollution, the state of water infrastructure and its current management. These factors have resulted in historically low dam levels for the Western Cape. Moreover, the current crisis, being long term in nature, may according to some scientists, require new ways to think about water resource management in the Western Cape.

3.4.1 Impact of the water crisis on the Western Cape economy

The impact of the water crisis on the Western Cape economy is likely to be significant, both directly on businesses and through their supply chains. In 2016, 94 per cent of companies reported water as a direct risk to their operations (the highest in the world). The potential impact on business reputation for reliability and quality (particularly for the export market) that even a short term water shortage might have, could be severe.

While the focus is currently largely on physical risk, financial risk is emerging as a concern with increasing water tariffs resulting in higher costs for companies and a potential loss of competitiveness. These risks are likely to have a more disruptive impact on highly intensive water users.

Figure 3.4 Heavily and Moderately Water Dependent Sectors in the Western Cape



Note: Blue shades: heavily intensive; green shades: moderately intensive
Sectors as a percentage of Provincial GVA

Source: Quantec. Regional Output and GVA at basic prices by industry and 2011 municipal level (ward-based region for metros) 1995-2015 (v2 26Sep16)

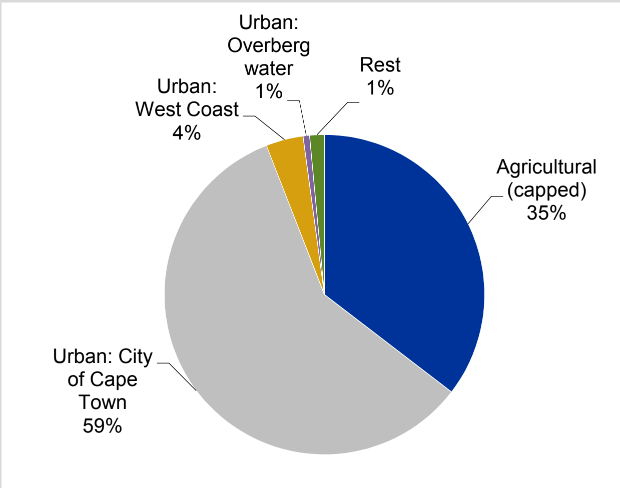
Heavily and moderately water intensive businesses make up 30 per cent of the Western Cape economy in terms of GVA (see Figure 3.4). Oil and gas and agri-processing sectors are heavily water dependent. Whereas tourism is not a heavily or moderately dependent water sector, water is crucial for many tourism experiences such as swimming pools, sailing, canoeing, hiking and fishing. Research shows that tourists in developing countries use 3 - 8 times more water than residents[7]. A drought can diminish the quality of the tourism experience and the Western Cape could suffer significant reputational risk as a tourism destination.

[7] Source: Becken, S (2014) *"Water Resources and Industry"*, **Water Resources and Industry**, Vol. 7 - 8, pp. 9 - 22.

Impact on the drought on the Western Cape economic sectors and industries

Besides the impact on consumers, the current drought has also negatively affected industry, mainly agriculture. The agricultural sector is dependent on water for irrigation. For example, the Western Cape Water Supply System (WCWSS), which supplies 85 per cent of the Province's water, apportioned 216 million m^3 of water to the agricultural sector in 2015, which was approximately 35 per cent of the total water supplied. Other sectors affected include the tourism sector, certain manufacturers and the construction sector. Some construction projects have already been postponed or had water imported at great cost because of the local shortage. As a result, the water shortage will also have negative consequences for employment in the Province.

Figure 3.5 Western Cape water usage by region



Various small-scale augmentation schemes are being put into place, including drawing water from the Table Mountain Group aquifer and the Cape Flats aquifer, and small-scale desalination (or similar technology) at Koeberg and several other sites around the Cape Metropole. The City of Cape Town has also established a water resilience task team to ensure that acute water shortages are avoided.

Source: GreenCape

Responding to the crisis entails both reducing risk to existing businesses, as well as maximising opportunities for both existing and new enterprises that may provide technology and/or services to help others respond to the water crisis. While certain Western Cape businesses have addressed water as a strategic risk for a number of years, many have not done so. Reducing water consumption and increasing own water supply augmentation and storage are likely to remain policy challenges in the Province.

3.4.2 Sectoral approach of the water programme

While the Western Cape Government (WCG) business water programme engages with all sectors, sectors with a high dependence on water and potentially severe economic implications - particularly job losses - of water shortages, are given more emphasis in the short to medium term. These sectors include agriculture and agri-processing, construction, manufacturing and tourism.

The reuse potential of water in agriculture and agri-processing is regarded as high. The Western Cape Department of Agriculture is actively driving the SmartAgri project which provides a framework towards improving water efficiency in this sector. The potential for water recycling in construction is regarded as high and there is significant room for improvement in water efficiencies in manufacturing processes.

Support offered to businesses

A programme of support to businesses is provided by GreenCape, the City of Cape Town, the Water Research Commission, Department of Economic Development and Tourism, Department of Environmental Affairs and Development Planning and many others. This support includes the development and sharing of case studies, high level strategic identification of where to focus water efficiency and supply augmentation efforts and information on different technologies. Support is also provided by the Smart Agri rollout, the green agri desk, (a programme supporting reduced water use in agricultural sector) and the City's Energy, Water and Waste Business Forum.

Other City of Cape Town measures include: a rating tool for good water management practices in business operations, the City rebate on large consumer's investment in significant improvement on quality or zero generation of effluent, databases of water technology service providers, awareness materials, a guideline for the installation of alternative water systems, the City making treated effluent available to large business users for operational use at a cheaper cost than potable water, and the City and WCG working with international parties to establish the viability of an external funding mechanism (the Water Fund) to rehabilitate catchments.

Source: Western Cape Department of Economic Development and Tourism

The rapid roll-out of multiple water supply augmentation schemes that aim to bring an additional 500 million litres per day of water online from mid-2018 and the call across the Western Cape for households and businesses to reduce water usage and install their own water supply systems, have created significant demand for water related products and technologies. Extensive support is being offered to water sector businesses to enable them to service the demand for water efficiency and supply augmentation products and services arising from the water crisis and a longer term move towards water resilience.

3.5 Key economic sectors in the Western Cape

Project Khulisa[8] identified sectors that have the greatest potential for sustained and accelerated economic and employment growth within a three- to five-year framework. Through Project Khulisa, tourism (business and leisure tourism, and more specialised niches), agri-processing (value added activities in food and beverages, including its potential for domestic production and export) as well as the oil and gas sector (midstream services with immediate impact potential, such as rig repair) were selected as strategic priority areas for provincial focus.

[8] For more information on Project Khulisa see the 2015 PERO, pages 57 and 58.

3.5.1 Oil, gas and marine services

The oil, gas and marine services sector includes, in the main, the rig repair, ship repair and ship fabrication subsectors. The marine services sector contributed more than R1.5 billion in Gross Value Added (GVA) to the regional economy in 2016. Although it is a 50 per cent increase since 2014, it is off a relatively small base representing 0.4 per cent of provincial GDPR. In 2016, the sector employed 5 878 workers, slightly down from 6 060 jobs in 2015[9]. The decline in the sector could be linked to challenges within the port, such as a lack of capacity and aging equipment[10]. Even though turnover within the sector declined in 2016, there are indications that demand for marine services seemed to have remained steady[11].

Approximately 30 000 ships pass through the South African coastal waters each year. A third of these ships docked at South African ports, with over 3 000 vessels that made calls to ports in the Western Cape in 2016. Cape Town is currently the dominant ship repair location in South Africa. Operation Phakisa found that the global ship repair industry is estimated at USD18 billion in 2014, of which South Africa captures about 1 per cent[12].

The oil, gas and marine services industry was significantly affected by global trends. Crude oil reached record-high prices between 2011 and 2014 which resulted in sharp increases in upstream oil activity along the African coastline. This development was beneficial for the rig repair subsector in the Western Cape. Overall, the oil, gas and marine services sector experienced growth from 2013 to the end of 2014, growing repair tonnage by 16.2 per cent over this period. In 2015, the rig repair subsector suffered a severe slowdown in response to the weaker oil price and curtailment of crude activity globally and off the African coast.

The decline in rigs in operation globally reflected on the decline in rigs repaired in the Western Cape. As seen in Figure 3.6, the number of rigs operating in most regions declined after 2014.

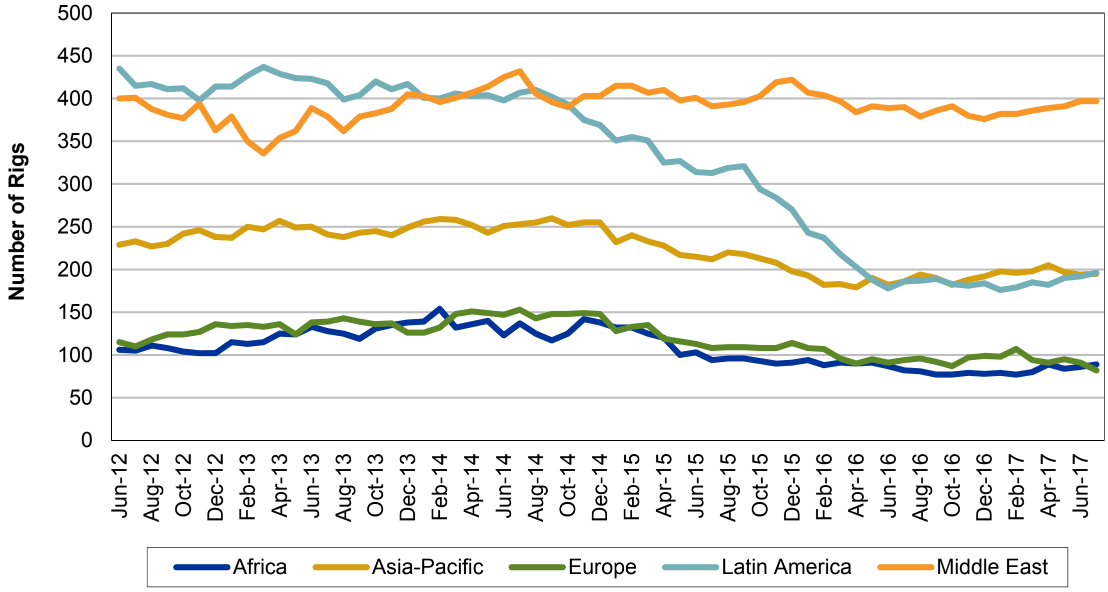
9 Baseline Economic Assessments Western Cape Maritime Industry 2015 & 2016, prepared for the Provincial Government of the Western Cape

10 Reports by firms during research of Baseline Economic Assessments Western Cape Maritime Industry 2015 & 2016, prepared for the Provincial Government of the Western Cape

11 Dormac (Ship Repair Company)

12 Unlocking the Economic Potential of South Africa's Oceans Marine Transport and Manufacturing Final Lab Report,15 August, 2014

Figure 3.6 Global oil rig count, 2012 - 2017

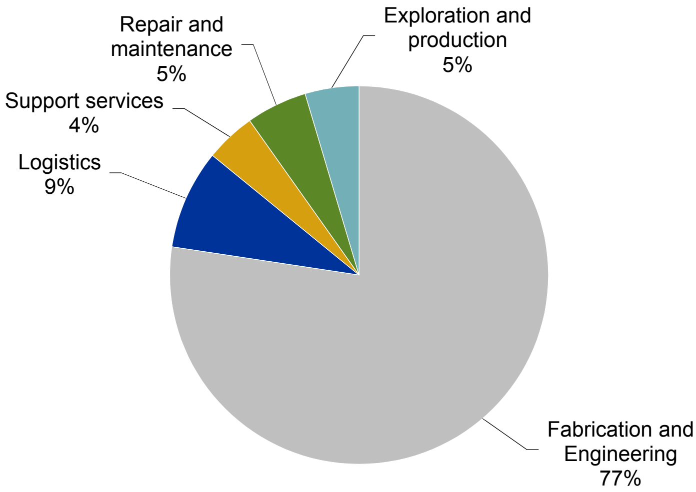


Source: Baker Hughes, 2017

Other factors that contributed to less rig repair activity in Western Cape ports include the high break-even cost for offshore drilling on the West Coast of Africa, competition from other locations, increased production of more competitively priced shale gas and the impact of new oil rigs that require less servicing. Ship repair and ship fabrication activities have taken up the slack in demand in the rig repair activity, avoiding a slump in turnover. In 2016, the combined turnover of these subsectors was R3.28 billion.

Project Khulisa has driven a number of initiatives to boost the oil, gas and marine services sector. The most significant has been the development of the Saldanha Industrial Development Zone (SBIDZ). Recent infrastructure milestones include the completion of infrastructure adjacent to the port enabling investors to build the necessary facilities to support their operations; an offshore supply base which enables the receiving of equipment and waste from offshore exploration and production activities and provides facilities for loading and shipping of equipment, stores, goods, and drilling fluids; and a link bridge to improve logistics and access to the port. The upgraded waste water treatment works will facilitate further development and investment. The SBIDZ has secured its first investor and has another 40 investor interests in its pipeline totalling R12.8 billion in planned capital expenditure. As seen in Figure 3.7, 77 per cent of the investment pipeline comes from the fabrication and engineering sector.

Figure 3.7 SBIDZ Investment Pipeline, by industry and share of capex value



Source: SBIDZ, 2017

3.5.2 Agri-Processing opportunities

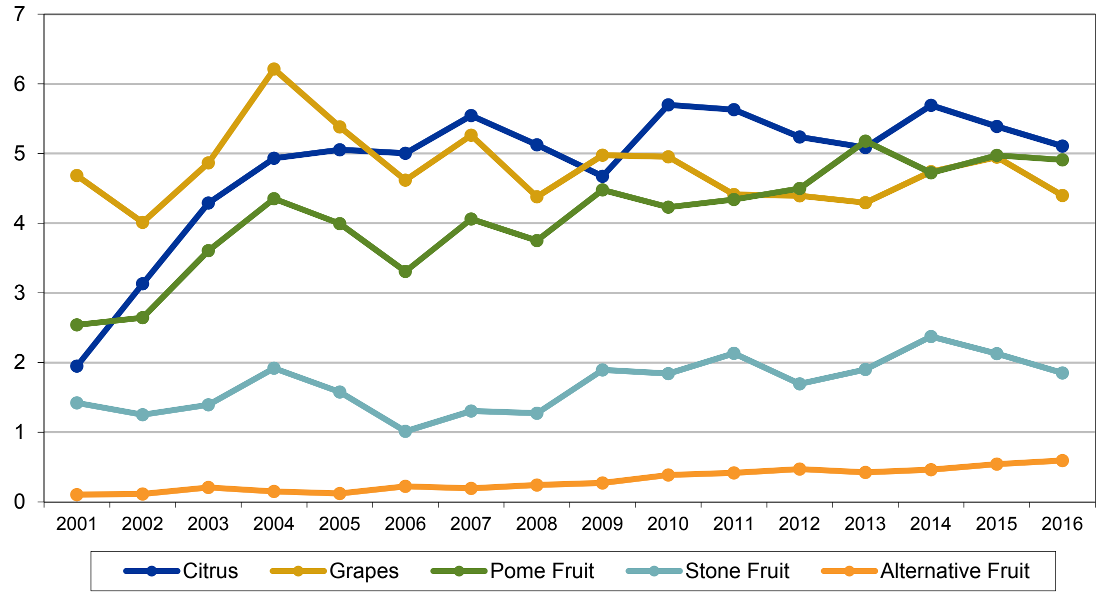
For the past two decades, the South African agricultural sector experienced unprecedented growth, backed by a stronger national economy and the introduction of social grants in the early 2000's which boosted demand for higher value products. In addition, the liberalisation of agricultural markets provided new opportunities in the global trade of wine and fruit. More recently the local market had to deal with food inflation, which is expected to decline towards the end of 2017, stabilising at about 3 per cent.

In an expected environment of slower economic growth, exacerbated by the worst drought in the Western Cape's history, the food and agri-business sector is likely to face higher levels of competitiveness and challenges to remain profitable. However, agriculture and agri-processing remain strategic sectors in terms of their contribution to economic growth, employment absorption and foreign earnings. In 2015, the agri-processing sector contributed R21.966 billion to provincial GVA, an increase of R444 million from 2013[13]. In 2016, it accounted for 448 233 jobs[14] in the Province. Since 2001, Western Cape fruit exports (except for grapes) increased its share of world exports (see Figure 3.8), increasing from R3 billion to R25.9 billion in 2016. The average annual export growth rates over this period for these products were 15.4 per cent compared to 12.4 per cent for all other exporting countries during this period.

[13] 2013 is the base year for Project Khulisa.

[14] Based on a wide definition that includes agri-processing jobs in farm operations as well as manufacturing activity using non-food production as inputs.

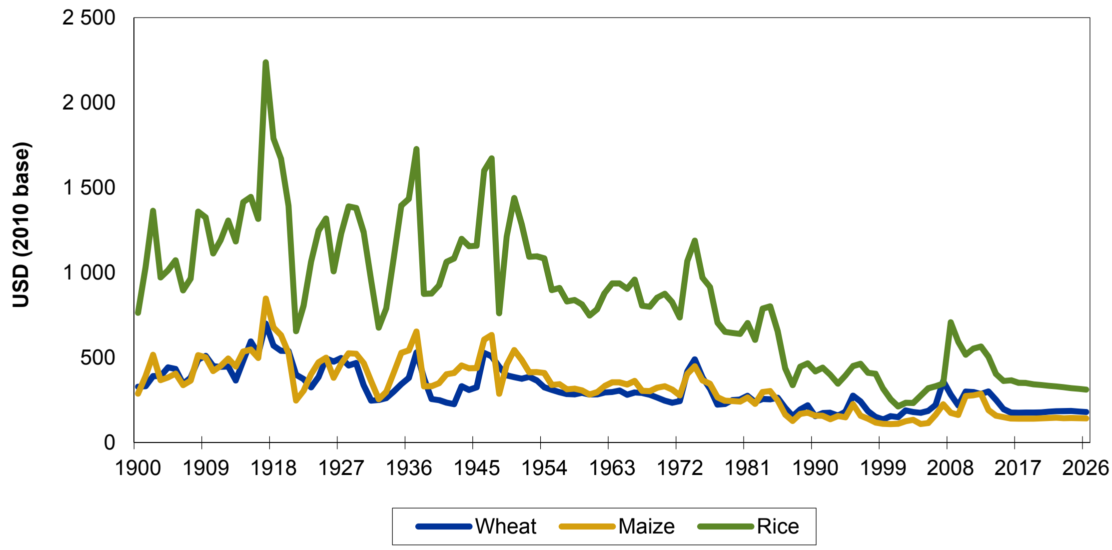
Figure 3.8 Western Cape share of world export value for specific fruit commodities, 2001 - 2016



Source: Quantec, 2017; ITCS, 2017

The agriculture sector in the Province also benefited from a period of strong growth in commodity prices since 2005 because of the promotion of the biofuels industry in the US and strong demand growth in the Chinese economy. The long term trend for the three staple grains is falling real world prices, albeit often volatile (see Figure 3.9). These changes have various impacts on the agri-processing industry. Reduced input costs might boost the sale of certain products opening new opportunities, as is the case with maize and chicken.

Figure 3.9 Long-term movement of global real commodity prices, 1900 - 2026



Note: 2017 to 2026 are forecasts

Source: (OECD-FAO, 2017)

Global halal food market

The global halal food market was worth more than USD1.173 trillion in 2015 and is expected to reach USD1.914 trillion in 2021[15]. It made up 16 per cent of total global food consumption (USD 7.049 trillion) in 2015. These global trends point to an opportunity for the Western Cape.

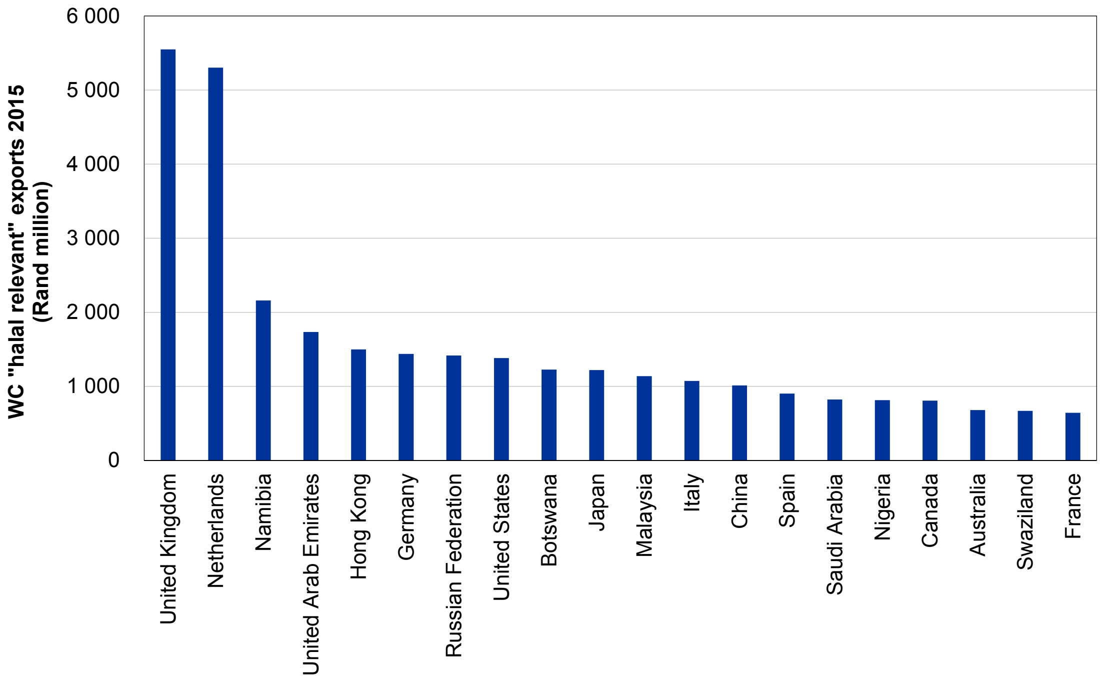
Muslim Judicial Council Halal Trust

The Muslim Judicial Council Halal Trust, based in the Western Cape, is one of the oldest halal certification bodies in the world and is recognised globally as a credible halal authority. The Western Cape Government is exploring options to strengthen this and other local halal certification bodies which may entail assistance with improvement of systems and processes, training to address skills shortages as well as the establishment of formal courses at accredited education institutions.

Source: Western Cape Department of Economic Development and Tourism, 2017

In 2015, about one third of total food exports (R120 billion) from the Western Cape was considered 'halal-relevant', i.e. products where there is some degree of concern over whether they can be consumed by Muslims (being halal or permitted). The UK was the most significant export market for the Province, with R5.5 billion of exports from 'halal-relevant' sectors (see Figure 3.10).

Figure 3.10 Top halal relevant export markets for the Western Cape, 2015

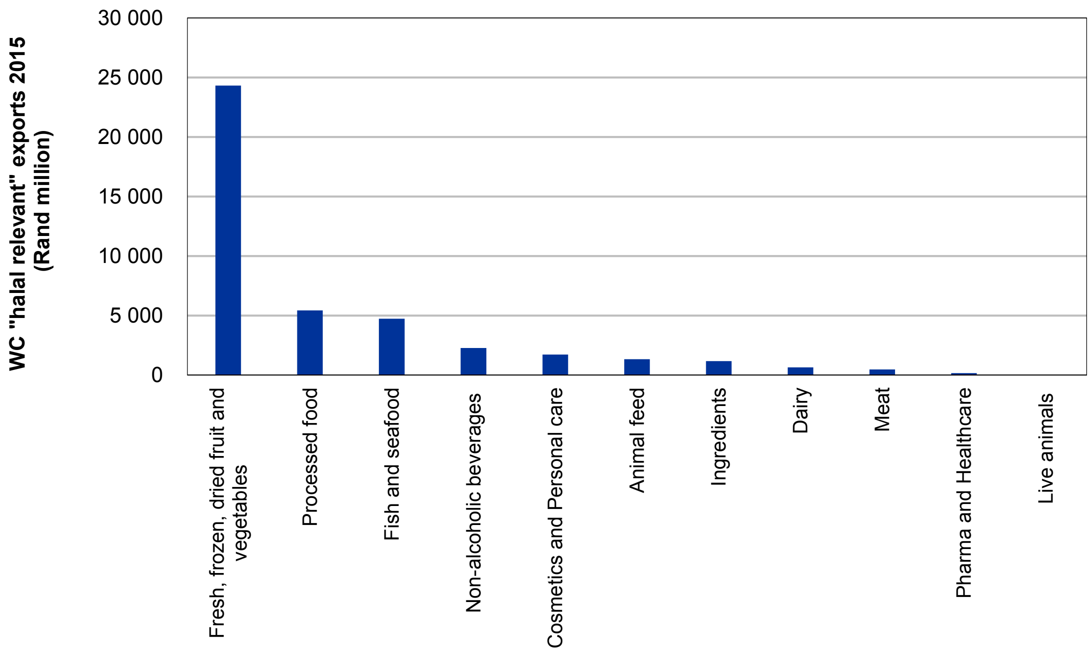


Source: Western Cape Government VCA Report, 2016

15 Thompson Reuters- Dinar Standard State of the Global Islamic Economy 2015/16 report

The dominant 'halal-relevant' export product group is fruits and vegetables (fresh, frozen and dried) which accounted for 57 per cent of Western Cape 'halal-relevant' exports (see Figure 3.11). Preserved fruits and jams is the largest in the processed food export category.

Figure 3.11 Halal relevant export categories, 2015



Source: Western Cape Government VCA Report, 2016

Internationally, meat related products are regarded as the most halal sensitive. Halal meat consumption is increasing as disposable income is growing. The Western Cape has shown competitiveness in certain meat exports (see Figure 3.11). Lamb and ostrich processed meat exports experienced average growth rates of 26.5 per cent and 1 094 per cent from 2011 to 2015, although the latter grew off a low base. Unfortunately, external risks such as the recent Avian Influenza outbreak, may slow the growth of poultry and ostrich meat exports.

Avian Influenza outbreak

In 2017, 17 properties in the Western Cape had been confirmed to be infected by the highly pathogenic Avian Influenza (HPAI), strain H5N8. The virus outbreak led to 46 ostrich farms being placed under quarantine and more than 200 000 chickens that have died or culled. The ostrich sector provides around 15 000 direct jobs while 100 000 people depends on this sector for their livelihoods. The size of the commercial poultry sector in the Western Cape is estimated at 29 million birds while there are approximately 185 000 backyard chickens.

A number of measures have since been implemented to prevent the spread of the disease. Measures include farms placed under quarantine (19 farms in Heidelberg and 27 farms in the Oudtshoorn areas); movement control of eggs and chicks; and the slaughtering of infected birds. The Department of Agriculture, Forestry and Fisheries has since notified South Africa's trading partners as well as the World Organisation for Animal Health of the current situation.

Source: Western Cape Department of Agriculture, 2017

Consumption of ostrich meat among Muslims is relatively low, with most exports going to Europe. This presents the Western Cape with an opportunity to market ostrich meat in these markets as a healthy alternative. According to Nielsen[16], obesity and diabetes are of growing concern in the Middle East and the health benefits of ostrich meat presents an opportunity for ostrich exports to the Middle East.

The Halal Value-Chain Study[17] recognises that Western Cape's most significant opportunity lies in manufactured food products. It states that the Western Cape should expand mainstream and speciality food products into new markets. Specific products identified for export promotion include snacks, sauces and juice, where the Western Cape has economies of scale and international competitiveness. Niche premium and artisanal products include speciality cheeses and natural cosmetics. Supplying international food franchise and services firms with processed food products also offers a substantial opportunity. For example, the Western Cape currently exports burger patties to Saudi Arabian food chains.

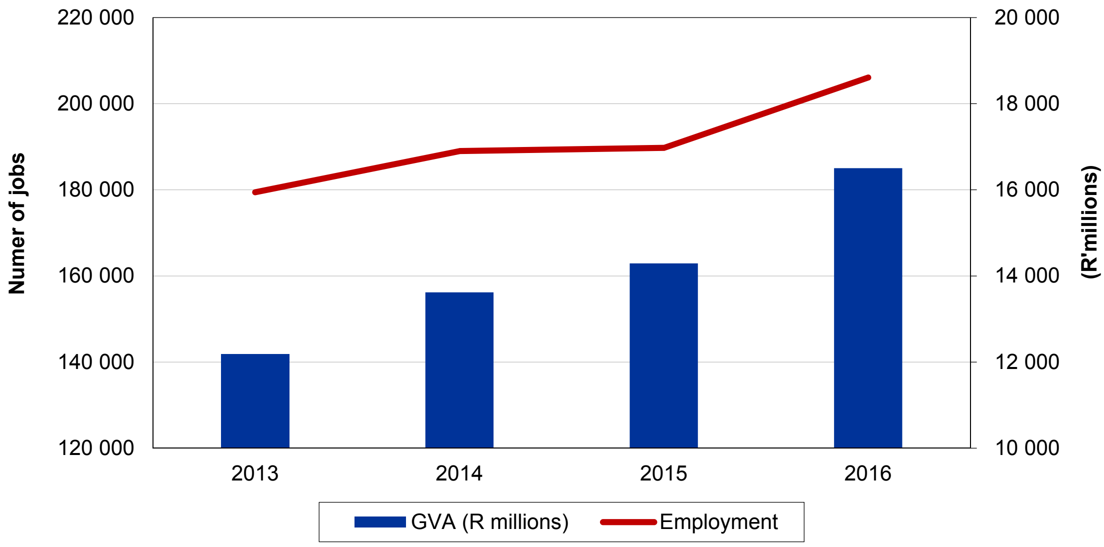
3.5.3 Tourism

Tourism is an important economic and social activity that contributes to growth and job creation in the Western Cape. It benefits many sectors of the economy and most of the jobs in these sectors require lower skill levels, creating opportunities for young and low skilled unemployed people. The Western Cape's tourism sector has shown resilience in recent years, despite many challenges, particularly those related to visa regulations. International arrivals continue to grow strongly and contribute to job creation. In 2016, 1.56 million international tourists travelled to the Province (a year-on-year increase of 18.5 per cent). The United Kingdom remains Western Cape's leading source of tourist arrivals, followed by Germany and the United States. The increased foreign arrivals resulted in foreign spend to increase by 21.6 per cent to R18.1 billion in 2016. Approximately 26 618 jobs were added to the sector from 2014 to 2016. GVA for the Western Cape increased from R12.1 billion to R16.5 billion over this period (see Figure 3.12).

