Western Cape Government
Provincial Treasury

Provincial Economic Review and Outlook 2014

Provincial Treasury
Business Information and Data Management
Private Bag X9165
7 Wale Street
Cape Town
tel: +27 21 483 5618 **fax:** +27 21 483 6601
www.westerncape.gov.za

Afrikaans and isiXhosa versions of this publication are available on request.
Email: Paul.Pienaar@westerncape.gov.za

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Foreword

One of the principles of the Western Cape Governance architecture is evidence-based practice. The goals, strategies and programmes are rooted in research and practices of monitoring and evaluation. The annual Western Cape Provincial Economic Review and Outlook (PERO) has become a key source of Western Cape specific economic intelligence.

As a research document, the PERO analyses past trends, assesses present performance and provides future scenarios of economic growth and development in the Province based on scientific data. One of the principles of good governance is predictability and the PERO provides the Western Cape Government with a tool for planning, budgeting, implementation and monitoring. The challenge is to ensure the successful implementation of the policies that aim to create opportunities for growth and jobs and improve living standards. In support of these, the PERO aims to inform broader policy debates amongst all stakeholders on regional economic growth and development and poverty and inequality reduction.

The PERO is complimented by the Municipal Economic Review and Outlook (MERO). As integrated publications, the PERO focuses on the aggregate provincial picture with a spatial focus and the MERO further disaggregates economic information from a national and provincial and to a sub-regional level. Both the PERO and MERO provide the context for the formulation of budget policy of the Western Cape as guided by the provincial strategic priorities.

The PERO reviews the global, national and Western Cape economic performance and outlook, as well as the relationships between these economic spheres. The 2014 PERO, taking its cue from the perspective of inclusive growth, looks at factors explaining the Province's growth and poverty reduction patterns, constraints and possibilities for economic transformation and diversification.

One thing is clear, there are three important global risks, namely water, energy, food security and the PERO research confirms this in the Western Cape and proposes appropriate policy responses. Other provincial economic realities are modest growth, high unemployment and population pressures. But there are also opportunities for economic development across all sectors and along value chains such as in agriculture, agro-processing, tourism and the green economy.

The 2014 PERO has been a collaborative effort and I wish to thank our partners in various provincial government departments, the universities and the research team for their valuable contributions.

Dr Ivan Meyer
Minister of Finance
15 October 2014

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Acronyms

AfDB	African Development Bank
ART	Anti-Retroviral Treatment
BER	Bureau for Economic Research
BFAP	Bureau for Food and Agricultural Policy
CPI	Consumer Price Index
CSP	Community, Social and Personal
EPA	Economic Partnership Agreement
EU	European Union
FEED	Farmer Eco Enterprise Development
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GEIM	Green Investment Mapping
GPTS	Growth Potential of Towns Study
HDI	Human Development Index
HIV and AIDS	Human Immune Virus and Acquired Immune Deficiency Syndrome
ILO	International Labour Organisation
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
LFPR	Labour Force Participation Rate
LMDS	Labour Market Dynamic Survey
LQs	Location Quotients
MERO	Municipal Economic Review and Outlook
MICE	Meetings, Incentives, Conferencing and Events
NDP	National Development Plan
NEET	Not Employed, or undergoing Education and Training
NSC	National Senior Certificate
PERO	Provincial Economic Review and Outlook
PMTCT	Prevention-of-mother-to-child-transmission
QES	Quarterly Employment Statistics

QLFS	Quarterly Labour Force Survey
RMB/BER	Rand Merchant Bank/Bureau for Economic Research
RSA	Republic of South Africa
SADC	Southern African Development Community
SAM	Social Accounting Matrix
SAWIS	South African Wine Industry Information & Systems
SARB	South African Reserve Bank
Stats SA	Statistics South Africa
TB	Tuberculosis
TBCSA	Tourism Business Council of South Africa
TBI	Tourism Business Index
UIF	Unemployment Insurance Fund
US	United States
WCED	Western Cape Education Department
WCG	Western Cape Government
WHO	World Health Organisation
YLL	Years of Life Lost

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Introduction and executive summary

1.1 Background

The Provincial Economic Review and Outlook (PERO) is an annual research publication that provides an updated analysis of economic and socio-economic development in the Western Cape Province, with a focus on outlining associated trends, challenges and opportunities. It aims to provide:

- An objective review and analysis of past and estimated future economic growth and socio-economic developments within the Western Cape; and
- Socio-economic scanning for an evidence-based platform to inform and guide planning and budgeting.

The Western Cape regional economy over the last few years has been faced with multiple and interrelated challenges of low growth rates, high and increasing unemployment, increasing population pressures, constraints related to natural resources, energy, climate change, infrastructure and skills shortages. Economic development as it manifests in improved standards of living, has also been affected by education and health outcomes, social ills such as crime and substance abuse and backlogs in housing and basic services. These factors are also affected by economic development or the failure to make it more inclusive.

The Western Cape's 2040 vision of 'A Highly skilled, Innovation-driven, Resource-efficient, Connected, High Opportunity Society for All' therefore prioritises creating opportunities for growth and jobs as one of its key goals. As in 2013 the overarching theme for PERO 2014 is the need for inclusive growth. Inclusive growth includes sustainable poverty alleviation through a pace and pattern of economic growth that creates productive jobs. Inclusive growth focuses on the constraints to a pattern of sustained high growth that is characterised by the creation of productive jobs for the unemployed and an increase in the productivity and real earnings for workers trapped in low-productivity jobs.

The 2014 PERO provides an overview of the Western Cape economy, through the lens of inclusive growth, looking at external factors explaining the Province's growth and poverty reduction pattern, and factors that may affect the overall productivity dynamics in the Province. Major challenges and opportunities, and possibilities for economic transformation and diversification are also analysed through this lens. The 2014 PERO therefore delves deeper into certain aspects of the Western Cape economy that hold potential for inclusive growth that is sustainable. It includes:

- The relationship between the national and provincial economy and also the international economy in terms of our major trading partners and Africa;
- The trends in WC economic growth, the spatial context, the performance of its industry sectors and value chains, the drivers and constraints that affect domestic and export production of these sectors;
- The agriculture sector linked agro-processing and tourism sector with its inclusive growth potential;
- The emerging green economy which has been targeted as a future growth area in the Province; and
- Labour force dynamics and socio-economic well-being of citizens in the Province.

The theme of Inclusive growth has further been expanded to include a local spatial focus within the broader regional context. This is therefore the second year that the Western Cape Provincial Economic Review and Outlook (PERO) is complimented with an integrated publication on the Municipal Review and Outlook (MERO). The PERO focuses on the aggregate provincial picture and a spatial focus at a district level. The topics covered in the MERO include regional growth trends, sector growth, employment and skills, value chains, informal sectors, municipal revenues and expenditure on infrastructure and socio-economic climate and development indicators on a district and municipal level.

1.1.1 Inclusive growth

The meaning of inclusive growth[1]

In a World Bank working paper[2] inclusive growth is defined as growth that is sustainable because it is "broad-based across sectors and inclusive of a large part of a country's labour force". The concept, according to some authors, captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms. It is argued that encouraging broad-based and inclusive growth does not imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment.

Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked. The Commission on Growth and Development notes in its *Growth Report*[3] that inclusiveness is an essential ingredient in any successful growth strategy. The emphasis is thereby placed on the idea of equality of opportunity in terms of access to markets, resources, and an unbiased regulatory environment for businesses and individuals. The Commission considers systematic inequality of opportunity "toxic" as it will derail the growth process through political channels or conflict.

Of relevance to this PERO is the fact that inclusive growth is not defined in terms of specific targets such as job creation or income distribution. These are potential outcomes, not specific goals. This is partly because inclusive growth is typically fueled by market-driven sources of growth with the government playing a facilitating role. In other words, the focus is on creating jobs characterised by increased productivity and growing competitive businesses rather than increasing the quantum of jobs regardless of whether it was done in a sustainable and competitive manner.

While the absorption of the legions of semi and unskilled workers in the formal economy is important, it is equally important to upgrade the skills and knowledge base of the broader labour force with the eye on a different economy in the future (National Planning Commission, 2011). Increased (productive) employment opportunities will assist individuals to invest in their children's education, thus expanding the skills base of the labour force over the medium to long term and bring about an associated emergence of new sources of employment and economic growth.

In this PERO, taking its cue from the perspective of inclusive growth, the overview of the Western Cape economy looks at external factors explaining the Province's growth and poverty reduction patterns, policies that affect the overall productivity dynamics in the Province, the major challenges and opportunities, and possibilities for economic transformation and diversification. Inclusive growth necessarily requires a longer term, rather than short term, perspective with the emphasis on improving the productive capacity of individuals and creating a conducive environment for employment.

The spatial dimension of inclusive growth

As much as inclusive growth has become a key strategic objective of international development agencies and many governments, it is in starke contrast with the actual spatial (geographic) pattern of economic development. This has become a source of intense debate and divisive policy disagreements within and between these agencies and governments.

1 As per the 2013 Provincial Economic Review and Outlook.

2 Ianchovichina & Lundstrom, 2009: 2

3 Commission on Growth and Development, 2008

The World Bank in its 2009 World Development Report describes extensively the spatially uneven pattern of economic development, historically and currently. The World Development Report's main message is that economic growth in a spatial sense will be unbalanced. Because people live in these unevenly growing geographical spaces, the outcomes of economic growth is also uneven for people.

This unbalanced spatial growth, with its uneven impact on people, forced analysts and policy makers to acknowledge that a focus on inclusive growth cannot ignore space as an important development dimension. There is general consensus that development must be inclusive also in the spatial sense. There are essentially two views on how this is to be achieved.

The one side of the debate about the spatial dimension of inclusive growth was advanced by the World Bank[4] and other influential reports like the Sapir Report[5]. From this perspective, policies based on 1950s growth and development theories have become outdated. Strategies that are based on a top-down sectoral rather than a spatial dimension were seen to end in unbalanced policies that were ultimately incapable of delivering sustainable development[6].

The conclusion reached by this side of the debate about the strategies that should replace the outdated, but still widely practiced, "one-size-fits-all" approaches with their formal sector bias[7], is that they must be "spatially-blind"[8]. This view is grounded in the new economic geography which advocates the advantages associated with the agglomeration effects of large cities: development and growth will be unbalanced and attempts to spread economic activity will not only fail to reduce poverty, they will also undermine growth and prosperity.

Inclusive growth feeds into spatially-blind strategies in the sense that more people will benefit from economic development if the process of economic agglomeration is not held back. Rather, inclusive growth is accelerated by creating the institutions and making the investments (into infrastructure, education, health) that will strengthen the interactive links between the lagging localities and the fast expanding growth centres. Growth will be more inclusive, according to this view, not through the spatial redistribution of economic activity, but by improving the channels, including institutional arrangements and the removal of market barriers, through which the spaces that are left behind are drawn into the value chains of the economic growth engines of cities, regions or countries.

4 World Bank, 2009

5 Sapir Report, 2004

6 Rodriguez-Pose & Arbix, 2001

7 Barca, McCann & Rodríquez-Pose, 2012

8 World Bank, 2009

In contrast to the space neutrality of the first approach, the other side of the debate argues that strategies should not be space-neutral, but place-based and highly contingent on context[9]. This approach is reflected in a number of independent reports[10].

The proponents of a place-based approach essentially take the view that development depends critically on the interaction between geography and institutions. If this is ignored the end result could be path dependency, sunk costs and often large informal urban settlements with social and environmental problems that are so huge that they are beyond the capacity of the state to deal with[11].

In general, the space-based advocates are sceptical about the potential success of space-neutral policies to make the process of development more inclusive. For some, this implies redistribution as an essential ingredient in a process of "administered convergence". For others, deliberate convergence excludes redistribution as the main mechanism of policy. Rather, the approach should be to maximise the development potential of all areas or regions.

The argument for space-based strategies recognises the limits of the central state and suggests that good local development policies must be based on partnerships between different levels of government. The aim of such partnerships must be to build local institutions and to draw on local knowledge[12].

It is suggested that in the context of a province in South Africa it is possible to design development strategies that are space-neutral in some respects and place-based in other respects. Space-neutral policies include the realisation of equal education, equal public health and equal access to markets and places of work. It stands to reason that in this context space-neutral strategies will promote greater inclusiveness.

While these space-neutral strategies are in the process of being realised, there are other areas of development that require a space-based approach. The realisation of the development potential of each local area (be it a residential area in a city, or a town in the country-side, or a district in the province) is dependent on appropriate institutions. These include a local authority that understands what is different and unique about the area. It must be able to mobilise local initiative and knowledge to realise its development potential. That cannot be directed from the centre, be it national or provincial.

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9 Barca, McCann & Rodríquez-Pose, 2012

10 See Barca Report, 2009: and the two OECD Reports, 2009a and 2009b.

11 Barca *et al,* 2012

12 Pike, Rodríquez-Pose & Tomaney, 2007

It is an unfortunate reality that not all local areas have the appropriate institutions that can make development interventions more "place-aware"[13] and thus more people-based. This places a major constraint on the promotion of local economic development. In such a context, space-based interventions make sense. Through intergovernmental cooperation and cooperation with local communities, in other words a space-based, differentiated approach focused on institution building, economic growth can be made more inclusive.

1.2 Executive summary

PERO reviews the global, national and Western Cape economic performance and outlook, as well as the relationships between these three economic spheres. Chapter 2 identifies the risks and opportunities to the region as a result of changing economic circumstances on a national and global scale.

Since exiting the global recession of 2008/09, global economic growth has been under significant pressure. Advanced economies were under strain as a result of weak domestic demand, later exacerbated by fiscal constraints. Meanwhile, emerging and developing economies, led by China, kept the global economic boat afloat. However, the roles have changed somewhat over the past few years.

Global economic growth moderated for the third consecutive year to 3.2 per cent in 2013, from 3.5 per cent in 2012. Advanced economies are showing signs of more robust growth, while downward pressure on growth in emerging and developing economies intensifies. The International Monetary Fund (IMF) forecasts global output to rise by 3.4 per cent in 2014 and by 4.0 per cent in 2015. Advanced economies are expected to grow at 1.8 per cent and emerging economies at 4.6 per cent in 2014.

Economic activity in South Africa, as with other emerging markets economies, slowed in 2013. South Africa has also been plagued by a host of domestic issues - including labour unrest, infrastructure bottlenecks and a persisting current account deficit – which have weighed heavily on economic growth. Growth of only 1.9 per cent was recorded in 2013, from 2.6 per cent in 2012. Most of the decline in economic activity during the first quarter of 2014 can be attributed to a 24.7 per cent and 4.4 per cent quarter-on-quarter fall in mining and manufacturing production, respectively. The fall in mining activity was largely due to labour unrest in the platinum sector which started towards the end of January 2014.

[13] Barca *et al*, 2007

After accelerating to an annual rate of 3.9 per cent in 2011, economic growth in the Western Cape slowed to 2.9 per cent in 2012. This was in line with the moderation in national economic activity. Post-recession there has been a convergence in growth between South Africa and the Western Cape.

Household consumption and growth in real consumer spending is expected to remain under pressure for the remainder of 2014 as rising inflation, higher interest rates, subdued employment and credit growth weigh on household income.

Domestic policy uncertainty remains a concern, especially with respect to creating an environment conducive to private sector fixed investment. Failure to reduce policy uncertainly may lead to slower growth in private sector fixed investment than currently projected. General emerging market sentiment has, in recent quarters, had a noticeable impact on the South African economy. Additionally, the vulnerability of the rand remains a key risk.

The better performance by the Western Cape economy is a result of both the structure and source of its economic activity. The tertiary sector which makes up a greater proportion of the Western Cape economy was also the sector that outperformed the rest of the country.

The Province's economy is more services orientated, therefore a more pronounced slowdown in consumer spending will likely have a greater effect on the regional economy than on the rest of South Africa. However, the Western Cape is less exposed to the mining sector and the lack of mining activity in this case would likely boost Western Cape growth relative to the rest of South Africa.

The risk to the Western Cape economy posed by the outlook for global growth is mixed. Although positive for the Western Cape in that our major export partners are growing, this is subject to downside risk. Weaker than expected growth in the US, Euro Area and Sub-Saharan Africa will dampen demand for Western Cape exports. The reverse (i.e. faster than expected growth) will provide a boost to exports. Exports could be further supported should the rand exchange rate depreciate by more than expected. The faster growth in advanced economies should boost Western Cape exports.

Over the forecast horizon (2014 – 2019) economic growth in the Western Cape is expected to average 3.0 per cent per year, peaking at 3.3 per cent in 2019. The tertiary sector is likely to be the biggest driver of this growth, as has been the case over the past few years.

1.2.1 Development of the Western Cape Economic Sectors

An overview of the Western Cape economic performance by sector delves deeper into the agriculture, forestry and fishing, tourism and green economy sectors.

The Western Cape economy has developed from its agricultural beginnings, with a strong complement of food and beverage producers, to higher value added manufacturing activity and a range of services activities (including tourism). The contemporary regional economy is, however, still characterised by a strong agro-processing sector.

Construction was the fastest growing sector between 2000 and 2013. Most of this growth was centred in the period 2004 to 2007, which was characterised by a residential and non-residential building boom, strong private fixed investment linked to the robust economic growth conditions and an ambitious public sector capital spending drive. The second fastest growing broad sector was finance, insurance, real estate and business services, the largest subsector that contributed 22.2 per cent to GDPR in 2013. Despite the slowdown in recent years, the sector made the biggest contribution to job creation over the 2000 to 2013 period. The transport, storage and communication sector's expansion was driven mostly by strong growth in the communication subsector due to the incremental liberalisation of the telecommunications market, new product developments and mobile telephony. Moderate growth of 3 per cent is forecasted for the Western Cape over the 2014 to 2019 period.

A wide diversity of products underpins why the agriculture, forestry and fishing sector remains a key industry in the Western Cape economy. Despite its relatively small direct contribution to regional GDPR, the Western Cape agricultural sector accounts for 23.4 per cent of national agricultural output. Given that the Province's contribution to national GDP is estimated at 15 per cent in 2013, the Western Cape has a clear revealed comparative advantage in agriculture. This is manifested in agricultural exports accounting for 57.3 per cent of South Africa's agricultural exports.

The economic contribution of primary agriculture is supported by various value chains as well as forward and backward linkages[14] within the manufacturing and services sector, the latter importantly through tourism. Increasing farmer participation in the full food value chain via beneficiation of agricultural produce could stimulate inclusive growth and employment creation.

[14] Forward linkages refer to the distribution chain connecting a producer or supplier with the customers. Backward linkages refer to the channels through which information, material and money flow between a company and its suppliers create a network of economic interdependence.

Going forward, the agricultural sector is likely to remain a pillar of strength in the Western Cape economy, especially in rural areas. However, the sector is subject to key risks which could not only dampen short term growth prospects, but also undermine the longer term potential of the sector. These risks include a lack of clean water sources, pressure on profitability, land reform policies as well as crime.

Tourist spending has a strong, positive and sustainable impact on employment in many sectors and districts of the Western Cape economy. Moreover, the provincial catering and accommodation sector, which is linked to tourism is expected to outperform other provincial sectors. Tourist spending as part of total spending reveals the reach of tourism into other sectors. It depicts why tourism is such an important sector through which to achieve inclusive economic growth. For example, 37 per cent of spending in restaurants and 31 per cent of spending on sports and recreation are linked to tourism. Other 'less obvious' sectors also benefit from tourism, for example, retail automotive fuel sales (16 per cent) and clothing retail sales (10 per cent).

A positive outlook for tourism demands that attention be given to the general risks to income levels of consumers, both locally and abroad. Consumers need the ability and desire to spend in the Western Cape and recently introduced changes to tourist visa requirements could detract from the Province's attractiveness. Furthermore, maintaining the rich biodiversity of the Western Cape is key to its recognition as a top tourist destination.

1.2.2 Labour market dynamics

Since late 2008, labour market trends in South Africa have been defined by the impact of the global financial crisis and the ensuing recession. Quarterly Labour Force Survey (QLFS) data are used to determine these trends.

Employment in South Africa peaked at 14.8 million in late 2008, just prior to the economy going into recession. The impact on the local real economy was initially relatively benign, with the local recession lasting only three quarters (2008Q4 to 2009Q2). However, the impact on the labour market was dramatic: close to one million jobs were lost during the first nine months of 2009. Total employment eventually fell as low as 13.7 million in the third quarter of 2010. The Western Cape's population has grown relatively rapidly over the past five years. As a result, there are now 4.2 million potential workers resident in the Western Cape. The Western Cape's population is estimated at approximately 6.1 million in 2014, representing roughly 11.3 per cent of the national population. Working-age cohorts account for 67.3 per cent of the Provincial population, while those aged at least 65 years represent 6.2 per cent.

In 2014, around 54 per cent of the Western Cape's working age population - 2.2 million people - were employed. This is substantially higher than the national proportion of 43 per cent and indicates a lower general level of dependence on the Province's workers.

Part of the reason for the growing provincial population is migration, specifically net in-migration from other provinces. Statistics South Africa (2014c) estimates that the Western Cape has received just over 300 000 more in-migrants than the number of out-migrants who left the Province between 2006 and 2011. On average, out-migrating adults have a higher educational attainment than in-migrating adults, while in-migrating adults have a higher educational attainment than non-migrant adult residents. Therefore, in-migration increases the average level of educational attainment within the Province.

In South Africa, the narrow unemployment rate is estimated at 25.4 per cent in the second quarter of 2014. Including the non-searching unemployed raises the unemployment rate to 33.4 per cent. In the Western Cape, the narrow unemployment rate is estimated at 23.5 per cent and rises only to 24.4 per cent using the broad definition.

The Western Cape differs substantially from most other provinces in that the non-searching unemployed (also referred to as discouraged workseekers) account for just five per cent of the expanded unemployment rate, compared to nearly 32 per cent nationally. A number of factors can be used to explain this difference, including the Province's relatively high level of urbanisation (and the City of Cape Town's dominance within the provincial labour market) and different patterns of educational attainment. However, 50.4 per cent of 15 to 24 year olds in the Province's labour force are unemployed. This highlights the persisting youth unemployment problem.

1.2.3 Socio-economic development in the Western Cape

The review of socio-economic conditions and developments in the Western Cape focuses on population dynamics, income, poverty, human development, education, health, housing, access to services and crime. These areas provide a perspective of the context in which the Western Cape economy operates, including key current and emerging trends.

The provincial population is predicted to grow by 10.5 per cent between 2014 and 2024 - a total increase of 636 366 people. At a district level the pattern of growth is not even, ranging from a declining population in Oudtshoorn to an increase of 18.6 per cent in Bitou. The City of Cape Town is projected to increase its population by 9.8 per cent over the same period.

The provincial economy generally grew at a faster rate than the population between 2001 and 2011. There is a clear variation in GDP per capita across districts in the Province. GDPR per capita rose in all districts and the City of Cape Town, except the West Coast District where GDPR per capita remained constant.

For all districts and the City of Cape Town, per annum household income is concentrated in the R9 601 to R153 600 range. This income bracket is very large, however, and does not provide much information regarding household economic circumstances. The City of Cape Town has a far larger proportion of households in the top two household income brackets, i.e. where household income exceeds R153 600 per annum, than the districts.

In the Western Cape, the Gini coefficient registered a relatively high 0.63 in 2001, declining to 0.58 in 2011. The Cape Metro and the five districts Gini coefficients range between 0.57 and 0.59, with the City of Cape Town topping the scale. This is to be expected given both migration and income patterns; both rich and poor tend to migrate to the City.

All Western Cape districts and the City of Cape Town improved their Human Development Indices (HDIs) from 2001 to 2011. In 2011, the highest HDI levels were recorded in the City of Cape Town at 0.74. The districts' HDIs ranged between 0.71 and 0.65.

With regard to Education, Learner Systemic Tests conducted in 2013 reflect a modest improvement across grades, with numeracy pass rates improving. Literacy pass rates, on the other hand decreased across grades albeit marginally so in Grade 9. High repetition and dropout rates are a significant challenge in the Western Cape although an upward trend in retention rates has been observed. Almost 45 per cent of Western Cape youth aged 20 to 24 years and 35 per cent of those aged 25 to 29 years can be categorised as not employed, or undergoing education or training (NEETs).

On the Health side, life expectancy has been increasing in the Western Cape and there were improvements in infant, child and maternal mortality rates. These trends differ across the Province's districts.

Added to this, the Western Cape experiences some social problems (such as crime) to a greater extent than most other provinces.

1.3 Policy implications

> "Tackling inequalities in incomes, health outcomes, education and well-being, requires breaking down the barriers to inclusive growth and reaching new frontiers in policymaking and implementation. Everyone should be able to realise their potential and to share the benefits of growth and increased prosperity." OECD Secretary-General

The modest economic growth outlook over the next few years show signs of a 'middle income trap' which are low investment, slow growth in the secondary industry, limited industrial diversification and poor labour market conditions. This poses a severe challenge to the goal of inclusive growth.

It is therefore imperative to find new markets to increase and maintain export growth, focusing on areas in which the Province has a comparative advantage: agro processing and tourism with a focus on value chains. However, a holistic approach should be taken and the manufacturing sector as well as the tertiary sector remains key. Province's ramping up of domestic demand is also important, for example, through increasing employment.

Apart from the need to accelerate employment growth, key challenges for policymakers are to ensure that employment gains going forward are more sustainable, more aligned to the profile of our available human resources, and more resilient in the face of economic downturns. This will be key to ensuring that the benefits of economic growth are truly shared by all. The challenge is to move to growth based on high productivity and innovation. This requires investments in infrastructure and education which links to one of the biggest constraints: lack of appropriate skills. There is a need to find synergies between space-neutral and placed-based approaches. In the context of the Western Cape, mutually reinforcing synergies can be achieved by the combination of space-neutral policies (policies that include equal education, equal public health and access to markets and work) aimed at the development of human capital (education and health etc.), social infrastructure and access to markets with place-based policies aimed at local institution building and the utilisation of local knowledge and initiative.

Furthermore, the level, nature and composition of provincial sub-national budgets, including public spending, are key policy instruments to address social and economic challenges. Addressing socio-economic imperatives require appropriate information to enable responsive planning of budget policy and allocations. Both the PERO and MERO provide the context for the formulation of budget policy of the Western Cape as guided by the provincial strategic priorities.

2

Macroeconomic performance and outlook

Key findings

- Global growth accelerated during the second half of 2013, led by advanced economies, particularly the United States (US). In emerging and developing economies growth also continued but at a more subdued pace. Global growth remained reasonably well supported in 2014, despite a shaky start to the year. Overall, global output is predicted to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015.
- In South Africa (SA), a contraction in GDP growth during the first quarter of 2014, along with continued labour unrest, higher interest rates and subdued consumer spending will likely see growth slowing down in the course of 2014. The economy is predicted to rebound somewhat in 2015.
- As for the Western Cape economy, regional GDP is estimated to have expanded by 2.1 per cent in 2013 from 2.9 per cent in 2012. Slower growth in the tertiary sector, the largest in the Western Cape, likely weighed on output in 2013. However, growth is forecast to remain stable in 2014 before accelerating in 2015. Output in the Western Cape is expected to rise by an average of 3.0 per cent between 2014 and 2019, peaking at 3.3 per cent in 2019.

2.1 Introduction

Since exiting the global recession of 2008/09, economic growth has been under significant pressure. Advanced economies were under strain as a result of weak domestic demand, later exacerbated by fiscal constraints. Meanwhile emerging and developing economies, led by China, kept the global economic boat afloat. However, the roles have changed somewhat over the past few quarters with demand in emerging and developing economies starting to slow, while growth in advanced economies is stabilising.

In addition to the general slowdown in emerging and developing economy growth, South Africa has also been plagued by a host of domestic issues - including labour unrest, infrastructure bottlenecks and a persisting current account deficit – which have weighed heavily on economic growth.

Economic growth in the Western Cape is influenced by developments in both the international and national economy. Despite this, for much of the past decade the region has been able to post slightly higher growth rates than that of the rest of South Africa. The nature and composition of the region's growth (Chapter 3) has translated into higher levels of inclusive growth, as reflected in the labour statistics in Chapter 4.

This chapter reviews the most relevant economic trends internationally, nationally and in the Western Cape. Special consideration is given to international and national developments and their historic impact on the Western Cape economy. The likely impact of these developments on the nature of the region's future economic growth is discussed. Mention is also made of the importance of macroeconomic stability in facilitating inclusive growth.

2.2 Developments in the global economy

2.2.1 Global economic performance

Global economic growth moderated for the third consecutive year to 3.2 per cent in 2013 from 3.5 per cent in 2012 (see Table 2.1). According to the International Monetary Fund (IMF), much of the weakness occurred during the first half of the year with activity strengthening in the second half of 2013. Currently, the uptick in economic activity remains uneven with advanced economies showing signs of more robust growth while downward pressure on growth in emerging and developing economies intensifies.

Performance of advanced economies

Economic growth in advanced economies slowed marginally in 2013. Economic activity in the US slowed to 1.9 per cent after recording growth of 2.8 per cent in 2012. The moderation was largely due to fiscal consolidation efforts by government, estimated to have shaved off between 1.25 and 1.5 percentage points from growth.

Despite fiscal consolidation, growth remained supported by rising private demand, particularly during the second half of 2013. Growth accelerated to 3.3 per cent during the second half of 2013 from a meagre 1.2 per cent during the first half of 2013[1]. Adverse weather conditions which disrupted production, combined with firms selling their inventories, saw economic activity in the US

[1] World Economic Outlook, 2014:51

contract by 2.1 per cent during the first quarter of 2014. US growth has since rebounded to 4.2 per cent quarter-on-quarter in the second quarter of 2014[2].

The weak first quarter has soured the outlook for full year growth in the US despite other indicators suggesting a more robust recovery. Employment in the US has risen by an average of more than 200 000 jobs per month between February and July 2014 and the unemployment rate in June was at a 5-year low of 6.1 per cent (edging up to 6.2 per cent in July). In addition, rising equity markets and house prices have contributed to increased wealth in the US.

The improvement in the US economy has prompted the Federal Reserve Bank to start withdrawing its 'quantitative easing' programme (of purchasing long-term financial assets), implemented to support the economy. It is expected that this programme will end in October 2014.

The Euro area finally exited its drawn out recession during the second half of last year. Overall, Euro area growth improved marginally in 2013. After contracting by 0.7 per cent in 2012, economic activity declined by only 0.4 per cent in 2013. Growth in most of the countries within the Euro area improved with the notable exception of Germany, the region's largest and most stable economy.

The improvement in Euro area growth is largely due to increased macroeconomic stability, rising domestic demand and a reduced effect from fiscal drag. Growth during the first quarter of 2014 was muted at 0.2 per cent quarter-on-quarter. This was followed by zero growth during the second quarter of 2014 as strained relations with Russia weighed on investor and business confidence.

In Japan, GDP growth of 1.4 per cent in 2012 and 1.5 per cent in 2013 was followed by a massive 6.1 per cent quarter-on-quarter increase during the first quarter of 2014. However, a rise in sales tax from 5 per cent to 8 per cent on 1 April 2014 resulted in a sharp fall in household consumption. Consequently, GDP growth contracted by 6.8 per cent quarter-on-quarter during the second quarter of 2014.

Performance of developing economies

After slipping to 5.1 per cent in 2012, growth in emerging and developing economies moderated further to 4.7 per cent in 2013.

Following growth of 7.7 per cent in 2013 (unchanged from 2012), economic output in China during the first quarter of 2014 increased by only 7.4 per cent year-on-year. GDP growth recovered slightly to 7.5 per cent during the second quarter of 2014 largely due to government support (albeit limited) in

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2 Bureau of Economic Analysis, 2014

the form of tax relief for small businesses and accelerated fiscal and infrastructure spending.

Besides government spending, some momentum seems to be building in the manufacturing sector. Industrial production in China accelerated to 9.2 per cent year-on-year in June 2014 from 8.8 per cent in May 2014. The July Manufacturing Purchasing Manager's Index, at 51.7, suggests that this momentum may have continued into the third quarter of 2014.

During 2013, economic activity in Emerging and Developing Europe as well as Sub-Saharan Africa increased to 2.8 per cent and 5.4 per cent from 1.4 per cent and 5.1 per cent in 2012. Growth in Emerging and Developing Europe has come under significant pressure since the start of the year amid escalating sanctions against Russia (and their retaliation) following the unrest between Russia and neighbouring Ukraine.

In contrast, Latin America and the Caribbean as well as Developing Asia saw growth moderate in 2013 compared to 2012.