[16] Nielsen's Global Ingredient and Out-of-Home Dining Trends Report, 2016

[17] Halal Value-Chain Study prepared by Kaiser EDP for WCG, 2016

Figure 3.12 Western Cape tourism GVA and employment, 2013 - 2016



Source: Western Cape Department of Economic Development and Tourism, 2017

According to Wesgro[18], the Western Cape received the highest number of tourist bed nights (10.2 million in 2016) in South Africa. It also had the highest average length of stay (11.1 nights per tourist). The Western Cape Air Access project added 10 new routes and 10 route expansions to the Province. This created an additional 650 000 passenger seats. International arrivals at Cape Town International Airport grew 15.7 per cent in 2016. Efforts to promote this sector improved arrivals in the low season period (April to September) by 30 per cent from 2013 to 2016. This helped to mitigate the impact of seasonality and to make the Western Cape more viable for further tourism investment.

3.6 Economic opportunities in other provincial sectors or industries

In addition to the provincial priority sectors there are other sectors that have the potential to support economic growth and employment such as the offshore business process outsourcing sector and the waste economy. The section ends with a brief update of the construction industry.

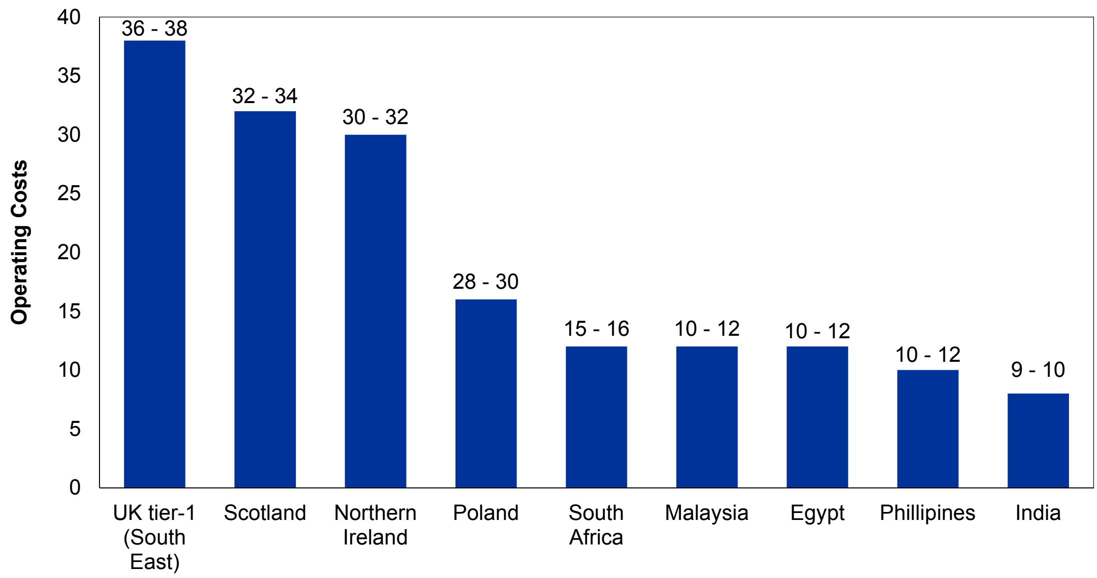
[18] Wesgro 2016 Tourism Annual Report

3.6.1 Offshore Business Process Outsourcing

Within the digital economy (see text box *Digital Economy*), the offshore business process outsourcing (BPO) industry in the Western Cape presents a significant opportunity for economic growth and employment. The potential of the sector is demonstrated by its substantial growth at both a global and local level. In 2015, total world spending on contact centre services was estimated to be between USD300 billion to USD350 billion, of which 20 per cent had been outsourced[19]. The global contact centre outsourcing (CCO) market is projected to expand at 6 to 8 per cent per annum with the offshore CCO market expected to grow between 10 and 12 per cent per year from 2016 to 2020.

South Africa offers cost reductions of about 60 per cent against source CCO markets (see Figure 3.13). The cost of an English speaking call centre agent in South Africa is about GBP15 000-16 000 compared to UK Tier 1 costs of GBP36 000-38 000. The country has a large English language talent pool with a relatively neutral accent. These factors led to 4 out of 6 UK contact centre service providers opening operations in South Africa.

Figure 3.13 Cost comparisons of competing locations, 2015



Note: Cost per FTE for English contact centre services (GBP'000s per annum)

Source: Everest, Business Processing Enabling South Africa, 2015

From 2012 to 2016, employment in the Western Cape BPO sector grew at an average annual rate of 84 per cent culminating in 20 500 jobs in 2016. The Western Cape increased its share of the South African market from 40 per cent in 2012 to 63 per cent in 2016. The sector offers a strategic opportunity to capacitate young people with work experience. For marginalised communities, this leads to a greater chance of longer-term economic inclusion.

[19] Report by the Everest Group entitled Global Trends in the Contact Center Market and Opportunities in the Philippines

The Western Cape's relative success in growing the BPO sector stems from a number of factors. The region has four universities that contribute to the availability of skills. The enabling business environment in the form of economic and political stability reduces business risk. Modern infrastructure like the efficient transport and telecommunication networks offer reliability. The Western Cape offers a superior quality of life for highly skilled foreigners and it has time zones that are similar to the UK which adds to the region's attractiveness.

The Western Cape's cultural affinity with the UK gives it a distinctive strength in offering a high quality customer experience. The Province has attracted top global brands like Amazon and EXL. Amazon was initially attracted to the Western Cape by the region's strong information technology capability, its foreign language skills and its high quality customer care services, leading to the expansion of its operation and the employment of over 2 000 people. EXL, one of the top global BPO operators, was drawn to the Western Cape by the region's high quality financial services skills.

The top vertical sectors that are serviced from the Western Cape are financial services, retail and telecommunications. The recent rapid growth has put additional pressure on the skills pipeline. A number of initiatives are responding to this challenge. Some successes have been recognised by the National Outsourcing Association, which awarded South Africa the 2015 Skills Development Project of the year award.

The Western Cape's BPO offshore industry has proven itself as a global competitor. It has moved from being an undiscovered location to an emerging location and is expected to continue its rapid expansion by building on its diverse offering and enhancing its skills capabilities.

Digital Economy

The fourth industrial revolution is a term used to describe the changes brought about by technologies centred on a connected world. Digital disruption brought about by the fourth industrial revolution is changing the nature of traditional business practices, competition, business models, market development, operations, and goods and service offerings.

Digital technologies and capabilities enable organisations to gain tremendous increases in efficiency and productivity. Foxconn, the assembler of cell phones for the most popular cell phone brands in the world, has seen 60 000 jobs replaced by robots. People working in client facing services such as call-centres, both locally and abroad were replaced by artificial intelligence, software and robots. The rate of growth in sophistication of automation and artificial intelligence threatens employment at an unprecedented pace. Key to a country's ability to benefit from digital opportunities is the increase of human capabilities, particular that of software development.

There is a race between digital technology development and the availability of e-literacy competencies. This implies an upskilling of the workforce with a wide range of cognitive and computational skills so that people can be more agile in their adaptability to change, and able to problem solve. As automation gains momentum and computers start handling a growing number of tasks, there will be a growing displacement of people as higher order computerised skills will be required. In order to position the Western Cape as a leading Digital hub, the Western Cape Government approach is to support and capitalise on digital opportunities both on the supply side and demand side elements that enable digital advancements and innovation to thrive. Based on an assessment by the Western Cape Government of the impact of digital disruption in the Western Cape, key sectors were identified where intervention in supporting supply and demand elements would provide the biggest economic growth opportunities.

Source: Western Cape Department of Economic Development and Tourism, 2017

3.6.2 The waste economy

Global municipal waste is predicted to double over the next 15 years, with oceans set to contain more plastic than fish by 2050[20] unless the world takes radical action. Waste is a source of greenhouse gas emissions, resulting in toxic air and groundwater pollution, and is increasingly seen as a sign of inefficiency in the business world.

Waste provides an opportunity for industries that can innovatively re-purpose this resource and incorporate it into their production chains. Many opportunities exist for job creation and value-addition throughout the value chain - from collection, sorting, processing and treatment of waste. Because of the high logistical costs (relative to the value of the material) of transporting waste, beneficiating recyclables become more lucrative the closer it is to the waste source.

Mainline recyclables such as paper, plastics, glass and metals, are most commonly pursued in waste economy ventures. They tend to hold their value well and are easily transformed into other products. An analysis of waste produced in Western Cape municipalities (mainly the City of Cape Town) reveals that mainline recyclables, construction and demolition waste, and agricultural waste (West Coast and Overberg), provide valuable opportunities.

Lastly, possible interventions to create an enabling environment for the waste economy include the improvement of the collection of recyclables and waste management strategies (supply-side), the creation of markets for waste products (demand-side), the inclusion of waste pickers in formal plans, rendering recycling cheaper and easier than landfilling, and using behavioural interventions to achieve this.

Carbon Neutral Manufacturing

Manufacturing is the third most emission intensive sector in South Africa, and one most often overlooked in terms of sustainability interventions. Offsetting and reducing emissions from manufacturing provides relatively simple, short-term solutions to keep South African businesses competitive and forward-thinking whilst the country gathers momentum to undertake larger infrastructure changes in the energy and transport space. Implementing a carbon price (through national taxes), even when not legally required, has a multitude of benefits for long-term company profitability including a lower future cost of capital, improved investor risk ratings, sustainable investing and research & development (R&D), and improved competitiveness and trade. It will also ensure a first-mover advantage when the South African carbon tax is eventually legislated.

Carbon offsetting is one of the ways in which businesses can reduce their carbon footprint, without significantly altering their production processes. It requires companies to invest in a registered organisation which undertakes activities that absorb carbon from the atmosphere. Implementing an internal carbon price through carbon offsetting ensures that there is no surplus carbon in the atmosphere and incentivises firms to invest in carbon-efficient technologies in the future in order to reduce the costs of carbon offsetting or paying a carbon tax.

Source: Western Cape Department of Economic Development and Tourism

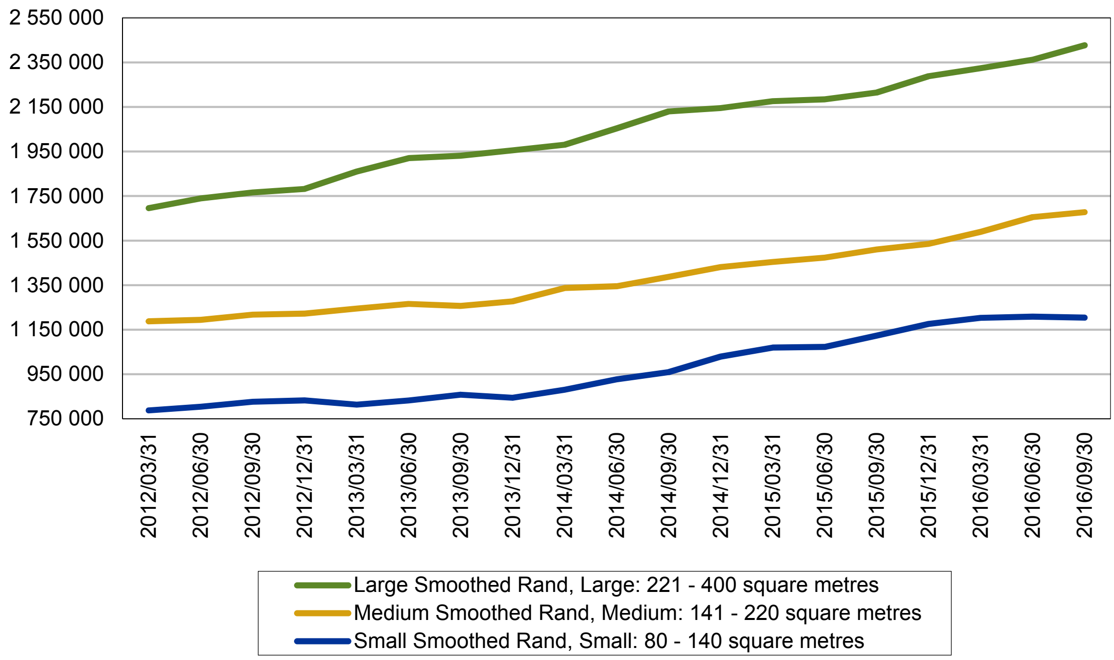
[20] Ellen MacArthur Foundation

3.6.3 Construction industry

In 2017, the Prime Global Cities Index, which measuring high-end property price performance amongst global cities, indicated that Cape Town was positioned third after Vancouver and Shanghai. Cape Town's high-end property prices grew by more than 16 per cent between June 2015 and June 2016. Property price growth can in part be attributed to a combination of inward migration across the LSMs and residential demand, supported by tourism via sharing services such as AirBnB.

Figure 3.14 below suggests that it is not only higher-end properties that enjoyed robust growth. Property price growth is supported by demand across all LSMs. This broad-based real estate price growth resulted in Western Cape properties reaching prices more than 40 per cent higher than similar properties in other provinces, including Gauteng.

Figure 3.14 FNB Average house price for Western Cape by house size, 2012 - 2016



Source: Quantec Research, 2017

This price differential is notable as there was parity in property prices between the Western Cape and the rest of South Africa in 2009. More astonishing, however, was that non-metro property prices grew even faster than that of metro prices in 2016.

Property price growth presents opportunities for rapid growth in the construction industry. Building plans completed in the Western Cape often represents more than 30 per cent of all building plans completed in South Africa. In many municipalities the construction sector is a significant contributor to the local economy, representing up to 10 per cent of gross value added.

Notwithstanding robust construction activity, consistent double digit real estate price growth suggests that new residential stock is not supplied fast enough to the market. Therefore, with government bolstering its efforts to create an enabling environment. investors may exploit this opportunity.

3.7 Conclusion

Over the past two decades, the share of the services sector has increased in both the Western Cape and the rest of South Africa. The sector (excluding government services) now makes up more than two-thirds (67 per cent) of the provincial economy compared to just half of the national economy. Within the services sector the finance, insurance, real estate and business sector made the largest historical (2005 - 2015) contribution to economic growth in four of the six regions.

The Province generally runs a trade deficit, although the trade deficit narrowed slightly in 2015. Petroleum oils contributes significantly to the deficit with a 40 per cent share of total Western Cape imports. In 2016, the leading export destination was Africa followed by Europe and Asia. Within Africa exports were mainly destined to other Southern African Customs Union (SACU) members accounting for 20 per cent of the Province’s total exports.

The Western Cape is in the midst of a severe water crisis. As of August 2017, the Province has received 30 per cent less rainfall than in a normal winter season with Western Cape main dam levels at 32.7 per cent of total capacity as opposed to 59.4 per cent the previous year. With the provincial water supply currently at risk, the possible implications on the underlying socio-economic conditions could be dreadful.

Industries of strategic importance and of high growth potential includes oil and gas, tourism and agri-processing of which the halal food market is targeted as a niche market with big export potential. The oil rig repair industry was negatively affected by a decline in oil prices at the end of 2014. The decline in rigs in operation globally reflected on the decline in rigs repaired in the Western Cape. Ship repair and ship fabrication activities have taken up the slack in demand in the rig repair activity in 2015 with Cape Town becoming the dominant ship repair location in South Africa.

Business Process Outsourcing presents a significant opportunity for economic growth and employment in the Western Cape. From 2012 to 2016, employment in the Western Cape BPO sector grew at an average annual rate of 84 per cent culminating in 20 500 jobs in 2016. Subsequently the Western Cape increased its share of the South African market from 40 per cent in 2012 to 63 per cent in 2016.

Annexure A

Employment trends, Western Cape and South Africa (excluding Western Cape)

Sector	Western Cape			South Africa (excluding WC)		
	Share (%) 2016	Average growth 2011 - 2016	Average growth 2017 - 2022 (forecast)	Share (%) 2016	Average growth 2011 - 2016	Average growth 2017 - 2022 (forecast)
Agriculture, forestry and fishing	9.0	4.9	-0.8	5.9	5.2	0.3
Mining	0.1	-3.1	-1.6	3.4	-1.3	-0.1
Food, beverages and tobacco	2.3	1.1	-0.2	1.7	2.1	-0.8
Textiles, clothing and leather goods	1.3	-2.6	0.6	0.8	-3.0	0.3
Wood, paper, publishing and printing	1.3	-1.8	0.8	0.9	-2.1	1.0
Petroleum products, chemicals, rubber and plastic	1.0	-0.6	0.1	1.0	-0.6	0.5
Other non-metal mineral products	0.4	-1.9	-2.5	0.5	-1.3	-2.7
Metals, metal products, machinery and equipment	1.6	-0.8	0.0	1.9	-1.3	-0.2
Electrical machinery and apparatus	0.2	0.7	0.3	0.3	-0.8	0.1
Radio, TV, instruments, watches and clocks	0.1	-0.4	0.3	0.1	-0.3	-0.4
Transport equipment	0.7	1.4	-0.2	0.7	-0.3	-0.5
Furniture and other manufacturing	0.7	-2.2	1.1	0.6	-2.2	0.8
Electricity, gas and water	0.3	3.2	0.9	0.4	2.4	0.6
Construction	8.1	3.7	1.1	8.3	5.2	0.6
Wholesale and retail trade	21.1	2.7	1.7	20.9	2.2	1.5
Catering and accommodation services	2.8	2.3	1.3	2.3	3.2	0.7
Transport and storage	4.3	2.9	1.0	4.3	3.0	1.2
Communication	1.0	0.2	0.4	0.9	0.1	0.2
Finance and insurance	3.1	2.1	0.2	2.7	1.9	0.2
Business services	14.3	1.9	0.7	12.8	1.8	0.5
Community, social and personal services	14.2	3.8	1.1	16.8	3.8	1.1
General government	12.0	2.4	0.0	12.8	1.9	0.2

Source: Quantec Research, 2017

Annexure B

Revealed comparative trade advantage of sectors in the Western Cape economy

	Western Cape		South Africa		Revealed comparative trade advantage 2016
	Share % 2016	Yoy (%) 2011 - 2016	Share (%) 2016	Yoy (%) 2011 - 2016	
Agriculture, forestry and fishing	9.4	-8.1	1.9	-7.4	5.0
Mining	9.5	14.2	24.0	-2.2	0.4
Food, beverages and tobacco	23.5	10.6	5.9	6.3	4.0
Textiles, clothing and leather goods	3.0	33.1	1.2	0.3	2.5
Wood and paper; publishing and printing	1.8	20.8	3.1	6.7	0.6
Petroleum products, chemicals, rubber and plastic	9.1	15.3	10.1	7.8	0.9
Other non-metal mineral products	0.7	37.8	0.8	4.8	0.9
Metals, metal products, machinery and equipment	13.3	12.9	22.9	4.4	0.6
Electrical machinery and apparatus	0.6	24.7	0.8	3.1	0.7
Radio, TV, instruments, watches and clocks	1.8	0.3	1.0	1.6	1.9
Transport equipment	2.0	2.4	9.8	8.6	0.2
Furniture; other manufacturing	1.7	0.9	1.8	0.0	0.9
Electricity	0.0	N/A	0.7	13.9	0.0
Construction	0.7	13.3	0.4	13.2	1.6
Wholesale and retail trade	0.6	0.5	0.5	0.5	1.3
Catering and accommodation	2.4	-3.7	1.3	-3.2	1.9
Transport	4.0	0.0	3.4	-0.1	1.2
Communication	2.8	3.8	2.1	3.8	1.3
Finance and insurance	4.2	6.6	2.6	5.6	1.6
Business services	6.4	7.3	3.6	7.6	1.8
Community, social and personal services	2.2	5.9	2.0	5.6	1.1
Total	**100**	**5.3**	**100**	**2.5**	

Source: Quantec Research, 2017

Annexure C

Composition, growth and revealed comparative advantage of Western Cape goods exports (2-digit HS code)

	Western Cape			South Africa				
Commodity (HS Code)	Average annual growth 2007 - 2016 (%)	Average annual growth 2012 - 2016 (%)	Share of total WC exports 2016 (%)	Average annual growth 2007 - 2016 (%)	Average annual growth 2012 - 2016 (%)	Share of total SA exports 2016 (%)	Revealed comparative trade advantage 2012	Revealed comparative trade advantage 2016
Live animals	138.4	142.4	0.1	30.2	21.4	0.1	0.2	0.8
Meat and edible meat offal	35.4	68.6	0.7	29.9	22.4	0.4	3.0	2.0
Fish, crustaceans, molluscs, aquatic invertebrates nes	11.6	13.2	4.5	11.0	12.3	0.6	9.9	7.6
Dairy products, eggs, honey, edible animal product nes	47.2	79.0	0.7	37.9	13.3	0.3	0.9	2.4
Products of animal origin, nes	11.2	12.9	0.1	14.6	18.6	0.0	7.1	3.4
Live trees, plants, bulbs, roots, cut flowers etc.	15.5	13.1	0.3	11.3	15.4	0.1	5.2	3.5
Edible vegetables and certain roots and tubers	22.5	39.3	0.6	33.2	16.7	0.3	1.3	2.2
Edible fruit, nuts, peel of citrus fruit, melons	17.1	18.1	22.3	18.5	20.7	3.9	8.7	5.7
Coffee, tea, mate and spices	20.7	27.8	0.3	26.2	16.1	0.2	1.5	2.0
Cereals	1 045.0	1 844.7	0.2	157.7	1.2	0.6	2.1	0.3
Milling products, malt, starches, inulin, wheat gluten	102.1	83.6	0.2	45.4	15.1	0.3	0.2	0.8
Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	22.2	30.7	1.0	30.9	17.4	0.2	4.0	4.4
Lac, gums, resins, vegetable saps and extracts nes	22.1	32.1	0.1	19.2	30.7	0.0	5.3	4.5
Vegetable plaiting materials, vegetable products nes	81.6	73.8	0.0	114.6	208.7	0.0	7.4	0.5
Animal, vegetable fats and oils, cleavage products, etc.	41.5	47.7	0.4	47.5	9.2	0.4	0.4	1.1
Meat, fish and seafood food preparations nes	21.8	20.2	0.9	25.2	15.1	0.2	4.9	5.2
Sugars and sugar confectionery	26.2	44.7	0.2	7.2	9.1	0.3	0.3	0.7
Cocoa and cocoa preparations	26.3	38.5	0.1	24.0	14.2	0.1	0.5	1.4
Cereal, flour, starch, milk preparations and products	30.2	39.6	0.6	34.8	14.4	0.3	1.1	2.1
Vegetable, fruit, nut, etc. food preparations	14.0	17.8	4.3	14.4	12.2	0.8	6.2	5.6
Miscellaneous edible preparations	27.6	30.0	1.1	24.1	13.8	0.5	1.1	2.0
Beverages, spirits and vinegar	12.5	13.2	9.5	14.1	12.9	1.6	8.4	5.9
Residues, wastes of food industry, animal fodder	69.2	64.2	1.6	54.3	28.6	0.4	4.8	3.7
Tobacco and manufactured tobacco substitutes	18.3	26.5	2.2	11.8	5.8	0.3	5.9	8.0
Salt, sulphur, earth, stone, plaster, lime and cement	37.0	13.3	0.8	20.1	3.8	0.5	0.7	1.7
Ores, slag and ash	61.3	140.6	0.2	22.5	2.6	10.4	0.0	0.0
Mineral fuels, oils, distillation products, etc.	9.8	24.4	12.5	12.5	4.8	9.5	1.1	1.3
Inorganic chemicals, precious metal compound, isotopes	30.5	-0.7	0.2	8.9	0.3	1.0	0.3	0.2
Organic chemicals	12.4	22.0	0.4	10.2	6.4	1.2	0.3	0.3
Pharmaceutical products	22.3	31.3	0.3	21.8	12.6	0.5	0.6	0.6

Commodity (HS Code)	Western Cape: Average annual growth 2007 - 2016 (%)	Western Cape: Average annual growth 2012 - 2016 (%)	Western Cape: Share of total WC exports 2016 (%)	South Africa: Average annual growth 2007 - 2016 (%)	South Africa: Average annual growth 2012 - 2016 (%)	South Africa: Share of total SA exports 2016 (%)	Revealed comparative trade advantage 2012	Revealed comparative trade advantage 2016
Fertilizers	40.0	56.7	0.3	21.7	20.3	0.4	0.3	0.7
Tanning, dyeing extracts, tannins, derivs, pigments etc.	17.1	23.7	0.4	14.9	10.8	0.4	1.2	1.0
Essential oils, perfumes, cosmetics, toiletries	24.6	28.3	1.7	20.2	13.5	0.7	1.7	2.4
Soaps, lubricants, waxes, candles, modelling pastes	28.7	44.2	0.3	26.2	10.7	0.5	0.4	0.7
Albuminoids, modified starches, glues, enzymes	21.5	25.1	0.3	20.6	18.6	0.1	3.1	3.5
Explosives, pyrotechnics, matches, pyrophorics, etc.	64.3	30.6	0.2	14.9	5.1	0.1	0.7	1.4
Photographic or cinematographic goods	49.4	42.8	0.0	4.0	-6.3	0.0	7.0	0.4
Miscellaneous chemical products	27.3	7.4	0.7	15.3	15.6	1.1	1.9	0.7
Plastics and articles thereof	18.2	27.2	1.7	19.5	12.0	1.6	1.0	1.1
Rubber and articles thereof	31.9	42.2	0.2	12.0	3.1	0.5	0.1	0.4
Raw hides and skins (other than fur skins) and leather	14.5	27.1	0.6	14.7	19.1	0.3	3.3	1.9
Articles of leather, animal gut, harness, travel goods	28.3	45.8	0.2	34.0	20.3	0.1	2.2	2.0
Fur skins and artificial fur, manufactures thereof	19.3	18.5	0.0	10.5	3.9	0.0	1.7	2.0
Wood and articles of wood, wood charcoal	11.3	31.4	0.5	11.2	12.5	0.6	0.6	0.7
Cork and articles of cork	35.2	45.7	0.0	16.5	9.6	0.0	0.6	1.0
Manufactures of plaiting material, basketwork, etc.	42.9	65.9	0.0	10.3	12.8	0.0	0.7	2.4
Pulp of wood, fibrous cellulosic material, waste etc.	72.6	37.8	0.1	16.2	13.2	1.1	0.1	0.1
Paper & paperboard, articles of pulp, paper and board	20.6	31.6	0.4	10.4	7.1	0.8	0.3	0.4
Printed books, newspapers, pictures etc.	22.6	24.8	0.4	16.8	2.6	0.1	3.2	3.6
Silk	119.4	65.8	0.0	76.5	20.8	0.0	0.1	0.6
Wool, animal hair, horsehair yarn and fabric thereof	-3.6	20.5	0.0	14.6	13.4	0.5	0.0	0.0
Cotton	95.7	211.9	0.0	25.4	5.5	0.0	0.3	0.5
Vegetable textile fibres nes, paper yarn, woven fabric	307.5	5.0	0.0	8.4	-4.4	0.0	7.1	4.8
Manmade filaments	5.0	38.1	0.0	0.4	14.7	0.0	0.6	1.0
Manmade staple fibres	47.0	47.9	0.1	21.2	17.7	0.1	0.7	1.4
Wadding, felt, nonwovens, yarns, twine, cordage, etc.	15.8	38.8	0.1	9.5	4.8	0.0	0.5	1.6
Carpets and other textile floor coverings	29.0	37.5	0.0	9.9	11.1	0.0	0.2	0.4
Special woven or tufted fabric, lace, tapestry etc.	34.3	65.3	0.0	7.0	6.7	0.0	0.4	1.3
Impregnated, coated or laminated textile fabric	19.1	10.9	0.1	12.8	8.4	0.0	1.2	1.4
Knitted or crocheted fabric	26.8	52.4	0.1	47.5	16.2	0.0	1.8	3.2
Articles of apparel, accessories, knit or crochet	55.5	119.2	1.0	41.7	11.6	0.3	0.9	4.0
Articles of apparel, accessories, not knit or crochet	70.3	140.9	0.9	40.1	10.2	0.2	0.9	4.0
Other made textile articles, sets, worn clothing etc.	25.9	43.0	0.4	21.9	9.4	0.2	1.4	2.6
Footwear, gaiters and the like, parts thereof	234.6	454.8	0.6	69.9	9.3	0.2	0.1	3.2

Commodity (HS Code)	Western Cape Average annual growth 2007 - 2016 (%)	Western Cape Average annual growth 2012 - 2016 (%)	Western Cape Share of total WC exports 2016 (%)	South Africa Average annual growth 2007 - 2016 (%)	South Africa Average annual growth 2012 - 2016 (%)	South Africa Share of total SA exports 2016 (%)	Revealed comparative trade advantage 2012	Revealed comparative trade advantage 2016
Headgear and parts thereof	88.4	148.6	0.0	25.4	18.5	0.0	0.4	2.6
Umbrellas, walking-sticks, seat-sticks, whips, etc.	29.9	31.2	0.0	12.5	12.9	0.0	4.1	4.8
Bird skin, feathers, artificial flowers, human hair	37.3	32.0	0.1	40.1	17.7	0.0	3.6	4.1
Stone, plaster, cement, asbestos, mica, etc. articles	25.1	41.9	0.1	7.1	13.0	0.1	0.4	1.0
Ceramic products	43.9	86.6	0.4	25.0	18.2	0.2	0.5	1.8
Glass and glassware	16.0	23.4	0.1	15.7	5.7	0.2	0.3	0.5
Pearls, precious stones, metals, coins, etc.	13.3	28.2	2.2	7.4	3.9	18.8	0.1	0.1
Iron and steel	19.2	33.5	4.6	9.4	6.2	7.2	0.5	0.6
Articles of iron or steel	20.6	24.9	0.8	12.8	3.0	1.2	0.4	0.6
Copper and articles thereof	6.6	-6.0	0.5	9.0	7.4	0.7	1.7	0.7
Nickel and articles thereof	777.0	267.0	0.0	15.8	23.4	0.4	0.0	0.0
Aluminium and articles thereof	14.9	22.6	0.5	6.4	6.7	2.0	0.2	0.2
Lead and articles thereof	265.2	366.5	0.0	24.4	-3.3	0.0	0.4	0.2
Zinc and articles thereof	8.6	23.4	0.0	0.4	-8.5	0.0	0.1	0.8
Tin and articles thereof	59.9	60.1	0.0	14.0	16.8	0.0	1.6	3.1
Other base metals, cermets, articles thereof	2 224.5	4 406.6	0.3	8.7	11.6	0.1	0.0	1.9
Tools, implements, cutlery, etc. of base metal	28.1	26.9	0.1	15.1	0.7	0.2	0.2	0.6
Miscellaneous articles of base metal	24.3	50.9	0.2	16.1	8.1	0.1	0.4	1.3
Nuclear reactors, boilers, machinery, etc.	13.9	8.9	4.5	10.3	5.9	6.2	1.0	0.7
Electrical, electronic equipment	19.9	30.2	2.9	13.9	8.8	2.2	1.7	1.3
Railway, tramway locomotives, rolling stock, equipment	5.4	-12.1	0.1	12.4	13.3	0.3	2.0	0.2
Vehicles other than railway, tramway	28.6	-1.7	1.1	17.9	16.3	12.2	0.5	0.1
Aircraft, spacecraft, and parts thereof	32.2	63.3	0.2	20.2	10.6	0.3	0.1	0.5
Ships, boats and other floating structures	19.3	19.9	1.6	17.0	16.3	0.2	9.8	8.1
Optical, photo, technical, medical, etc. apparatus	19.8	8.6	0.7	17.0	11.4	0.7	1.5	1.1
Clocks and watches and parts thereof	63.2	92.4	0.0	48.4	48.5	0.0	0.4	1.0
Musical instruments, parts and accessories	73.8	132.5	0.0	28.0	8.8	0.0	0.3	1.5
Arms and ammunition, parts and accessories thereof	-	-	-	-	-	-	-	-
Furniture, lighting, signs, prefabricated buildings	16.2	26.4	0.8	5.8	0.0	0.5	0.5	1.5
Toys, games, sports requisites	40.5	66.4	0.1	20.4	11.4	0.1	0.9	2.1
Miscellaneous manufactured articles	44.3	69.8	0.3	39.6	32.6	0.2	1.1	1.6
Works of art, collectors pieces and antiques	133.4	51.4	0.2	62.8	45.5	0.5	4.1	0.3
Commodities not elsewhere specified	-	-	-	-	-	-	-	-
Total: All commodities	**13.3**	**17.8**	**100**	**12.1**	**7.2**	**100**		

Source: Quantec Research, 2017

4

Labour market dynamics

Key findings

- Participation in the labour market in the Western Cape is relatively high, with the narrow labour force participation rate estimated at 69.1 per cent in 2017, 8.6 percentage points higher than the national rate. This gap is especially large for 15 to 24 year olds which can be linked to early exit from the education system, and points to potentially lower skills accumulation in the Province.

- Employment in the Western Cape is estimated at roughly 2.4 million in 2017. Just under half of the employed are Coloured, 33 per cent are African and 18 per cent are White. Employment growth over the five-year period to the first quarter of 2017 was most rapid for Africans, males, and those aged 55 to 64.

- The formal sector accounts for 82 per cent of employment in the provincial economy, while the informal sector accounts for almost 12 per cent. Within the provincial formal sector, the largest employment industries are community, social and personal services; wholesale and retail trade; and financial and business services, together accounting for 56 per cent of formal sector jobs.

- Just under 18 per cent of formal sector workers in the Western Cape are high-skilled, while 58 per cent are skilled and 25 per cent low-skilled. Formal sector workers in the Province are more likely to have permanent employment and access to benefits such as paid annual, sick and maternity leave than their counterparts nationally.

- The narrow unemployment rate in the Western Cape was 21.5 per cent in 2017. Unlike most other provinces, the Western Cape has relatively few discouraged workseekers. The number of unemployed individuals in the Province increased (albeit not statistically significant) over the five-year period.

4.1 Introduction

Employment is one of the most important channels through which individuals are able to actively engage in the economy. Access to employment provides individuals with access to resources that enable them to sustain themselves and their households, invest in their human capital and make provision for old age. The labour market is therefore a key arena in which the outcomes of poverty and inequality are determined.

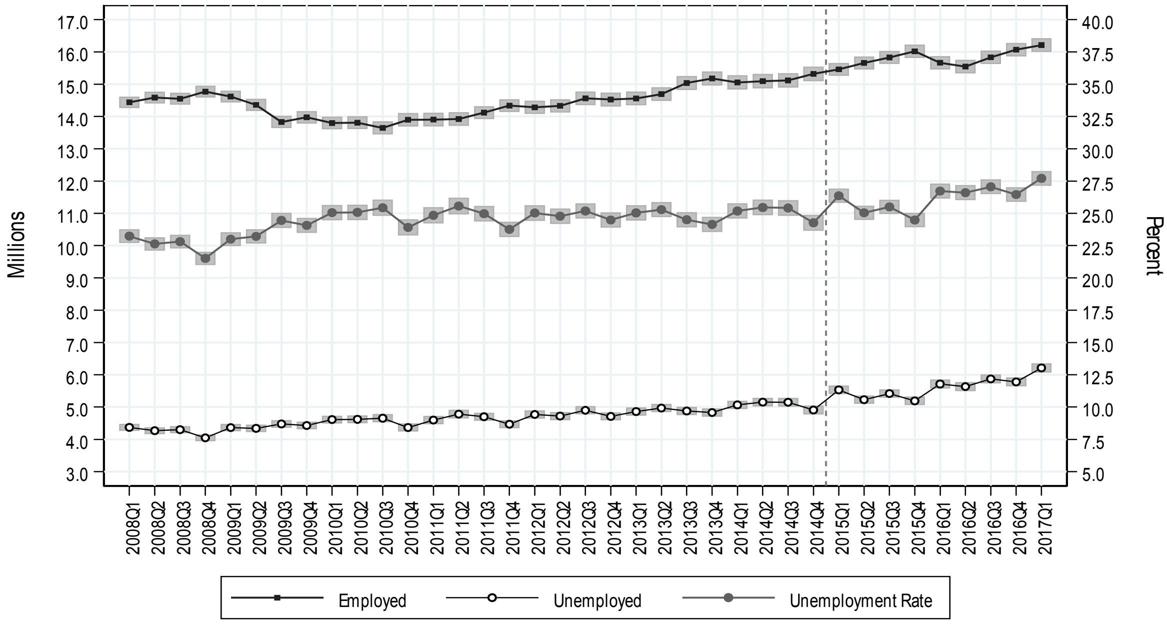
In the South African context of low demand for less skilled workers, one of the main inclusive growth challenges the country faces is how best to create sustainable, productive and secure employment for those with few skills. Higher rates of economic growth than those currently experienced are a prerequisite for employment generation and a dynamic labour market. Importantly, though, such growth must support and promote the productive employment of workers across sectors, skill levels and locations. It is only through addressing South Africa's skewed pattern of economic development that such inclusive growth can be achieved.

This chapter provides an overview of the dynamics in the Western Cape labour market over the five-year period between 2012 and 2017. This is a period in which South Africa has experienced a general deterioration in economic growth from a post-global financial crisis high of 3.3 per cent in 2011 to 0.3 per cent in 2016. However, after slipping into a technical recession during the first quarter of 2017, the South African economy returned to positive growth in the second quarter of 2017. Although the economy escaped the technical recession, the economic outlook remains weak.

4.2 Overview of the labour market

The fourth quarter of 2008 marked the beginning of the local recession following in the wake of that year's global financial crisis. In the subsequent two years, the South African economy shed 1.1 million jobs, or roughly one out of every 13 jobs. It took the economy twenty-one quarters for employment to recover to pre-recession levels (see Figure 4.1).

Figure 4.1 National employment and narrow unemployment trends since 2008Q1



Note: Grey bars around estimates represent 95 per cent confidence intervals. The dotted line indicates the introduction of the new Master Sample by Statistics South Africa in the first quarter of 2015. The shaded area indicates the period under review in this chapter.

Source: Own calculations, various QLFS surveys, Stats SA, various years

More specifically, employment dropped considerably for the first time in over two years in the first quarter of 2016. This drop in employment lasted two quarters, but employment figures have bounced back and, by the first quarter of 2017, employment had reached an all-time high of over sixteen million. While employment has been expanding, unemployment has also trended upwards as the labour force continues to expand at a faster rate. The unemployment rate fluctuated around the 25 per cent level between late-2009 and the end of 2015, but increased significantly in 2016 and reached a high of 27.7 per cent in the first quarter of 2017.

A sharp increase in the unemployment rate can be seen in the first quarter of 2016 and, to a lesser extent, in the first quarter of 2017. This was driven by a combination of job losses combined with labour force growth in 2016 and an expansion of the labour force that was more rapid than employment growth in the first quarter of 2017. The number of unemployed people according to the narrow definition increased from 4.8 million in the first quarter of 2012 to 6.2 million in the first quarter of 2017.

The distribution of the employed and unemployed within the Western Cape according to various demographic categories is summarised in Table 4.1.

Table 4.1 Overview of the Western Cape labour market, 2017Q1

	Working-age population		Employed		Narrow unemployed		Narrow labour force		Narrow labour force participation rate	Narrow unemployment rate
	Total ('000s)	*Share (%)*	*Total ('000s)*	*Share (%)*	*Total ('000s)*	*Share (%)*	*Total ('000s)*	*Share (%)*	%	%
Total	***4 436***	***100***	***2 406***	***100***	***660***	***100***	***3 066***	***100***	***69.1***	***21.5***
By Race										
African	1 572	35.4	788	32.7	342	51.9	1 130	36.9	71.9	30.3
Coloured	2 180	49.1	1 176	48.9	286	43.4	1 463	47.7	67.1	19.6
White	655	14.8	423	17.6	29	4.4	452	14.8	69.0	6.4
By Gender										
Male	2 173	49.0	1 318	54.8	328	49.8	1 646	53.7	75.7	19.9
Female	2 263	51.0	1 088	45.2	332	50.2	1 420	46.3	62.8	23.4
By Age										
15 to 24 years	1 101	24.8	270	11.2	191	28.9	461	15.0	41.9	41.4
25 to 34 years	1 056	23.8	666	27.7	225	34.1	891	29.1	84.4	25.3
35 to 44 years	1 019	23.0	747	31.1	138	20.9	885	28.9	86.9	15.6
45 to 54 years	755	17.0	496	20.6	89	13.5	585	19.1	77.4	15.2
55 to 64 years	506	11.4	228	9.5	17	2.6	245	8.0	48.4	7.0
By Education										
Primary	585	13.2	258	10.7	76	11.6	334	10.9	57.2	22.8
Some secondary	1 883	42.4	864	35.9	348	52.7	1 212	39.5	64.4	28.7
Grade 12	1 288	29.0	772	32.1	191	29.0	963	31.4	74.8	19.8
Diploma/ Certificate	366	8.3	280	11.6	29	4.3	308	10.1	84.2	9.3
Degree	241	5.4	206	8.6	9	1.3	215	7.0	89.0	4.0

Note: Shares may not sum to 100 due to rounding, the omission of 'other' or 'unspecified categories' or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA (2017d)

Employment in the Western Cape grew by just under 300 000, from 2.1 million to 2.4 million between 2012 and 2017 (see Table 4.2). Averaging 2.7 per cent per annum over the five-year period, the Province's employment growth rate is almost identical to the national rate (2.6 per cent). This is a continuation of the trend observed over the past few years, that has seen a narrowing of the gap in employment growth rates between the Province and South Africa.

Table 4.2 Labour market aggregates, 2012 and 2017

	2012Q1	2017Q1	Change		
	Thousands	*Thousands*	*Thousands*	*Per cent*	
Western Cape					
Working-age population	3 973	4 436	463	2.2 p.a.	
Employment	2 107	2 406	299	2.7 p.a.	*
Narrow unemployment	612	660	48	1.5 p.a.	
Narrow labour force	2 719	3 066	347	2.4 p.a.	*
Expanded unemployment	672	790	119	3.3 p.a.	*
Expanded labour force	2 778	3 197	418	2.8 p.a.	*
Non-searching unemployed	59	130	71	17.1 p.a.	*
Narrow unemployment rate	22.5%	21.5%	-1.0 percentage points		
South Africa					
Working-age population	33 945	37 061	3 116	1.8 p.a.	
Employment	14 284	16 212	1 928	2.6 p.a.	*
Narrow unemployment	4 769	6 214	1 445	5.4 p.a.	*
Narrow labour force	19 053	22 426	3 374	3.3 p.a.	*
Expanded unemployment	8 026	9 291	1 265	3.0 p.a.	*
Expanded labour force	22 310	25 503	3 193	2.7 p.a.	*
Non-searching unemployed	3 257	3 083	-174	-1.1 p.a.	†
Narrow unemployment rate	25.0%	27.7%	2.7 percentage points		*

Note: An asterisk (*) denotes a statistically significant change at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, Stats SA (2012a, 2017d)

Employment growth in the Province was also higher than that of the working-age population (2.2 per cent), implying an increase in the employment-to-population ratio over the period. Working-age individuals in the Western Cape are more likely to be employed than is the case in South Africa. In 2017, 54 per cent of the Western Cape's working-age population which is 2.4 million people, were employed. This is substantially higher than the national proportion of 44 per cent and indicates a lower general level of dependence on the Province's workers. To put these figures in context, the World Bank (2017) estimates an average national employment-to-population ratio of 62.2 per cent for all individuals aged at least 15 years in upper middle-income countries in 2016. Comparable figures for South Africa and the Western Cape are 40.9 per cent and 50.2 per cent, emphasising the very low levels of employment in South Africa relative to other upper-middle income countries.

Using the narrow definition of unemployment, 660 000 people are unemployed in the Western Cape. This number rises by 130 000 when the non-searching unemployed (also referred to as discouraged workseekers) are included. This means that the majority of the Province's unemployed - those without jobs who wish to and are able to work - are actively seeking employment. In this respect the Western Cape differs substantially from most other provinces in that the non-searching unemployed account for just 16.5 per cent of expanded unemployment, compared to 33.2 per cent nationally in

2017. One likely factor that can explain this is the Province's relatively high level of urbanisation (and the City of Cape Town's dominance within the provincial labour market). Further, different patterns of educational attainment and the fact that the Western Cape does not include any areas that were part of the former homelands may also explain this difference.

As noted, employment in the Western Cape has grown more rapidly than its working-age population. Coupled with relatively stable labour force participation rates, this means that narrow unemployment in the Western Cape grew at a rate slower than that of employment. Indeed, the change in narrow unemployment is not found to be statistically significant. This pattern is not observed at the national level where narrow unemployment grew more rapidly than employment over the period.

The provincial unemployment rate (21.5 per cent) was considerably lower than the national unemployment rate (27.7 per cent) in the first quarter of 2017. The provincial unemployment rate is estimated to have declined slightly over the five-year period (although this change is not statistically significant), while the national unemployment rate increased by 2.7 percentage points over the same period.

By the second quarter of 2017, employment within the Western Cape reached 2.4 million. Thus, over the five-year period, an additional 326 000 individuals found employment within the Province, equivalent to a growth rate of 3.0 per cent per annum. This is slightly more rapid than the employment expansion observed nationally. At 628 000, narrow unemployment is not found to have increased significantly over the period; however, the number of non-searching unemployed increased by 19.5 per cent per annum (off a small base) to reach 155 000 in the second quarter of 2017. The narrow unemployment rate in the Western Cape declined by 2.1 percentage points over the period to reach 20.7 per cent in the second quarter of 2017.

In summary, the provincial labour market seems to have performed better than the national labour market with the gap between the provincial narrow unemployment rate and the national narrow unemployment rate having more than doubled from 2.5 percentage points to 6.2 percentage points over the period. However, the provincial economy has not managed to sustain high enough employment growth to absorb the unemployed into employment and make a meaningful impact on the unemployment rate. The Province experienced rapid growth in the non-searching unemployed population, while nationally this group contracted in size.

4.3 The Western Cape population

According to the 2017 mid-year population estimates, the Western Cape's current population is estimated to be 6.5 million. This is equivalent to 11.5 per cent of the total national population. The structure of the population determines the relative size of the working-age (individuals aged between 15 - 65) population within the total population and provides the upper limit of the size of the labour force. Longer term demographic trends, including rates of fertility and mortality, influence the size of the working-age population.

The Western Cape's population is relatively old compared to the national population. This is illustrated in Figure 4.2 by the comparatively smaller proportions of the Western Cape population at the lower end of the age distribution. Working-age cohorts account for 68.5 per cent of the provincial population compared to 65.1 per cent nationally, while those aged at least 65 years represent 5.8 per cent and 5.3 per cent of the provincial and national populations.

Figure 4.2 Age structure of the population, 2017

Source: Stats SA, 2017a

The difference in population age structure between the Western Cape and South Africa means that there is a slightly lower level of dependence on the working-age population in the Western Cape than in South Africa. This can be measured by the dependency ratio (expressed as the number of dependents per 100 working-age individuals), which compares the size of the dependent population - children below 15 years and the elderly aged 65 years or more - to the size of the working-age population. A higher dependency ratio indicates more dependent individuals per person of working age. In 2017, the dependency ratio for the Province is estimated to be 45.9 compared to 53.6 nationally. Dependency in the Western Cape is roughly 14 per cent lower than in the country.

With fewer dependents reliant on the incomes earned by the working-age population, living standards rise and there is increasing scope for investment in human capital accumulation i.e. education, health and movable/immovable assets. Given the age structure of the labour force, which is largest for people between the ages of 0 - 4 years and 30 - 34 years, it provides an opportunity to harness the demographic dividend[1]. However, it is recognised that without the necessary investments in education and health and without the requisite job growth, the demographic dividend will not be realised or meaningful. Many of the policies required to effectively harness the demographic dividend are also beneficial from the perspective of promoting inclusive growth.

Harnessing the demographic dividend

There has been growing recognition of the potentially transformative role that the demographic dividend can have in Africa. As a result, the 28th African Union Summit was held in January 2017 under the theme "Harnessing the demographic dividend through investments in the youth", and governments across the continent have begun paying more serious attention to the policy context required to ensure that they are able to effectively harness this potential.

Source: Development Policy Research Unit

4.4 The Western Cape labour force

4.4.1 Composition of the labour force

The unique characteristics and history of South Africa's nine provinces are played out in the characteristics of provincial populations across demographic and socio-economic variables. This means that the characteristics of provincial labour forces may differ in significant ways from each other and from the national labour force.

Table 4.3 details the structure of the Western Cape labour force according to race, gender, age and educational attainment. The provincial labour force grew by 2.4 per cent per annum from 2.7 million in 2012 to 3.0 million in 2017. The Coloured population accounts for 47.7 per cent of the narrow labour force, followed by Africans (36.9 per cent) and Whites (14.8 per cent). Asians account for under 1 per cent of the labour force of the Province. In absolute and relative terms, the number of Africans within the provincial labour force grew most over the five-year period, increasing by 251 000 with an average annual growth rate of 5.2 per cent. Africans account for almost three-quarters (72.4 per cent) of the growth in the provincial labour force over the period, leading to a 4.6 percentage point increase in their share of the labour force.

1 The demographic dividend refers to the potential boost to economic growth and living standards that arises due to changes in the population age structure associated with the demographic transition (Bloom et al. 2003). Falling mortality amongst children in particular during the early stages of the transition gives rise to larger than usual cohorts - so-called 'boom' generations. As these cohorts enter the working ges, the working age population grows rapidly relative to the total population with the result that the dependency rate falls and resources, that otherwise would have been consumed by additional children, are freed up for consumption, saving or investment in human capital formation (i.e. education and health).

As a result, while the number of Coloureds in the labour force also expanded, the slower rate of growth (2.1 per cent per annum) means that their share of the total fell slightly. In contrast, the number of Whites within the provincial labour force fell in absolute terms, resulting in a 2.1 percentage point decline in their share of the labour force.

Table 4.3 Composition of the Western Cape narrow labour force, 2012 and 2017

	2012Q1		2017Q1		Change		
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***	***Number ('000s)***	***Rate (Per cent)***	
Narrow Labour Force	2 719	100	3 066	100	347	2.4 p.a.	*
By Race							
African	879	32.3	1 130	36.9	251	5.2 p.a.	*
Coloured	1 317	48.4	1 463	47.7	146	2.1 p.a.	*
White	503	18.5	452	14.8	-51	-2.1 p.a.	
By Gender							
Male	1 456	53.5	1 646	53.7	191	2.5 p.a.	*
Female	1 264	46.5	1 420	46.3	156	2.4 p.a.	*
By Age							
15 to 24 years	445	16.4	461	15.0	16	0.7 p.a.	
25 to 34 years	837	30.8	891	29.1	54	1.3 p.a.	
35 to 44 years	742	27.3	885	28.9	143	3.6 p.a.	*
45 to 54 years	497	18.3	585	19.1	88	3.3 p.a.	*
55 to 64 years	198	7.3	245	8.0	47	4.3 p.a.	†
By Education							
Primary	329	12.1	334	10.9	5	0.3 p.a.	
Some secondary	1 063	39.1	1 212	39.5	148	2.6 p.a.	*
Grade 12	862	31.7	963	31.4	101	2.2 p.a.	†
Diploma/Certificate	250	9.2	308	10.1	58	4.3 p.a.	†
Degree	180	6.6	215	7.0	34	3.6 p.a.	

Notes: 1. An asterisk (*) denotes a statistically significant change between 2012 and 2017 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA, 2012a, 2017d

There are 226 000 more males (53.7 per cent) than females (46.3 per cent) within the Western Cape labour force. The male labour force has grown marginally more rapidly than that of females (2.5 per cent per annum compared to 2.4 per cent).

Nearly 60 per cent of the labour force is between the ages of 25 and 44 years, while 15.0 per cent is under the age of 25. The cohorts between 45 and 54 years and 55 and 64 years account for 19.1 per cent and 8.0 per cent of the labour force. The gradual ageing of the population is reflected in the concentration of labour force growth in the oldest three age cohorts, as relatively large cohorts move through to older ages.

Just over half (50.4 per cent) of the labour force had incomplete secondary education or less. A further 31.4 per cent completed Grade 12, while 7.0 per cent had degrees. Over the last five years the growth rate of those with diplomas or certificates (4.3 per cent) was the most rapid. There were also statistically significant changes over the period in the size of the labour force with Grade 12 (2.2 per cent per annum) or with some secondary education (2.6 per cent per annum).

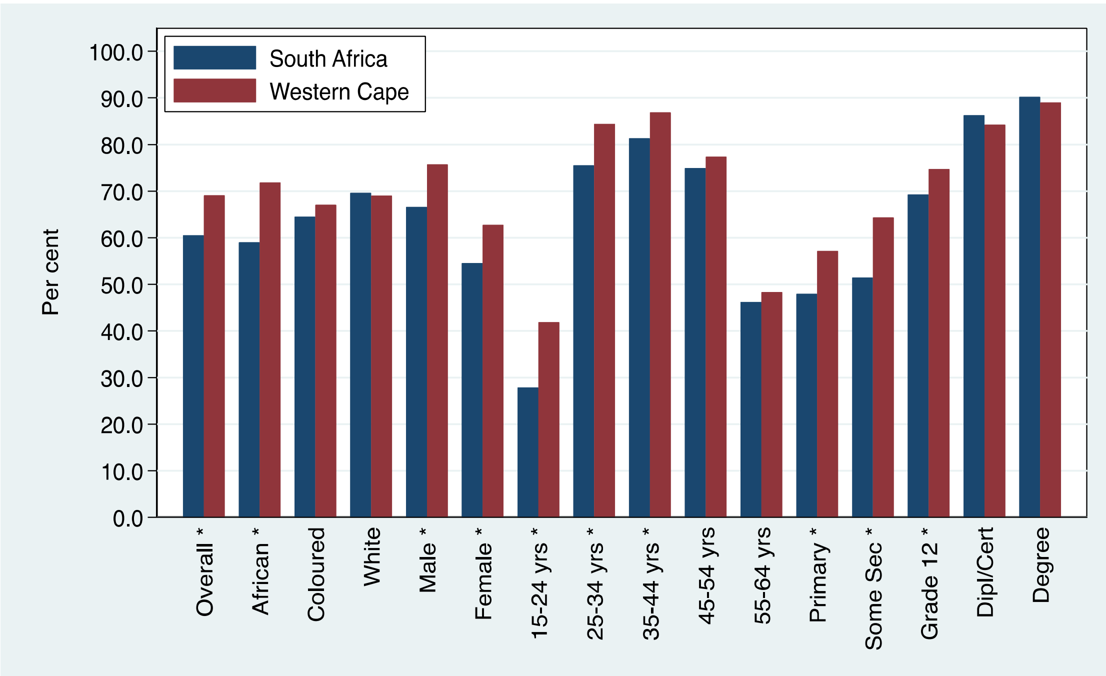
4.4.2 Labour force participation

The labour force participation rate (LFPR) relates the size of the labour force to the working-age population. A higher participation rate indicates a higher likelihood of participation by working-age adults in the labour force. The narrow labour force participation rate in the Western Cape is estimated at 69.1 per cent in the first quarter of 2017 (see Figure 4.3), 8.6 percentage points higher than in the country (60.5 per cent).

Variations in participation rates are related to working-age individuals' views of labour market conditions and the likelihood of finding employment, particularly because the unemployment definition used requires that respondents actively seek employment. The accessibility of the labour market also has a direct impact on the likelihood of participation: in areas where it is difficult for workseekers to actively search for employment because they are distant from employers, narrow participation rates may be depressed (although the broad labour force participation rate may be unaffected).

The likelihood of participation is affected by the degree to which differences in the spatial concentration of economic activity, on the one hand, and of the population, on the other hand, are overcome through factors such as efficient transportation infrastructure. We therefore would expect higher narrow labour force participation rates in urban areas.

Figure 4.3 Labour force participation rates, 2017Q1



Note: An asterisk (*) denotes a statistically significant difference between the national and provincial estimates at a 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, Stats SA, 2017d

The gap in labour force participation rates between the Province and the country overall can be seen across almost all of the demographic variables analysed. The gap is particularly large for Africans, males, youth (15 - 24 years and 25 - 34 years) and those with primary or incomplete secondary education. It should be noted, however, that higher labour force participation rates are not necessarily better, especially in the case of young people. Amongst those aged 15 to 24 years, higher labour force participation rates in the Western Cape are largely achieved through early exit from the education system and early entry into the labour force. While this may occur for a variety of reasons, it comes at a cost to human capital attainment. Thus, although it may benefit them and their households through raising incomes in the short-run, it may constrain their labour force prospects and earnings capacity later on. Where the situation of early exit from education persists, it may result in an erosion of competitiveness and necessitate policy interventions to address educational and/or skills deficiencies for these individuals.

4.5 Employment in the Western Cape

4.5.1 Overview of total employment

South Africa suffers from a chronic shortage of jobs, limiting the ability of ordinary people to provide for themselves and their families and escape the cycle of poverty. South Africa’s employment-to-population ratio is 43.7 per cent, but is more than ten percentage points higher at 54.2 per cent in the Western Cape. Compared to other countries, though, these ratios are low: The International Labour Organisation (ILO) estimates that the 2016 employment-to-population ratio for adults aged 15 years and older was 58.8 per cent in middle income countries and 62.2 per cent in upper middle-income countries (World Bank, 2017). The comparable figure for South Africa is only 39.5 per cent (World Bank, 2017).

Over the past five years, South African employment increased at a reasonable pace, averaging 2.6 per cent per annum (see Table 4.4). Estimates of employment in the Western Cape suggest a rate of growth almost on par with the national average (2.7 per cent). Just less than half of the employed (48.9 per cent) are Coloured, while 32.7 per cent are African and 17.6 per cent are White. Relative to the labour force, Africans are underrepresented and Whites are overrepresented in employment. This under- and over-representation translates into higher and lower than average rates of unemployment.

Table 4.4 Demographic characteristics of employment, 2012 and 2017

	2012Q1		2017Q1		Change	
	Number ('000s)	*Share (Per cent)*	*Number ('000s)*	*Share (Per cent)*	*Number ('000s)*	*Rate (Per cent)*
Western Cape						
Total Employment	*2 107*	*100*	*2 406*	*100*	*299*	2.7 p.a. *
By Race						
African	597	28.3	788	32.7	190	5.7 p.a. *
Coloured	1 013	48.1	1 176	48.9	163	3.0 p.a. *
White	477	22.6	423	17.6	-53	-2.3 p.a.
By Gender						
Male	1 113	52.8	1 318	54.8	204	3.4 p.a. *
Female	994	47.2	1 088	45.2	95	1.8 p.a. †
By Age						
15 to 24 years	244	11.6	270	11.2	27	2.1 p.a.
25 to 34 years	634	30.1	666	27.7	32	1.0 p.a.
35 to 44 years	612	29.1	747	31.1	135	4.1 p.a. *
45 to 54 years	437	20.7	496	20.6	59	2.6 p.a.
55 to 64 years	181	8.6	228	9.5	47	4.7 p.a. †
By Education						
Primary	245	11.6	258	10.7	13	1.1 p.a.
Some secondary	731	34.7	864	35.9	133	3.4 p.a. *
Grade 12	699	33.2	772	32.1	73	2.0 p.a.
Diploma/Certificate	233	11.1	280	11.6	46	3.7 p.a.
Degree	171	8.1	206	8.6	35	3.8 p.a.
South Africa						
Total Employment	*14 284*	*100*	*16 212*	*100*	*1 928*	2.6 p.a. *
By Race						
African	10 201	71.4	12 009	74.1	1 808	3.3 p.a. *
Coloured	1 535	10.7	1 690	10.4	155	1.9 p.a. *
White	2 044	14.3	1 969	12.1	-74	-0.7 p.a.
By Gender						
Male	8 044	56.3	9 030	55.7	986	2.3 p.a. *
Female	6 241	43.7	7 182	44.3	942	2.9 p.a. *
By Age						
15 to 24 years	1 279	9.0	1 315	8.1	35	0.5 p.a.
25 to 34 years	4 594	32.2	4 966	30.6	372	1.6 p.a. *
35 to 44 years	4 309	30.2	5 016	30.9	707	3.1 p.a. *
45 to 54 years	2 901	20.3	3 393	20.9	492	3.2 p.a. *
55 to 64 years	1 199	8.4	1 522	9.4	323	4.9 p.a. *
By Education						
Primary	2 203	15.4	2 045	12.6	-158	-1.5 p.a. †
Some secondary	4 620	32.3	5 318	32.8	698	2.9 p.a. *
Grade 12	4 316	30.2	5 091	31.4	775	3.4 p.a. *
Diploma/Certificate	1 890	13.2	2 251	13.9	362	3.6 p.a. *
Degree	1 093	7.7	1 339	8.3	245	4.1 p.a. *

Notes: 1. An asterisk (*) denotes a statistically significant change between 2012 and 2017 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA, 2012a, 2017d

Males account for 54.8 per cent of employment in the Western Cape in 2017, similar to the proportion observed nationally and slightly higher than in 2012. In line with changes in the provincial labour force, female employment in the Western Cape grew less rapidly than total employment at 1.8 per cent per annum over the last five years, and at a faster rate in the country at 2.9 per cent per annum. These changes mean that men accounted for more than two-thirds of employment growth in the Western Cape over the past five years, a significantly larger proportion than their share of provincial employment.

Employment is dominated by individuals between the ages of 25 and 44 years: these cohorts account for 58.8 per cent of employment in the Western Cape in 2017. The age structure of employment is changing in line with the changes in the labour force. Nationally, employment for those aged 45 years and above grew in excess of three per cent per annum on average, while employment amongst the 15 to 24 year olds has not seen a statistically significant change over this period. Within the Western Cape, employment expanded by an average of 4.7 per cent per annum over the period for 55 to 64 year olds, and by 4.1 per cent per annum for 35 to 44 year olds. This is in line with the structural bias of the labour force which favours more skilled and experienced workers, as well as the ageing population structure. The bulk of employment growth in the Western Cape remains concentrated amongst those between the ages of 35 and 54 years; this group accounts for almost two out of three net new jobs over the period.