2.2.2 Global medium-term economic outlook

The global economy has come under increased pressure since the start of the year. As a result, the outlook - although reasonably upbeat - remains subject to significant downside risks. The IMF forecasts global output to rise by 3.4 per cent in 2014 and 4.0 per cent in 2015.

Table 2.1 World economic outlook 2013 – 2014

			Forecast	
	2012	**2013**	**2014**	**2015**
World output	**3.5**	**3.2**	**3.4**	**4.0**
Advanced economies	**1.4**	**1.3**	**1.8**	**2.4**
United States	2.8	1.9	1.7	3.0
Euro Area	-0.7	-0.4	1.1	1.5
Germany	0.9	0.5	1.9	1.7
France	0.3	0.3	0.7	1.4
Italy	-2.4	-1.9	0.3	1.1
Spain	-1.6	-1.2	1.2	1.6
Japan	1.4	1.5	1.6	1.1
United Kingdom	0.3	1.7	3.2	2.7
Other advanced economies	2.0	2.3	3.0	3.2
Emerging and developing economies	**5.1**	**4.7**	**4.6**	**5.2**
Sub-Saharan Africa	5.1	5.4	5.4	5.8
Middle East and North Africa	4.9	2.5	3.1	4.8
Emerging and Developing Europe	1.4	2.8	2.8	2.9
Developing Asia	6.7	6.6	6.4	6.7
China	7.7	7.7	7.4	7.1
India	4.7	5.0	5.4	6.4
Latin America and the Caribbean	2.9	2.6	2.0	2.6
Brazil	1.0	2.5	1.3	2.0
Mexico	4.0	1.1	2.4	3.5
Consumer prices				
Advanced economies	2.0	1.4	1.6	1.7
Emerging and developing economies	6.1	5.9	5.4	5.3

Source: IMF, World Economic Outlook, July 2014

Outlook for advanced economies

Growth in advanced economies is predicted to increase by 0.5 percentage points to 1.8 per cent in 2014, accelerating to 2.4 per cent in 2015.

In the US, the exceptionally poor performance in the first quarter of 2014 means that full year growth will likely be lower than in 2013. The IMF expects growth in the US to come in at 1.7 per cent in 2014. The rate of growth is expected to quicken in 2015 on the back of a broad-based recovery in economic activity, led by the US consumer. Given the improvements in the economy, analysts currently expect the US Federal Reserve Bank to start 'normalising' (i.e. hiking) the main interest rate during the second half of 2015.

Economic growth projections for the Euro area suggest that activity will remain unevenly spread this year. According to the IMF, growth in the Euro area is forecast to accelerate to 1.1 per cent in 2014, following consecutive contractions in 2012 and 2013. Much of this growth is predicted to come from Germany with growth in some of the other major countries lagging (most notably France and Italy, the region's second and third largest economies). Growth is forecast to accelerate in 2015. More importantly, the expectation is that growth in 2015 will be more evenly spread within the region.

In Japan economic activity is predicted to accelerate to 1.6 per cent in 2014 for the third consecutive year. A moderation in growth is expected in 2015. The national sales tax is expected to rise again - to 10 per cent in October 2015 - likely weighing on demand.

Outlook for developing countries

Growth in emerging and developing economies is expected to ease to 4.6 per cent in 2014 from 4.7 per cent in 2013. Growth of 5.2 per cent is forecast for 2015.

The slowdown comes largely from Developing Asia (except India) and Latin America and the Caribbean. The most significant of these countries is China, where growth is forecast to slow to 7.4 per cent in 2014 and to 7.1 per cent in 2015.

In general, many emerging market economies are adjusting to tighter monetary conditions (and the resultant increase in the cost of capital). Higher domestic inflation, weaker external demand (from China in particular) and political tensions will weigh on emerging and developing economy performance.

The economies of Sub-Saharan Africa are expected to remain well supported. Growth in 2014 is predicted to remain unchanged from the 2013 rate of 5.4 per cent before rising to 5.8 per cent in 2015.

2.2.3 World inflation outlook

Similar to growth, consumer prices in advanced and emerging market economies are expected to diverge. After rising by 1.4 per cent in 2013, from 2.0 per cent in 2012, consumer prices in advanced economies are predicted to move even higher to 1.6 per cent in 2014.

The biggest concern seems to be in the Euro area where growth in consumer prices remains low. According to Eurostat, the harmonised index of consumer prices (HICP) rose by only 0.4 per cent year-on-year in June 2014, from 0.5 per cent in May 2014. This is well below the European Central Bank's target of 2 per cent. The risk that the Euro area may slip into disinflationary territory is rising. Meanwhile in the US, inflation in May 2014 remained steady at 2.1 per cent year-on-year.

Inflation in emerging and developing economies is predicted to moderate to 5.4 per cent in 2014 and 5.3 per cent in 2015, from 5.9 per cent in 2013. This is largely due to an expected decline in commodity (non-oil) prices in 2014 and 2015, along with a sharp fall in the oil price in 2015.

2.2.4 Main risks to the global outlook

Risks to the global outlook remain firmly tilted to the downside. The biggest immediate concern is a faster than expected slowdown in China (especially given the fragility regarding its financial markets) which would weigh on export demand. On the positive side, the slowdown could see commodity prices fall even further, easing inflationary pressures. Continued geopolitical tensions in the Middle East and Eastern Europe could weigh on sentiment, especially in emerging markets. The oil price may rise if these geopolitical tensions pose a threat to global oil supply.

In advanced economies the growth outlook for the Euro area is subject to a number of risks, mainly the underlying fragility of the current economic recovery. The interest rate 'normalisation' cycle in the US will dampen demand and could also prompt other markets to follow suit.

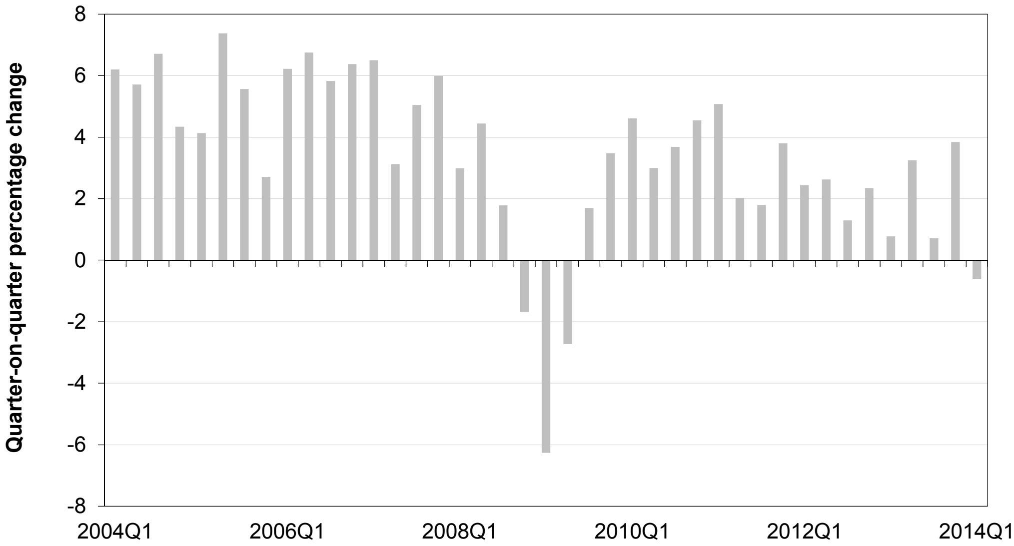
2.3 Developments in the South African economy

2.3.1 Performance of the South African economy

Economic activity in SA, as with other emerging market economies, slowed in 2013. Growth of only 1.9 per cent was recorded in 2013, from 2.6 per cent in 2012.

GDP growth contracted in the first quarter of 2014. After accelerating by 3.6 per cent quarter-on-quarter in the fourth quarter of 2013, economic output declined by 0.6 per cent during the first quarter of 2014.

Figure 2.1 South African economic growth, quarter-on-quarter, 2004 - 2014



Source: Stats SA

Most of the decline in economic activity during the first quarter of 2014 can be attributed to a 24.7 per cent and 4.4 per cent quarter-on-quarter fall in mining and manufacturing production. The fall in mining activity was largely due to labour unrest in the platinum sector which started towards the end of January 2014. This is disconcerting for South Africa given that countries that were successful with raising per capita incomes significantly did so during a period of sustained high growth.

Table 2.2 Sector breakdown of South African GDP growth, quarter-on-quarter, 2013 – 2014

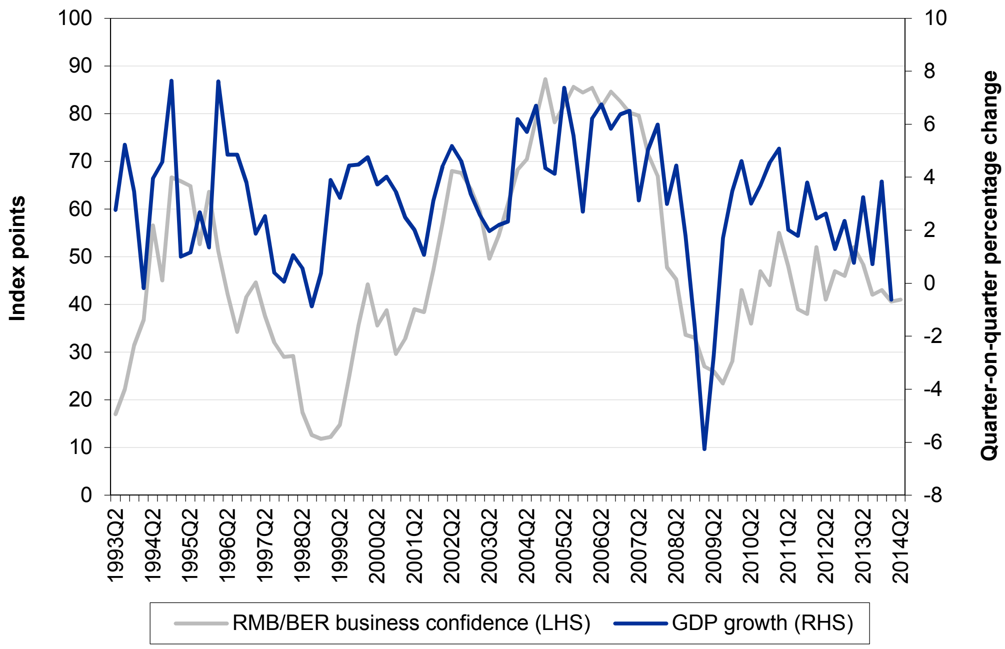
Sector	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
Agriculture	-4.4	-3.0	3.6	6.4	2.5
Mining and quarrying	13.4	-5.4	11.4	15.7	-24.7
Primary sector	*7.5*	*-4.7*	*8.9*	*12.8*	*-17.2*
Manufacturing	-7.9	11.7	-6.6	12.3	-4.4
Electricity, gas and water	-2.8	5.1	3.8	-5.6	0.1
Construction	2.5	2.3	2.1	3.1	4.9
Secondary sector	*-5.9*	*9.6*	*-4.5*	*9.2*	*-2.7*
Wholesale and retail trade, catering and accommodation	2.1	3.1	1.3	2.3	2.1
Transport, storage and communication	2.1	1.5	2.6	1.6	1.7
Finance, real estate and business services	3.3	3.5	1.2	1.5	2.0
Community, social and personal services	1.2	1.6	1.6	1.3	1.0
General government services	0.1	0.2	0.4	0.9	1.7
Tertiary sector	*2.0*	*2.2*	*1.3*	*1.5*	*1.8*
GDP	0.8	3.2	0.7	3.8	-0.6

Source: Stats SA

The South African Reserve Bank (SARB) estimates that GDP growth would have reached 1.6 per cent quarter-on-quarter had it not been for the sharp decline in mining output. As a result of the mining crisis, growth in the primary and secondary sectors fell by 17.2 per cent and 2.7 per cent quarter-on-quarter during the first quarter of 2014.

Growth in tertiary sector activity was muted, but at 1.8 per cent quarter-on-quarter, remained in positive territory. Within the tertiary sector the wholesale, retail, catering and accommodation sector recorded the fastest growth at 2.1 per cent quarter-on-quarter. This was followed by the finance, real estate and business services sector with growth of 2.0 per cent quarter-on-quarter.

Figure 2.2 RMB/BER Business confidence index vs GDP growth, quarter-on-quarter, year - year



Source: Stats SA/BER

Growth in the second quarter remained weak but have not reached negative territory. The RMB/BER business confidence index, which reflects business sentiment across a number of industries and as such a leading indicator of economic activity, remained flat at 41 index points during the second quarter of 2014 (i.e. did not fall further on a quarterly basis). This suggests that it is unlikely that SA entered a technical recession (characterised by two consecutive quarters of negative growth) during the first half of 2014.

2.3.2 Outlook for the South African economy

Table 2.3 summarises the BER forecasts as published in July 2014. The sections that follow will provide some background on the specific drivers of GDP.

Table 2.3 Selected SA economic variables (2013 - 2015)

	2013	2014f	2015f
Final consumption expenditure, households	**2.6**	**2.1**	**3.0**
Durable goods	7.9	3.9	3.1
Semi-durable goods	6.7	4.5	4.4
Non-durable goods	2.2	2.1	2.6
Services	0.3	1.6	3.0
Gross Fixed Capital Formation	**4.7**	**3.5**	**3.9**
Private	5.5	3.0	3.8
Government	3.5	5.4	3.6
Public corporations	3.1	3.8	4.4
Exports of goods and services	**4.7**	**3.9**	**6.9**
Interest rates (fourth quarter averages)			
3-month BA rate	5.07	5.73	6.39
10-year Government Bond	7.2	8.48	9.14
Prime overdraft rate	8.5	9.08	9.78
Inflation (annual average %)			
Producer prices	6.0	8.3	6.1
Consumer prices	5.7	6.3	5.7
Nominal wage rate	8.2	7.5	8.1
Exchange rates (fourth quarter averages)			
R/US dollar	10.61	10.69	10.90
R/Euro	13.83	14.12	13.74
R/Pound sterling	16.46	17.63	17.77
Yen/R	9.88	9.69	9.95
Gross Domestic Expenditure	**2.2**	**1.6**	**3.4**
Gross Domestic Product	**1.9**	**1.7**	**3.0**
Current account balance (R billion, seas. adj.)	**-197.2**	**-201.9**	**-201.6**
(as % of GDP)	*-5.83*	*-5.51*	*-5.01*

Source: SARB/BER, July 2014 (f = forecast)

Final household consumption expenditure

Growth in household consumption continued to moderate during the first quarter of 2014. After growing by as much as 5.6 per cent year-on-year during the fourth quarter of 2010, growth has gradually slowed reaching only 2.1 per cent quarter-on-quarter during the first quarter of 2014.

Much of this weakening in consumer demand was due to the continued slowdown in real disposable income in recent quarters. Despite a marginal rise in nominal wages, compared to the first quarter of 2013, inflation was higher than in 2013 and employment growth more subdued during the first quarter of 2014 (see Table 2.4). The 50 basis point hike in the interest rate in January 2014 resulted in an increase in debt servicing costs, adding to the moderation of household consumption.

Table 2.4 Drivers of disposable income

Yoy % change	2013Q1	2014Q1
CPI inflation	5.7	5.9
Nominal wages	6.6	6.8
Formal employment	1	0.5
Real disposable income	**2.9**	**2**

Source: SARB/BER, July 2014

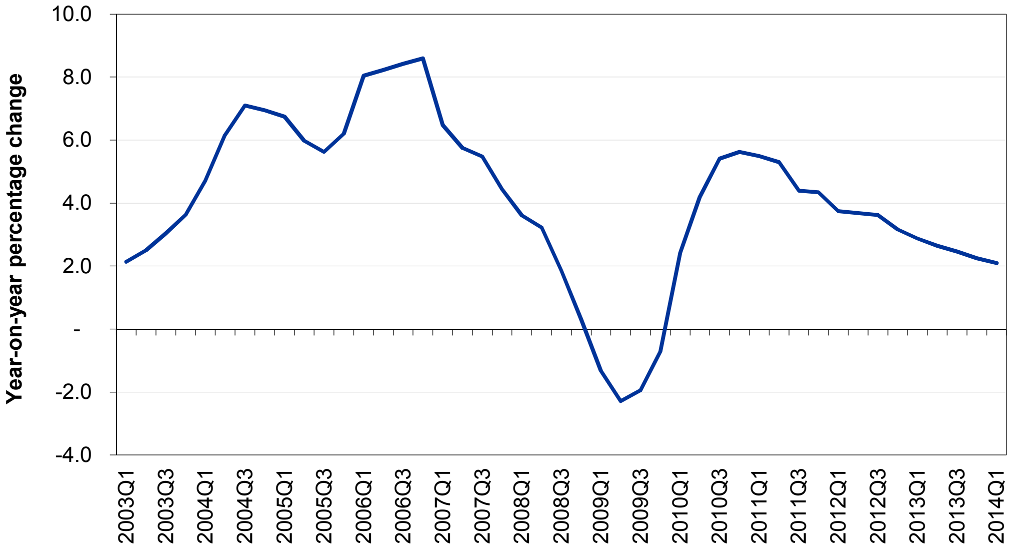
The biggest slowdown was recorded in the **durable goods** category (mostly passenger cars and furniture). (See Table 2.3.) In the years following the 2008/09 financial crisis, spending on durable goods was boosted by low interest rates and strong credit growth. Sales of new passenger cars, in particular, were well supported. The latest data suggests that the vehicle replacement cycle is nearing its end, with new passenger car sales contracting by close to 7 per cent year-on-year in the first half of 2014.