Employment growth trends continue to be biased in favour of individuals with higher levels of education, both nationally and within the Western Cape. Particularly rapid growth nationally is observed for those with degrees (4.1 per cent per annum) and those with diplomas and certificates (3.6 per cent), and to a slightly lesser extent those with matric certificates (3.4 per cent). Jobs for those with some secondary education grew relatively more slowly (2.9 per cent) over the same period. In contrast, the employment of individuals with only primary education decreased slightly over the period. The pattern of employment growth in the Western Cape was similar, but only those with incomplete secondary education saw a statistically significant change, with growth of 3.4 per cent per annum. The stark differences in the likelihood of employment of those with different levels of educational attainment re-emphasise the importance of encouraging economic activities that can effectively employ workers with lower levels of education, while providing the ability to improve educational outcomes and the skills levels of young cohorts.

The formal sector accounts for most of South Africa's employment. In fact, 74.6 per cent of all jobs are in the formal sector, the vast majority being non-agricultural (see Table 4.5). National employment growth since 2012 has been driven by the non-agricultural formal sector which expanded by 2.3 per cent per annum over the five-year period, accounting for almost two-thirds of all jobs added. In the Western Cape, the largest contributor to employment growth was the non-agricultural formal sector, which accounted for roughly two out of five net new jobs over the period. However, employment growth in this sector was relatively slow at just 1.5 per cent per annum. In contrast, employment in formal agriculture grew by an average of 8.1 per cent per annum off a relatively low base in 2012.

However, as noted by Makgetla (2016), this massive surge in employment in agriculture in the Western Cape coincides with the introduction by Statistics South Africa of the new master sample in the first quarter of 2015 which may be impacting the estimates. Certainly, this result runs counter to expectations given the current drought in the Province. Rapid employment expansion also occurred within the informal non-agricultural sector (7.3 per cent per annum). Together, these two sectors with rapidly expanding employment accounted for almost half of all net new jobs in the Province between the first quarters of 2012 and 2017.

Table 4.5 Sector decomposition of total employment, 2012 and 2017

	2012Q1		2017Q1		Change		
	Number ('000s)	*Share (Per cent)*	*Number ('000s)*	*Share (Per cent)*	*Number ('000s)*	*Rate (Per cent)*	
Western Cape							
Total Employment	2 107	100	2 406	100	299	2.7 p.a.	*
Agriculture	142	6.8	215	8.9	72	8.5 p.a.	*
Formal agriculture	139	6.6	205	8.5	66	8.1 p.a.	*
Informal agriculture	3	0.2	9	0.4	6	23.8 p.a.	
Non-Agriculture	1 829	86.8	2 033	84.5	204	2.1 p.a.	*
Formal non-agriculture	1 639	77.8	1 763	73.3	124	1.5 p.a.	†
Informal non-agriculture	190	9.0	270	11.2	80	7.3 p.a.	*
Private households	136	6.4	159	6.6	23	3.2 p.a.	
South Africa							
Total Employment	14 284	100	16 212	100	1 928	2.6 p.a.	*
Agriculture	694	4.9	875	5.4	181	4.8 p.a.	*
Formal agriculture	605	4.2	759	4.7	154	4.7 p.a.	*
Informal agriculture	89	0.6	116	0.7	27	5.4 p.a.	
Non-Agriculture	12 333	86.3	14 018	86.5	1 685	2.6 p.a.	*
Formal non-agriculture	10 121	70.9	11 337	69.9	1 216	2.3 p.a.	*
Informal non-agriculture	2 212	15.5	2 681	16.5	469	3.9 p.a.	*
Private households	1 257	8.8	1 319	8.1	62	1.0 p.a.	

Notes: 1. An asterisk (*) denotes a statistically significant change between 2012 and 2017 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA, 2012a, 2017d

While the informal sector has experienced rapid employment growth both in the Western Cape and nationally, it remains small and makes up 17.2 per cent of total employment in South Africa. The informal sector of the Western Cape is even smaller, accounting for just 11.6 per cent of total provincial employment. This is small compared to other economies at a similar level of development. Recent statistics on the size of the informal sector have become more difficult to find as a result of increasing recognition of the definitional problems that plague cross-country comparisons.

Further, focus is shifting away from the distinction between the formal and informal sectors (which are defined according to the characteristics of the firm) towards a greater emphasis on formal and informal employment, where the nature of the employment relationship is central to the definition. The ILO's 2015 estimate for South

Africa's informal employment as a share (20.8 per cent) of non-agricultural employment is much lower than that of Namibia (41.4 per cent), and Latin American countries such as Bolivia (68.6 per cent), Mexico (27.4 per cent) and Peru (55.9 per cent)[2].

Given that the formal and informal sectors contribute differently to total employment in South Africa and in the Western Cape, as well as the small share of the provincial informal sector, the following two sections provide separate analyses of the formal and informal sectors.

4.5.2 Formal sector employment

The racial composition of formal sector employment in the Province is very different to that of South Africa, in line with its unique population composition (see Table 4.6). At 50.2 per cent, the share of Coloureds in provincial formal sector employment in 2017, is more than four times their share nationally. Whites account for 19.7 per cent of formal sector employment in the Province, which is higher than their share of the labour force and of total employment. Conversely, at 29.3 per cent in the first quarter of 2017, Africans' share of formal sector employment in the Western Cape is almost 40 percentage points lower than their share nationally at 69.1 per cent, and is lower than their share of the labour force (36.3 per cent).

Table 4.6 Demographic characteristics of formal sector employment, 2017Q1

	South Africa		Western Cape		
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***	
Total Formal Sector Employment	***12 096***	***100***	***1 968***	***100***	
By Race					
African	8 357	69.1	577	29.3	*
Coloured	1 411	11.7	987	50.2	*
White	1 847	15.3	387	19.7	*
By Gender					
Male	6 951	57.5	1 107	56.2	
Female	5 144	42.5	861	43.8	
By Age					
15 to 24 years	1 006	8.3	232	11.8	*
25 to 34 years	3 816	31.5	561	28.5	*
35 to 44 years	3 738	30.9	604	30.7	
45 to 54 years	2 435	20.1	390	19.8	
55 to 64 years	1 101	9.1	181	9.2	
By Education					
Primary	1 004	8.3	169	8.6	
Some secondary	3 441	28.4	670	34.0	*
Grade 12	4 191	34.7	659	33.5	
Diploma/Certificate	2 060	17.0	256	13.0	*
Degree	1 303	10.8	198	10.0	

Notes: 1. An asterisk (*) denotes a statistically significant difference between provincial and national estimates at the 95 per cent level of confidence.
2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA, 2017d

[2] International Labour Organization, 2017

Women's lower share of formal sector employment in the Western Cape (43.8 per cent) is almost identical to their share of total employment and 1.6 percentage points lower than their share of the labour force, but is slightly higher than their share of formal sector employment nationally (42.5 per cent).

Women and in-migration for the realisation of the demographic dividend

The demographic dividend can be prolonged or strengthened by two means. The first of these relates to gender. Women's engagement in the labour market is often constrained. Significant demands are placed on their time by responsibilities related to unpaid household activities - such as running the household, chores and care, while many workplaces do not allow the types of flexibility that would allow women (or men) with these responsibilities to find and keep paid employment. Reducing the demands women face from these household responsibilities, sharing (or redistributing) them with men, and promoting the types of work environments that provide the required flexibility would help facilitate women's entry into the labour market. Importantly, this may benefit the demographic dividend. Another way in which the demographic dividend may be boosted is through in-migration of working-age adults. These migrants tend to be relatively young and are able to sustain the share of the working-age population within the total population. In other words, in-migration can help to maintain dependency ratios at lower levels over a longer period of time than would otherwise have been the case. Both women's engagement in the labour market and in-migration are relevant for the realisation of the demographic dividend in the Western Cape. However, in both instances, greater employment generation is key to ensuring that the Province realises this potential boost to the demographic dividend.

Source: Development Policy Research Unit

In terms of the age structure of formal sector employment, the Western Cape and South Africa are broadly similar: in both, individuals aged 35 to 64 years account for roughly 60 per cent of the total, while the two largest cohorts are those aged 25 to 34 years and those aged 35 to 44 years. However, the key difference is within youth employment: The Western Cape has a relatively large group of 15 to 24 year olds within formal sector employment (11.8 per cent compared with 8.3 per cent nationally), and a relatively small group of 25 to 34 year olds (28.5 per cent compared with 31.5 per cent nationally).

A relatively large proportion of formal sector workers in the Province have only some secondary education (34.0 per cent compared to 28.4 per cent nationally). The Province also has relatively fewer formal sector workers with diplomas and/or certificates (13.0 per cent) statistically different from national figures (17.0 per cent). Of the 1.97 million formal sector workers in the Western Cape in 2017, 10.0 per cent have degrees, while 33.5 per cent have matric certificates, both on par with national patterns.

As a middle-income country, South Africa has seen its economy transition from one historically dominated by the primary sector - specifically, agriculture and mining - to one oriented towards services. Thus, currently the bulk of the formal sector is comprised of services-based economic activity, in terms of both output and employment. The tertiary (services) sector accounts for 67.0 per cent of formal sector employment nationally, followed by the secondary sector's 23.0 per cent and 9.9 per cent in the primary sector (see Table 4.7). The pattern in the Western Cape is broadly similar. However, the Province has a relatively large secondary sector in formal sector employment terms - it accounts for 27.1 per cent of formal sector employment mainly due to a large manufacturing share - and a relatively small tertiary sector (62.2 per cent).

Table 4.7 Industrial composition of formal sector employment, 2017Q1

	South Africa		Western Cape		
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***	
Total Formal Sector Employment	***12 096***	***100***	***1 968***	***100***	
Agriculture	759	6.3	205	10.4	*
Mining and quarrying	441	3.6	4	0.2	*
Primary Sector	**1 200**	**9.9**	**209**	**10.6**	
Manufacturing	1 590	13.1	333	16.9	*
Utilities	139	1.1	8	0.4	*
Construction	1 050	8.7	192	9.7	
Secondary Sector	**2 778**	**23.0**	**533**	**27.1**	*
Wholesale and retail trade	2 107	17.4	350	17.8	
Transport, storage and communication	714	5.9	117	5.9	
Financial and business services	2 163	17.9	349	17.8	
Community, social and personal (CSP) services	3 123	25.8	408	20.7	*
Tertiary Sector	**8 107**	**67.0**	**1 224**	**62.2**	*

Notes: 1. An asterisk (*) denotes a statistically significant change between national and provincial estimates at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding.

3. The Quarterly Employment Statistics (QES) for March 2017 estimates that 464 000 formal sector workers are employed in mining and quarrying (Statistics South Africa, 2017c). If we use this figure, mining for South Africa would make up 3.8 per cent of total employment.

Source: Own calculations, Stats SA, 2017d

In the Western Cape, community, social and personal (CSP) services (which includes government) is the largest industry in terms of employment, accounting for 20.7 per cent of formal sector employment. CSP services is followed by financial and business services (17.8 per cent) and wholesale and retail trade (17.8 per cent). Together, these three industries account for 56.3 per cent of all formal sector jobs in the Province. Only two other industries in the Province contribute more than ten per cent of formal sector employment: manufacturing (16.9 per cent) and agriculture (10.4 per cent).

In comparison to the industrial structure of formal sector employment nationally, CSP services and mining and quarrying account for significantly smaller proportions of formal sector employment: CSP services is 5.1 percentage points smaller and mining and quarrying is 3.4 percentage points smaller in the Western Cape. In contrast, agriculture and manufacturing are 4.1 percentage points and 3.7 percentage points larger in the Province. This means that although the primary sector accounts for similar proportions of formal sector employment provincially and nationally, their compositions differ with the Province's relatively small mining and quarrying industry, compensated for by its relatively large agriculture industry.

Table 4.8 disaggregates formal sector employment by occupational category and skills level. In South Africa, the majority of those employed in the formal sector are in skilled occupations (60.6 per cent). Low-skilled occupations account for 21.5 per cent of formal sector employment, while high-skilled occupations account for the remaining 17.8 per cent. The skills breakdown of formal sector employment in the Western Cape is very similar.

Table 4.8 Occupation structure of formal sector employment, 2017Q1

	South Africa		Western Cape		
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***	
Total Formal Employment	***12 096***	***100***	***1 968***	***100***	
Managers	1 286	10.6	215	10.9	
Professionals	871	7.2	131	6.6	
High-skilled	**2 157**	**17.8**	**346**	**17.6**	
Technicians	1 289	10.7	194	9.9	
Clerical	1 674	13.8	263	13.4	
Service and sales	1 885	15.6	281	14.3	
Skilled agriculture	48	0.4	9	0.4	
Crafts	1 335	11.0	231	11.7	
Operators and assemblers	1 099	9.1	156	7.9	
Skilled	**7 330**	**60.6**	**1 133**	**57.6**	†
Elementary	2 606	21.5	488	24.8	*
Low-skilled	**2 606**	**21.5**	**488**	**24.8**	*

Notes: 1. An asterisk (*) denotes a statistically significant difference at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding.

Source: Own calculations, Stats SA, 2017

While high-skilled workers account for almost identical proportions of formal sector employment in the Western Cape and nationally, the Province is characterised by a relatively large proportion of low-skilled workers (24.8 per cent, 3.3 percentage points higher than the national proportion) and a relatively small proportion of skilled workers (57.6 per cent, 3.0 percentage points lower than nationally). In both instances, these differences are statistically significant.

The single largest occupational category for formal sector employment is elementary occupations, accounting for 24.8 per cent of formal sector employment provincially and 21.5 per cent nationally. This is the only occupational category where the difference between the national and provincial shares of formal sector employment is statistically significant. Within the Province, elementary occupations are followed by service and sales workers (14.3 per cent), clerical workers (13.4 per cent) and crafts workers (11.7 per cent). The ranking of the four largest occupational categories is identical nationally, with slight variations in their shares of total formal sector employment. The quality of jobs in the formal sector can be measured by a number of characteristics that point to the security and benefits associated with employment. Table 4.9 presents data relating to the nature of contracts, types of benefits, and hours of work associated with formal sector employment in the first quarter of 2017. The table shows that formal sector workers in the Western Cape enjoy more secure forms of employment and more benefits than is the case nationally.

Table 4.9 Characteristics of formal sector employment, 2017

	South Africa *(Per cent)*	Western Cape *(Per cent)*
Contract duration		
Limited duration	13.4	12.5
Permanent nature	66.1	69.9 *
Unspecified duration	14.3	10.3 *
Contract type		
Written contract	85.6	85.0
Benefits		
Medical aid	34.2	31.9
UIF contributions	64.4	77.1 *
Pension contributions	53.8	54.6
Paid leave	71.2	78.2 *
Paid sick leave	75.8	80.7 *
Paid maternity leave (women only)	68.1	78.9 *
Usual hours of work per week		
1 - 19	2.6	0.7 *
20 - 39	7.0	4.4 *
40 - 44	45.0	47.6 †
45 - 49	26.7	33.1 *
50+	18.7	14.1 *
Other		
Trade union membership	32.4	27.8 *

Note: An asterisk (*) denotes a statistically significant change at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, Stats SA, 2017d

At 69.9 per cent, permanent contracts are slightly more widespread in the Western Cape than in the country overall. Contracts of unspecified duration are statistically significantly less common in the Western Cape than in South Africa (10.3 per cent compared with 14.3 per cent). Nevertheless, the prevalence of written contracts is high both provincially (85.0 per cent) and nationally (85.6 per cent).

In terms of other benefits, formal sector employees in the Western Cape find themselves better off than formal sector employees in the country. Women in the formal sector in the Province are more likely than their counterparts nationally to have access to paid maternity leave (78.9 per cent compared with 68.1 per cent), paid sick leave (80.7 per cent compared with 75.8 per cent), and paid leave (78.2 per cent compared with 71.2 per cent). Formal sector workers in the Province are also more likely to have employers making UIF contributions on their behalf (77.1 per cent compared with an average of 64.4 per cent nationally).

Formal sector workers in the Western Cape are more likely to work between 40 and 49 hours per week when compared with South Africa (80.7 per cent compared with 71.7 per cent). Nearly half (47.6 per cent) of formal sector workers in the Province report usually working between 40 and 44 hours per week compared to 45.0 per cent in the country. However, 33.1 per cent of Western Cape formal sector workers work between 45 and 49 hours per week compared to 26.7 per cent in South Africa overall. Given the greater concentration of workers in the Western Cape working between 40 and 49 hours per week, working either relatively short hours (under 40 hours per week) or relatively long hours (over 50 hours per week) is less common in the Province compared to the rest of the country.

Finally, while around a third (32.4 per cent) of formal sector workers in the country are unionised, just above a quarter (27.8 per cent) are unionised in the Western Cape in 2017. This 5.3 percentage point difference may at least partially be due to the Western Cape having a relatively large agricultural sector and a relatively small mining sector, which are respectively weakly and highly unionised.

4.5.3 Informal sector employment

Despite a high level of unemployment, South Africa's informal sector remains smaller than that of other middle income countries. The limited size of the informal sector prevents those who are unable to obtain employment in the formal sector from finding alternative informal work, making them even more vulnerable to poverty. These individuals and their households are, as a result, unable to directly tap into the benefits arising from economic growth and rising wages. In this way, the small size of South Africa's informal sector limits the inclusiveness of growth. The informal sector however, also has its limitations: those employed there are often unable to access and benefit from workplace training which compromises workers' future employability in the formal sector.

The informal sector in the Western Cape employs 279 000 individuals as of the first quarter of 2017 (see Table 4.10). This represents 10 per cent of the country's informal sector which is a smaller share than the Province's share of national employment (14.8 per cent), indicating just how small the Western Cape's informal sector is. The share of the informal sector within total employment, at only 11.6 per cent in the Western Cape, is 5.6 percentage points lower than the national figure.

Table 4.10 Demographics of informal sector employment, 2017Q1

	South Africa		Western Cape		
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***	
Total Informal Sector Employment	***2 797***	***100***	***279***	***100***	
By Race					
African	2 437	87.1	121	43.5	*
Coloured	179	6.4	119	42.7	*
White	119	4.3	36	12.9	*
By Gender					
Male	1 759	62.9	179	64.0	
Female	1 038	37.1	100	36.0	
By Age					
15 to 24 years	252	9.0	35	12.4	
25 to 34 years	882	31.5	78	28.0	
35 to 44 years	832	29.7	88	31.4	
45 to 54 years	572	20.4	59	21.0	
55 to 64 years	259	9.3	20	7.2	
By Education					
Primary	602	21.5	43	15.4	*
Some secondary	1 234	44.1	117	41.8	
Grade 12	702	25.1	84	30.1	
Diploma/Certificate	174	6.2	21	7.4	
Degree	35	1.3	8	3.0	

Notes: 1. An asterisk (*) denotes a statistically significant difference at the 95 per cent level of confidence between Western Cape and South African estimates, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA, 2017d

Differing provincial demographic trends imply that informal sector employment in the Western Cape differs significantly from that in the country in terms of race. While Africans account for the largest share of informal sector employment in the Western Cape at 43.5 per cent, this is half their share nationally (87.1 per cent). Within the Province, they are followed by Coloureds at 42.7 per cent, and Whites at 12.9 per cent. These shares are almost seven and three times their national shares, respectively.

The informal sector is dominated by males to a substantially greater degree than within the formal sector. Just under two-thirds (64.0 per cent) of those employed in the Province's informal sector are male, almost eight percentage points higher than their share of formal sector employment. The majority of informal sector workers are between the ages of 25 and 44 years (61.3 per cent nationally and 59.4 per cent in the Western Cape). While there are slight differences in the age structures of national and provincial informal sector employment, some of which mimic differences observed in formal sector employment, these are not statistically significant.

As expected, the pattern of educational attainment of informal sector workers reflects a disadvantage vis-à-vis their formal sector counterparts. In the informal sector, almost two-thirds (65.6 per cent) of the workers in the country have either primary or some secondary education compared with 36.7 per cent of formal sector workers. Compared to the informal sector nationally, the provincial informal sector is somewhat better educated: an estimated proportion of 40.5 per cent have a matric certificate, diploma/certificate or a degree compared with 32.6 per cent nationally.

4.5.4 Job satisfaction

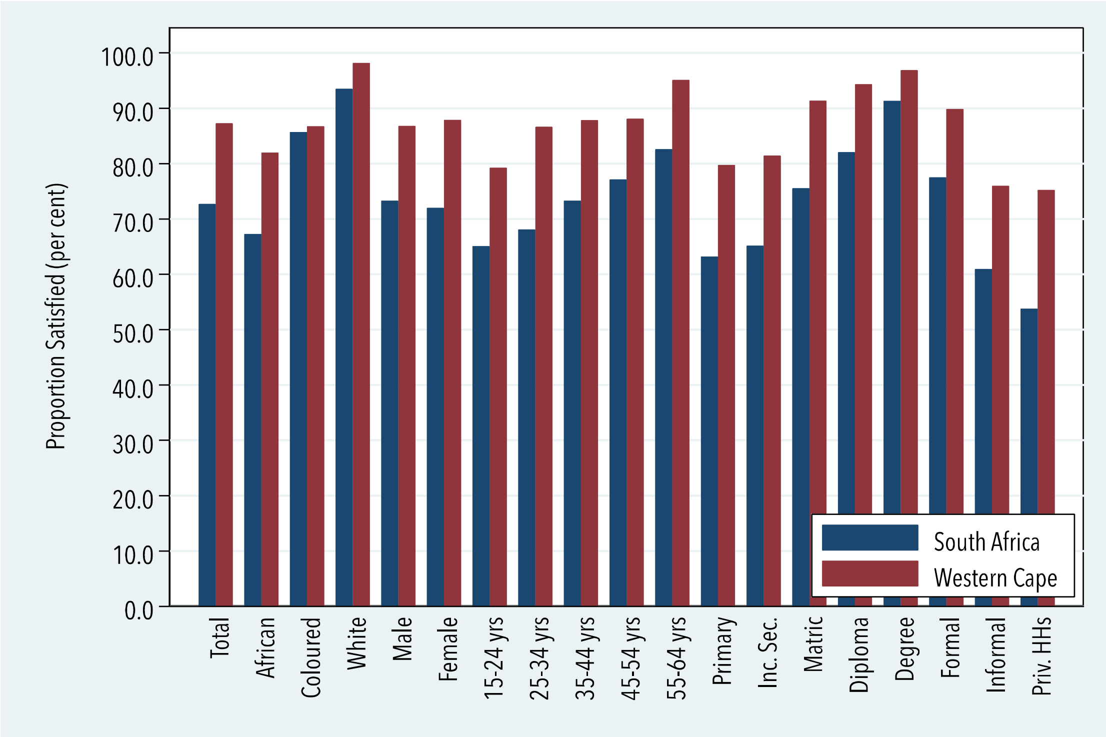
A recent inclusion in the Quarterly Labour Force Survey is a question on whether employed respondents are satisfied with their main job. Although respondents are only allowed to answer yes or no and while the question is very broad ("Are you satisfied with your main job?"), it does enable us to gain some insight into job satisfaction in South Africa.

Overall in South Africa, 72.7 per cent of the employed indicate being satisfied. However, there is significant provincial variation: 55.2 per cent of the employed in KwaZulu-Natal are satisfied, compared with 75.9 per cent in the Free State, 77.9 per cent in Gauteng, and as much as 87.3 per cent in the Western Cape. Satisfaction levels are likely to be influenced by a number of factors and, as will be shown below, are correlated with employment sector: formal sector workers are more likely to report being satisfied with their jobs than informal sector workers, who in turn are more likely to report being satisfied than those employed in private households. However, these sectoral differences do not underlie these provincial differences. For example, considering only formal sector workers, the satisfaction rate nationally is 77.5 per cent, with a range of 30 percentage points between KwaZulu-Natal (60.0 per cent) and the Western Cape (89.9 per cent).

Amongst informal sector workers, the Western Cape (76.0 per cent) is second only to the Northern Cape (82.1 per cent) in terms of satisfaction, compared to 61.0 per cent nationally; amongst those employed in private households, the satisfaction rate is 75.3 per cent in the Western Cape, almost eight percentage points higher than the Northern Cape (67.5 per cent) in second place, and over 20 percentage points higher than the national average (53.8 per cent).

Figure 4.4 presents rates of job satisfaction in South Africa and the Western Cape for all employed individuals. The higher rate of satisfaction in the Western Cape overall extends to all of the breakdowns presented, with only the difference for Coloureds not being statistically significant. Across race, the gap is particularly pronounced for Africans, whose satisfaction rate in the Province at 82.0 per cent is almost 15 percentage points higher than nationally. Satisfaction rates are very similar irrespective of gender in South Africa and in the Western Cape, although they are roughly one-fifth higher in the latter.

Figure 4.4 Rates of job satisfaction, 2017Q1



Note: Rates are calculated for all employed individuals. Differences between South Africa and the Western Cape are statistically significant at the 95 per cent level of confidence for all groups except Coloureds. Detailed estimates can be found in Annexure D3.

Source: Own calculations, Stats SA, 2017d

The largest gaps in satisfaction rates by age group are observed for 25 to 34 year olds (18.6 percentage points), followed by 35 to 44 year olds (14.5 percentage points) and 15 to 24 year olds (14.2 percentage points). Although rates of job satisfaction are found to rise with age both nationally and provincially, it is not clear whether this is due to an age effect (i.e. older workers are generally more likely to be satisfied) or a cohort effect (i.e. earlier cohorts are more likely to be satisfied than more recent cohorts, or even earlier cohorts are less likely to report being dissatisfied than more recent cohorts).

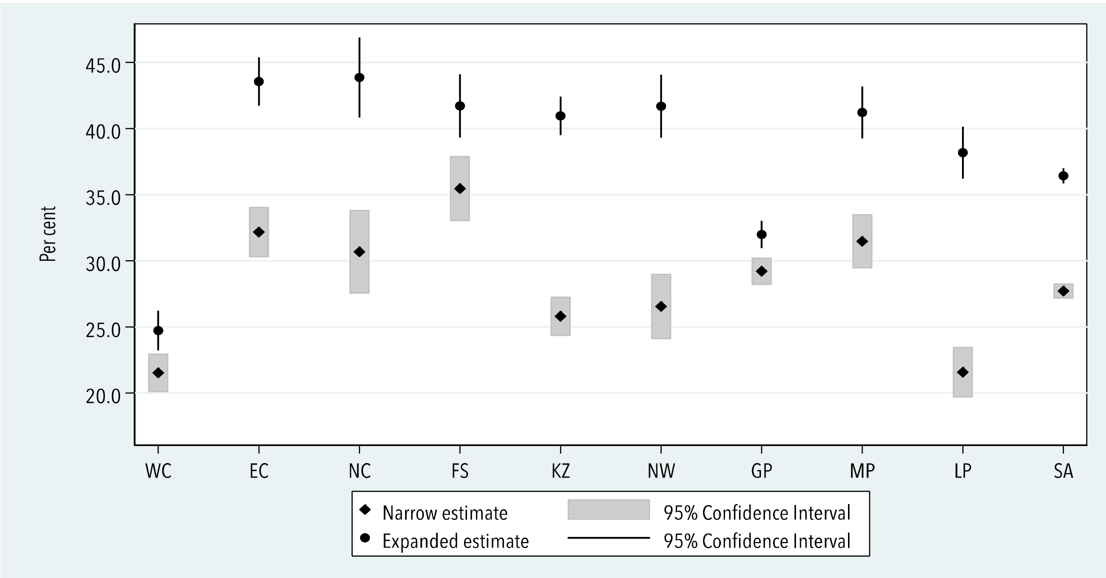
A similar pattern is observed by educational attainment, with better educated workers more likely to report being satisfied. In the Western Cape, 79.8 per cent of workers with no more than primary education report being satisfied (63.2 per cent nationally) compared with 96.9 per cent of those with degrees (91.4 per cent nationally).

The final three pairs of columns on the right-hand side of the figure confirm the differences in job satisfaction by sector. In the Western Cape, 89.9 per cent of formal sector workers report being satisfied, compared with 76.0 per cent in the informal sector and 75.3 per cent for those employed in private households. Nationally, these rates are 77.5 per cent, 61.0 per cent and 53.8 per cent, with the gap particularly large for those employed in private households (21.5 percentage points).

4.6 Unemployment in the Western Cape

The official unemployment rate in South Africa is based on the narrow definition of unemployment, which requires that the unemployed actively take steps to either find work or start a business within the reference period. In the first quarter of 2017, the official unemployment rate is estimated at 27.7 per cent (see Figure 4.5). With the non-searching unemployed included (i.e. the expanded definition) the unemployment rate increases to 36.4 per cent, almost nine percentage points higher than the narrow unemployment rate. In the Western Cape, the unemployment rates are lower than for the country. The narrow unemployment rate for the Province is estimated at 21.5 per cent and the broad unemployment rate is estimated at 24.7 per cent. The small gap between these two unemployment rates means that there are very few individuals in the Province who are discouraged workseekers. In other words, most of the unemployed in the Province are actively searching for jobs.

Figure 4.5 Provincial and national unemployment rates, 2017



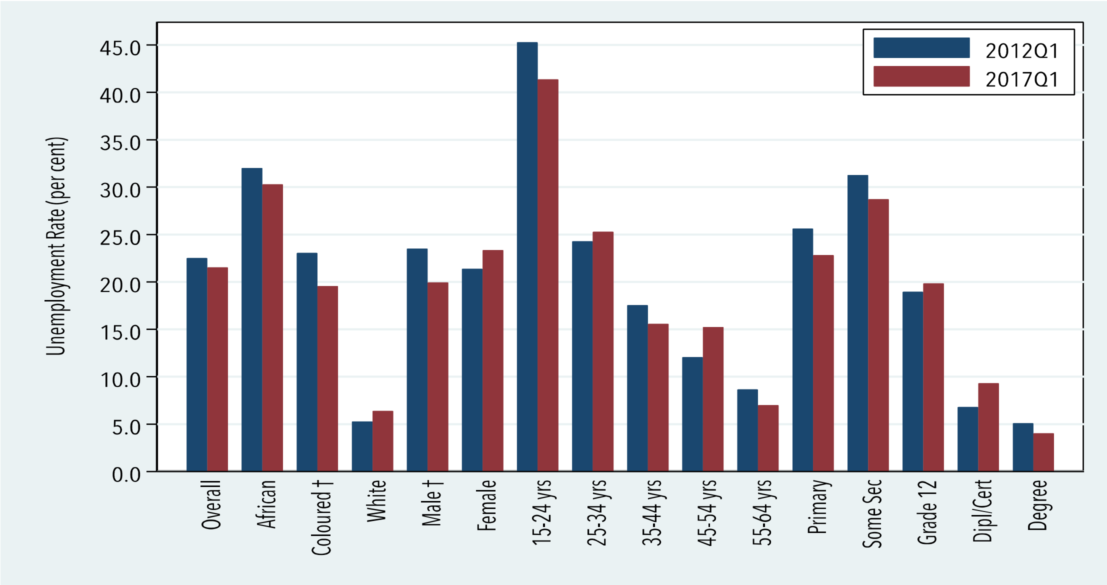
Note: Detailed estimates can be found in Annexure D2.