The moderation in growth in demand for **non-durable goods** (e.g. food, beverages and tobacco, pharmaceuticals, cosmetics, groceries, petroleum products and electricity) and **semi-durable goods** (mostly clothing and footwear) was less pronounced. Spending on non-durable goods was affected by weak informal employment growth coupled with a slowdown in social grant expenditure. Moderating growth in credit extension also weighed on semi-durable goods demand during the first quarter of 2014. (See Table 2.3.)

In contrast, the growth in demand for **services** (e.g. transport and communication, medical services, rent and recreational and entertainment services) accelerated marginally. Although growth was slightly higher, services still recorded the lowest growth of all the categories during the first quarter of 2014. The underperformance of this category in recent quarters is largely due to the contraction in spending on miscellaneous services.

Growth in real consumer spending is expected to remain under pressure for the remainder of 2014. Growth of 2.1 per cent is expected for 2014 as rising inflation, higher interest rates, subdued employment and credit growth weigh on household income.

Figure 2.3 Real consumer spending, year-on-year percentage change



Source: SARB/BER

Gross fixed capital formation

As with consumer spending, the growth in gross fixed capital formation (fixed investment) also slowed during the first quarter of 2014. At 4.5 per cent year-on-year, fixed investment still outperformed consumer spending (at 2.1 per cent).

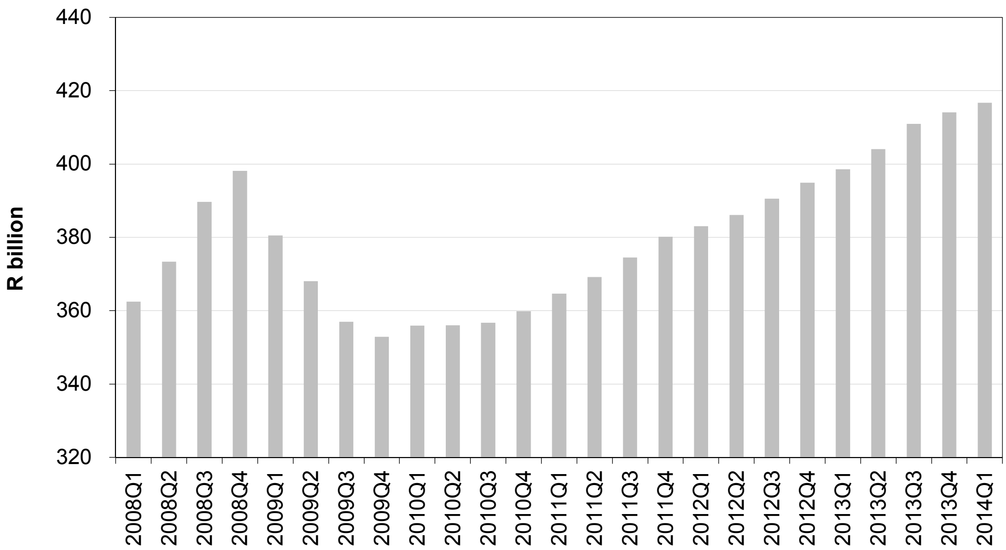
The moderation in fixed investment growth was largely due to a sharp easing in investment by the **private sector**. After growing at 6.7 per cent and 6.3 per cent year-on-year in the third and fourth quarters of 2013, growth slowed to 5.0 per cent during the first quarter of 2014.

Fixed capital outlays on construction works as well as machinery and equipment were significantly weighed down by the protracted strike in the platinum sector. Building contractors seem to have lowered their capital spending as both residential and non-residential building activity slowed. Growth in private fixed investment could remain subdued for the remainder of 2014 on the back of low business confidence, rising interest rates, slowing credit growth and capacity constraints.

Fixed investment by the public sector, on the other hand, improved during the first quarter of 2014. Investment by **state owned enterprises** rose to 1.8 per cent year-on-year during the first quarter of 2014 after a very poor end to 2013. This was largely due to an increase in investment by the electricity and transportation sectors.

Similarly, the pace of growth in capital expenditure by **general government** accelerated to 6.3 per cent year-on-year in the first quarter of 2014, from 5.5 per cent in the fourth quarter of 2013. The uptick in fixed investment growth by general government over the past few quarters was due to an increase in spending by both provinces and municipalities, particularly on the maintenance of roads and transport facilities.

Figure 2.4 Fixed investment, 2008Q1 – 2014Q1, R billion



Source: SARB

Balance of payments and rand exchange rate outlook

The growth in exports far exceeded that of imports during the second half of 2014. Exports increased by 6.4 per cent and 8.8 per cent year-on-year in the third and fourth quarter of 2013. In comparison, the growth in imports rose by 5.1 per cent and 3.1 per cent year-on-year. This trend continued into the first quarter of 2014. While imports rose by only 2.0 per cent year-on-year, the annual rise in exports was 8.6 per cent. As a result, the current account deficit (as a percentage of GDP) narrowed from 5.1 per cent in the fourth quarter of 2013 to 4.5 per cent in the first quarter of 2014.

However, it is unlikely that the trade deficit will continue to narrow substantially in the near future. According to the South African Revenue Service, the trade deficit for the first half of 2014 was R48.3 billion compared to R35.6 billion during the first half of 2013. Given the combination of continued underperformance of South African manufacturing export firms and the levels of intermediate capital goods required to facilitate the public sector investment drive (most of which are imported), pressure on the trade deficit is likely to persist.

By end-January 2014, the rand had depreciated by close to 40 per cent against the US dollar since the beginning of 2012. Over the course of this period, domestic and global factors combined to weaken the rand. In 2012 the Marikana massacre and a widening current account deficit weighed on investor sentiment, while the so-called 'taper tantrum' of 2013 (the market reaction to talks regarding the possibility of the withdrawal of 'quantitative easing') saw the rand weaken in step with other emerging market currencies.

Since the start of the year, the performance of the rand exchange rate has been mixed. Between end-January and mid-May 2014 the rand gained 8 per cent against the dollar on the back of a maturing tapering view and talks of additional monetary stimulus by the European Central Bank, combined with rate hikes and structural reforms in a number of developing economies. The rand has since depreciated ending the second quarter of 2014 at R10.66/$ compared to R10.52/$ at the end of the first quarter of 2014. The rand exchange rate is expected to weaken further (but gradually) over the next few quarters to end at an average of around R10.90/$ in the fourth quarter of 2015.

Inflation and interest rate outlook

Inflation accelerated to 6.5 per cent year-on-year during the second quarter of 2014, from 5.9 per cent in the first quarter of 2014. This is the highest quarterly year-on-year inflation rate since the second quarter of 2009.

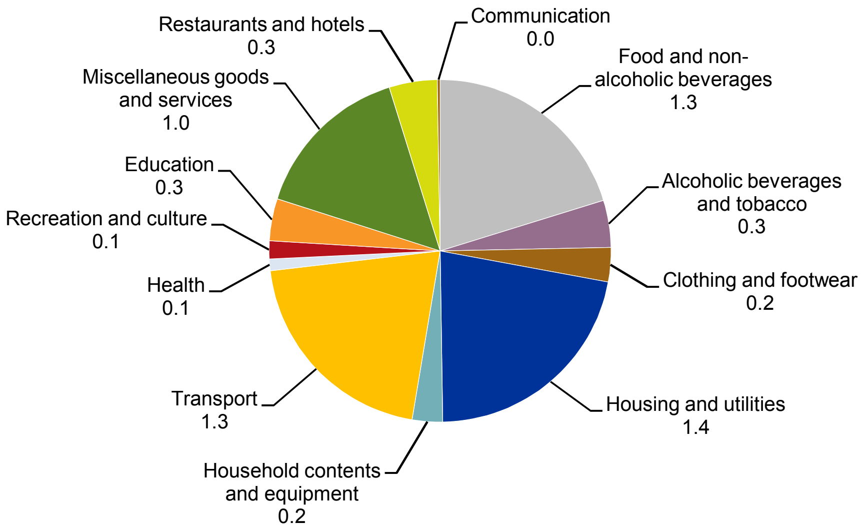
Figure 2.5 depicts the largest contributors to inflation in the second quarter of 2014. These categories were housing and utilities (+1.4 percentage points) and food, non-alcoholic beverages; and transport (+1.3 percentage points each). Despite inflation breaching the upper limit of the SARB inflation target of 3 to 6 per cent, there are signs that inflation is starting to moderate.

CPI inflation in June 2014 remained unchanged at 6.6 per cent year-on-year (in other words, no further acceleration in inflation between May and June 2014). Also, much of the rise in inflation during the second quarter of 2014 was due to the food and non-alcoholic beverages and transport components which saw annual price increases of 8.5 per cent and 8.1 per cent from 5.5 per cent and 7.6 per cent in the first quarter of 2014. This is not expected to continue for the remainder of the year.

Recent declines in the spot prices of various food commodities, an improved outlook for domestic harvests and a more stable international oil price should keep these components in check.

The higher inflation environment, as well as upside risks, has prompted the SARB to start hiking interest rates: first by 50 basis points in January 2014 and then by a further 25 basis points in July 2014. The SARB expects inflation to peak at 6.6 per cent during the fourth quarter of 2014. This expectation is unlikely to be realised with inflation possibly having peaked during the second quarter of 2014. However, further interest rate hikes in coming quarters are still possible considering that the US policy rate is expected to rise next year. In addition, inflation could come under renewed pressure if the exchange rate weakens by more than expected and wage increases exceed inflation.

Figure 2.5 Contributors to inflation of 6.5 per cent in 2014Q2 (percentage points)



Source: Stats SA

2.3.3 Main risks to the outlook

Apart from the global risks which will influence the South African economy, there are also domestic risks to the outlook.

From a consumer perspective, the already weak employment outlook is subject to downside risk. The current environment of slow growth and tense labour relations (see section 2.3.1), along with strained government finances, may weigh on job creation more than expected.

Domestic policy uncertainty remains a concern, especially creating an environment conducive to private fixed investment. Failure to reduce policy uncertainty may lead to slower growth in private fixed investment than currently projected.

General emerging market sentiment has, in recent quarters, had a noticeable impact on the South African economy. This is especially true of foreign capital flows on which South Africa has become dependent.

The vulnerability of the rand remains a key risk. The main global driver of the rand exchange rate should be US interest rate expectations. Given the US Federal Reserve Bank recent reiteration of the data-dependent nature of its policy decisions, markets will keep a keen eye on upcoming releases in order to gauge the health of the US economy. Any postponement of Federal Reserve Bank tightening should be positive for the rand.

Only the key risks were highlighted in this section. The Moody's downgrade of SA banks is not seen as a "key risk" at this stage. They were the only rating agency to react in this fashion and although the rating is down, it is now in line with the other major rating agencies.

Key domestic risks are continued labour unrest, policy uncertainty and weak consumer demand. Globally, slower growth in China and the EU economies are a concern. The latter is important from a Western Cape perspective.

2.4 Developments in the Western Cape economy

2.4.1 Western Cape economic performance

After accelerating to an annual rate of 3.9 per cent in 2011[3], economic growth in the Western Cape slowed to 2.9 per cent in 2012. This was in line with the moderation in national economic activity over the same period.

The slowdown in economic activity was mainly due to weaker activity in the tertiary sector, with growth slowing by 1.2 percentage points to 3.3 per cent in 2012, from 4.5 per cent in 2011. This was followed by a 0.7 percentage point moderation in secondary sector activity to 1.8 per cent in 2012. Primary sector activity accelerated to 1.8 per cent in 2012. (See Chapter 3 for a more detailed discussion of the Western Cape economy.)

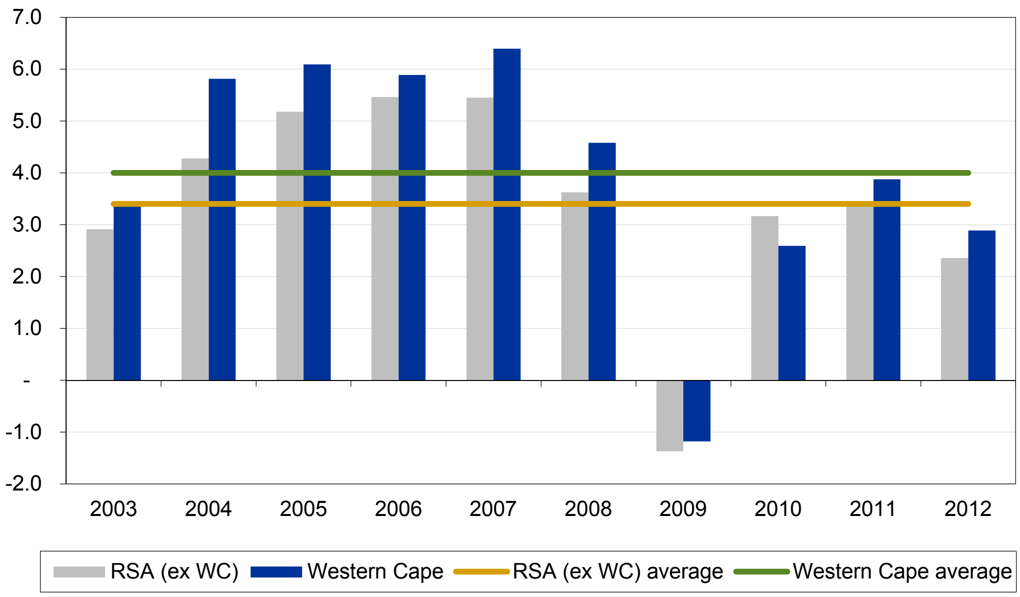
Table 2.5 Western Cape Economic growth by sector (2008 - 2013)

Description	**2008**	**2009**	**2010**	**2011**	**2012**	**2013e**	**5-year average growth (2008 - 2012)**
Agriculture, forestry and fishing	17.7	-1.2	-1.9	0.3	1.9	2.6	3.4
Mining and quarrying	-7.0	-7.9	3.2	-1.1	-1.3	1.3	-2.8
Primary sector	*16.4*	*-1.5*	*-1.7*	*0.3*	*1.8*	*2.6*	*3.1*
Manufacturing	2.1	-8.6	5.1	3.1	1.8	0.5	0.7
Electricity, gas and water	-3.8	0.7	1.3	1.1	0.4	1.6	-0.1
Construction	7.2	3.7	0.6	0.5	2.6	3.2	2.9
Secondary sector	*2.6*	*-5.9*	*4.0*	*2.5*	*1.8*	*1.1*	*1.0*
Wholesale and retail trade, catering and accommodation	0.3	-1.5	3.9	4.6	3.8	2.4	2.2
Transport, storage and communication	2.9	1.2	1.9	3.3	2.1	2.1	2.3
Financial intermediation, insurance, real estate and business services	7.5	0.2	1.9	5.2	3.6	2.5	3.7
Community, social and personal services	4.1	-1.3	0.3	2.2	2.3	2.2	1.5
General government services	4.5	4.1	3.4	4.6	3.1	2.4	3.9
Tertiary sector	*4.6*	*0.4*	*2.4*	*4.5*	*3.3*	*2.4*	*3.0*
GDPR at basic prices	**4.6**	**-1.2**	**2.6**	**3.9**	**2.9**	**2.1**	2.6

[3] All GDP figures in this section are quoted at basic prices (market prices less taxes on products plus subsidies on products).

Economic output in the Western Cape has consistently outperformed that of the rest of the country over the past ten years. Since 2003, economic growth in the Western Cape has been on average 0.6 percentage points higher than the rest of the country. However, the economic growth gap has narrowed in recent years. Between 2003 and 2008 Western Cape economic growth outpaced that of the rest of the economy by an average of 0.9 percentage points, compared to only 0.2 percentage points since 2009. This may be the beginning of the geographic convergence that was observed in other countries.

Figure 2.6 Western Cape growth versus the rest of SA (2003 – 2012)

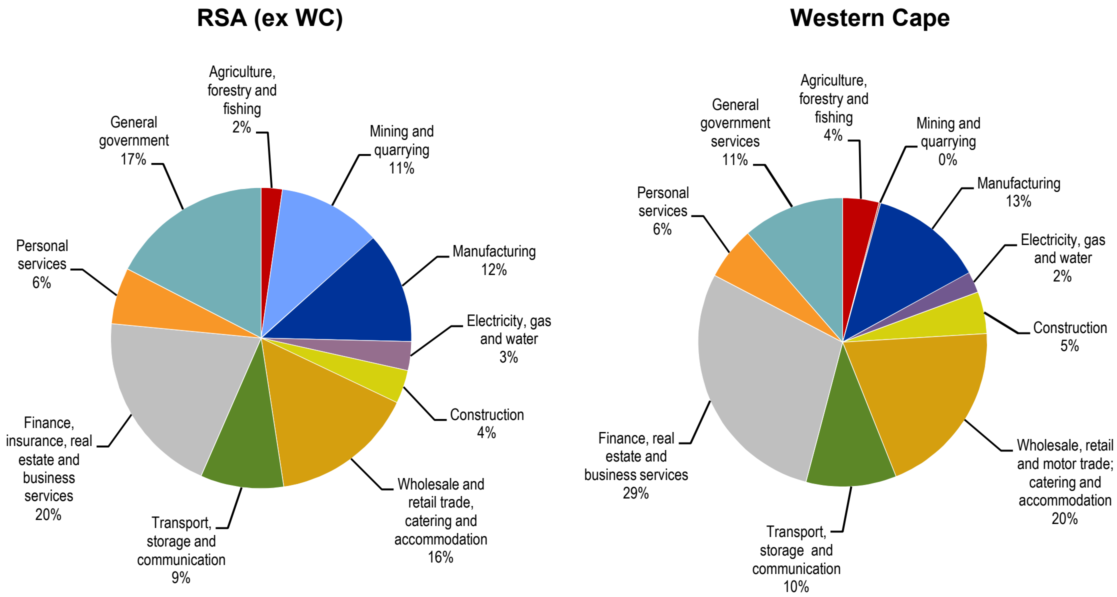


Source: Stats SA/Quantec

The better performance by the Western Cape economy is a result of both the structure and source of economic activity in the Western Cape. It is also the consequence of a greater degree of urbanisation in the Western Cape, with the exception of Gauteng. It is an illustration of how the spatial agglomeration of economic activity can be part of a progressive process of inclusive growth.

According to Stats SA, the biggest sector in the Western Cape in 2012 was the finance, real estate and business services sector, which made up 29 per cent of economic activity. This was followed by the wholesale, retail and motor trade, catering and accommodation sector (20 per cent) and the manufacturing sector (13 per cent). This differs notably from the structure of the economy of the rest of South Africa (see Figure 2.7 below). (See more detailed discussion of sector performance in the Western Cape in Chapter 3.)

Figure 2.7 Structure of the Western Cape economy, 2012



Source: Stats SA/Quantec

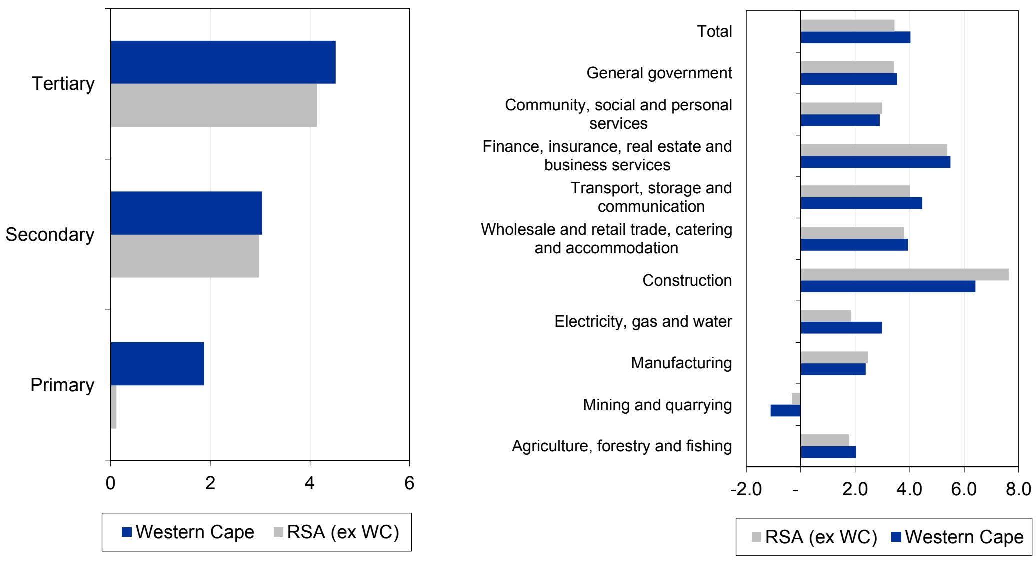
The most notable difference between the rest of South Africa and the Western Cape is the under-representation of the mining and quarrying sector in the Western Cape economy (<1 per cent), compared to the sector's contribution to the economy of the rest of South Africa (11 per cent).

The sectors which make up a greater proportion of the Western Cape economy were also the sectors in which the Western Cape was able to outperform the rest of the country.

Growth in tertiary sector activity rose by an average of 0.4 percentage points faster than in the rest of South Africa since 2003. Economic activity in the primary sector increased faster by 1.8 percentage points on average, in the Western Cape since 2003. This was due to an average contraction of 0.3 per cent in mining production in the rest of SA, a more significant portion of the rest of the country's GDP.

The average output growth in the secondary sector was more or less similar in the Western Cape relative to the rest of the country. This is largely due to faster growth in construction activity in the rest of the country (compared to the Western Cape) being offset by faster growth in the electricity, water and gas sector in the Western Cape (relative to the rest of SA).

Figure 2.8 Sources of Western Cape growth, 2003 - 2012



Source: Stats SA/Quantec

2.4.2 Outlook for the Western Cape economy

Table 2.6 Economic outlook for the Western Cape (%) real growth in GDPR, 2014 - 2019

Description	2014f	2015f	2016f	2017f	2018f	2019f	2014 - 2019 average growth
Agriculture, forestry and fishing	2.3	1.9	1.5	1.6	1.7	1.6	1.8
Mining and quarrying	1.2	1.1	0.8	1.7	1.8	1.8	1.4
Primary	*2.2*	*1.9*	*1.5*	*1.6*	*1.7*	*1.6*	1.7
Manufacturing	2.2	2.4	2.3	2.4	2.4	2.5	2.4
Electricity, gas and water	1.5	2.1	2.1	2.2	2.2	2.2	2.1
Construction	3.6	4.0	4.2	4.1	4.3	4.3	4.1
Secondary	*2.5*	*2.7*	*2.7*	*2.7*	*2.8*	*2.9*	2.7
Wholesale and retail trade, catering and accommodation	1.2	3.0	3.1	3.2	3.1	3.4	2.8
Transport, storage and communication	3.0	3.6	3.7	3.9	3.7	3.9	3.6
Financial intermediation, insurance, real estate and business services	2.2	3.8	3.6	3.8	3.9	3.8	3.5
Community, social and personal services	2.1	2.4	2.1	1.9	2.4	2.2	2.2
General government services	1.8	2.1	1.9	2.2	2.2	2.4	2.1
Tertiary	*2.0*	*3.3*	*3.2*	*3.4*	*3.4*	*3.5*	3.1
GDPR at basic prices	**2.1**	**3.1**	**3.0**	**3.1**	**3.2**	**3.3**	**3.0**

Source: BER/Quantec Research (f = forecast)

National economic growth started the year on the back foot, mainly due to unrest in the mining sector. This impact was less pronounced on the Western Cape economy. The sectors that contribute more (proportionally) to the regional GDP continued to expand, albeit at a slower pace. As a result, growth in the Western Cape is likely to remain higher than that of the rest of the country in 2014.

The tertiary sector is expected to remain the engine of economic growth in the Western Cape over the forecast horizon. A more detailed discussion of some of the key mechanisms for achieving this is presented in Chapter 3.

Robust growth in employment along with a moderation in inflation should boost incomes. This will benefit the dominant sectors in the Western Cape. GDPR growth is predicted to average 3.0 per cent between 2014 and 2019, peaking at 3.3 per cent in 2019. Tertiary sector activity is expected to rise by an average of 3.1 per cent per year, boosted by the transport, storage and communication; and finance, real estate and business services sectors.

Modest growth is predicted for the secondary and primary sectors at an annual average of 2.7 per cent and 1.7 per cent between 2014 and 2019. The manufacturing sector is forecast to expand by 2.4 per cent, on average between 2014 and 2019.

2.4.3 Main risks to the outlook

The Western Cape economy is services orientated, implying that a slowdown in consumer spending will likely have a greater effect on the regional economy than on the rest of South Africa. This extends to related concerns (mostly the drivers of consumer demand) such as employment. As productive employment is the main channel for achieving inclusive growth, this could be a potential threat to the Western Cape' goal of poverty relief.

On the up side, the Western Cape is less exposed to the mining sector which has experienced a number of labour related disruptions in recent years. The lack of mining activity in this case would likely boost Western Cape growth relative to the rest of South Africa.

The risk to the Western Cape economy posed by the outlook for global growth is mixed. Although positive for the Western Cape in that our major export partners are growing, this outlook is subject to downside risk too. Weaker than expected growth in the US, Euro area and Sub-Saharan Africa will dampen demand for Western Cape exports. On the other hand, the reverse (i.e. faster than expected growth) will provide a boost to exports. Exports could be further supported should the rand exchange rate depreciate by more than expected.

2.5 Conclusion

Global economic growth is expected to accelerate in 2014 and 2015. However, the growth is likely to come from advanced economies while economic activity in emerging markets moderates. The faster growth in advanced economies should boost Western Cape exports.

In SA, growth is expected to moderate in 2014 as a result of weak consumer spending, moderation in private fixed investment and continued labour unrest. A mild rebound is expected in 2015.

Economic output in the Western Cape expanded at a slower pace in 2013 compared to 2012 (in line with the national economy). Growth is predicted to remain flat in 2014 as opposed to the national economy where growth is predicted to slow further.

Over the forecast horizon (2014 – 2019) economic growth in the Western Cape is expected to average 3.0 per cent per year, peaking at 3.3 per cent in 2019. The tertiary sector is likely to be the biggest driver of this growth, as has been the case over the past few years.

This already modest growth outlook for the global, national and regional economies is subject to a number of predominantly downside risks over the forecasted period. This also poses a risk to the acceleration of inclusive growth in the Province.

3

Development of the Western Cape economy: Sectoral and spatial dimensions

Key findings

- The Western Cape economy has developed from its agricultural beginnings to higher value-added manufacturing activity and a range of services activities (including tourism). The contemporary regional economy is, however, still characterised by a strong agro-processing sector.

- The wide diversity of products underpins the agriculture, forestry and fishing sector, explaining why it remains key industries in the Western Cape economy, particularly in rural areas. Despite its relatively small direct contribution to regional GDPR, the Western Cape has a clear revealed comparative advantage in agriculture, which is also revealed in agricultural exports.

- The economic contribution of primary agriculture is supported by various value chains as well as forward and backward linkages[1] within the manufacturing and services sector, the latter importantly through tourism. Increasing farmer participation in the full food value chain via beneficiation of agricultural produce could stimulate inclusive growth and employment creation.

- The agricultural sector is likely to remain a pillar in the Western Cape economy, especially in rural areas. However, the sector is subject to key risks which could dampen short term growth and undermine the longer term potential of the sector. These risks include a lack of clean water sources, climate change and pressure on profitability, land reform policies and crime.

[1] Forward linkages refer to the distribution chain connecting a producer or supplier with the customers.

Backward linkages refer to the channels through which information, material and money flow between a company and its suppliers and create a network of economic interdependence.

- Tourist spending has a strong, positive and sustainable impact on employment in many sectors and districts of the Western Cape economy. The employment impact therefore suggests support for tourism in the Western Cape with its strong comparative advantage in tourism within South Africa and as a contributor to inclusive growth.

- The provincial catering and accommodation sector, which is linked to tourism is expected to outperform other sectors in the Western Cape. A positive outlook for tourism demands that attention be given to the general risks to income levels of consumers, both locally and abroad. However, consumers also need the ability and desire to spend in the Western Cape and recently introduced changes to tourist visa requirements could detract from the Province's attractiveness. Furthermore, maintaining the rich biodiversity of the Western Cape is key to its recognition as a top tourist destination.

- The Western Cape sectors are directly exposed to environmental risks and scarcities such as water shortages and droughts. These factors affect the resilience of sector growth and employment creation prospects, specifically in the agriculture and tourism sectors. In response to following a greener growth path the Western Cape Government developed the Western Cape Green Economy Strategic Framework which is a roadmap to becoming the Green Economic hub of Africa and the lowest carbon emitting province in South Africa. In light of the strategic framework, private enterprises are seen as the driver of the green economy, with government providing an enabling environment.

3.1 Introduction

Chapter 2 reviewed the provincial economic growth performance and outlook against a global and national background. Chapter 3 extends this review by focusing on the development of key economic sectors as the building blocks of Western Cape economic development. Since sector development does not change substantially from one year to the next, the annual PERO focuses only on a selection of sectors. Agriculture and its links to the manufacturing sector and tourism have been highlighted in the PERO 2013 as key areas in which the Western Cape economy displays a comparative advantage. For the 2014 PERO, the focus falls on agriculture and tourism while briefly raising considerations from a green economy perspective. The sector analyses are preceded by a broad overview of all sectors and a brief discussion of spatial developments. These focus areas are discussed within the broader context of inclusive growth as introduced in Chapter 1.

Any strategy that aims to foster inclusive growth needs to take into account that the sources of growth (at both a national and provincial level) have shifted from low skill, labour-intensive sectors, such as agriculture and mining, to services, which are relatively skills intensive. This is particularly true for the

Western Cape where, despite its comparative advantage in agriculture, the share of agriculture in provincial value-added has declined steadily over the last decade.

Farming has also shed semi and unskilled jobs at an alarming rate. The mismatch between demand for predominantly skilled labour and the (over)supply of semi and unskilled workers has resulted in the exclusion of large parts of the labour force from the growth process. This extends beyond the agricultural sector to all industries where better trained and educated labour is in demand. Consequently, the upgrading of skills has become an indispensable part of inclusive growth.

As is the case nationally, the Western Cape has an abundance of semi and unskilled labourers. Despite the relative decline in its contribution to regional GDPR over the last decade, the Western Cape still has a comparative advantage in agricultural production and its value chain. Key to fostering inclusive economic growth will be the promotion of policies that encourage the maintenance, if not growth, in agricultural employment for semi and unskilled workers and significant improvements in labour skills and productivity in the farming sector. This is especially true in labour-intensive subsectors, such as the export-oriented table grape industry, where options for mechanisation are limited and sustainability depends on international competitiveness.

The Western Cape remains a top tourist destination for both national and international travellers. The Province's geographic diversity and scenic environment present many opportunities for the continued expansion of tourism and the creation of low skilled jobs. Opportunities for small scale entrepreneurial development in transport, retail commerce, accommodation and catering, as well as manufacturing are boosted by tourism. A notable characteristic of tourism in the Province is its close link with agriculture, amplifying potential growth opportunities for both industries.

The notion of economic growth has globally become interrelated with the condition of sustainable development. The Western Cape has followed suit in adopting an approach towards economic sector growth and sustainability as inter-dependent outcomes. This approach is largely noted in the agriculture and tourism sector.

3.2 The spatial aspect of economic growth and development

The geographical concentration of economic activity in the Western Cape is a well-documented fact. As a result of locational attributes and the forces of agglomeration, economic activity is concentrated in the City of Cape Town Metropolitan Municipality. It accounts for 73 per cent of Western Cape GDPR and employs two thirds of the provincial work force. The City of Cape Town is the second largest municipal economy in the country and also the second largest contributor to national employment, albeit that the City of Cape Town is the smallest geographically (see Figure 3.1). The two other dominant districts in the Western Cape are the Cape Winelands (11.6 per cent of GDPR) and Eden (7.8 per cent); combined with the Cape Metro, these districts generate 92 per cent of the Western Cape value added and employ close to 90 per cent of the provincial work force.