Source: Own calculations, Stats SA, 2017d

For most provinces the gap between the narrow and broad unemployment rates is relatively large; this excludes the Western Cape, Gauteng and the Free State, where the gap ranges between 10 per cent and 18 per cent. Nationally, the 8.7 percentage point gap between the broad and narrow rates is equivalent to just under a third of the narrow unemployment rate. In contrast, the gap in the Western Cape is equivalent to just 15 per cent of the narrow unemployment rate.

Unemployment rates vary, sometimes significantly, across demographic covariates in the Western Cape and the country. Figure 4.6 presents narrow unemployment rates across these covariates in the Western Cape for 2012 and 2017. The narrow unemployment rate decreased marginally over the five-year period from 22.5 per cent to 21.5 per cent. This change is not, however, statistically significant. This is the case for the overall narrow unemployment rate and for most of the covariates presented.

Figure 4.6 Western Cape narrow unemployment rates, 2012 and 2017



Note: Detailed estimates can be found in Annexure D4. Statistically significant changes at the 95 per cent level of confidence are designated by asterisks (*), while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

Source: Own calculations, Stats SA, 2012a, 2017d

Unemployment in the Western Cape differs substantially along racial lines. It is highest for Africans (30.3 per cent), followed by Coloureds (19.6 per cent) and lowest for Whites (6.4 per cent). Only in the case of Coloureds was there a statistically significant change in the unemployment rate, falling by 3.5 percentage points over the five-year period. Women also appear to be relatively disadvantaged within the labour market, with an unemployment rate of 23.4 per cent compared to 19.9 per cent for men. This represents something of a reversal from five years earlier, when the unemployment rate was slightly higher for men than for women. The male rate of unemployment declined by a statistically significant 3.6 percentage points over the period.

While the average unemployment rate is 21.5 per cent in the Western Cape, 41.4 per cent of 15 to 24 year olds are unemployed. This rate falls to 25.3 per cent for 25 to 34 year olds and further to 7.0 per cent for 55 to 64 year olds. There is also evidence that educational attainment and the rate of unemployment are correlated, with unemployment generally falling as educational attainment rises. Thus, while 28.7 per cent of those with some secondary education are unemployed, 19.8 per cent of those with matric certificates are unemployed, 9.3 per cent of those with diplomas and/or certificates and only 4.0 per cent of those with degrees. Unemployment rates by age cohort or educational attainment did not change significantly between the first quarters of 2012 and 2017.

In 2017, approximately 660 000 individuals within the Western Cape were unemployed according to the narrow definition of unemployment (see Table 4.11). The change in the level of unemployment was not statistically significant and this is also true for almost all demographic characteristics listed in the table. Nationally, though, there have been significant increases in the number of unemployed individuals, both overall and for almost all covariates presented.

Table 4.11 Demographic composition of unemployment, 2012 and 2017

	2012Q1		2017Q1		Change		
	Number ('000s)	*Share (Per cent)*	*Number ('000s)*	*Share (Per cent)*	*Number ('000s)*	*Rate (Per cent)*	
Western Cape							
Total Unemployment	***612***	***100***	***660***	***100***	***48***	***1.5 p.a.***	
By Race							
African	281	45.9	342	51.9	61	4.0 p.a.	†
Coloured	304	49.6	286	43.4	-18	-1.2 p.a.	
White	27	4.3	29	4.4	2	1.7 p.a.	
By Gender							
Male	342	55.9	328	49.8	-14	-0.8 p.a.	
Female	270	44.1	332	50.2	61	4.2 p.a.	†
By Age							
15 to 24 year olds	202	32.9	191	28.9	-11	-1.1 p.a.	
25 to 34 year olds	203	33.2	225	34.1	22	2.1 p.a.	
35 to 44 year olds	130	21.3	138	20.9	7	1.1 p.a.	
45 to 54 year olds	60	9.8	89	13.5	29	8.3 p.a.	†
55 to 64 year olds	17	2.8	17	2.6	0	0.0 p.a.	
By Education							
Primary	84	13.8	76	11.6	-8	-2.0 p.a.	
Some secondary	333	54.3	348	52.7	16	0.9 p.a.	
Grade 12	163	26.7	191	29.0	28	3.2 p.a.	
Diploma/Certificate	17	2.8	29	4.3	12	11.0 p.a.	
Degree	9	1.5	9	1.3	-1	-1.2 p.a.	
South Africa							
Total Unemployment	***4 769***	***100***	***6 214***	***100***	***1 445***	***5.4 p.a.***	*
By Race							
African	4 098	85.9	5 493	88.4	1 395	6.0 p.a.	*
Coloured	487	10.2	501	8.1	15	0.6 p.a.	
White	132	2.8	139	2.2	7	1.0 p.a.	
By Gender							
Male	2 429	50.9	3 165	50.9	736	5.4 p.a.	*
Female	2 340	49.1	3 049	49.1	710	5.4 p.a.	*
By Age							
15 to 24 year olds	1 384	29.0	1 559	25.1	175	2.4 p.a.	*
25 to 34 year olds	1 888	39.6	2 395	38.5	507	4.9 p.a.	*
35 to 44 year olds	979	20.5	1 412	22.7	433	7.6 p.a.	*
45 to 54 year olds	427	9.0	670	10.8	243	9.4 p.a.	*
55 to 64 year olds	90	1.9	178	2.9	88	14.6 p.a.	*
By Education							
Primary	627	13.2	690	11.1	63	1.9 p.a.	
Some secondary	2 199	46.1	2 952	47.5	753	6.1 p.a.	*
Grade 12	1 590	33.3	1 933	31.1	344	4.0 p.a.	*
Diploma/Certificate	258	5.4	484	7.8	226	13.4 p.a.	*
Degree	64	1.3	108	1.7	44	11.0 p.a.	*

Notes: 1. An asterisk (*) denotes a statistically significant change at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA, 2012a, 2017d

In the Western Cape, Africans account for just over half the unemployed (51.9 per cent), while Coloureds account for 43.4 per cent. Whites and Asians therefore account for fewer than five per cent of the unemployed. This is a notable reversal of the pattern from five years previously when Coloureds accounted for half the unemployed (49.6 per cent) and Africans 45.9 per cent. This is underpinned by a rapid rise of 4.0 per cent per annum in the number of unemployed Africans within the Western Cape.

In 2017, unemployment is split almost evenly between men (49.8 per cent) and women (50.2 per cent). This too represents a significant shift over the period: in the first quarter of 2012, men accounted for 55.9 per cent of the unemployed, almost 12 percentage points more than women's share. As with Africans, women experienced rapid growth in the number of unemployed: the period saw an additional 61 000 unemployed women, equivalent to a statistically significant rate of growth of 4.2 per cent per annum.

Youth aged 15 to 34 account for two-thirds (63.0 per cent) of the unemployed in the Western Cape, down by 3.1 percentage points from five years previously. Still, this confirms the vulnerability of young people within the labour market and the need for effective interventions targeting them. The unemployed in the Western Cape are more likely to be under the age of 25 (28.9 per cent) compared to South Africa (25.1 per cent). Within the Province, only 45 to 54 year olds saw a statistically significant change in unemployment over the period: the number of unemployed rose by 8.3 per cent per annum, although admittedly off a relatively small base, resulting in their share of unemployment rising from 9.8 per cent in 2012 to 13.5 per cent in 2017.

In terms of education: the majority of the unemployed (52.7 per cent) have only some secondary education in 2017. This is 16.8 percentage points higher than this group's share of provincial employment, pointing to the economy's preference for workers with higher levels of education. Almost two out of three unemployed individuals do not have a matric certificate. Individuals with matric certificates account for 29.0 per cent of the unemployed in the Province (compared to 31.1 per cent of national employment), while only 1.3 per cent of the unemployed have degrees. While there was no statistically significant increase in unemployment in the Western Cape in any of the educational categories, nationally the number of unemployed increased rapidly and statistically significantly for all educational categories except for those with primary education only.

Unemployment in South Africa is long-term in nature. With relatively few job opportunities, the preference of employers for individuals with work experience, and large numbers of the unemployed found in rural areas (amongst other factors) it is unsurprising that many of the unemployed remain so for long periods of time. Table 4.12 breaks down the unemployed according to the duration of individuals' current non-employment spells. The reason these are not technically unemployment spells is that individuals do not necessarily claim to have been unemployed for all that time (i.e. they may have been not economically active for part of the period).

According to the data, in the first quarter of 2017 just over one-quarter (27.1 per cent) of the unemployed had never worked before. This group includes young individuals who only recently entered the labour force, but also includes older individuals who report never having worked before. Around one-third (32.5 per cent) reported having been unemployed for up to one year, while 23.1 per cent reported not having worked for at least three years. While the most rapid growth is estimated to have occurred amongst those not having worked for three years or more, none of the groups, however, saw statistically significant increases in their numbers over the five-year period.

Table 4.12 Unemployment by time since last worked, 2012 and 2017

	2012Q1		2017Q1		Change		
	Number ('000s)	*Share (Per cent)*	*Number ('000s)*	*Share (Per cent)*	*Number ('000s)*	*Rate (Per cent)*	
Western Cape							
Total Unemployment	***612***	***100***	***660***	***100***	***48***	***1.5 p.a.***	
By Duration							
Never worked	175	28.6	179	27.1	4	0.4 p.a.	
Up to one year	191	31.2	214	32.5	23	2.3 p.a.	
One to three years	118	19.3	113	17.0	-6	-1.0 p.a.	
Three years or more	128	20.9	152	23.1	24	3.5 p.a.	
South Africa							
Total Unemployment	***4 769***	***100***	***6 214***	***100***	***1 445***	***5.4 p.a.***	*
By Unemployment Duration							
Never worked	2 047	42.9	2 345	37.7	298	2.8 p.a.	*
Up to one year	1 119	23.5	1 560	25.1	441	6.9 p.a.	*
One to three years	562	11.8	785	12.6	223	6.9 p.a.	*
Three years or more	1 040	21.8	1 520	24.5	480	7.9 p.a.	*

Notes: 1. An asterisk (*) denotes a statistically significant change at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Shares may not sum to 100 due to rounding or the omission of those who did not know how long it had been since they last worked from the table.

Source: Own calculations, Stats SA, 2012a, 2017d

Nationally, 37.7 per cent of the unemployed reported never having worked before in the first quarter of 2017. Just over a quarter (25.1 per cent) had worked within the past year, compared to 32.5 per cent in the Western Cape. The proportion of unemployed who had not worked for three years or more, at 24.5 per cent, was marginally higher than provincially.

4.7 Youth labour market

Youth, defined as those aged between 15 and 34 years, account for 36.1 per cent (or just over 20 million) of the national population, with 2.3 million resident youth in the Western Cape according to Statistics South Africa.[3] These young people typically have between 30 and 50 years of being economically active ahead of them and are tomorrow's experienced workers, responsible for growing the economy and underpinning the country's tax base.

In the Western Cape in 2017 there are 2.2 million youth of working age, according to the QLFS data (see Table 4.13), up 1.5 per cent per annum over the five-year period. Youth employment reached 936 000 in the first quarter of 2017, while narrow unemployment stood at 416 000. While these aggregates increased over the period, neither of the changes is statistically significant. The non-searching unemployed almost doubled over the period to reach 70 000. As a result of the statistically significant average annual growth rate of 13.9 per cent in the number of non-searching unemployed, the expanded labour force also increased to 1.4 million (statistically significant growth of 1.5 per cent per annum).

Table 4.13 Western Cape youth labour market aggregates (15 - 34 years), 2012 and 2017

	2012Q1	2017Q1	Change		
	Thousands	*Thousands*	*Thousands*	*Per cent*	
Working-age population	2 001	2 156	155	1.5 p.a.	*
Employment	877	936	59	1.3 p.a.	
Narrow unemployment	405	416	11	0.5 p.a.	
Narrow labour force	1 282	1 352	70	1.1 p.a.	
Expanded unemployment	442	486	44	1.9 p.a.	
Expanded labour force	1 319	1 422	103	1.5 p.a.	
Non-searching unemployed	36	70	33	13.9 p.a.	
Rates/Ratios					
Narrow labour force participation	64.1	62.7	-1.4 percentage points		
Expanded labour force participation	65.9	65.9	0.0 percentage points		
Employment-to-population ratio	43.8	43.4	-0.4 percentage points		
Narrow unemployment	31.6	30.8	-0.8 percentage points		
Expanded unemployment	33.5	34.2	0.7 percentage points		

Note: An asterisk (*) denotes a statistically significant change at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, Stats SA, 2012a, 2017d

[3] Statistics South Africa, 2017a

Labour force participation rates for youth in the Province in 2017 are estimated at 62.7 per cent for the narrow labour force and 65.9 per cent for the expanded labour force. These rates are lower than those observed for the total population due to the youth's greater engagement in the educational system, as well as the fact that this is the time of life during which women often exit the labour force, at least temporarily, due to childbearing. Unsurprisingly, the employment-to-population ratio for youth is substantially lower than that of non-youth (43.4 per cent compared with 64.5 per cent), a substantially larger gap than that observed in participation rates. The narrow unemployment rate amongst youth in the Western Cape is estimated at 30.8 per cent in the first quarter of 2017. The expanded definition raises the unemployment rate to 34.2 per cent. None of the five rates or ratios presented here are found to have undergone statistically significant changes over the period.

Educational attainment is generally higher amongst younger cohorts. Amongst the Province's narrow labour force, youth are less likely to have only primary education (7.1 per cent compared to 18.2 per cent for non-youth) or incomplete secondary education (46.8 per cent compared to 48.7 per cent for non-youth). Conversely, youth are more likely to have completed secondary education (35.6 per cent) compared to non-youth (23.2 per cent). Even in terms of diplomas, certificates and degrees the youth labour force is slightly ahead of the non-youth cohort (10.0 per cent compared to 8.6 per cent). This points to improvements in educational attainment over time. Given that the youth cohort includes a large number of individuals who are actively furthering their education, it is likely that this youth advantage in educational attainment is underestimated.

Educational attainment is, therefore, not a likely explanation for the labour market disadvantage observed. Neither is geography. Youth labour force members do not seem more or less likely than their non-youth counterparts to be located in either one of the three area types discernible in the QLFS. This leaves at least two possible explanations. The first is educational quality, or at least perceptions of educational quality. If employers have doubts about the quality of education of younger cohorts, they are more likely to favour employing older jobseekers. This may occur irrespective of whether employers' perceptions of quality are accurate or not. A second possibility is the value of work experience to potential employers. Thus, despite younger jobseekers having higher levels of education, employers may favour older jobseekers because they have more experience. Both of these factors are likely at play in South Africa and the Western Cape, and both represent policymaking challenges. These are, however, by no means the only possible explanations. For example, youth in the Province may have higher reservation wages than non-youth.

4.8 Spatial considerations

Economies operate within very specific spatial contexts (urban concentrations, geographical features, transport links, physical infrastructure and so on) that typically have a strong influence on economic outcomes. Similarly, regional variations in legislative or social contexts may also have significant impacts. According to the QLFS, in 2017 close to two-thirds (63.9 per cent) of the provincial population is located within the City of Cape Town, while 31.5 per cent are located in other urban areas within the Province and 4.6 per cent are located in rural areas (see Table 4.14).

Table 4.14 Intra-provincial labour market aggregates (share of total), 2017Q1

	City of Cape Town	Rest of Western Cape	
	(Per cent)	*Urban (Per cent)*	*Rural (Per cent)*
Total population	63.9 [63.446; 64.310]	31.5 [31.098; 31.954]	4.6 [4.412; 4.781]
Working-age population	63.8 [62.797; 64.727]	31.3 [30.373; 32.271]	4.9 [4.499; 5.333]
Employed	62.8 [61.132; 64.454]	30.8 [29.150; 32.391]	6.4 [5.659; 7.215]
Narrow unemployed	68.5 [64.900; 72.160]	30.0 [26.435; 33.630]	1.4 [0.488; 2.387]
Narrow labour force	64.0 [62.910; 65.145]	30.6 [29.514; 31.709]	5.4 [4.881; 5.841]
Expanded unemployed	63.9 [60.559; 67.260]	33.8 [30.490; 37.145]	2.3 [1.278; 3.268]
Expanded labour force	63.1 [62.017; 64.120]	31.5 [30.489; 32.558]	5.4 [4.971; 5.843]
Non-searching unemployed	40.5 [31.976; 49.041]	53.0 [44.193; 61.783]	6.5 [2.722; 10.285]
NEETs (15 - 34 years)	64.9 [63.607; 66.129]	33.0 [31.747; 34.272]	2.1 [1.796; 2.448]

Notes: 1. Shares may not sum to 100 due to rounding.
2. Figures in parentheses are the 95 per cent confidence intervals.

Source: Own calculations, Stats SA, 2017d

For the intra-provincial labour market aggregates presented in this table, shares tend to be relatively stable for each of the three geographical categories. The City of Cape Town accounts for just under two-thirds of the population, the working age population, employment, expanded unemployment, and the labour force (narrow and expanded). Urban areas in the rest of the Province generally account for between 30 and 32 per cent of these aggregates, while rural areas typically account for between 4 and 6 per cent.

Of the province's narrow unemployed, 68.5 per cent are located within the City of Cape Town. This makes sense given that the City is attractive to workseekers from within and outside the Western Cape. Although the City of Cape Town is home to a large proportion of these unemployed, it does mean that employers there have access to a relatively large pool of labour.

Of the Western Cape's non-searching unemployed, only two-fifths (40.5 per cent) are located in the City of Cape Town itself, with the majority (53.0 per cent) located in the rest of the Province's urban areas and the balance (6.5 per cent) located in the rural areas. This pattern highlights the different labour market dynamics that exist in the Western Cape outside of the City of Cape Town. Urban areas in the rest of the Province account for just 31.3 per cent of the provincial working age population, but are home to more than half of the non-searching unemployed. Consequently, these other urban areas account for a slightly higher proportion of expanded unemployment than their share of the working-age population or employment might suggest. Urban areas outside the City are also home to a relatively large proportion (33.0 per cent) of NEETs - young people who are not in employment, education or training. While the non-searching unemployed are a small group (155 000) within the provincial labour force, the greater challenge seems to be providing NEETs with access to educational and training opportunities in settings that are geographically isolated and where economies of scale are hard to achieve.

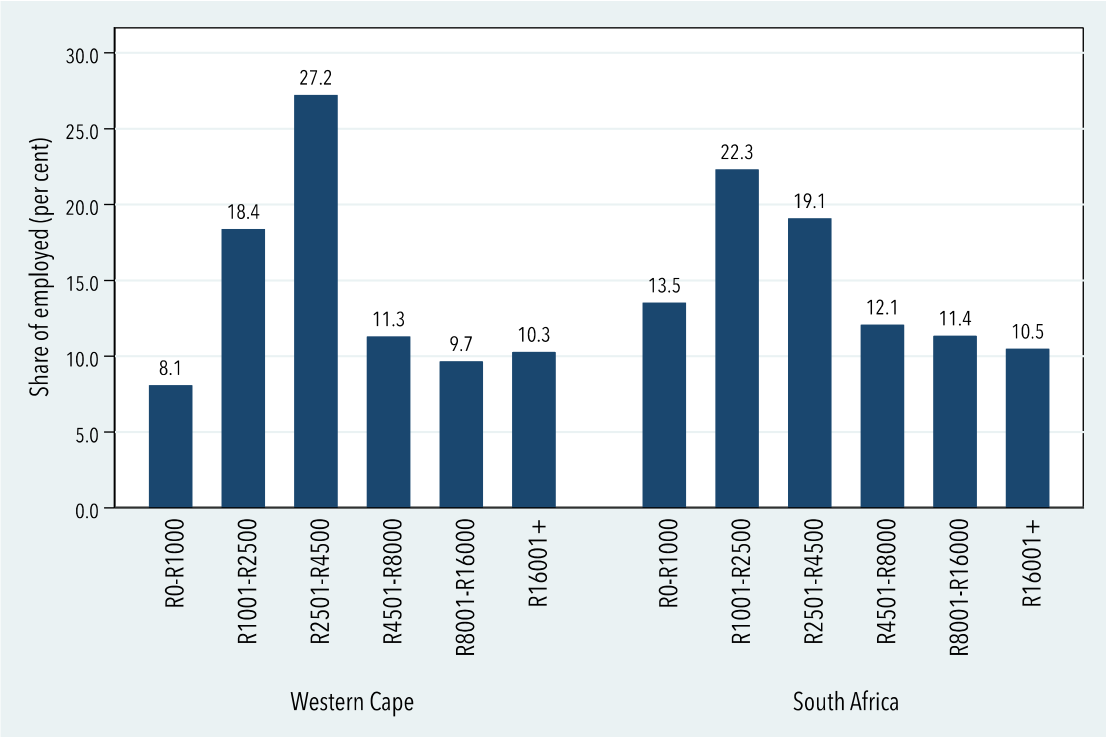
Rural areas account for 6.4 per cent of provincial employment, 1.4 per cent of its narrow unemployment and 6.5 per cent of the non-searching unemployed. This relatively favourable picture is at least partly related to the out-migration of jobseekers from rural to urban areas, lowering rural areas' share of unemployment and disguising the relative lack of employment opportunities.

4.9 Wages and wage dependence

Given the importance of wages as a mechanism for economic empowerment, this section focuses on the wages of the employed and the ability of the unemployed to access wage income within their households.

Based on the Labour Market Dynamics in South Africa (LMD) data for 2015, Figure 4.7 illustrates the distribution of total employment across six broad wage bands in South Africa and the Western Cape in 2015. Unfortunately, more recent data has not yet been released by Statistics South Africa (Stats SA). The key difference between the two distributions is that there is a lower proportion of workers earning less than R1 000 per month (8.1 per cent) and a higher proportion of workers in the two categories between R1 001 and R4 500 per month (45.6 per cent) in the Western Cape when compared with South Africa (13.5 per cent and 41.4 per cent). Looked at differently, while roughly one-quarter (26.5 per cent) of the employed in the Western Cape earn less than R2 501 per month, this is true of 35.8 per cent nationally. At the upper end the national and provincial distributions are very similar, with 31.3 per cent earning over R4 500 per month in the Western Cape compared to 33.9 per cent nationally.

Figure 4.7 Distribution of the employed across monthly wage bands, 2015



Source: Own calculations, Stats SA, 2017b

In a country with high levels of unemployment like South Africa, the employed must often support not only themselves, children and the elderly but also those of working age who are not employed. In 2017, the most common means of support for the narrow unemployed are reported as persons within the household (77.6 per cent of the unemployed), persons outside the household (24.3 per cent), and own savings (5.0 per cent), while 17.0 per cent report receiving a child support or foster care grant (own calculations, Stats SA, 2017d). Where support is received from an individual within or outside the household, this would typically be financed out of that individual's employment income.

Table 4.15 looks at the extent to which the unemployed are able to access labour market earnings indirectly through members of their household. On average in South Africa, each unemployed person is co-resident with 0.768 employed household members, meaning that in households with unemployed adults the unemployed typically outnumber the employed. This is true of all the provinces, with the Western Cape coming closest to parity between employed and unemployed members (0.960), followed by KwaZulu-Natal (0.860). The Western Cape's ratio is statistically higher than the national figure and indicates greater potential access for the unemployed to labour market earnings.

Table 4.15 Extent of co-residence of the unemployed with the employed, 2017Q1

	Mean Number of Employed Household Members for the Unemployed	Distribution of the Unemployed by Number of Employed Household Members			
		0 Employed Members	1 Employed Member	2 Employed Members	3+ Employed Members
		Per cent	*Per cent*	*Per cent*	*Per cent*
South Africa	**0.768**	**44.7**	**39.3**	**11.9**	**4.1**
Western Cape	0.960	32.5	46.1	15.8	5.7
Eastern Cape	0.639	52.8	34.8	8.4	4.0
Northern Cape	0.688	49.9	33.6	14.1	2.3
Free State	0.547	56.1	35.1	6.8	2.0
KwaZulu-Natal	0.860	44.0	37.1	13.3	5.6
North West	0.611	53.3	35.1	8.7	2.9
Gauteng	0.801	40.2	43.9	12.0	3.9
Mpumalanga	0.801	45.6	34.9	15.3	4.2
Limpopo	0.628	54.7	32.0	9.6	3.7

Source: Own calculations, Stats SA, 2017d

This greater potential access is also reflected in the relatively low proportion of the unemployed in the Western Cape who are not co-resident with an employed household member. At 32.5 per cent, this proportion is 12.2 percentage points lower than the national proportion (44.7 per cent).

The Western Cape's relatively low unemployment rates and relatively high employment-to-population ratio mean that the unemployed in the Province are less likely to find themselves in households with no access to labour market earnings. From the perspective of social policy and of inclusive growth, this suggests that the Western Cape is potentially in a relatively favourable position. There is, though, a possibility of divergence between potential and actual access to wage income that may result from varying degrees of resource sharing within households.

4.10 Conclusion

Employment growth in the Western Cape outpaced the growth in the working-age population and the labour force, and was at least as fast as employment growth nationally. At the same time, the narrow unemployment rate declined by one percentage point, although this change was not statistically significant. These trends mean that the unemployment rate in the Province remains considerably lower than the national unemployment rate. However, while the number of non-searching unemployed in the Province remains low, this group grew very rapidly between 2012 and 2017.

Despite an average unemployment rate of 21.5 per cent in the Western Cape, 30.8 per cent of 15 to 34 year olds were unemployed according to the narrow definition of unemployment. While the Western Cape and Limpopo have the lowest narrow unemployment rates, once the non-searching unemployed are included the Western Cape has a significantly lower unemployment rate. Narrow unemployment rates in the Western Cape have decreased by a statistically significant margin only amongst Coloureds and males.

The requirement for a more inclusive growth path therefore remains. In the South African context of high levels of unemployment and low skills levels, this requires a focus on growing employment in a way that promotes a labour absorbing production structure and, at least in the medium term, makes more intensive use of less skilled workers. Further, policy should continue to strengthen investments in education and training, and health. An inclusive growth strategy should also ensure that those who have exited the education system early and are currently marginalised in the labour market are able to access effective pathways to develop skills. Growth strategies should not focus simply on maximising short-term economic growth, but on ensuring that such growth is sustainable and equitable in that it allows all members of society to share in the benefits of economic growth, both now and in the future.