Figure 3.1 Western Cape districts

In this section of the report, the historical municipal real economic growth rates come under closer scrutiny. The faster growing regions are identified, not only in terms of value-added growth, but also in terms of employment. The results from the Growth Potential of Towns Study (GPTS) are also considered in the review.

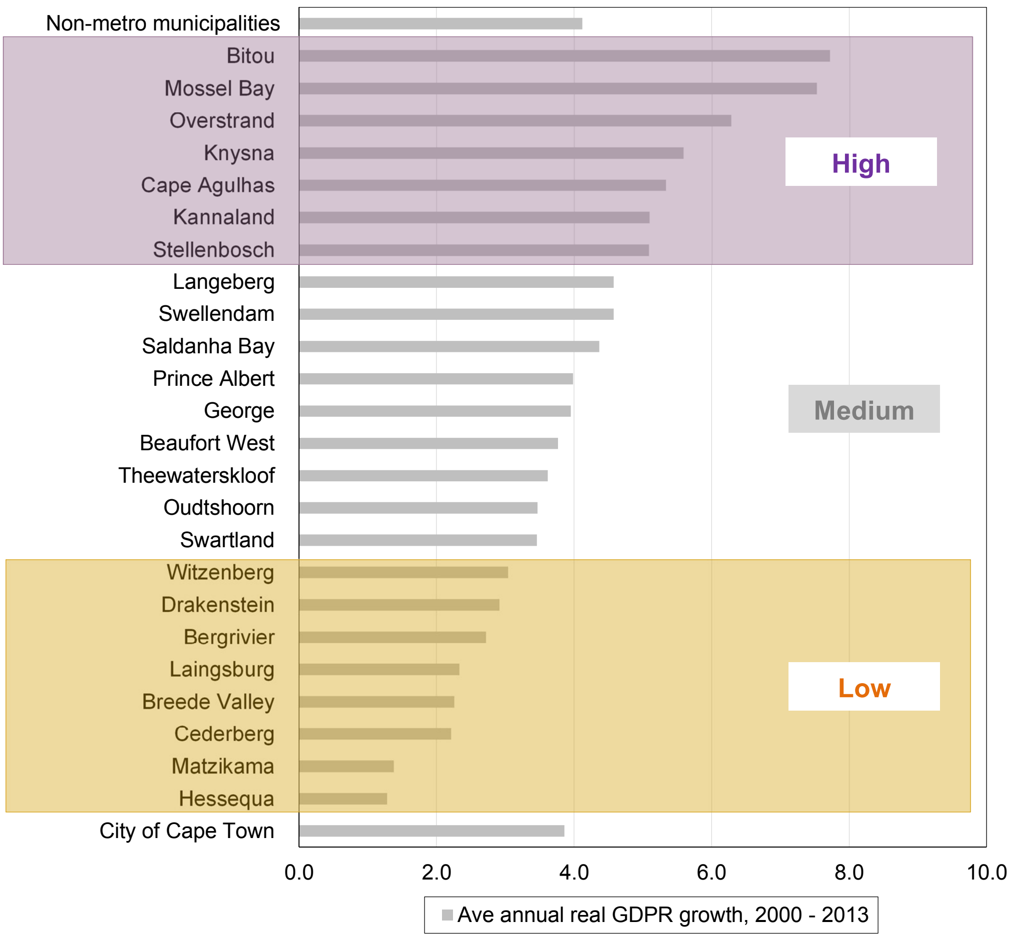
3.2.1 Economic growth by municipality

A ranking of the Western Cape municipalities according to their real GDPR growth performance over the period 2000 to 2013 is provided in Figure 3.2. Real economic growth rate per municipality is the only variable considered. The size of the municipal economy (in terms of value added) is not considered.

The top-ranked municipality is the fastest growing municipality even if from a low base, as happens to be the case with Bitou which is ranked number one. This municipality grew by 7.7 per cent per annum, but only accounted for 0.7 per cent of the provincial GDPR in 2013. In contrast, Drakenstein grew by a moderate 2.9 per cent per annum over the corresponding period. However, its importance is attributed to the fact that it is the second largest non-metro municipality by size (both in terms of GDPR and employment, i.e. contributing more than 11 per cent).

Based purely on real economic growth, the 24 non-metro municipalities grew slightly faster than the City of Cape Town, i.e. 4.1 per cent per annum versus 3.9 per cent per annum during 2000 to 2013.

Figure 3.2 Western Cape real GDPR growth by municipality: 2000 - 2013

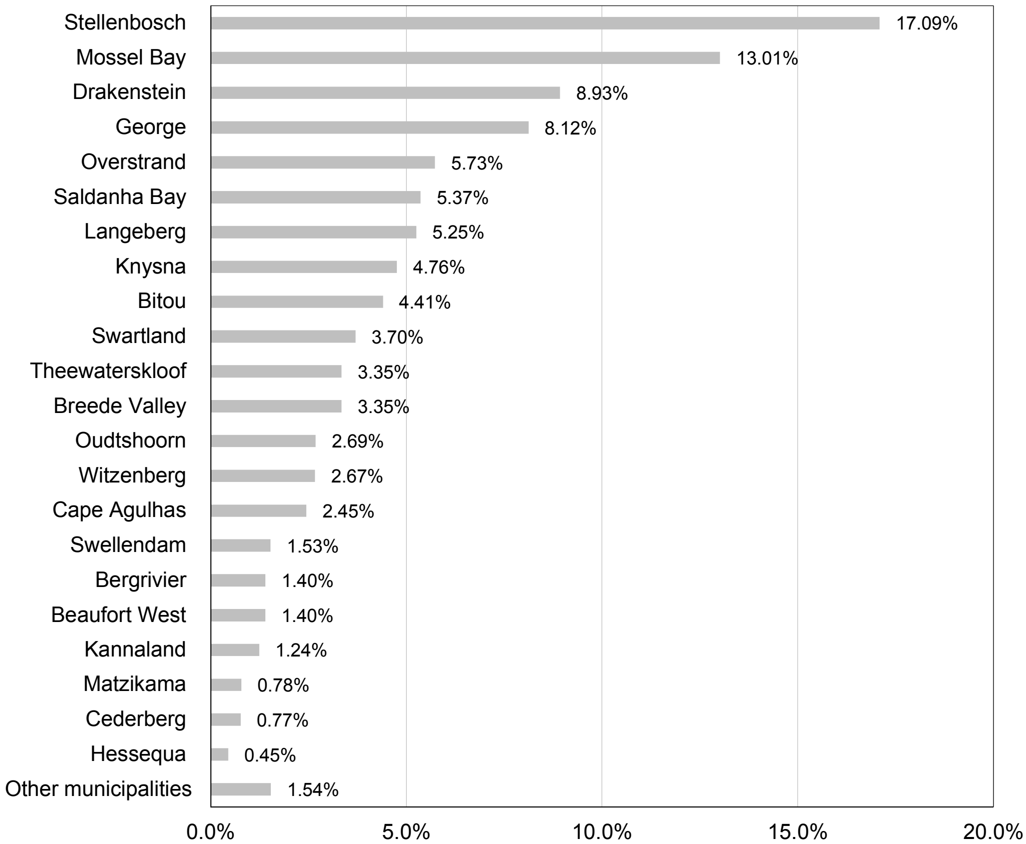


Source: Quantec Research

In Figure 3.2, the 24 non-metro municipalities are ranked in three groups: the high growth municipalities (growing in real terms by 5 per cent per annum and more); the medium growth municipalities (growing between 3 to 5 per cent per annum); and the low growth municipalities (growing by 3 per cent per annum and less). All the high growth municipalities and Langeberg, Swellendam, Saldanha Bay, Prince Albert and George in the medium growth group grew faster than the City of Cape Town. Nevertheless, the close to 4 per cent annual growth of the City of Cape Town during 2000 to 2013 is a remarkable feat given its size and the context of national economic growth of 3.4 per cent per annum over the corresponding period.

When size is considered one gains a proper perspective of the leading non-metro municipalities in the province. This is shown in Figure 3.3 where the average annual real GDPR growth rate was weighted by the size of each municipality in calculating the overall contribution of each municipal economy to the cumulative economic value created over the 2000 to 2013 period.

Figure 3.3 Western Cape municipalities: Weighted contribution to GDPR growth: 2000 - 2013



Source: WCG Provincial Treasury: MERO 2014/Quantec Research

Given its size, Stellenbosch moves 6 places to the top of the list, with its economy accounting for 17.1 per cent of the cumulative growth of the non-metro municipalities over the 2000 - 2013 period. Two other municipalities that move up sharply in the rankings are Drakenstein (14 places) and George (7 places).

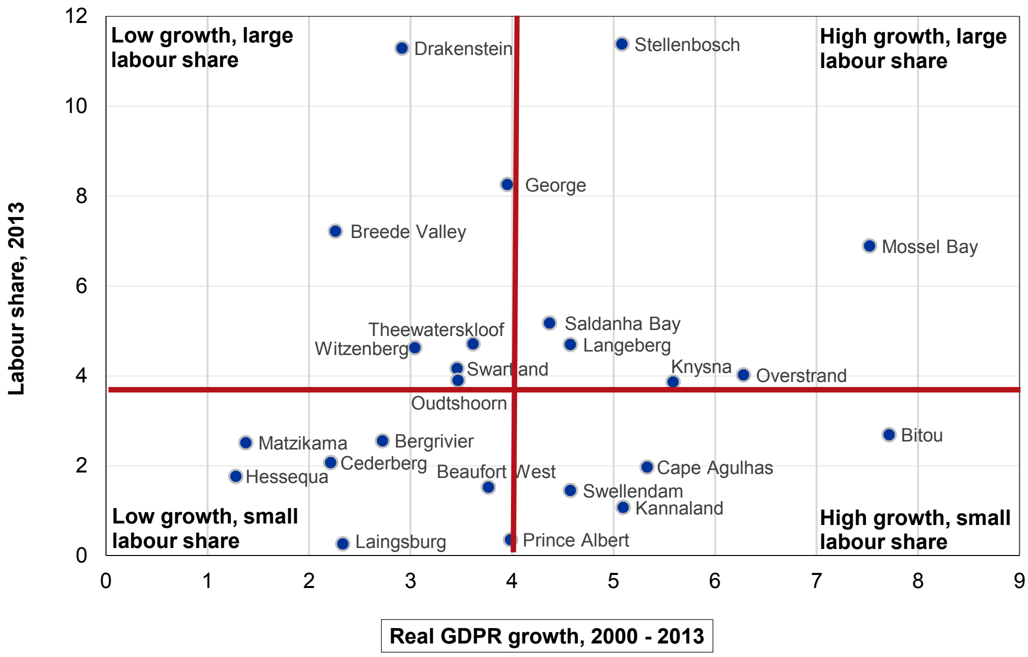
In contrast, the relatively small municipalities which are rapidly catching up in terms of growth (being ranked as high growth municipalities in Figure 3.2) move down the list with a lower rank when size enters the equation.

The ranking of the top-10 municipalities in Figure 3.3 is closely aligned with the outcomes of the Growth Potential of Towns Study (Van Niekerk, 2013: 28)[2]. According to this study, Knysna, Stellenbosch, Drakenstein, George and Mossel Bay all have very high economic potential, whilst Overstrand, Bitou, Saldanha Bay, Theewaterskloof and Swartland have high growth potential, completing that study's top-10 list.

3.2.2 Growth and employment by municipality

Section 3.2 is concluded by also considering each municipality's labour share, i.e. the percentage of non-metro municipal work force employed in each municipal area. Displaying this on the vertical axis and the real economic growth rate (2000 - 2013) on the horizontal axis, Figure 3.4, orders the 24 non-metro municipalities into four quadrants.

Figure 3.4 Western Cape non-metro municipalities: Growth vs Labour share



Source: Quantec Research

[2] The Growth Potential of Towns Study considers economic, physical and infrastructure factors as part of the economic pre-conditions of growth and innovation potential determined by institutional and human capital factors. Economic factors include a range of 14 indicators, including per capita income levels, growth in GDPR, growth in high-skilled occupations, number of retail outlets and services businesses, etc. Physical factors include a list of 9 indicators, including, inter alia, rainfall, groundwater availability and quality, unexploited mineral potential, etc. Infrastructure factors include a list of 13 indicators, ranging from access to communications and basic services, distance to airports and harbours, etc. Regarding innovation potential, institutional factors include a list of 9 indicators ranging from management experience and capacity, crime incidence, basic services backlog reduction, number of social organisations, etc. and human capital factors include a list of 7 indicators, ranging from per capita income levels, HDI values, unemployment rate, dependency ratios, the matric pass rate, etc. (See Van Niekerk, A, 2013: 12-17)

Overall, giving an equal weight to the municipal rankings in terms of GDPR size and growth, the labour share and the broad economic potential provides a classification of the 24 non-metro municipalities (Table 3.1). Agglomeration benefits and city growth dynamics mean that the City of Cape Town will remain dominant in the Western Cape economy. This should not underplay the importance of growth and development in non-metro regions.

Table 3.1 Classification of Western Cape municipalities in terms of growth, employment and potential

	Large and growing with potential		Smaller and growing with potential	
TOP TWELVE	1. Stellenbosch	5. Saldanha Bay	8. Theewaterskloof	11. Swartland
	2. Drakenstein	6. Knysna	9. Breede Valley	12. Langeberg
	3. George	7. Overstrand	10. Bitou	
	4. Mossel Bay			
	Medium growth, medium potential		**Low growth and low potential**	
BOTTOM TWELVE	13. Oudtshoorn	16. Cape Agulhas	19. Matzikama	22. Kannaland
	14. Witzenberg	17. Hessequa	20. Cederberg	23. Prince Albert
	15. Bergrivier	18. Swellendam	21. Beaufort West	24. Laingsburg

Source: Growth Potential of Towns Study (2013)

3.3 Sector overview

Table 3.2 Western Cape GDPR, employment and export trends by sector, 2000 - 2013

Sector	GDPR (% share) 2013	Export (% share) 2013	Employment (number) 2013 vs 2000	GDPR Yoy % 2000 - 2013	Export Yoy % 2000 - 2013
Agriculture, forestry and fishing	3.8	15.1	-64 545	2.0	10.5
Mining and quarrying	0.1	1.6	-1 284	-1.2	10.7
Manufacturing	16.8	57.2	-84 217	2.4	5.2
Electricity, gas and water	1.4		1 611	2.5	
Construction	4.4	0.1	-51 166	6.5	6.3
Wholesale and retail trade, catering and accommodation	15.3	6.6	42 881	4.2	1.7
Transport, storage and communication	10.0	8.0	16 526	4.7	4.9
Finance, insurance, real estate and business services	32.9	10.5	124 368	5.5	7.1
Community, social and personal services	5.0	1.0	65 076	2.9	8.8
General government	10.3		56 742	2.5	
Total	**100.0**	**100.0**	**105 992**	**3.9**	**4.9**

Source: Quantec Research

Construction was the fastest growing sector between 2000 and 2013, expanding by around 6.5 per cent per annum (Table 3.2). Most of this growth was centred in the period 2004 to 2007, which was characterised by a residential and non-residential building boom and strong private fixed investment linked to the robust economic growth conditions. Growth in the sector was also supported by infrastructure spend related to the 2010 FIFA World Cup and an ambitious public sector capital spending drive. Growth has slowed since 2010, to average around 2 per cent per annum as subdued residential investment and weaker economic conditions weighed on construction spending.

The second fastest growing broad sector was finance, insurance, real estate and business services, which expanded at an average annual rate of 5.5 per cent over the corresponding period (Table 3.2). The finance and insurance subsector grew at 6.2 per cent per annum. Additionally, the business services subsector, which is the largest subsector and contributed 22.2 per cent to GDPR in 2013, grew by an average 5.2 per cent over the period. (For a more detailed overview of the services sector see 2013 PERO.) The pre-recession business cycle expansion was characterised by financial deepening and substantial private sector credit uptake. Post-recession, growth has slowed as deleveraging by the private sector and subdued economic growth weighed on activity. Despite the slowdown in recent years, the sector made the biggest contribution to job creation over the 2000 to 2013 period.

The transport, storage and communication sector expanded by 4.7 per cent per annum from 2000 to 2013 (Table 3.2), driven mostly by strong growth in the communication subsector. Growth measured 6.9 per cent per annum over the period, driven by the incremental liberalisation of the telecommunications market, new product developments and mobile telephony.

The wholesale and retail trade, catering and accommodation sector expanded by 4.2 per cent per annum over the corresponding period (Table 3.2). The tourism sector provides key support for growth in both the retail and wholesale and catering and accommodation subsectors. The Western Cape tourism sector will be discussed in more detail in a subsequent section. The broader trade sector experienced a sharp slowdown during the economic recession, but still made a significant contribution to sustainable job growth.

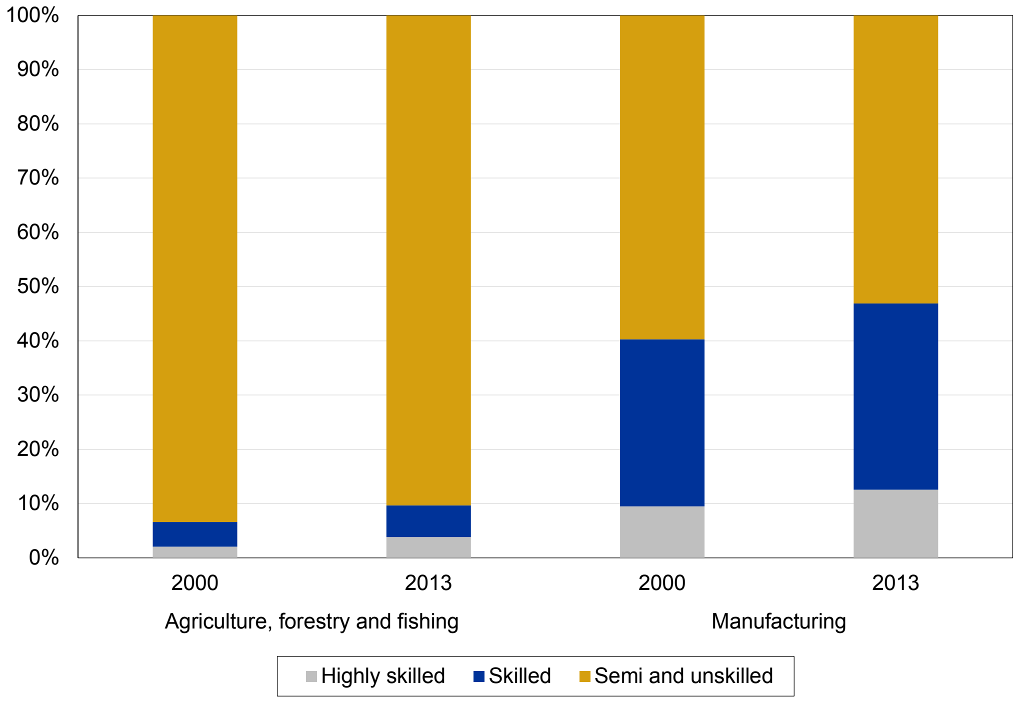
The manufacturing and agriculture, forestry and fishing sectors grew at a subdued pace, with real value-added growth measuring 2.4 per cent and 2 per cent per annum (Table 3.2). The manufacturing sector was hard hit by the recession, having contracted by 3.3 per cent in 2008 and 2009. Recovery has been slow with value-added growth measuring just 2.6 per cent between 2010 and 2013, mainly on the back of subdued recovery in exports.

Poor job growth in the primary and secondary sectors of the Province is counterbalanced by reasonably strong employment growth in the tertiary sectors. The services and government sectors were responsible for most of the employment creation in the Western Cape between 2000 and 2013, with a total of 282 527 jobs created in these sectors. However, in keeping with the relative decline in their contributions to regional GDPR, both the agriculture and manufacturing sectors have shed a large number of jobs. Overall, total employment (formal and informal) in these sectors declined by 125 307 between 2000 and 2013.

Disconcertingly, the employment mix in both the agriculture and manufacturing sectors has shifted to a more highly skilled distribution (see Figure 3.5). The largest share of formal employment in the agriculture, forestry and fishing sector remains semi and unskilled in nature (90.3 per cent in 2013). Despite this the sector has shed close to 52 000 semi and unskilled jobs since 2000, while expanding highly skilled employment by 1 400. Job losses occurred across the skills spectrum in manufacturing, but were concentrated in the semi and unskilled categories (51 500 out of the total 67 800 jobs lost).

These job losses could be a serious threat to inclusive growth in the Province unless it is the manifestation of a dynamic economy undergoing structural change in the process of increasing the productivity and raising wages. Even so, inclusive growth requires that the unskilled and semi-skilled workers who lost their jobs become gainfully employed in more productive activities.

Figure 3.5 Skills mix of formal employment in Western Cape agriculture and manufacturing



Source: Quantec Research

3.3.1 Comparative advantage per sector

As illustrated in Table 3.3, the Western Cape has a substantial manufacturing base. The manufacturing sector contributed 16.8 per cent to GDR in 2013. However, the services orientation of the economy stands out, with the finance, insurance, real estate and business services; and the wholesale and retail trade, catering and accommodation sectors accounting for close to half (48.2 per cent) of the GDPR. As unpacked in detail in section 3.5 of the 2013 PERO, the services sector is the Province's leading growth and employment creator. This makes it a focal point of inclusive growth strategies.

Table 3.3 Western Cape's comparative advantage per sector

	Western Cape		South Africa		LQ ratio	
	GDPR (% share)	Growth (Yoy %)	GDPR (% share)	Growth (Yoy %)		
Sector	**2013**	**2000 - 2013**	**2013**	**2000 - 2013**	**2000**	**2013**
Agriculture, forestry and fishing	3.8	2.0	2.4	2.0	1.57	1.56
Mining and quarrying	0.1	-1.2	5.6	-0.0	0.04	0.03
Manufacturing	16.8	2.4	16.9	2.8	1.09	0.99
Electricity, gas and water	1.4	2.5	1.9	1.6	0.67	0.71
Construction	4.4	6.5	3.4	6.6	1.47	1.28
Wholesale and retail trade, catering and accommodation	15.3	4.2	14.0	3.8	1.12	1.09
Transport, storage and communication	10.0	4.7	10.1	4.7	1.05	0.98
Finance, insurance, real estate and business services	32.9	5.5	24.2	5.3	1.43	1.36
Community, social and personal services	5.0	2.9	6.1	2.9	0.89	0.83
General government	10.3	2.5	15.3	2.5	0.70	0.67
Total	**100.0**	**3.9**	**100.0**	**3.4**		

Source: Quantec Research (South Africa includes the Western Cape.)

Table 3.3 also provides useful insights about the performance of sectors within the regional economy compared to the national economy. According to the Location Quotients (LQs)[3] the Western Cape had a revealed comparative advantage in four of the ten main sectors in 2013. However, the Province has lost some of its competitive edge from 2000 to 2013.

[3] In order to establish whether the growth of a particular industry within a region reveals a competitive edge, LQs are calculated: the share of a specific industry's value added in the aggregate regional value added is expressed relative to the same industry's share in the value added of the reference region. A ratio larger than unity implies that the industry in the relevant region out-performed that in the reference region. Conversely, a ratio that is smaller than one implies some lack of comparative advantage. LQs can be calculated by expressing the relevant subsectors' contribution to national real GDP.

In 2000, the Province still had a comparative advantage in the transport, storage and communication sector as well as the manufacturing sector, but the LQs edged slightly below one in 2013. The slight slippage in the Provincial competitive edge is also evident in the fact that only one of the ten sectors, namely the electricity, gas and water sector, showed an improvement from 2000 to 2013. Nonetheless, the Province continues to have a clear advantage in the services industries (particularly in the finance, insurance, real estate and business services industry) (Table 3.3).

The comparative advantage in the services industries reflects that the regional economy has evolved from its agricultural beginnings, with a strong complement of food and beverage producers, to higher value-added manufacturing activity and a range of services activities. The contemporary regional economy is still characterised by a strong agro-processing sector. The relative share of manufacturing has shrunk from 21 per cent in 2000 to 16.8 per cent in 2013, while that of agriculture has also declined from close to 5 per cent in the late 1990s to 3.8 per cent in 2013. Despite the decline in the relative contribution of the agriculture and manufacturing sectors, these sectors still contribute over 70 per cent of total exports from the region, with the manufacturing sector accounting for the bulk of this (Table 3.2).

Other sizeable sectors in the regional economy include transport, storage and accommodation (10 per cent), the general government (10.3 per cent), community, social and personal services (5 per cent) and construction (4.4 per cent).

3.4 The agriculture, forestry and fishing sector

The Western Cape agriculture and fishing sector produces a diverse range of products that in some instances have achieved iconic status, even in foreign markets. This diversity includes wine, table grapes, fresh and processed deciduous fruit, rooibos tea, the range of protea flowers, wheat, dairy products, oil seed (canola) and meat, and in the fishing sector, snoek, abalone (perlemoen), oysters, crayfish and mussels. These key sectors are supported by various value chains as well as forward and backward linkages with the manufacturing and services sector, the latter importantly through tourism.

Diversity of products underpins the agriculture, forestry and fishing sector as a key industry in the Western Cape economy and as a source of economic development and growth, particularly in the rural areas. The bulk of the Western Cape's agriculture, forestry and fishing output is produced in the Cape Winelands (34 per cent) and the City of Cape Town Metropolitan Municipality (29 per cent), as well as the West Coast (16 per cent).

Table 3.4 Agriculture, forestry and fishing GDPR, exports and employment

	South Africa		Western Cape	
	% share	Yoy %	% share	Yoy %
	2013	2000 - 2013	2013	2000 - 2013
GDPR	2.4	2.0	3.8	2.0
Exports	3.5	8.6	15.1	10.5
Employment (formal and informal)	5.8	-3.6	8.2	-2.0

Source: Quantec Research

As illustrated in Table 3.4, the sector's direct contribution to total value added in the Province was 3.8 per cent in 2013 (R1 076 million), employing 8.2 per cent (152 952 jobs) of the regional work force. From Table 3.4 it is evident that the agriculture sector contributes significantly to Provincial exports. The sector's primary products constitute the third largest contribution to exports from the region. The largest contribution by a single sector is made by the food, beverages and tobacco sector (22.0 per cent, R11 986 million) which relies heavily on the local agricultural sector. This emphasises the links between agriculture and the rest of the economy.

3.4.1 Comparative advantage

Despite its relatively small direct contribution to regional GDPR, the Western Cape agricultural sector accounts for 23.4 per cent of national agricultural output. Given that the Province's contribution to national GDP is estimated at 15 per cent (R266 751 million) in 2013, the Western Cape has a clear revealed comparative advantage in agricultural economic activity.

It should be noted that Western Cape agriculture has grown at the same pace as the national sector (an average of 2.0 per cent growth) between 2000 and 2013 (Table 3.4). The indirect contribution of the agriculture, forestry and fishing industry should not be understated since backward and forward linkages allow growth in the agriculture sector to filter through to the manufacturing and services sectors.

The location quotients (LQs) – as illustrated in Table 3.5 – make it clear that the Province has a pronounced comparative advantage in agriculture. While the regional agricultural sector has grown at the same pace as the national sector, the contribution to regional output is larger than the share of agriculture in the national economy. In turn, the agro-processing sector (food, beverages and tobacco) also has a strong revealed comparative advantage with a LQ reading of 1.5 in 2013 (see Table 3.5 below). This suggests that maximisation of local opportunities for value-addition throughout the full value chain could be beneficial for the Provincial economy.

According to Table 3.5, the comparative advantage in the agro-processing sector of the Province has declined from 2000 to 2013. This was the result of the sector's direct contribution to GDPR falling from 6.2 per cent in 2000 to 4.3 per cent in 2013.

Table 3.5 Agriculture and agro-processing location quotients

LQ	2000	2005	2010	2013
Agriculture, forestry and fishing	1.56	1.62	1.57	1.56
Food, beverages and tobacco	1.78	1.66	1.52	1.50

Source: Quantec Research

3.4.2 Trade potential and export markets

The Western Cape is South Africa's key agricultural export area, accounting for 57.3 per cent (R9 954 million) of South Africa's agricultural exports in 2013. In comparison, the Province only accounts for 13.5 per cent (R62 794 million) of total national exports. This highlights the Western Cape's comparative advantage when it comes to agricultural exports.

Rooibos tea trademark awarded to South Africa

Producers of rooibos tea will now have ownership of the name after a trademark deal with the European Union was reached in July 2014. Now that regulations are in place, previous bids by French and American companies to trademark the name rooibos in their name will be impossible. The trademark is of key importance for the Province as rooibos is only grown in the Cederberg area in the Western Cape. The trademark protection will assist in growing the industry even further by expanding to new export markets, such as Asia, and further developing existing markets in Europe and the United States. South Africa produces about 15 000 tons of rooibos each year of which half is exported. The industry is approximated to be worth an estimated R600 million per year.

The same trademark protection will apply to honey bush, also indigenous to the Western Cape, as well as Karoo lamb.

Source: Rooibos tea trademark awarded to South Africa in deal with EU (David Smith, The Guardian, 28 July 2014) and Rooibos tea ruling gives exports boost (Nompumelelo Magwaza, Business Report, 23 July 2014).

Key export growth areas for products and destinations are highlighted in the following sections to illustrate the potential of the Provincial agricultural sector.

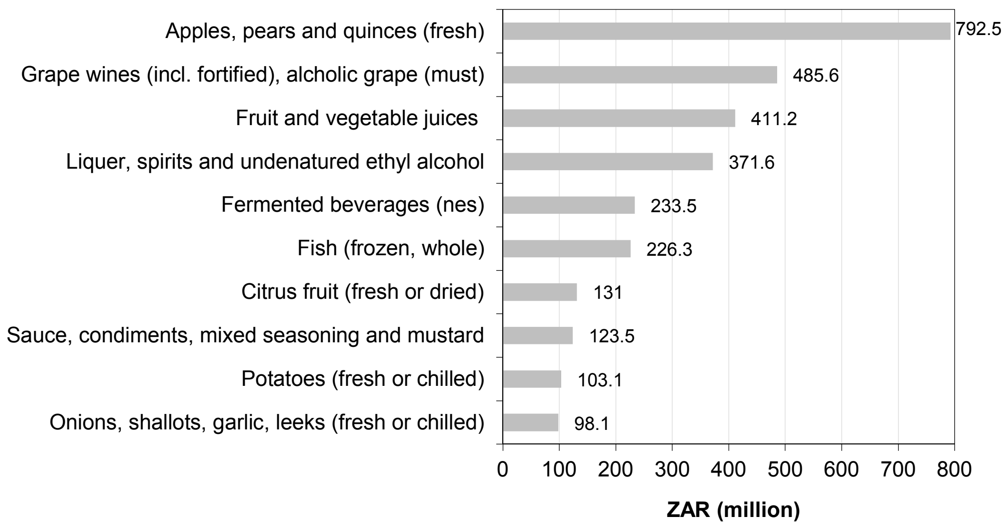
Africa as a key growth market

Wesgro (2014) estimates that the African urban food market will increase fourfold by 2030 to exceed US$400 billion. This will require major agribusiness development in processing, logistics, market infrastructure and retail networks.

While widespread poverty persists in the continent, a growing middle class is seeking a better quality and more diversified diet. As African emerging markets develop demand for value-added, processed food products will increase, opening up opportunities for the full agricultural food chain. The Western Cape, with its developed and well-diversified agricultural sector, could play a key role in this development. In 2012, the Western Cape exported food and beverage products worth R4.2 billion to Africa, 14 per cent higher than the previous year, and accounted for 26 per cent of South Africa's total food and beverage exports to Africa.

As illustrated in Figure 3.6, fresh apples, pears and quinces made up the bulk of the Western Cape's food and beverage exports to Africa in 2012 (R792.5 million), followed by grape wines (R485.6 million) and fruit and vegetable juices (R411.2 million).

Figure 3.6 Western Cape's exports of food and beverages to Africa (2012)



Source: Wesgro (2014)

Wine exports – Europe, Africa and Asia

According to the South African Wine Industry Information & Systems (SAWIS) statistics illustrated in Table 3.6, the Western Cape clearly dominates the South African wine industry. No less than 96.8 per cent of wine grape vineyards (286 895 888 of a total number of vine grape vineyards of 296 775 118) are located in the Western Cape, the majority in Stellenbosch and Paarl.