Annexure D

Detailed estimates

Annexure D1 Narrow labour force participation rates, 2017Q1

	South Africa		Western Cape		
	Estimate	***95% Confidence Interval***	***Estimate***	***95% Confidence Interval***	
Overall	60.5	[60.027; 60.999]	69.1	[67.725; 70.522]	*
By Race					
African	59.0	[58.504; 59.576]	71.9	[69.696; 74.087]	*
Coloured	64.5	[62.944; 66.101]	67.1	[65.060; 69.111]	
Asian	62.9	[59.673; 66.133]	74.1	[58.964; 89.254]	
White	69.7	[67.735; 71.571]	69.0	[65.029; 73.064]	
By Gender					
Male	66.6	[65.927; 67.294]	75.7	[73.873; 77.612]	*
Female	54.6	[53.862; 55.258]	62.8	[60.729; 64.803]	*
By Age Group					
15 to 24 years	27.9	[26.984; 28.740]	41.9	[38.808; 44.961]	*
25 to 34 years	75.6	[74.713; 76.419]	84.4	[82.238; 86.552]	*
35 to 44 years	81.3	[80.491; 82.194]	86.9	[84.730; 89.068]	*
45 to 54 years	74.9	[73.834; 76.061]	77.4	[74.402; 80.397]	
55 to 64 years	46.2	[44.632; 47.746]	48.4	[43.998; 52.752]	
By Educational Attainment					
Primary	48.0	[46.748; 49.246]	57.2	[53.123; 61.263]	*
Some secondary	51.5	[50.707; 52.221]	64.4	[62.144; 66.573]	*
Grade 12	69.3	[68.371; 70.206]	74.8	[72.308; 77.232]	*
Diploma/Certificate	86.3	[85.080; 87.487]	84.2	[80.311; 88.187]	
Degree	90.3	[88.703; 91.801]	89.0	[85.068; 92.990]	

Note: An asterisk (*) denotes a statistically significant difference between estimates for South Africa and the Western Cape at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: Own calculations, Statistics South Africa, 2017d

Annexure D2 Provincial unemployment rates, 2017

	Narrow Unemployment Rate		Expanded Unemployment Rate		Ratio of Expanded to Narrow Unemployment Rate
	Estimate (Per cent)	*95% Confidence Interval*	*Estimate (Per cent)*	*95% Confidence Interval*	
Western Cape	21.5	[20.070; 22.981]	24.7	[23.222; 26.227]	1.15
Eastern Cape	32.2	[30.267; 34.077]	43.6	[41.732; 45.389]	1.35
Northern Cape	30.7	[27.512; 33.850]	43.9	[40.841; 46.894]	1.43
Free State	35.5	[33.003; 37.923]	41.7	[39.322; 44.112]	1.18
KwaZulu-Natal	25.8	[24.323; 27.288]	41.0	[39.513; 42.416]	1.59
North West	26.5	[24.079; 29.016]	41.7	[39.316; 44.071]	1.57
Gauteng	29.2	[28.177; 30.242]	32.0	[30.956; 33.025]	1.10
Mpumalanga	31.5	[29.422; 33.528]	41.2	[39.259; 43.187]	1.31
Limpopo	21.6	[19.670; 23.482]	38.2	[36.217; 40.148]	1.77
South Africa	27.7	[27.135; 28.283]	36.4	[35.859; 37.003]	1.31

Source: Own calculations, Statistics South Africa, 2017d

Annexure D3 Rates of job satisfaction, 2017

	South Africa	Western Cape	
Overall	72.7	87.3	*
By Race			
African	67.3	82.0	*
Coloured	85.7	86.7	
White	93.5	98.2	*
By Gender			
Male	73.3	86.8	*
Female	72.0	87.9	*
By Age			
15 to 24 years	65.1	79.3	*
25 to 34 years	68.1	86.7	*
35 to 44 years	73.3	87.9	*
45 to 54 years	77.1	88.1	*
55 to 64 years	82.6	95.1	*
By Education			
Primary	63.2	79.8	*
Some secondary	65.2	81.4	*
Grade 12	75.6	91.4	*
Diploma/Certificate	82.1	94.3	*
Degree	91.4	96.9	*
By Sector			
Formal sector	77.5	89.9	*
Informal sector	61.0	76.0	*
Private households	53.8	75.3	*

Note: An asterisk (*) denotes a statistically significant difference between the estimates for South Africa and the Western Cape at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, Statistics South Africa, 2017d

Annexure D4 Narrow unemployment rates, 2012 and 2017

	2012Q1		2017Q1		
	Estimate	95% Confidence Interval	Estimate	95% Confidence Interval	
Western Cape	***22.5***	***[21.038; 24.004]***	***21.5***	***[20.070; 22.981]***	
By Race					
African	32.0	[28.777; 35.268]	30.3	[27.641; 32.935]	
Coloured	23.1	[21.098; 25.025]	19.6	[17.488; 21.637]	†
Asian	3.9	[-3.682; 11.478]	12.9	[-1.353; 27.092]	
White	5.3	[3.294; 7.262]	6.4	[3.421; 9.362]	
By Gender					
Male	23.5	[21.371; 25.656]	19.9	[17.974; 21.924]	†
Female	21.4	[19.293; 23.461]	23.4	[21.154; 25.552]	
By Age Group					
15 to 24 years	45.3	[40.871; 49.704]	41.4	[36.666; 46.064]	
25 to 34 years	24.3	[21.449; 27.139]	25.3	[22.494; 28.094]	
35 to 44 years	17.6	[14.775; 20.334]	15.6	[13.044; 18.093]	
45 to 54 years	12.1	[9.626; 14.500]	15.2	[12.201; 18.265]	
55 to 64 years	8.7	[4.956; 12.370]	7.0	[3.998; 10.005]	
By Educational Attainment					
Primary	25.6	[21.057; 30.209]	22.8	[18.344; 27.313]	
Some secondary	31.3	[28.574; 33.988]	28.7	[26.174; 31.284]	
Secondary	19.0	[16.448; 21.464]	19.8	[17.226; 22.472]	
Diploma/Certificate	6.8	[3.881; 9.721]	9.3	[5.697; 12.923]	
Degree	5.1	[2.018; 8.167]	4.0	[1.397; 6.654]	
South Africa	***25.0***	***[24.425; 25.633]***	***27.7***	***[27.135; 28.283]***	*
By Race					
African	28.7	[27.917; 29.399]	31.4	[30.710; 32.058]	*
Coloured	24.1	[22.447; 25.703]	22.9	[21.151; 24.610]	
Asian	9.3	[6.476; 12.127]	12.9	[10.000; 15.760]	
White	6.1	[4.975; 7.198]	6.6	[5.328; 7.900]	
By Gender					
Male	23.2	[22.370; 24.021]	26.0	[25.170; 26.736]	*
Female	27.3	[26.362; 28.173]	29.8	[28.938; 30.667]	*
By Age Group					
15 to 24 years	52.0	[50.108; 53.829]	54.3	[52.393; 56.111]	
25 to 34 years	29.1	[28.002; 30.255]	32.5	[31.483; 33.596]	*
35 to 44 years	18.5	[17.414; 19.608]	22.0	[20.934; 22.994]	*
45 to 54 years	12.8	[11.744; 13.915]	16.5	[15.359; 17.603]	*
55 to 64 years	7.0	[5.771; 8.227]	10.5	[9.084; 11.881]	*
By Educational Attainment					
Primary	22.2	[20.624; 23.710]	25.2	[23.641; 26.840]	†
Some secondary	32.2	[31.124; 33.372]	35.7	[34.673; 36.715]	*
Secondary	26.9	[25.810; 28.022]	27.5	[26.477; 28.567]	
Diploma/Certificate	12.0	[10.670; 13.328]	17.7	[16.238; 19.130]	*
Degree	5.5	[4.190; 6.867]	7.4	[5.995; 8.885]	

Note: An asterisk (*) denotes a statistically significant change between 2012 and 2017 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: Own calculations, Statistics South Africa, 2012a, 2017d

Annexure D5 Educational attainment by age, 2017

	Youth		Non-Youth		
	Estimate	***95% Confidence Interval***	**Estimate**	***95% Confidence Interval***	
Western Cape					
Primary	6.8	[5.469; 8.190]	14.1	[12.476; 15.753]	*
Some secondary	44.2	[41.576; 46.881]	35.8	[33.520; 38.078]	*
Grade 12	34.6	[32.046; 37.217]	28.9	[26.654; 31.114]	*
Diploma/Certificate	7.6	[6.157; 8.975]	12.0	[10.402; 13.643]	*
Degree	5.9	[4.588; 7.131]	7.9	[6.648; 9.157]	
South Africa					
Primary	6.8	[6.284; 7.264]	16.8	[16.120; 17.385]	*
Some secondary	40.0	[39.089; 40.970]	34.2	[33.406; 35.056]	*
Grade 12	36.5	[35.611; 37.486]	26.9	[26.134; 27.734]	*
Diploma/Certificate	11.1	[10.477; 11.712]	13.1	[12.501; 13.735]	*
Degree	4.9	[4.501; 5.373]	7.7	[7.230; 8.205]	*

Note: An asterisk (*) denotes a statistically significant difference between estimates for youth and non-youth at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: Own calculations, Statistics South Africa, 2017d

Annexure D6 Sources of support amongst the unemployed, 2017

	South Africa		Western Cape		
	Estimate	***95% Confidence Interval***	**Estimate**	***95% Confidence Interval***	
Supported by persons in the household	79.0	[76.002; 81.993]	77.6	[76.593; 78.585]	
Supported by persons not in the household	24.1	[20.839; 27.301]	24.3	[23.307; 25.376]	
Supported by charity, church, welfare, etc.	0.2	[-0.166; 0.511]	0.2	[0.120; 0.364]	
Receive Unemployment Insurance (UIF)	1.5	[0.631; 2.403]	1.1	[0.794; 1.316]	
Savings or money previously earned	8.4	[6.392; 10.494]	5.0	[4.476; 5.570]	*
Receive old age or disability pension	1.4	[0.571; 2.174]	0.7	[0.503; 0.871]	
Receive child support or foster care grant	14.4	[11.841; 17.046]	17.0	[16.147; 17.936]	
Receive any other welfare benefits	1.0	[0.366; 1.697]	0.6	[0.441; 0.802]	
Any other sources of support (e.g. bursary, student loan)	0.5	[-0.070; 1.088]	0.7	[0.504; 0.881]	

Note: An asterisk (*) denotes a statistically significant difference between estimates for South Africa and the Western Cape at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: Own calculations, Statistics South Africa, 2017d

Annexure D7 Labour market aggregates, second quarters of 2012 and 2017

	2012Q2 *Thousands*	2017Q2 *Thousands*	Change *Thousands*	*Per cent*	
Western Cape					
Working-age population	3 995	4 460	465	2.2 p.a.	
Employment	2 076	2 403	326	3.0 p.a.	*
Narrow unemployment	616	628	13	0.4 p.a.	
Narrow labour force	2 692	3 031	339	2.4 p.a.	*
Expanded unemployment	680	784	104	2.9 p.a.	*
Expanded labour force	2 756	3 187	431	2.9 p.a.	*
Non-searching unemployed	64	155	92	19.5 p.a.	*
Narrow unemployment rate	22.9%	20.7%	-2.1 percentage points		
South Africa					
Working-age population	34 098	37 217	3 119	1.8 p.a.	
Employment	14 330	16 100	1 770	2.4 p.a.	*
Narrow unemployment	4 721	6 177	1 456	5.5 p.a.	*
Narrow labour force	19 051	22 277	3 226	3.2 p.a.	*
Expanded unemployment	7 922	9 304	1 382	3.3 p.a.	*
Expanded labour force	22 252	25 403	3 152	2.7 p.a.	*
Non-searching unemployed	3 201	3 130	-71	-0.4 p.a.	
Narrow unemployment rate	24.8%	27.7%	2.9 percentage points		*

Note: An asterisk (*) denotes a statistically significant change at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, Stats SA (2012b, 2017e)

5

Socio-economic developments in the Western Cape

Key findings

- The Western Cape population is estimated at 6.51 million people, accounting for 11.5 per cent of the national population of 56.52 million and is the third most populous province in the country.

- Poverty increased in South Africa and the Western Cape between 2011 and 2015. However, the Human Development Index (HDI) for districts in the Province continued to improve.

- Total learner enrolment in the Western Cape increased by 2.1 per cent in 2017. Systemic test scores improved in Mathematics since 2012, while the 2016 National Senior Certificate pass rates improved in Accounting, Mathematical Literacy, Mathematics and Physical Science.

- The Western Cape life expectancy at birth continues to increase and remains above the national average for both males and females. The primary natural cause of death in the Province in 2015 was diabetes mellitus, followed by HIV. The proportion of deaths as a result of non-natural causes was highest in the Western Cape compared to other provinces.

- Access to municipal services was relatively high in the Western Cape in 2016: 98.7 per cent of households had piped water in their dwellings and 87.0 per cent had access to mains electricity.

5.1 Introduction

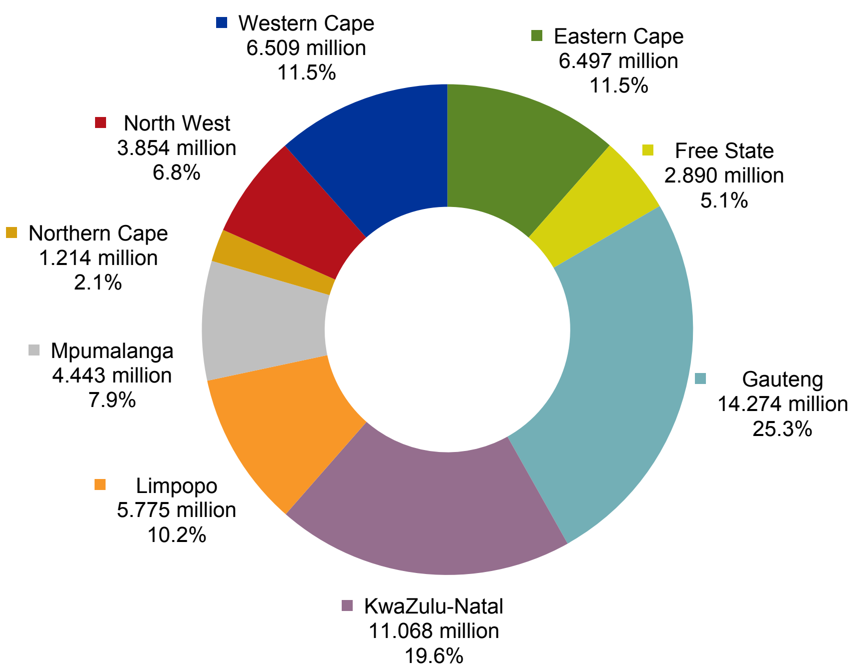
The previous chapters paint a stark picture of recent economic performance, although the economic outlook is cautiously optimistic. Considering the reinforcing relationship between economic growth and socio-economic development, a negative impact on socio-economic conditions can be expected, the most direct effect being the impact of rising unemployment on household incomes.

This chapter provides an overview of social conditions in the Western Cape using the most recent indicators within the national and international context, where possible. The chapter draws on recent information on population growth, migration, fertility, mortality, health and education. It also considers poverty and inequality trends and progress made on other measures of human development such as housing, access to municipal services, as well as social ills such as substance abuse and crime.

5.2 Population dynamics

The South African population for 2017 is estimated at 56.52 million. With 6.51 million people, the Western Cape is the third most populous province in the country (see Figure 5.1), slightly more than neighbouring Eastern Cape (6.50 million), but significantly less than Gauteng (14.3 million) and KwaZulu-Natal (11.1 million).

Figure 5.1 South African population distribution by province, 2017



Source: Stats SA, 2017a

The demographic profile and growth rate of a country's population are key factors in the realisation of its economic and development potential. Faster growth in working age categories will increase the potential labour force while an increase in younger age cohorts will increase the proportion of dependents in the population. In addition to fertility rates, migration and life expectancy have an impact on the Western Cape's demographic profile.

With a relatively low fertility rate of 2.23 between 2011 and 2016 and an expected further decline to 2.02 between 2016 and 2021. Net in-migration is estimated at over 290 000 people between 2011 and 2016, mostly from the Eastern Cape, Gauteng and abroad. This pattern is anticipated to continue between 2016 and 2021, with an estimated net in-migration of almost 310 000.

The provincial population spatial distribution remained relatively unchanged over the last several years. The Western Cape population is concentrated in the City of Cape Town (64 per cent), followed by Cape Winelands (14 per cent) and Eden (10 per cent). The population concentration mirrors the regional economic nodes.

5.3 Poverty, inequality and human development

Poverty and inequality are often at the heart of socio-economic development challenges. Poverty cannot be defined by money-metric measures alone, as it is also affected by multidimensional factors such as opportunities to access better shelter, education, health and employment. Poverty indices that draw on factors such as basic human needs have been developed in order to allow for a more holistic understanding of poverty, the linkages to human development and the barriers imposed by endemic inequality.

5.3.1 Poverty and inequality

The historical racial divide is perpetuated by income and human capital inequality. While this may take several generations to remedy, there has been progress, albeit mixed. The most recent poverty data released by Stats SA[1] show that economic growth patterns (Chapter 2) and rising unemployment (Chapter 4) have negatively impacted on household incomes and the depth and severity of poverty.

In 2015, 55.5 per cent of the South Africa population were considered poor (an increase of 2.3 percentage points from 2011) of which 7.5 per cent lived in the Western Cape.

[1] 2017b. Stats SA issued a cautionary note on the sample size of the Living Conditions Survey which has a markedly lower response rate than other Stats SA income and expenditure surveys, particularly in Gauteng.

National poverty lines

Stats SA has defined three poverty lines to measure poverty, based on the internationally recognised cost-of-basic-needs approach: the upper bound poverty line, lower bound poverty line and the food poverty line. The food poverty line is the rand value below which a person is unable to purchase enough food to meet minimum daily energy requirements. The upper and lower bound poverty lines use the food poverty line as its base. The lower bound poverty line is obtained from households whose total expenditure was close to the food poverty line. Their average non-food expenditure was added to the food poverty line to give a rand amount below which an individual is unable to purchase both adequate food (to cross the food poverty line) and minimum basic non-food items, forcing them to trade-off basic food for basic non-food items. Individuals at the upper bound poverty line have enough resources to purchase adequate food and basic non-food items, although it is not enough to lift them out of poverty.

In 2015, Stats SA published the updated national poverty lines which were rebased using the Income and Expenditure Survey 2010/2011 data, ensuring comparability across periods. Consumer Price Index data are used to update each line annually.

Table 5.1 Poverty line rand values per person per month, South Africa

Year	Food Poverty Line	Lower Bound Poverty Line	Upper Bound Poverty Line
2006	219	370	575
2009	318	456	709
2011	335	501	779
2015	441	647	992

Source: Stats SA, 2017b

As expected, poverty increased in the Province between 2011 and 2015 (see Table 5.2). The upper poverty headcount ratio, which measures the proportion of the provincial population falling below the upper bound poverty line, declined from 50.2 per cent in 2006 to 33.7 per cent by 2011, before increasing to 37.1 per cent in 2015. This pattern is observed for the lower bound and food poverty lines as well as the poverty gap and severity (see Annexure E). Poverty levels remain below 2009 levels across all poverty lines and measures.

Table 5.2 Western Cape population share below poverty lines, 2006, 2009, 2011 and 2015

	2006	2009	2011	2015
Upper Bound Poverty Line (UPBL)	50.2	41.3	33.7	37.1
Lower Bound Poverty Line (LBPL)	29.7	26.7	17.0	21.3
Food Poverty Line (FPL)	11.6	14.0	6.9	10.0

Note: The data refer to individual poverty headcount ratios.

Source: Stats SA, 2017b

The Social Assistance Programme is the biggest poverty alleviation programme in South Africa. In addition to providing some relief, grants have also resulted in positive social externalities such as increasing learner retention and improved health outcomes for persons with disabilities or in need of assistive care.

Table 5.3 Number of grant beneficiaries by grant type, 2015 - 2017

	2015	2016	2017
Care Dependency Grant	12 014	12 621	13 349
Child Support Grant	935 912	966 577	979 681
Disability Grant	155 850	151 373	155 214
Foster Care Grant	29 573	30 180	30 946
Grants-In-Aid	12 093	13 984	16 116
Older Persons Grant	292 745	308 089	323 569
War Veterans Grant	92	66	50
Total	**1 438 279**	**1 482 890**	**1 518 925**

Note: Data as at 31 March of each respective year.

Source: Western Cape Department of Social Development, 2017. Adapted from the South African Social Security Agency data

In 2017, about 65 per cent of grants beneficiaries received grants for child support, followed by the Older Persons Grant at just over 21 per cent (see Table 5.3). The proportional increase in the number of Older Persons Grants beneficiaries may be indicative of the increase in pensionable age population in the Province.

Grants-in-Aid beneficiaries grew by the largest margin between 2015 and 2017, albeit off a small base at around 15 per cent of total social grants. These grants are targeted at providing resources for older persons, war veterans and disabled persons from the age of 18 to 59 whom, owing to their physical or mental disabilities, require full-time attendance.

South African Multidimensional Poverty Index

The South African Multidimensional Poverty Index (SAMPI) is an alternative to money-metric poverty measures. It considers at a poor person's experience of deprivation in respect of health, education, living standards and economic activity, all measured by 11 indicators. An individual or household that is deprived in a third or more of the indicators is identified at 'MPI poor' and the extent/intensity of their poverty is measured by the proportion of the deprivation they are experiencing.

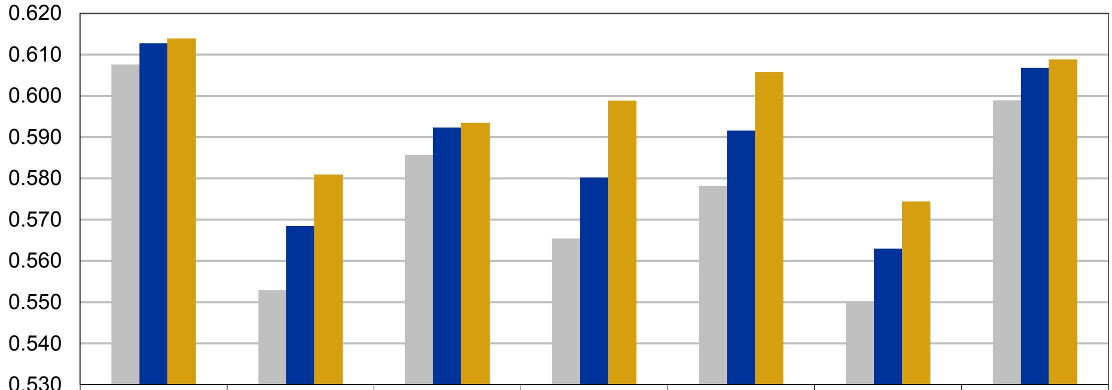
The SAMPI score is derived from the product of the headcount, or proportion of the households defined as multidimensionally poor, and the intensity of the poverty experienced. A score of 1 on the SAMPI would be indicative of an extremely poor society with deprivation across all indicators. A society in which 50 per cent of the households were poor and experienced 50 per cent deprivation across all dimensions would have a SAMPI score of 0.25.

In contrast with the income-based poverty measure, the Western Cape SAMPI score improved from 0.02 in 2011 to 0.01 in 2016. The improvement in living standards can be attributed to government investment in infrastructure, public health care, free basic education provision and other social services and subsidies.

Source: Stats SA, 2017b

Measuring and understanding inequality is particularly important in South Africa given its historical redress and inclusive growth policy imperatives. The Gini coefficient measures the distribution of income across a population and by implication the relative income inequality within that population. The coefficient ranges from 0 (complete equality) to 1 (complete inequality).

Figure 5.2 Western Cape Gini coefficients by district, 2010, 2013 and 2016

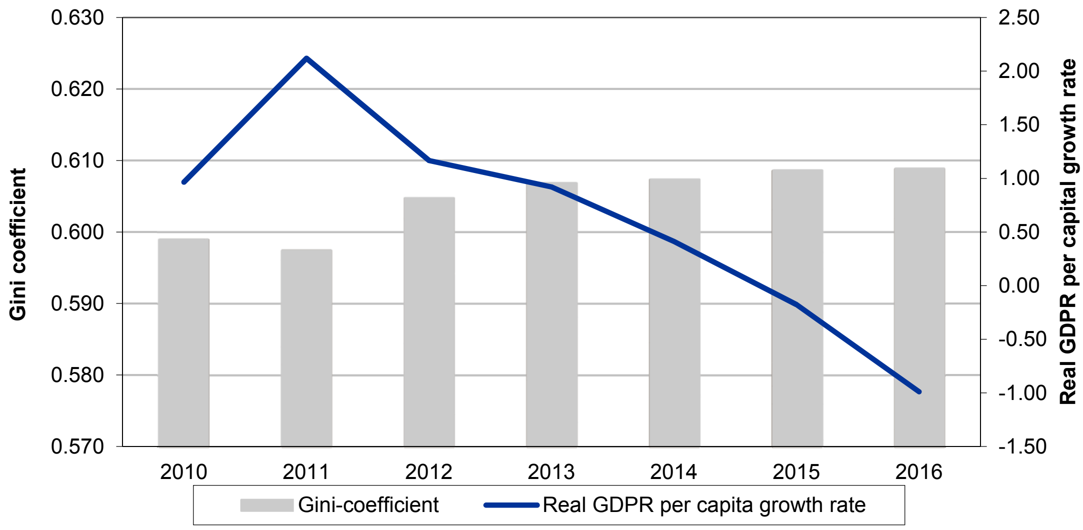


	City of Cape Town	West Coast District	Cape Winelands District	Overberg District	Eden District	Central Karoo District	Western Cape
2010	0.608	0.553	0.586	0.565	0.578	0.550	0.599
2013	0.613	0.568	0.592	0.580	0.592	0.563	0.607
2016	0.614	0.581	0.593	0.599	0.606	0.574	0.609

Source: Western Cape Department of Economic Development and Tourism, IHS Global Insight, 2017

It is clear from Figure 5.2 that the Gini coefficients for all districts and the Province deteriorated between 2010 and 2016. The biggest increase was for Overberg, from 0.565 in 2010 to 0.599 in 2016. The City of Cape Town consistently experienced the highest Gini coefficient, increasing from 0.608 in 2010 to 0.614 in 2016. The deterioration in the Gini coefficient for the Western Cape coincides with the decline in real GDPR per capita growth rates (see Figure 5.3), for the Province. The low growth rates have been accompanied by increasing unemployment, affecting incomes and thus likely a key contributor to the increased Gini coefficient. Unemployment continues to be disproportionately borne by the unskilled, youth and African population (see Chapter 4).

Figure 5.3 Gini coefficients and the real GDPR per capita growth rates, 2010 - 2016



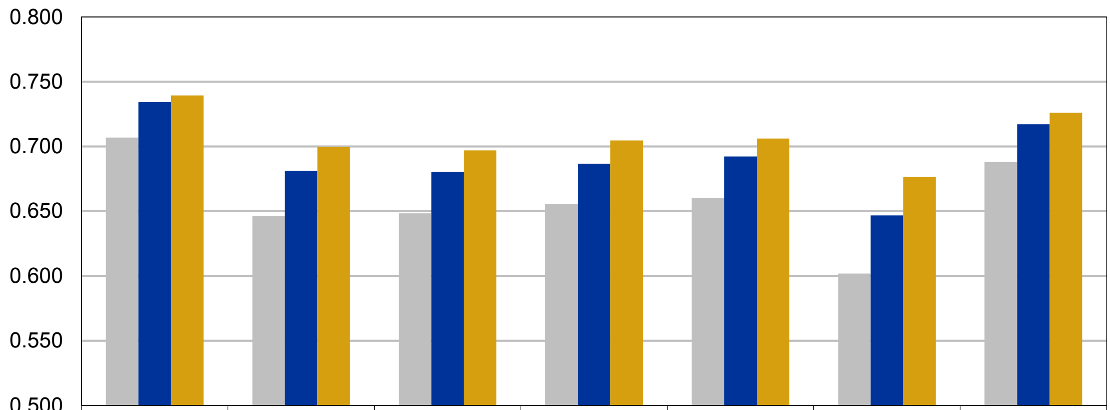
Source: Western Cape Department of Economic Development and Tourism, IHS Global Insight, 2017

5.3.2 Measuring human development

The Human Development Index (HDI) is a more comprehensive measure of development by including, *inter alia*, education, health and living conditions. According to the Human Development Report[2], South Africa is considered a 'Medium Development' country with an HDI of 0.666 in 2015 and is ranked 119th out of 188 countries. When considering the BRICS countries, Russia is ranked highest at 49th and is the only partner in the 'Very High Development' category. Brazil and China fall within the 'High Development' category and are ranked 79th and 90th. India falls within the same development category as South Africa and is ranked 131st.

In contrast, the Western Cape had an HDI of 0.729 for 2015 which is considered 'High Development'. Countries with a similar HDI include Jamaica, Columbia, Dominica, Suriname and Tunisia.

Figure 5.4 Western Cape Human Development Index by district, 2010, 2013 and 2016



	City of Cape Town	West Coast District	Cape Winelands District	Overberg District	Eden District	Central Karoo District	Western Cape
2010	0.707	0.646	0.648	0.655	0.660	0.602	0.688
2013	0.734	0.681	0.680	0.687	0.692	0.647	0.717
2016	0.739	0.699	0.697	0.705	0.706	0.676	0.726

Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight, 2017

The HDI for the Province and all districts increased over time with the biggest increase in Central Karoo from 0.602 in 2010 to 0.676 in 2016 (see Figure 5.4). The HDI is highest for the City of Cape Town and has been increasing consistently over time. Considering that the HDI uses measures such as life expectancy, literacy and income, the increase in the HDI could be attributed mostly to the increase in government expenditure within the social cluster, specifically within health and education.

2 United Nations Development Programme, 2016

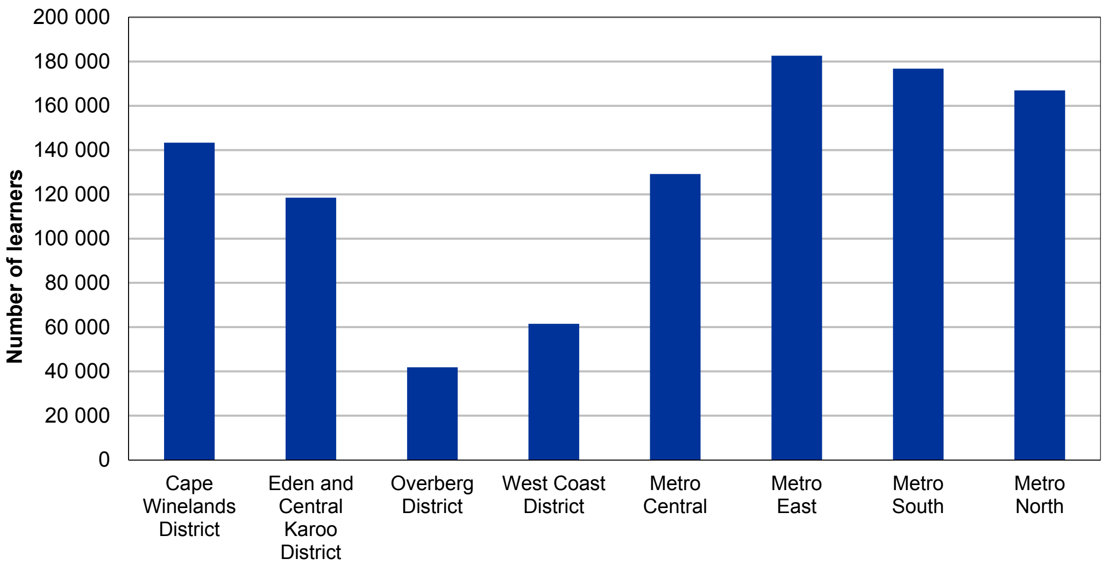
5.4 Education

Access to high quality education is considered one of the fundamental elements for improving socio-economic development. In Chapter 4 a clear link between educational attainment and employment (and by implication also income) was noted. Given the exposure of South Africa to international markets and the need to become more globally competitive, the relative skill level of the population becomes an important factor. A sound educational foundation is key to developing the skills and competitive resilience necessary to capture opportunities to grow the economy in an inclusive and sustainable manner.

5.4.1 Learner enrolment and retention trends[3]

The population growth in the Province continues to place increasing demands on the education system, both in terms of access and quality. The total learner enrolment in the Western Cape increased from 998 925 in 2016 to 1 020 642 in 2017 - a 2.1 per cent increase.

Figure 5.5 Number of learners enrolled, 2017[4]



Source: Western Cape Education Department, 2017

In 2017, Metro East and Metro South accounted for the highest number of learners enrolled in the Province. Another factor contributing to the growth in the learner enrolment is the improved learner retention. The Metros accounted for the highest in-year retention rates[5] in 2016 at 98 per cent across all grades on average. The

[3] The Western Cape Education Department disaggregates the City of Cape Town into four regions, namely Metropole Central, East, North and South. For the purpose of this discussion, these regions are also referred to as districts.

[4] The 2017 learner numbers are provisional enrolment and may be subject to change. The enrolment numbers include Grades 1 to 12.

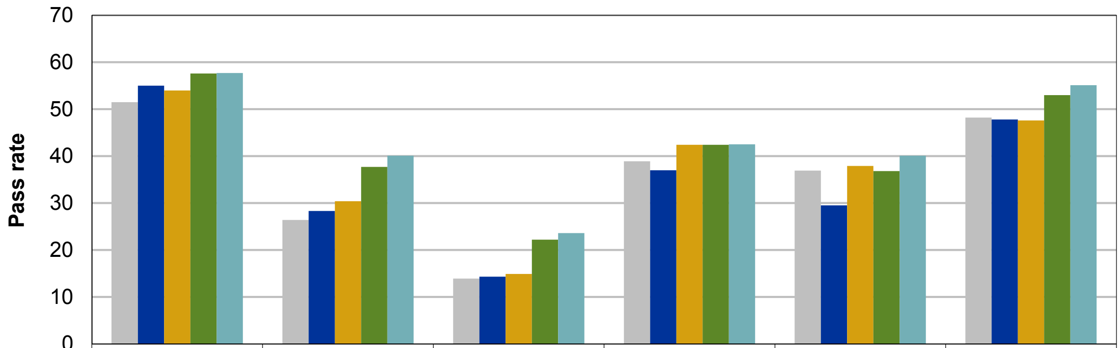
[5] The In-year retention rate compares grade enrolment at the beginning and end of the year.

remaining regions had in-year retention rates of 97 per cent on average across all grades in 2016.

5.4.2 Systemic testing

The annual systemic test results give an indication of the level of performance in literacy and numeracy across Grades 3, 6 and 9 in the Western Cape (see Figure 5.6). Overall, performance in the Mathematics tests improved for all grades between 2012 and 2016. The Grade 3 learners continued to achieve the highest average pass rate (57.7 per cent in 2016) for Mathematics across the 3 cohorts. The Grade 9 results remained the lowest of all 3 cohorts over the 5-year period, but has improved over the last few years.

Figure 5.6 Systemic test mathematics and languages pass rates for Grades 3, 6 and 9 for public ordinary schools, 2012 - 2016



	Grade 3 Mathematics	Grade 6 Mathematics	Grade 9 Mathematics	Grade 3 Language	Grade 6 Language	Grade 9 Language
2012	51.5	26.4	13.9	38.9	36.9	48.2
2013	55	28.3	14.3	37	29.5	47.8
2014	54	30.4	14.9	42.4	37.9	47.6
2015	57.6	37.7	22.2	42.4	36.8	53
2016	57.7	40.1	23.6	42.5	40.1	55.1

Source: Western Cape Education Department, 2017

Language pass rates were more varied for the 3 cohorts over the 5-year period. The Grade 9 average pass rate remained consistently higher than those of Grades 3 and 6. In 2016, Grade 9 achieved the highest pass rate (55.1 per cent) while the Grade 3 pass rate remained virtually unchanged (42.4 per cent) since 2014.

5.4.3 National Senior Certificate results

Except for 2014, the National Senior Certificate (NSC) results for the Western Cape have improved every year since 2011 (see Table 5.4). In 2016, the Province achieved a NSC (also known as matric) pass rate of 86.0 per cent, an improvement of 1.3 percentage points on the 2015 results.

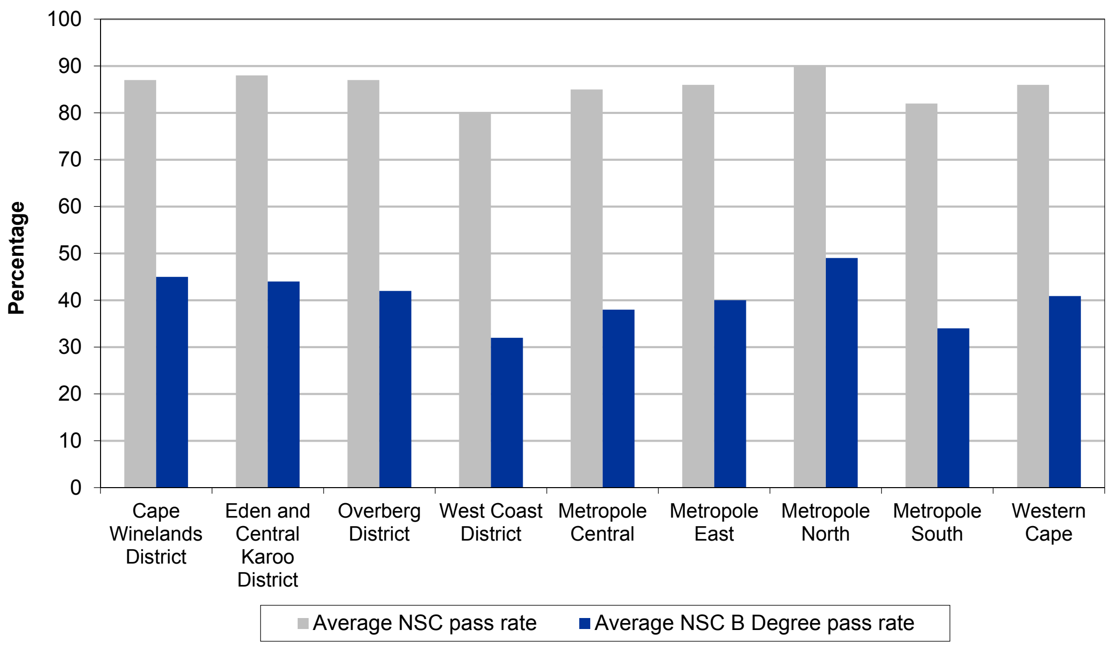
Table 5.4 National Senior Certificate results, Western Cape, 2011 - 2016

Year	Wrote	Passed	% Passed	Bachelor's Degree pass	Bachelor's Degree pass rate	Schools with pass rate < 60%
2011	39 988	33 146	82.9	15 215	38.1	30
2012	44 700	36 992	82.8	16 319	36.5	26
2013	47 636	40 558	85.1	19 477	40.9	23
2014	47 709	39 237	82.2	18 524	38.8	31
2015	53 721	45 496	84.7	22 379	41.7	27
2016	50 847	43 725	86.0	20 804	40.9	21

Source: Western Cape Education Department, 2017

At a district level, Metropole North (90 per cent) as well as Eden and Central Karoo (88 per cent) accounted for the highest average pass rates in 2016 (see Figure 5.7). West Coast (80 per cent) had the lowest matric pass rate in the Western Cape.

Figure 5.7 NSC and B Degree pass rates by region, 2016

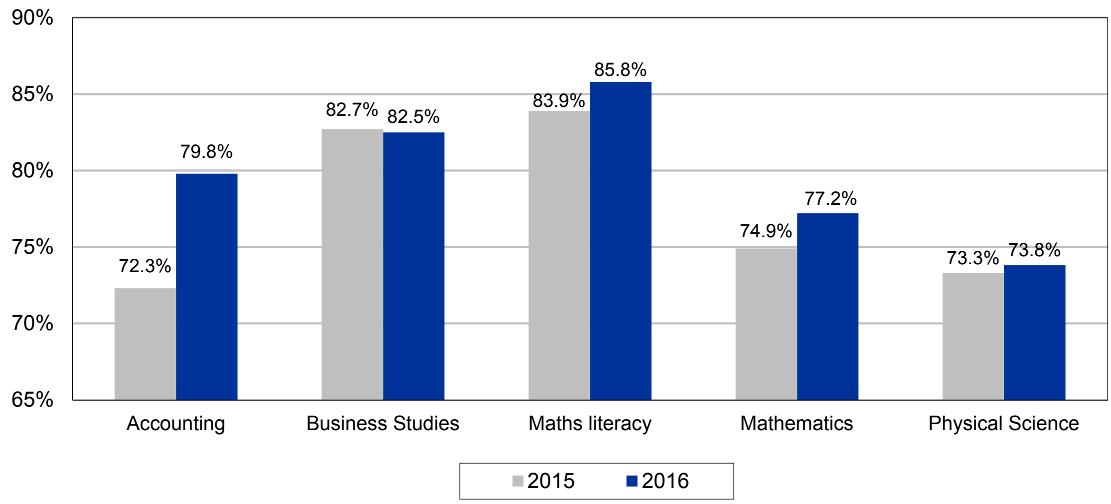


Source: Western Cape Education Department, 2017

Similarly, Metropole North, Cape Winelands, Eden and Central Karoo had the highest Bachelor's Degree pass rates in the Province (ranging between 44 per cent and 49 per cent) in 2016. West Coast, Metropole Central and Metropole South accounted for the lowest Bachelor's Degree pass rates (less than 40 per cent).

The 2016 NSC pass rates for Accounting, Mathematical Literacy, Mathematics and Physical Science improved from the previous year (see Figure 5.8). The pass rate for Accounting improved by 7.5 percentage points to 79.8 per cent in 2016, while the Mathematics pass rate improved to 77.2 per cent and Physical Science pass rate increased to 73.8 per cent.

Figure 5.8 NSC Pass Rates in Accounting, Business Studies, Mathematical Literacy, Mathematics and Physical Science, 2015 and 2016



Source: Western Cape Education Department, 2017

5.5 Health

Good health is one of the fundamental elements of human development, well-being and prosperity of a society. In addition to having a greater life expectancy, a healthy population will also tend to be more productive and will save more[6]. There are many other factors that also affect a population's health status. Poverty and the living conditions or environment that are often associated with poverty - the lack of safety, inadequate shelter, insufficient water supply and pollution - all contribute towards ill-health. Similarly, diets rich in sugar and salt, coupled with a sedentary lifestyle (often but not exclusively observed amongst the more economically secure populations), contribute to the rise of non-communicable diseases such as diabetes mellitus and cardiovascular diseases.

5.5.1 Life expectancy

Life expectancy at birth continues to improve nationally[7], with that amongst males estimated at 61.2 years and females at 66.7 years in 2017. Despite this positive development, life expectancy in South Africa remains below that of its BRICS counterparts[8].

Life expectancy at birth amongst males is projected to improve in the Western Cape from 64.8 years on average between 2011 and 2016 to 66.8 years on average between 2016 and 2021. Similarly, life expectancy amongst females in the Province is projected to increase from 70.6 years to 71.8 years over the same periods.

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6 World Health Organisation, 2017

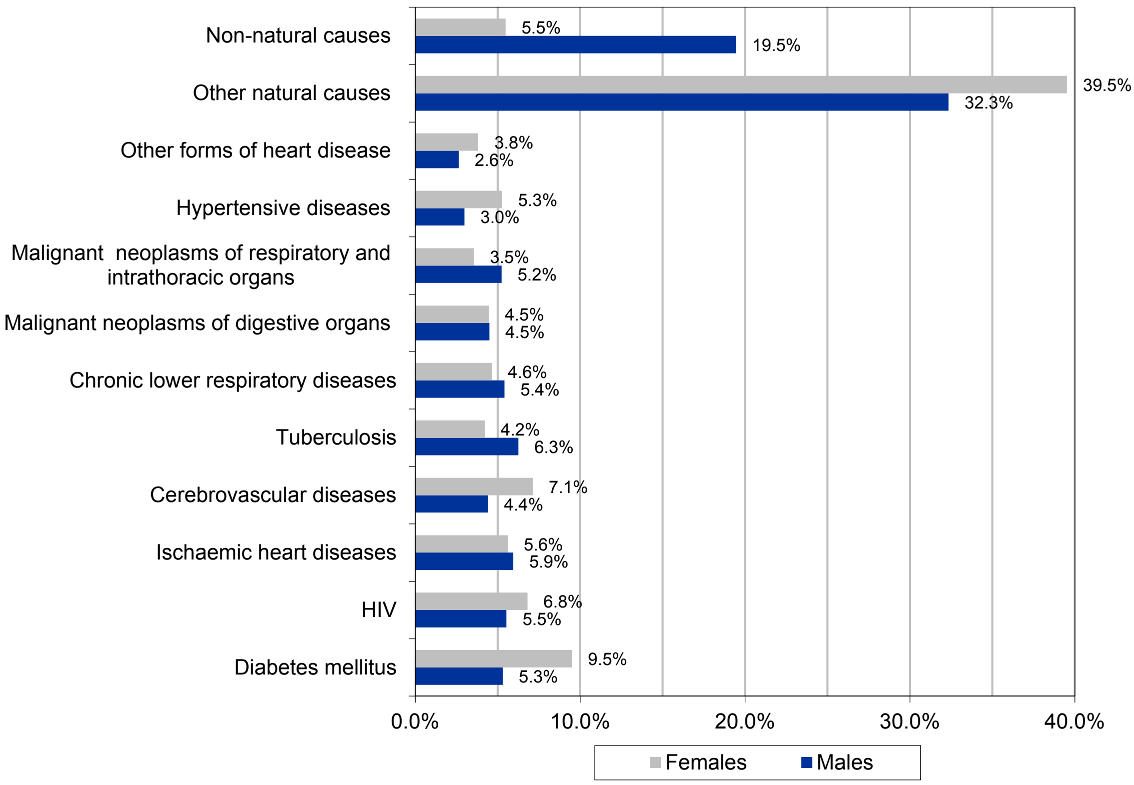
7 Stats SA, 2017a

8 United Nations Development Programme. 2016

5.5.2 Mortality[9]

The primary natural cause of death in the Western Cape in 2015 was diabetes mellitus (7.2 per cent of deaths), followed by HIV (6.1 per cent), ischaemic heart disease (5.8 per cent) and cerebrovascular disease (5.6 per cent).

Figure 5.9 Cause of death in the Western Cape by gender, 2015[10]



Source: Stats SA, 2017c

The statistics on the cause of death by gender (see Figure 5.9) reveal that the leading natural cause of death amongst women is diabetes mellitus, while it is tuberculosis (TB) amongst males. HIV remains the leading natural cause of death for both men and women within the age group 15 to 44 years old.

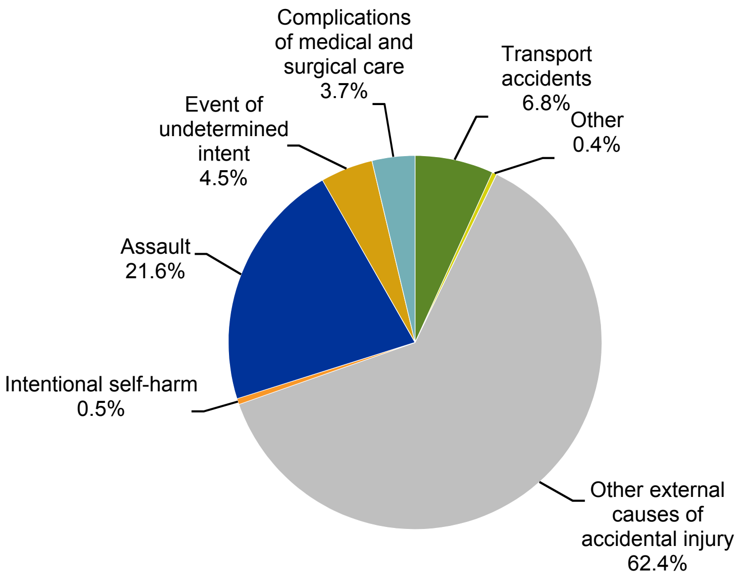
Diabetes mellitus and HIV remained the leading causes of death in Cape Town and Cape Winelands. In Eden and West Coast it was TB, in Central Karoo it was chronic lower respiratory disease and in Overberg the leading cause was ischaemic heart disease.

9 All data presented in this section are from Stats SA (2017c), unless otherwise stated.

10 Malignant neoplasms of digestive organs include oesophageal, gastric small intestinal, anal and colorectal cancers. These affect the digestive system. Malignant neoplasms of respiratory and intrathoracic organs refer to cancers of the respiratory system.

The Western Cape had the highest proportion (13.2 per cent) of non-natural deaths nationally. Injuries, assault and transport accidents accounted for 90.8 per cent of non-natural deaths in 2015 (see Figure 5.10), highlighting the injury-related burden in the Province.

Figure 5.10 Cause of non-natural death in the Western Cape, 2015[11]



Source: Stats SA, 2017c

5.5.3 Infant, child and maternal health

Improved infant, child and maternal health is one of the cornerstones of socio-economic development. The health of infants and children, particularly during the first 1 000 days when cognitive and physical developments are critical, largely determines the health of the next generation and may be indicative of future health challenges, disease burden and impact on the public health sector. There is also evidence suggesting that improved child and maternal health has a positive impact on a country's economic growth rate[12].

Early detection and monitoring of high risk pregnancies are fundamental to improving infant, child and maternal health outcomes. The proportion of antenatal clients at public health facilities whose first visit occurred before the 20th week of pregnancy increased steadily in the Province, from 61.0 per cent in 2013/14 to 69.6 per cent (63 901 patients) in 2016/17[13].

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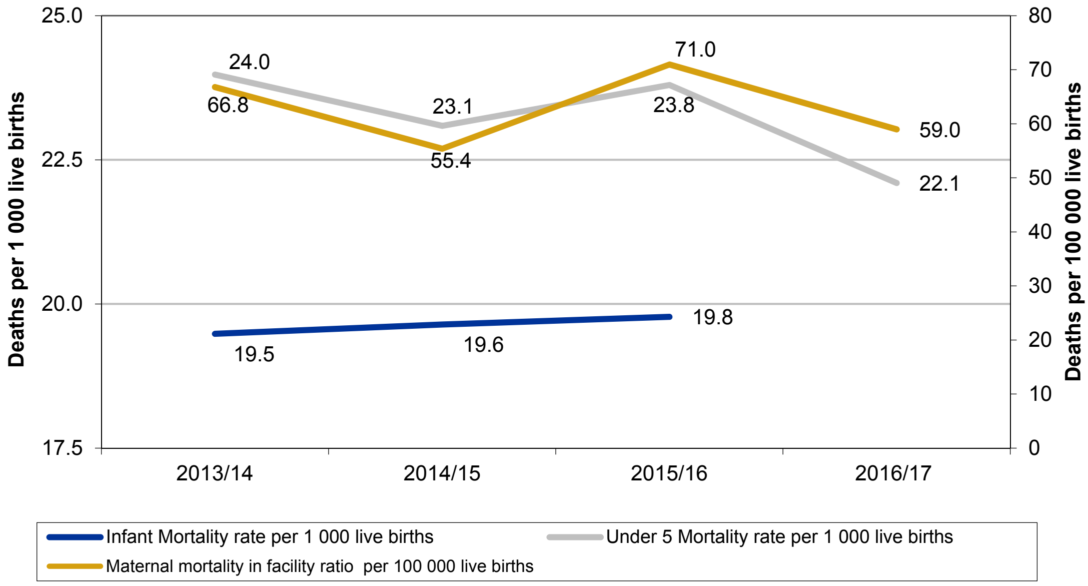
11 Other external causes of accidental injury include, amongst others, accidental drowning and submersion, exposure to fire, smoke and flames, contact with venomous animals and plants, exposure to inanimate mechanical forces and accidental poisoning by and exposure to noxious substances.

12 Amiri & Gerdtham, 2013

13 Department of Health, 2017a and 2017b

Figure 5.11 Infant, child (under-5 years) and institutional maternal mortality rates in the Western Cape, 2013/14 - 2016/17[14]



Source: Western Cape Department of Health, 2017a and 2017b

The child (under-5 years) mortality rate declined from 24 per 1 000 live births in 2013/14 to 22 per 1 000 live births in 2016/17. Key contributors to low and declining child mortality rate may include improved screening for and awareness of childhood illness and immunisation. Education, awareness and seasonal campaigns may have contributed to the decline in the under 5 diarrhoea, pneumonia and acute malnutrition fatality rates in the Province since 2013/14. Infant mortality has increased between 2013/14 and 2015/16, but remains below the national target of 23 per 1 000 live births.

The maternal mortality in facility rate declined to 59 per 100 000 live births between 2015/16 and 2016/17, and remains below the most recent national estimate of 141 deaths per 100 000 live births in 2013[15].

[14] 2016/17 infant mortality data was unavailable at the time of print.

[15] Stats SA, 2015

5.5.4 HIV/AIDS and TB

According to the Thembisa model[16], the national HIV prevalence rate is estimated at 12.8 per cent in 2016 with an estimated 7.1 million people living with HIV/AIDS. The impact of HIV/AIDS has been significant when considering the 2017 estimated life expectancy at birth of South Africans without HIV/AIDS - 65.2 years for males and 71.7 years for females[17] - compared to the HIV/AIDS inclusive estimates - 61.2 years for males and 66.7 years for females.

In the Western Cape, the HIV/AIDS prevalence rate is estimated at 6.7 per cent, well below the national average. This translates into an estimated 430 491 people in the Province living with HIV/AIDS in 2016. During 2016/17, almost 231 000 clients were on antiretroviral therapy (ART) administered by public health facilities in the Western Cape by the end of the financial year - 53.6 per cent of the estimated provincial HIV positive population. Low ART retention rates have prompted a number of innovative community-based interventions that aim to increase retention rates. One of these is chronic care clubs, where members of the care club are supported by their peers and encouraged to remain on treatment. Approximately 30.5 per cent of ART clients were part of a chronic care club at the end of the 2016/17 financial year.

One of the key intervention points for HIV screening and ART initiation is antenatal screening and treatment initiation. During 2016/17, 90.8 per cent of HIV positive antenatal clients - who were not previously receiving ART - were initiated on ART, up from 77.5 per cent in 2015/16. This intervention can be associated with a steady decrease in the mother to child HIV transmission rate from 1.9 in 2013/14 to 0.8 in 2016/17.

The World Health Organisation estimates TB incidence in South Africa at 454 per 100 000 in 2015. In 2014/15, the Western Cape recorded a TB notification rate of 708.6 (see Table 5.5).

Table 5.5 Trends in TB notification and outcomes in the Western Cape, 2013/14 - 2016/17

	2013/14	2014/15	2015/16	2016/17
TB notification rate (per 100 000)	745.1	708.6	-	-
TB new client treatment success (%)	87.1	82.7	84.4	83.5
TB lost to follow up (%)	7.5	8.3	9.0	9.6
TB death rate (%)	-	-	2.6	3.0
TB MDR treatment success rate (%)			39.4	44.6

Source: Western Cape Department of Health, 2017a and 2017b

16 Johnson, L. F., *et al*., 2016

17 Stats SA, 2017a

The emergence of Multiple Drug Resistant (MDR), Extreme Drug Resistant (XDR) and Total Drug Resistant (TDR) TB has further complicated the already complex nature of identifying potential cases, diagnosis and treatment. The most recent data (Table 5.5) shows a decline in treatment success, an increasing percentage of patients lost to follow up and an increasing case fatality rate, despite an increase in the TB MDR treatment success rate.

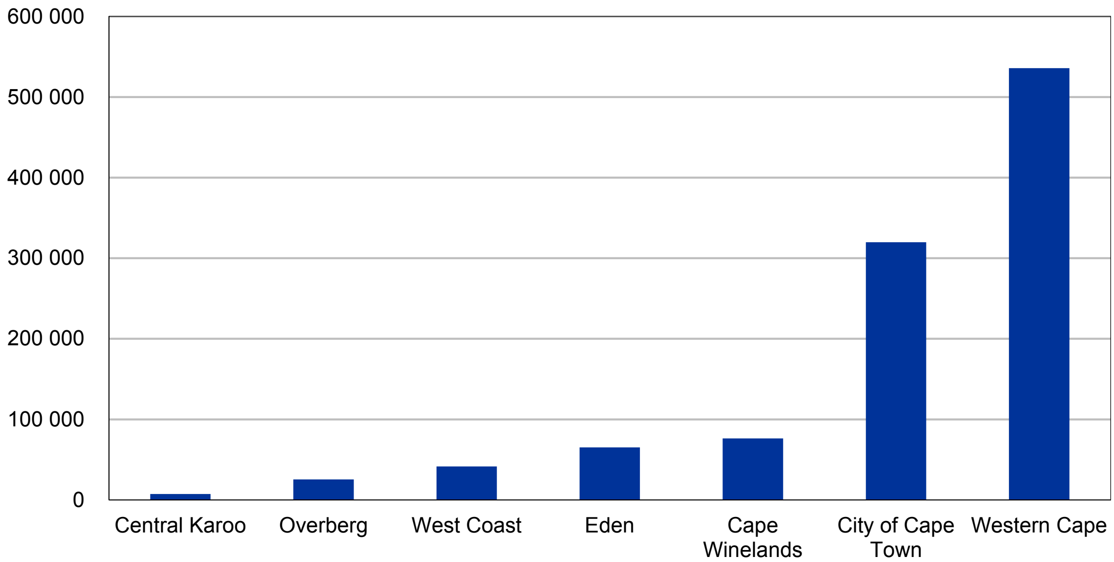
5.6 Housing and municipal services

Adequate shelter and access to clean water and food are amongst the basic human needs according to Maslow's hierarchy of needs[18]. With these in place, the progressive realisation of improved health outcomes and a safe and secure environment will follow, as well as a society's ability to meet its psychological and self-fulfilment needs. In essence, these factors constitute the foundation of human socio-economic development.

5.6.1 Housing dynamics

As of July 2017, a total of 535 802 households in the Province had registered their demand for housing (see Figure 5.12). Almost 60 per cent of the share is accounted for by the City of Cape Town, largely due to the concentration of the Province's population in the Metro. The real need for housing could be much higher when considering households who have not registered their housing need with the relevant municipality.

Figure 5.12 Registered housing demand in the Western Cape, July 2017



Source: Western Cape Department of Human Settlements, 2017a

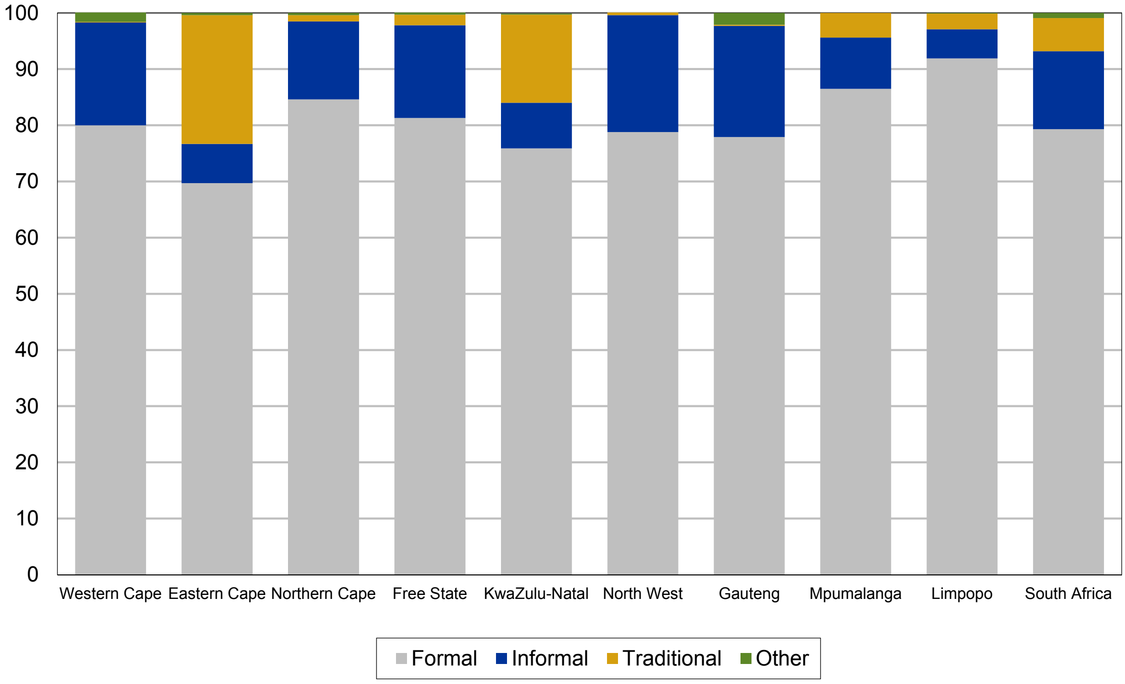
[18] Maslow, A.H., 1943

South African cities are rapidly urbanising with the type of dwelling reflecting the level of development and access to services. According to Stats SA[19], the number of households living in formal dwellings more than doubled between 1996 and 2016, at almost 1.6 million in 2016. Households living in informal dwellings increased to an estimated 320 000 in 2016. Urbanisation brings with it a greater demand for housing and the growth of informal settlements is often consistent with urbanisation.

An estimated 18.2 per cent of households in the Western Cape lived in informal dwellings in 2011. Informality can be measured in a variety of ways and definitions differ accordingly. Informal housing (or shacks) can be disaggregated into shacks that are not in backyards and those that are. The shacks that are not in backyards are located in informal settlements and were estimated at 191 667 in 2011. This is almost double the number of shacks that were located in backyards - an estimated 105 281 - in 2011[20].

The most recent data on dwelling type shows that the proportion of informal housing has remained relatively stable in the Province at 18.3 per cent in 2016 (see Figure 5.13). The Western Cape has the third largest proportion of households living in informal housing, after the North West and Gauteng.

Figure 5.13 Type of main dwelling by province, 2016



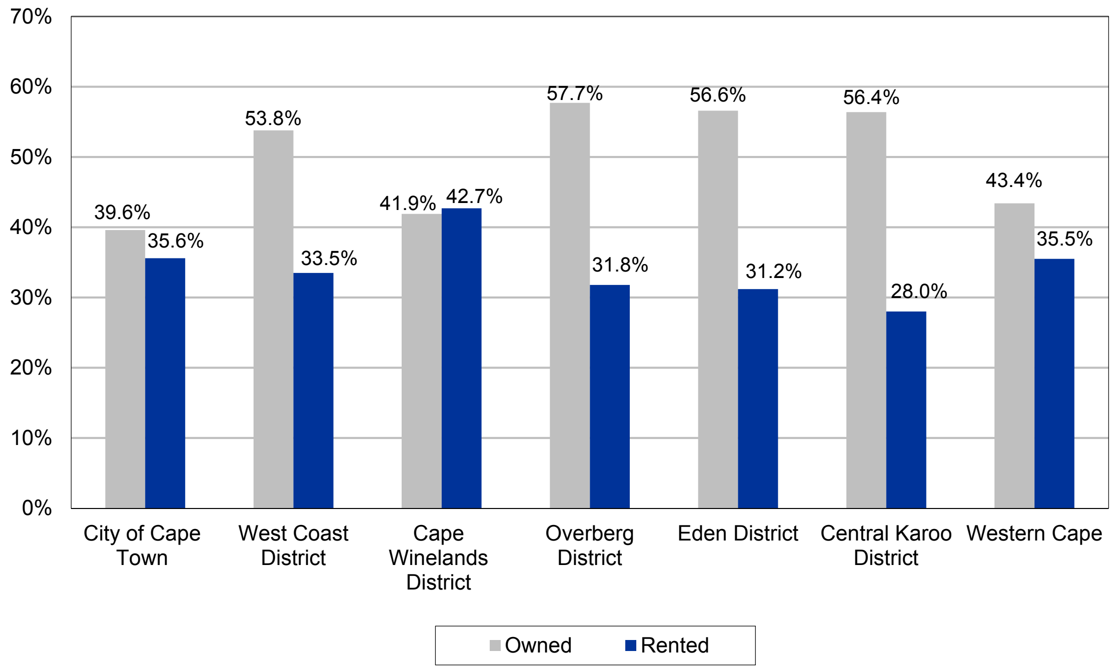
Source: Stats SA, 2017d

[19] Stats SA 2011 and Stats SA 2016

[20] Stats SA 2011

Another perspective on housing demand is tenure. The status of tenure is an indicator of the type of housing occupancy. Figure 5.14 shows the extent of home ownership versus rental across all the districts in 2011.

Figure 5.14 Percentage of distribution of households by status of tenure per district, 2011



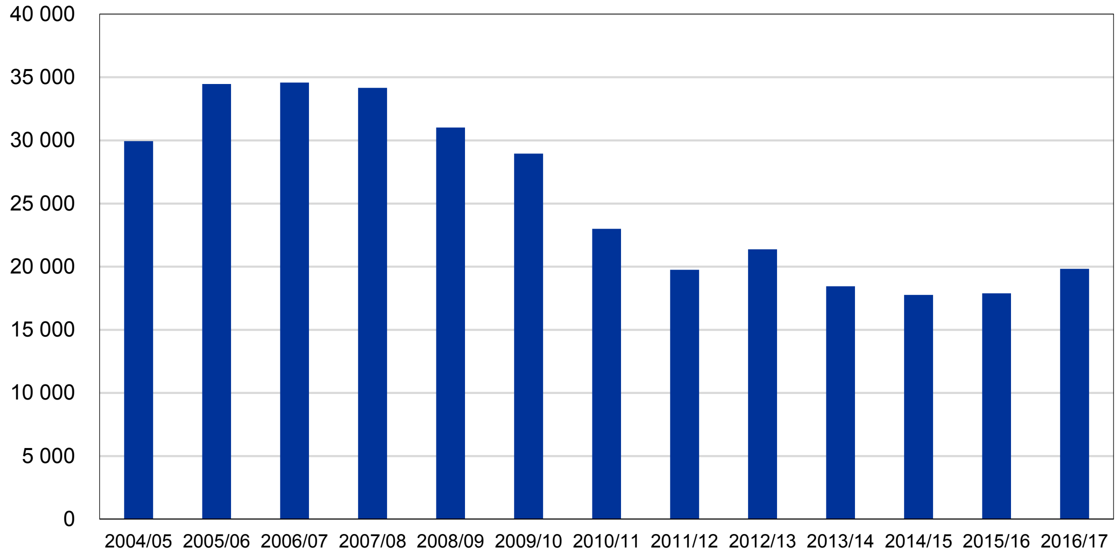
Source: Stats SA, 2011

In 2011, the highest levels of home ownership were in Overberg, followed by Eden and Central Karoo whereas the lowest were in Cape Winelands and Cape Town. The sustained increase in property prices experienced in the Province, particularly in the City of Cape Town and Cape Winelands, has led to an increase in rental accommodation as a more affordable option for many households. It is likely that some households desire more secure tenure through ownership.

To understand the housing market in its entirety, one also needs to consider supply dynamics. At the lower end of the market, government has primarily been responsible for the provision of subsidised housing opportunities, commonly referred to as 'RDP housing'. Almost a third (29.6 per cent) of the households in the Province lived in RDP homes in 2016, higher than the national average of 23.1 per cent[21]. This was driven by the delivery of housing opportunities in the Province since 2004/05 (see Figure 5.15).

[21] Stats SA 2016

Figure 5.15 State-subsidised housing opportunities delivered in the Western Cape, 2004/05 - 2016/17



Source: Western Cape Department of Human Settlements, Annual Performance Plans and Business Plans, 2004/05 - 2016/17

The decline in housing delivery observed since 2007/08 was largely driven by escalating construction costs and constrained fiscal circumstances, the latter being the result of slow economic growth. Current policy debates around the sustainability of fully state-subsidised units have highlighted the need to form partnerships with the private sector to expand the suite of housing opportunities available.

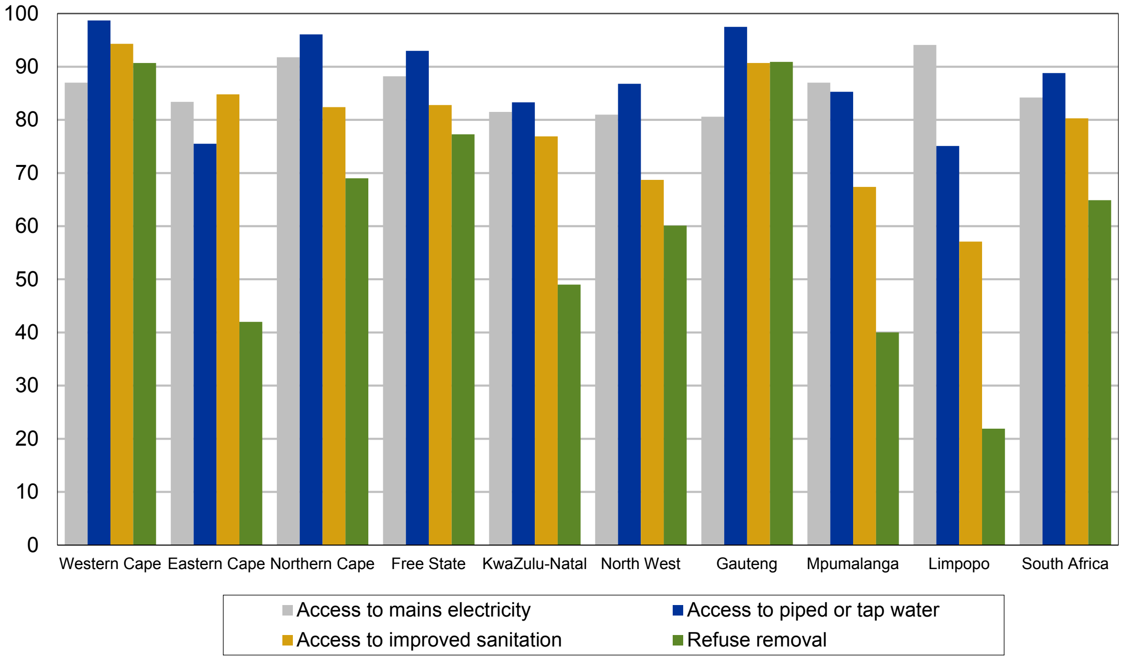
One of the biggest challenges to the unlocking of economic opportunities within the lower end of the housing market is the backlog in the transfer of title deeds to qualifying beneficiaries of housing subsidies. Improvements in the security of tenure would allow these households to own an asset, participate in the property market or to use their homes for economic activity, thereby allowing them to generate an income. With this objective, the Title Deed Restoration Programme (initiated by the National Department of Human Settlements) is being implemented to reduce the backlog.

5.6.2 Access to municipal services[22]

Access to basic services is an indicator of development and improved quality of life and is widely known to decrease some deficiencies related to poverty. According to Stats SA, 87.0 per cent of Western Cape households had access to mains electricity in 2016. This is a decline of 1.5 percentage points compared to the previous year, but is still above the national average of 84.2 per cent (see Figure 5.16). Moreover, 84.0 per cent of the Western Cape respondents rated the electrical supply as 'good' - the highest proportion relative to other provinces.

[22] All information contained in this section is sourced from Stats SA, 2017d.

Figure 5.16 Access to basic services by province, 2016



Source: Stats SA, 2017d

The proportion of households with access to piped water in their dwellings (98.7 per cent) remained the highest in the Western Cape in 2016. As with electricity supply, high levels of satisfaction were reported in respect of the quality of water services provided by municipalities, with 89.8 per cent of households giving a 'good' rating in 2016. Only 2.5 per cent of households experienced supply interruptions - the lowest nationally. The City of Cape Town had the highest reported access to water of all metros (99.7 per cent), followed by Nelson Mandela Bay and Buffalo City (both 99.2 per cent), and Johannesburg (99.1 per cent). The City of Tshwane (94.3 per cent) recorded the lowest access amongst metros.

Access to improved sanitation in 2016 was highest in the Western Cape at 93.4 per cent. In respect of refuse removal, 90.7 per cent of the Western Cape households are reported to have had their refuse removed at least once a week, well above the national average of 64.9 per cent.

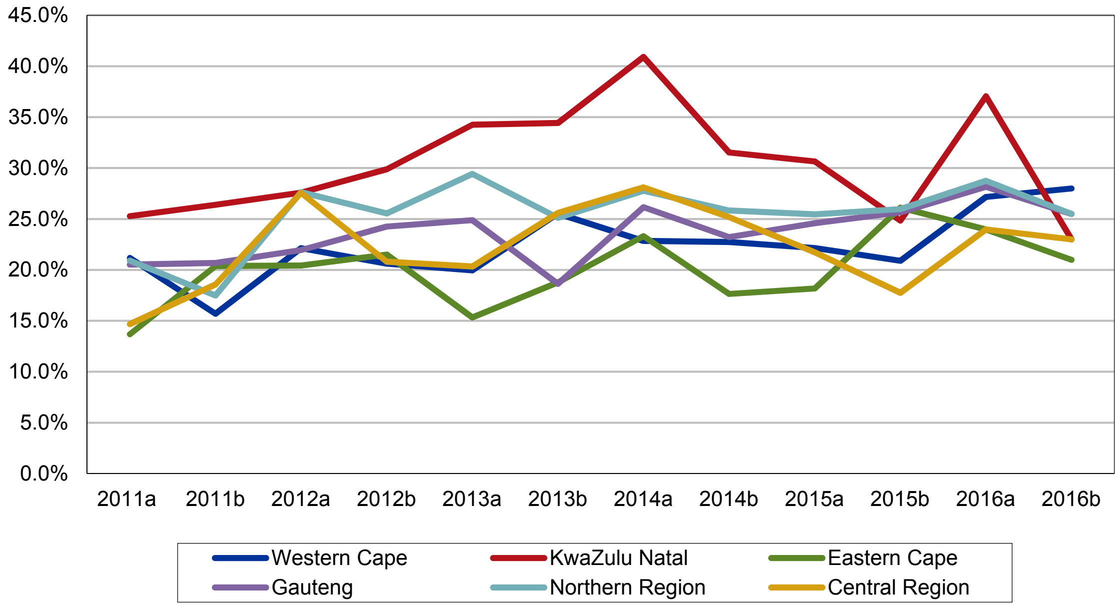
5.7 Social ills

5.7.1 Substance abuse[23]

The most recent data on substance abuse treatment reveals that 2 808 patients were treated at the 33 in-facility and outpatient substance abuse treatment sites across the Province during the latter half of 2016. Most patients received treatment for methamphetamine or 'Tik' (29 per cent), cannabis (29 per cent) and alcohol (21 per cent). Treatment for 'Tik' as the primary drug of abuse was relatively low in the other provinces compared to the Western Cape. Polysubstance abuse remains the highest in the Western Cape, with 48 per cent of patients reporting the abuse of more than one substance.

Between 2011 and 2016, there was a notable increase in the treatment admissions for patients younger than 20 years of age in the Western Cape (see Figure 5.17). Amongst these patients, cannabis (81 per cent) was the primary drug of abuse, followed by methamphetamine (5 per cent).

Figure 5.17 Treatment admissions trend in patients under 20 years of age, 2011 - 2016



Notes: Northern Region consists of Mpumalanga and Limpopo.
Central Region consists of Free State, North West and Northern Cape.
"a" refers to January to June, "b" refers to July to December.

Source: Dada, S., Harker Burnhams, N., Erasmus, J., Parry, C.D.H., Bhana, A., Timol, F., Fourie, D. (2017)

23 Information for this section is sourced from Dada, S., Harker Burnhams, N., Erasmus, J., Parry, C.D.H., Bhana, A., Timol, F., Fourie, D. (2017).

5.7.2 Crime

Crime, particularly violent crime, has become an established characteristic of South African society at great socio-economic cost. Crime is often linked to poverty, high unemployment and low socio-economic development. However, economic prosperity and development may also attract organised crime.

Crime statistics for April to December 2016[24] showed a 0.7 per cent increase in reported murder in the Western Cape compared to the same 9-month period in 2015. Robbery with aggravating circumstances also increased over the period, while reported burglary at residential premises and common assault declined.

Table 5.6 Western Cape crime by category, 2015 and 2016

Crime category	April - December 2015	April - December 2016	Percentage change
Murder	2 464	2 481	0.7
Common assault	29 812	29 664	-0.5
Robbery with aggravating circumstances	18 171	18 513	1.9
Burglary at residential premises	35 232	35 028	-0.6
Drug-related crime	69 247	78 664	13.6
Driving under the influence of alcohol or drugs	8 856	10 325	16.6

Source: SAPS, 2017

Drug-related crime detected as a result of police action increased by 13.6 per cent over the period. Similarly driving under the influence of alcohol or drugs increased by 16.6 per cent, which may be attributed to the continued intensity of traffic law enforcement.

Urban Safety

According to the 2017 Urban Safety Report, the City of Cape Town had the highest number of murders, robberies and property related crime of any metropolitan city in South Africa in 2015/16. Increasing since 2009/10, the murder rate within the City of Cape Town reached 62 per 100 000 people by 2015/16. The City also experienced an upward trend for robberies at residential premises between 2005/06 to 2015/16.

The Report attributes the high crime rate of the city to disproportionate access to alcohol, drugs, and firearms. Philippi East is mentioned as one of the crime hotspots nationally. The area has a high unemployment rate, consists of informal housing, an inadequate street network and insufficient street lightning. The area is renowned for drug and gang related crime, mostly committed at taxi ranks, open fields, derelict buildings and in the streets. The greatest concern of residents of Philippi East was allowing their children to play and move freely in the area. The most dangerous crime hotspots within the Philippi East area includes Lower Crossroads, where the police station is situated as opposed to the Marikana, Klipfontein, Island and Phola Park that was perceived as slightly safer areas.

Data collected in Emergency Centres in the City of Cape Town found that 55 per cent of violent injuries were linked to alcohol consumption (2016 PERO). Research on shebeens in Sweet Home Farm near Philippi however suggests that the shebeens are not the drivers of crime and criminality. Instead, it is part of the social construct within the social spaces that contain other risk factors for violence as well. The Report further suggests that interpersonal violent crime could be greatly reduced if shebeens had certain design features, entertainment resources, social controls and selective entry criteria.

Source: South African Cities Network, 2017

[24] South African Police Service, 2017

5.8 Conclusion

The overview of socio-economic indicators, within the current economic context, has highlighted both disconcerting and encouraging trends. Poverty has increased both nationally and provincially with 37.1 per cent of the Western Cape population falling below the upper bound and 10.0 per cent below the food poverty lines set by Stats SA. Inequality continues to worsen, the result of growing unemployment which disproportionately impacts on the youth and Africans. The provincial HDI, however, has improved, likely due to the continued government investment in infrastructure and social services, amongst others.

Education and health outcomes are encouraging. Systemic test scores and NSC pass rates have continued to improve. Life expectancy estimates have also increased. Both child and maternal mortality have declined between 2015/16 and 2016/17 and ART extended to more than 230 000 patients in 2017. Chronic diseases such as diabetes and HIV remain the primary natural causes of death in the Province, while injuries, assault and transport accidents account for almost 91 per cent of non-natural deaths.

Housing demand continues to increase in the Province. Access to municipal services is high in the Western Cape, and well above the national average. Satisfaction with water quality and electricity supply was rated highest in the Western Cape. Substance abuse and crime continues to impact negatively on the socio-economic development of the Province.

A clear understanding of the causal relationship between economic growth and development is essential for developing policies and programmes, particularly during a period of strained and uncertain economic growth. By identifying some of the effects the low growth and increased unemployment, policymakers should be able to refine and innovate intervention strategies in a bid to halt the erosion of gains made, alleviate the burden on the most vulnerable and focus more intently on accelerating inclusive growth.

Annexure E

Western Cape poverty measures, 2006, 2009, 2011 and 2015

	Headcount (P_0)				Poverty gap (P_1)				Severity (P_2)			
Western Cape	**2006**	**2009**	**2011**	**2015**	**2006**	**2009**	**2011**	**2015**	**2006**	**2009**	**2011**	**2015**
UBPL	50.2	41.3	33.7	37.1	21.2	18.1	12.5	14.7	11.7	9.9	6.2	7.6
LBPL	29.7	26.7	17.0	21.3	10.6	9.0	5.1	6.8	5.1	4.2	2.2	3.0
FBL	11.6	14.0	6.9	10.0	3.3	4.0	1.7	2.6	1.4	1.7	0.7	1.0
	Headcount (P_0)				**Poverty gap (P_1)**				**Severity (P_2)**			
South Africa	**2006**	**2009**	**2011**	**2015**	**2006**	**2009**	**2011**	**2015**	**2006**	**2009**	**2011**	**2015**
UBPL	66.6	62.1	53.2	55.5	35.6	33.5	25.5	27.7	22.5	21.3	15.0	17.0
LBPL	51.0	47.6	36.4	40.0	22.2	21.0	14.3	16.6	12.2	11.7	7.3	9.1
FBL	28.4	33.5	21.4	25.2	9.3	12.3	6.8	9.0	4.2	6.0	3.0	4.5

Appendix

Western Cape statistics

Indicator	GDP at basic prices - Total R million	GDP - Agriculture R million	GDP - Mining R million
2010	372 788	14 524	885
2011	386 830	14 784	908
2012	397 707	15 159	920
2013	407 948	15 659	946
2014	416 370	16 856	1 013
2015	422 514	16 519	1 021
Annual average growth	**2.5**	**2.7**	**2.9**

Indicator	GDP - Manufacturing R million	GDP - Electricity R million	GDP - Construction R million
2010	55 383	7 443	14 644
2011	56 979	7 591	14 737
2012	58 072	7 588	15 179
2013	58 516	7 529	15 934
2014	58 462	7 450	16 525
2015	58 407	7 312	16 892
Annual average growth	**1.1**	**-0.3**	**2.9**

Indicator	GDP - Wholesale and retail trade R million	GDP - Transport, storage and communication R million	GDP - Finance, real estate and business services R million
2010	53 608	35 030	98 687
2011	55 997	36 271	103 280
2012	58 283	37 045	106 547
2013	59 760	37 969	109 652
2014	60 898	39 160	112 022
2015	61 958	39 401	115 849
Annual average growth	**2.9**	**2.4**	**3.3**

Indicator	GDP - Community and social services R million	GDP - General government R million
2010	23 371	34 997
2011	23 926	37 075
2012	24 514	38 340
2013	25 145	40 068
2014	25 610	41 264
2015	25 861	41 628
Annual average growth	**2.0**	**3.5**

Indicator	Building plans passed: Province - Western Cape: All buildings R'000	Building plans passed: Province - Western Cape: Residential buildings R'000	Building plans passed: Province - Western Cape: Non-residential buildings R'000
2010	13 397 212	5 282 182	2 164 098
2011	14 093 960	5 850 214	2 620 612
2012	16 281 016	6 777 787	3 691 964
2013	18 593 652	8 021 430	3 883 346
2014	23 708 177	9 746 898	7 219 887
2015	25 371 628	12 603 919	5 363 906
2016	29 914 282	15 456 964	6 290 727
5-yr annual average growth	**16.4**	**21.5**	**24.7**

Indicator	Building plans passed: Province - Western Cape: Additions and alterations R'000	Building completed: Province - Western Cape: All buildings R'000	Building completed: Province - Western Cape: Residential buildings R'000
2010	5 950 932	10 228 153	4 608 270
2011	5 623 134	10 406 295	4 695 390
2012	5 811 265	11 011 674	5 061 196
2013	6 688 876	15 694 913	6 842 355
2014	6 741 392	11 507 035	5 850 311
2015	7 403 803	16 031 647	8 368 631
2016	8 166 591	17 812 988	9 478 713
5-yr annual average growth	**7.9**	**14.4**	**17.0**

Indicator	Building completed: Province - Western Cape: Non-residential buildings R'000	Building completed: Province - Western Cape: Additions and alterations R'000
2010	1 938 376	3 681 507
2011	1 940 058	3 770 847
2012	2 470 693	3 479 785
2013	3 475 479	5 377 079
2014	2 571 872	3 084 852
2015	4 166 530	3 496 486
2016	4 031 032	4 303 243
5-yr annual average growth	**20.2**	**8.1**

Indicator	Electricity consumption	Air traffic (Arrivals)	Air traffic (Departures)
2010	23 340	4 302 292	4 332 258
2011	23 495	4 492 699	4 509 032
2012	23 675	4 511 830	4 549 110
2013	23 202	4 441 541	4 467 745
2014	23 259	4 600 345	4 633 586
2015	22 861	5 032 514	5 073 048
2016	22 517	5 395 986	5 432 904
5-yr annual average growth	**-0.8**	**3.8**	**3.9**

Indicator	Crop estimates (Wheat)	Vehicle sales
2010	530 000	37 604
2011	710 000	45 597
2012	897 600	51 362
2013	928 000	52 052
2014	899 000	49 596
2015	697 500	48 968
2016	1 098 200	41 852
5-yr annual average growth	**12.3**	**-1.3**

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Glossary

Agri-processing	Refers to the subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector. Agri-processing industry thus means transforming products originating from agriculture, forestry and fisheries.
Balance of Payments	The Balance of Payments shows a country's transactions with the rest of the world. It notes inflows and outflows of money and categorises them into different sections.
Bond yields	The amount of return an investor will realise on a bond. Though several types of bond yields can be calculated, nominal yield is the most common. This is calculated by dividing amount of interest paid by the face value. Current yield is calculated by dividing the amount of interest it pays by current market price of the bond.
Business Process Outsourcing	A subset of outsourcing that involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider.
Business Confidence Index	A survey completed by senior executives in the trade, manufacturing and building sector during the last month of every quarter.
Consumer Price Index (CPI)	The main measure of inflation, charting the price movements of a basket of consumer goods and services.
Comparative trade advantages	The relevant sector's export share of total provincial (regional) exports is expressed as a ratio of the same sector's share of South African exports to calculate a revealed comparative trade advantage ratio.
Current Account (of the balance of payments)	The difference between the total exports and total imports, also taking into account service payments and receipts, interest, dividends and transfers. The current account can be in deficit or surplus.

Currency Trade Weighted Index	A measurement of the foreign exchange value of a local currency compared against certain foreign currencies. Trade-weighted currency gives importance - or weight - to currencies most widely used in international trade, over comparing the value of the local currencies to all foreign currencies. Since the currencies are weighted differently, changes in each currency will have a unique effect on the trade-weighted local currency and corresponding indexes.
Dependency ratio	The size of the dependent population (children and the elderly) relative to the size of the working-age population.
Discouraged work seeker	A person who was not employed during the reference week, who wanted to work and was available to work or start a business, but who did not take active steps to find employment or start their own businesses, on condition that the main reason for not seeking work was either a lack of available jobs in the area, an inability to find work requiring his/her skills, or the loss of hope of finding any kind of work. Discouraged workseekers are also referred to as the non-searching unemployed.
Employed	All working-age individuals who did any work for at least one hour during the reference week. Individuals who had a job or a business but were temporarily absent during the reference week are also considered employed.
Employment-to-population ratio	The size of the employed population relative to the size of the working-age population.
Expanded unemployment	Comprises all working-age individuals who were not employed during the reference week, but were willing and able to work. The expanded unemployed include all individuals unemployed according to the narrow definition of unemployment as well as all discouraged workseekers (i.e. the searching and the non-searching unemployed).
Fixed investment	Fixed investment is investment in physical assets such as machinery, land, buildings, installations, vehicles, or technology.
Food Poverty line	The food poverty line is the rand value below which a person is unable to purchase enough food to meet minimum daily energy requirements.

Formal sector	The formal sector covers all employment not included in the informal sector, but excludes domestic workers.
Gini coefficient	The Gini coefficient is a measure of statistical dispersion to represent income distribution. The coefficient varies between 0, representing complete equality, and 1, representing complete inequality.
Gross domestic product (GDP)	A measure of the total national output, income and expenditure in the economy. GDP per head is the simplest overall measure of welfare, although it does not take account of the distribution of income, nor of goods and services produced outside the market economy.
Halal	It refers to actions that are permitted to Muslims in terms of Islamic laws. It is often used to described foods consumed by Muslims.
Halal-relevant	Refers to products where there is some degree of concern over whether they can be consumed by Muslims.
Human Development Index (HDI)	The HDI attempts to quantify the extent of human development of a community and is based on measures of life expectancy, literacy and income. It is seen as a measure of people's ability to live a long and healthy life, to communicate, to participate in community life and to have sufficient resources to obtain a decent living. The HDI can assume a maximum level of 1, indicating a high level of human development, and a minimum value of 0.
Industrial Policy Action Plan (IPAP)	The Industrial Policy Action Plan (IPAP) 2016/17 is informed by the vision set out for South Africa's development provided by the National Development Plan (NDP). The IPAP is a key pillar of the Nine Point Plan. IPAP is aligned with the Medium Term Strategic Framework (MTSF) and the Medium Term Expenditure Framework, (MTEF). Its policy foundation is provided by the National Industrial Policy Framework (NIPF) adopted in 2007. Government policy identifies industrial development as one of the key pillars required to catalyse inclusive growth with an emphasis, on value-addition, labour intensive sectors.
Industrial Development Zone (IDZ)	Designated sites linked to an integrated to an international air or sea port, supported by incentives to encourage investment in export-oriented manufacturing and job creation.

Infant mortality	The probability of a child born in a specific year dying before reaching the age of one, expressed per 1 000 live births.
Inflation	An increase in the general level of prices.
Informal sector	The informal sector is comprised of (i) employees working in establishments that employ fewer than five employees and who do not deduct income tax from their wages; and (ii) employers, own account workers and individuals who help unpaid in household businesses that are not registered for either income tax or value-added tax.
Intermediate inputs or intermediate consumption	Refer to all goods and services bought by the producer to combine with the 'primary inputs' to produce the final output.
Labour - skills mix	The term 'skill mix' can refer to the mix of posts in the establishment; the mix of employees in a post; the combination of skills available at a specific time; or the combinations of activities that comprise each role, (rather than the combination of different job titles). Mix can be examined within occupational groups, or across different groups.
Labour force	All individuals within the working-age population who are employed or unemployed (i.e. the labour force consists of all who are willing and able to work).
Labour force participation rate	The proportion of the working-age population who are members of the labour force (i.e. who are either employed or unemployed).
Labour market	A labour market is the place where workers and employees interact with each other. In the labour market, employers compete to hire the best, and the workers compete for the best satisfying job.
Labour productivity	A ratio measured by the output per worker ratio (total output/total formal employment).
Living standards measure	A marketing and research tool used to classify standard of living and disposable income.
Lower bound poverty line	The lower bound poverty line is a rand amount with which an individual is unable to purchase both adequate food (to cross the food poverty line) and non-food items, forcing them to trade-off food for non-food items.

Medium Term Strategic Framework	Defines the strategic objectives and targets of National Government over a five-year period, coinciding with the electoral term.
Narrow labour force	All employed individuals plus all individuals who are not employed, but are either actively seeking employment or are planning on returning to existing jobs or enterprises soon.
Narrow unemployment rate	Refers to people who are unemployed and actively seeking work.
National Development Plan (NDP)	A long term vision and plan for South Africa. It serves as a blueprint for the work that is still required in order to achieve the desired results in terms of socio-economic development and the growth of this country by 2030.
Non-searching unemployed	All employed individuals plus all individuals who are not employed, but are either actively seeking employment or are planning on returning to existing jobs or enterprises soon.
Offshore Business Process Outsourcing	It can broadly be viewed as a process whereby businesses subcontract a number of non-core business related operations (mainly provision of services) to a third party. Offshore implies it is placed in another country. These business operations must be something that a firm could do internally or used to do internally, and then choose to outsource based on varying reasons, which may include cost reduction.
Operation Phakisa	Operation Phakisa extends beyond the oil and gas industry, and includes three other areas: marine transport and manufacturing, aquaculture, marine protection services and ocean governance. Operation Phakisa even aims to benefit the coastal tourism sector.
Poverty gap	The poverty gap is the mean shortfall of the total population from the poverty line. Stats SA has set 3 poverty lines to measure poverty (based on the internationally recognised cost-of-basic-needs approach): the upper bound poverty line, lower bound poverty line and the food poverty line.
Poverty severity	Poverty severity measures the gap between the poverty line (whichever line is chosen) and the mean income of poor individuals.

Primary inputs	Constitute the factors of production (like land, labour, capital and entrepreneurship), the remuneration of which is reflected in the value added, and are internal rather than upstream activity. In explicit terms, primary inputs plus intermediate inputs equal the final output.
Project Khulisa	The project's purpose is to accurately identify the parts of the Western Cape economy with the greatest potential for accelerated, sustained growth and job-creation - and then double down on driving the specific actions that government and business can take to unlock that potential.
Provincial Strategic Plan (PSP)	The WCGs five-year strategic plan, coinciding with the 5-year electoral term, that gives effect to the National Development Plan and Provincial Strategic Goals.
Real Disposable Income	The amount of money that households have available for spending and saving after income taxes and inflation have been accounted for.
Real GDP	A macroeconomic measure of the value of economic output adjusted for price changes (i.e. inflation or deflation)
Regional Gross Domestic Product (GDPR)	GDPR at market prices equals the sum of gross value added by all industries at basic prices plus taxes on products minus subsidies on products in a region.
Semi-skilled labour	A segment of the workforce who generally performs work of a routine nature of limited scope, wherein the emphasis is not so much on judgment and skill capability - but more so the proper discharge of duties assigned.
Shale gas	Shale gas refers to natural gas that is trapped within shale formations. Shale's are fine-grained sedimentary rocks that can be rich resources of natural gas, including petroleum. Over the past decade, the combination of horizontal drilling and hydraulic fracturing has allowed access to large volumes of shale gas that were previously uneconomical to produce.
Skilled labour	A segment of the workforce who has special skill, training, knowledge, and (usually acquired) ability in their work. A skilled employee is capable of working efficiently of exercising considerable independent judgment and of discharging his/her duties with responsibility. A thorough and comprehensive knowledge of the trade, craft or industry is required.

Southern African Customs Union	A customs union among five countries of Southern Africa: Botswana, Lesotho, Namibia, South Africa and Swaziland. Its headquarters is in the Namibian capital Windhoek, it was established in the year of 1910.
South African Development Community (SADC)	An inter-governmental organization headquartered in Gaborone, Botswana. Its goal is to further socio-economic cooperation and integration as well as political and security cooperation among 15 southern African states.
Thembisa model	Developed at the University of Cape Town, Thembisa is a mathematical model of the South African HIV epidemic. The model is designed to answer policy questions relating to HIV prevention and treatment. It is also a demographic projection model and a source of demographic statistics.
Total fertility rate	The number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.
Trade, Development and Cooperation Agreement (TDCA)	A treaty concluded between the European Community and South Africa. The treaty consists of three areas of agreement. First of all, it includes a free trade agreement between the EU and South Africa. Secondly, it includes development aid. Thirdly, it includes several areas of cooperation, such as economic and social cooperation. The TDCA was signed in 1999 and came into force in 2004.
Unemployed	Comprises all working-age individuals who were not employed during the survey reference week, but were available to work during that time and actively sought employment or had taken steps to start their own business during the four weeks prior to the interview (or had not actively sought employment in the four weeks prior to the interview but had a job or business to start at a definite date in the future and were available). This is the official (narrow) definition of unemployment.
Unemployment rate	The proportion of the labour force that is unemployed.
Under 5 mortality	The probability of a child born in a specific year dying before reaching the age of five, expressed per 1 000 live births.

Unskilled labour	A segment of the work force associated with a low skill level or a limited economic value for the work performed. Unskilled labour is generally characterised by low education levels and low wages.
Upper bound poverty line	Individuals at the upper bound poverty line have enough resources to purchase adequate food and non-food items, although it is not enough to lift them out of poverty.
Value chain	Value chains reflect links as bundles of activities aimed at designing, producing, marketing, delivering or supporting the final product or service. Value chains are supported by secondary activities throughout the process, such as procurement, human resource management, and infrastructure and technological development.
Working-age population	All individuals aged between 15 and 65 years, irrespective of whether or not they are economically active.