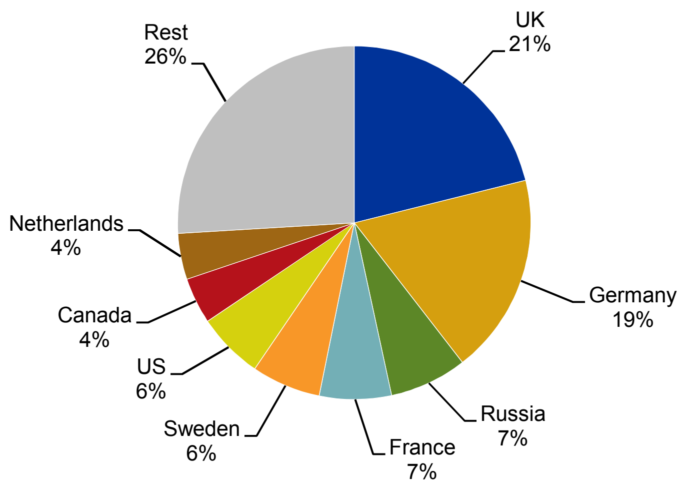
Table 3.6 South African wine grape vineyards (excluding Sultana) per region

Wine regions	Number of vines	% of total vines	Area hectares	% of total hectares
Stellenbosch	49 523 365	16.7	16 294	16.4
Paarl	48 460 222	16.3	16 106	16.2
Robertson	49 743 713	16.8	14 676	14.7
Swartland	34 165 525	11.5	13 509	13.6
Breedekloof	41 366 550	13.9	12 878	12.9
Olifants River	27 498 000	9.3	10 116	10.2
Worcester	28 028 029	9.4	8 814	8.8
Northern Cape	9 879 230	3.3	4 652	4.7
Klein Karoo	8 110 484	2.7	2 637	2.7
Total	**296 775 118**	**100.0**	**99 680**	**100.0**

Source: SAWIS (2014)

Emerging markets in Africa and Asia are becoming key destinations for South African wine exports, even though, as illustrated in Figure 3.7 below, the traditional export markets remain in Europe, (particularly the UK and Germany). The 2014 South African Development Community (SADC) trade agreement with the European Union (EU) supports further growth to the European market. According to the Economic Partnership Agreement (EPA), South Africa may now export 110 million litres without paying import duties, which is more than double the 48 million litres that previously applied. Furthermore, the arrangement is extended to include bulk wine exports as well as packaged wines. The EPA includes many more agricultural products, such as flowers, dairy products, fruit and fruit products.

Figure 3.7 South African packaged and bulk wine exports per country[4,5]



Source: SAWIS (2014)

Importantly, Africa is rapidly becoming a key export market. To highlight one example: in 2013, 54 per cent (4 826 986 litres) of South Africa's sparkling wines were exported to Angola. Given that these emerging economies are growing at faster rates than the traditional export destinations, this bodes well for expanding export performance.

Higher GDP growth rates translate into increasing disposable income and a growing middle class, supporting demand for wine which is often seen as a status-symbol. Grape wines (including fortified) made up 11.4 per cent (R485.6 million) of the Western Cape's food and beverage exports to Africa in 2012. This was the second biggest food and beverage group exported to the continent. Liqueur, spirits, undenatured ethyl alcohol (< 80 per cent) and fermented beverages, such as cider, perry and mead, constituted another

4 Excluding sales in the Southern Africa Customs Union (Botswana, Lesotho, Namibia and Swaziland).

5 The figures in Figure 3.7 are for total South African wine exports. However, given the dominance of the Western Cape in the wine industry, these figures provide a fair estimation of exports trends originating in the Western Cape.

14.3 per cent (R371.6 million) of the region's food and beverage exports to Africa (Wesgro, 2014).

Another growing market is China, which is now the world's biggest consumer of red wine with demand having almost tripled between 2007 and 2013 (Chow, 2014). Demand for red wine is driven by a growing middle class, especially the younger more Western-oriented generation seeking an alternative to traditional rice and grain wines[6]. Red wine makes up 86.2 per cent (4 949 710 litres) of the wine South Africa exported to China. As the market matures, demand for white and sparkling wines should pick up too.

There is considerable potential to expand wine trade with China, given that exports to China only accounted for 1.1 per cent (5 741 871 litres) of total South African wine exports in 2013. However, cultural differences, preferences, and translation barriers pose challenges to exploring further opportunities in the Chinese market.

3.4.3 Inclusive growth potential and employment creation in agriculture

The main challenge in creating employment is the mismatch between the supply of semi and unskilled workers and the increasing demand for skilled workers. Tackling this problem and supporting employment growth will be vital in developing an inclusive growth environment.

The agricultural sector accounted for 8.2 per cent (152 952 jobs) of total (formal and informal) employment in the Western Cape in 2013, higher than the national average of 5.8 per cent (842 823 jobs). However, the share of agricultural employment relative to regional employment has declined steadily over the past two decades.

In 1995, agriculture still accounted for 13.7 per cent (233 357 jobs) of total Provincial employment. This development mirrors the trend in the national economy where agriculture's share declined at a slightly faster rate from 12.7 per cent (1 603 991 jobs) in 1995 to 5.8 per cent in 2013. The declining share of agriculture (and manufacturing) in total employment is due to job losses in the sector, sharp employment growth in the services industries and a surge in government employment in the wake of the 2008/09 recession.

It is possible that the widespread farm worker strikes during late 2012 and early 2013 significantly impacted and changed labour dimensions in the Provincial agricultural sector, especially given that labour in the sector was relatively

[6] The symbolism of the colour is also important for the Chinese market. Red is associated with victory, wealth, power and luck and therefore often served at business meetings and banquets.

unorganised. The 51 per cent[7] increase in wages from 2012 to 2013 is likely to affect future employment decisions and could have accelerated the ongoing mechanisation process within the industry. However, the wage increase is not sufficient to address the structural challenges such as inadequate access to services and limited educational prospects. Addressing these challenges underscores the importance of an inclusive growth approach.

Transformation in the agricultural sector is complex and requires financial resources, and strengthened relationships of trust between government, farmers and employees. Upskilling of workers and accommodating technological advances in machinery and equipment will benefit output and productivity, but could have negative consequences for the number of farm workers employed. This could be detrimental to the broader society, particularly in rural areas. In the deciduous fruit industry, for example, every permanent on-farm employee has almost four dependents relying on his/her income.

In a slow, but often irreversible process of the 'corporatisation' of agriculture, total farm numbers have declined as larger farms buy up small to medium sized farms to improve competiveness and take advantage of economies of scale. However, the economies of scale that benefit larger farms could affect the viability of smaller commercial farming operations, such as deciduous fruits and table grapes. Larger farms also tend to be more capital intensive impacting negatively on employment creation for low skilled workers.

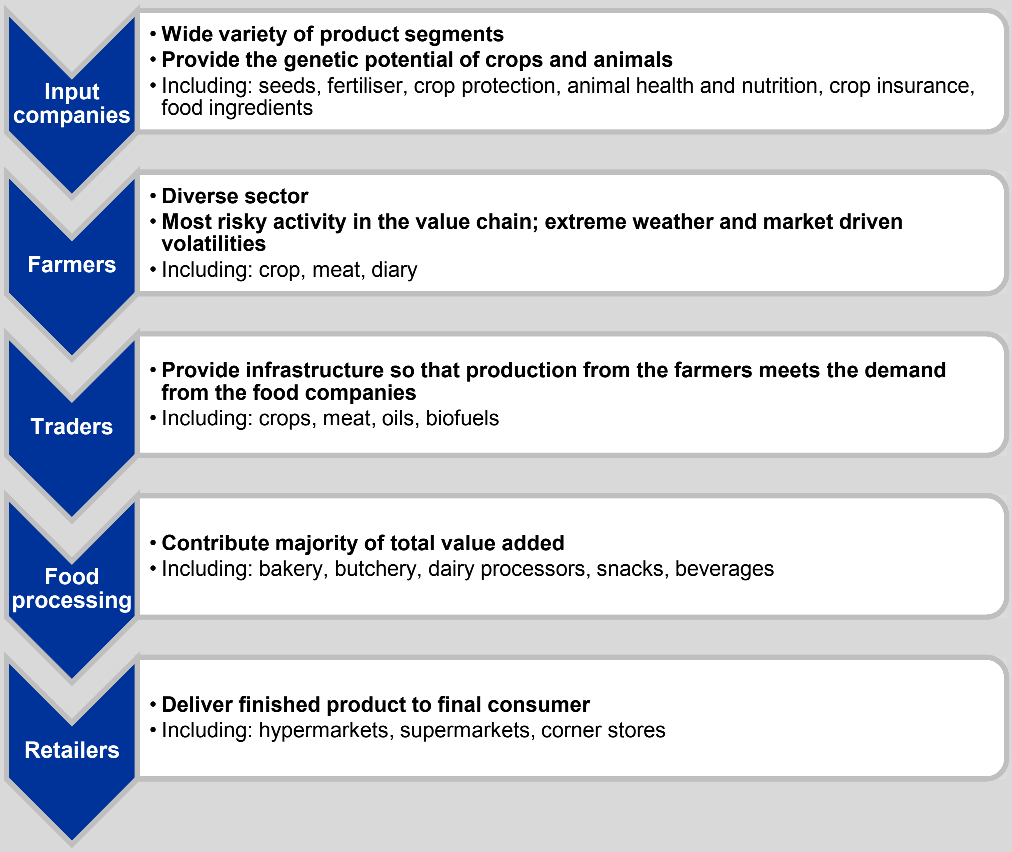
To enable inclusive growth, attention should be given to the entire value chain of the agricultural production process. This includes production, processing and marketing, and not merely direct job creation at farms (the full value chain is unpacked in a text box below). Anecdotal evidence from the FARE panel report (2013) reiterates this issue. For example, when a carton of apricots moves through the entire value chain, 1 000 people are involved in the process, including workers at pack houses, cold rooms and ships. However, very few of these workers are employed on the farm itself.

If farmers become more involved in the value chain, they would be able to benefit from economies of scale and will receive a higher share of consumer spending on the final product. This will indirectly stimulate employment growth. The full value chain could provide opportunities for new industries and small businesses supporting the objective of inclusive growth.

[7] Minimum wage rates in the farm worker sector were set at R2274.82 per month; R525.00 per week; R105.00 per day (9 hour workday) and R11.66 per hour – effective from 1 March 2013 (Department of Labour, Government Gazette, 5 February 2013).

Food value chain and beneficiation of agricultural produce

A value chain refers to a string of stakeholders (companies) working together to satisfy consumer demand for a particular product. The full agricultural food chain is complex, given that different crops and food types have their own distinct, often fragmented supply chain. Furthermore, technology is blurring the boundaries between some stages of the value chain. Low margins put stakeholders under pressure, making the efficiency of the full supply chain important. An efficient supply chain will result in less waste, safer food products and lower prices for the consumer.



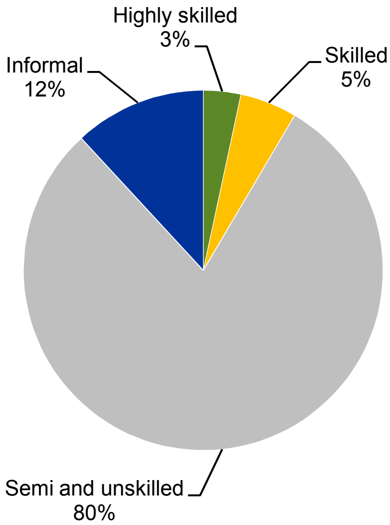
While the entire chain depends on the product delivered at the farming stage, very little of the actual value added is created at this stage. This means that if farmers are able to get involved in a larger part of the value chain this would open up significant opportunities.

Source: The agriculture and food value chain: entering a new era of cooperation (KPMG, 2013)

The food processing stage, where the majority of value is added (see text box above), provides ample opportunities for famers to beneficiate their produce. This includes, for example, drying or canning fruit products and processing meat products. Furthermore, from a green economy perspective organic waste created at the farmer stage could be channelled back to the input companies to use as fertiliser. Increased farmer participation in the entire value chain and beneficiation of agricultural produce could counter the threat that mechanisation poses to further employment growth. For example, wheat and maize producers have actively moved towards a more mechanised process to accelerate output and productivity growth. Mechanisation will particularly impact employment opportunities for semi and unskilled workers.

As illustrated in Figure 3.8, the majority (80 per cent; 121 783 workers) of those working in the Western Cape agricultural sector are currently semi or unskilled. In 2013, only 3 per cent (5 153) of the workers were highly skilled, but given that technology is becoming more advanced, the share of highly skilled workers relative to semi and unskilled workers will likely increase.

Figure 3.8 Western Cape skills mix in agriculture (formal employment), 2013



Source: Quantec Research

It must be noted that mechanisation is not likely in all subsectors. Certain subsectors, such as those producing table grapes, apricots and peaches, will out of necessity continue to rely on labour due to the delicate nature of the produce, but producers are actively seeking ways to reduce their demand for labour.

Mechanisation is an expensive process due to the high capital requirement and borrowing costs. Given that most machinery and equipment are imported, the weaker exchange rate further pushes up the cost of mechanising the production process. Despite these relatively short term costs, mechanisation is becoming an increasingly viable option for large farms (illustrated in the text box below.)

Mechanisation in the Western Cape potato industry

A detailed study by Potatoes South Africa and the Bureau for Food and Agriculture Policy (BFAP), indicated that given the high initial costs involved, mechanisation in the potato agricultural sector is not necessarily more cost efficient than paying (higher) wages. Crucially, farm size does play a significant role in whether the economies of scale associated with mechanisation can be achieved. In this particular study, it was found that mechanisation would be unlikely at a 50 hectare farm and small scale producers will therefore have to adjust to the higher cost of labour instead of mechanisation. However, as the scale and size of farming operations increase, mechanisation becomes increasingly more viable as the labour cost savings outweigh the capital investment of mechanisation. Given the above-mentioned corporatisation of agriculture, mechanisation could accelerate as farm sizes expand.

Source: BFAP, Baseline Agricultural Outlook 2014 - 2013 (August 2014)

As illustrated in Figure 3.8, 12 per cent (18 168 jobs) of those employed in the Provincial agricultural sector are working in the informal sector. This suggests that support and development of smallholder and subsistence farming could contribute to inclusive growth. This is supported by a global shift towards recognising the ability of smallholder farmers to ensure food security.

According to the FARE panel report (2013), supporting smallholder farmers in the Western Cape through land reform and agricultural development has increasingly benefited black farmers. Unfortunately most of the budget allocated to this effort has been misused, resulting in new farmers benefiting at the expense of existing (particularly subsistence) farmers.

Land reform programmes have been unsuccessful, resulting in under-utilisation of the land due to inappropriate project design, limited land use options, lack of support services and a shortage of working capital (FARE panel report, 2013). Assisting smallholder firms to become market-orientated and creating links between retail stores and the farms could support further growth.

A neglected area is subsistence farming. It often falls outside the scope of government support yet it enables farmers to supplement food requirements and livelihood strategies. According to the FARE panel report (2013), subsistence farmers could become small scale producers should they receive appropriate (government) support.

Small scale farming opportunities

Farmer Eco Enterprise Development (FEED) projects enable emerging, small-scale farmers to run an independent business via enterprise development as well as skills and capacity building models. These projects also provide farmers with technical, marketing and production support as well as advice in product and land selection and assist with packing house and logistics development. FEED assists community-owned, commercial organic farms, equipped with value and supply chains to ensure financial independence. The projects, furthermore emphasises collaboration to create value and develop partnerships between municipalities, suppliers, retailers, mentors, investors, unions and export agencies. These collaborations allow farmers to benefit from the full food supply chain and capture more of the gains.

Source: BFAP, Baseline Agricultural Outlook 2014 - 2013 (August 2014)

3.4.4 Outlook for the sector

The agricultural sector is likely to remain a pillar in the Western Cape economy, especially in rural areas. However, given that the sector is forecasted to grow by only 1.8 per cent (annual average) from 2013 to 2019, while the provincial economy is expected to grow by 3.0 per cent, its direct relative contribution to GDPR will fall somewhat.

The projected average growth rate of 1.8 per cent for agriculture will, however, be slightly higher than the average 1.7 per cent growth rate recorded during 2005 to 2013. The closely-linked food, beverages and tobacco sector is expected to show much stronger growth over the forecast period (2013 to 2019) of 2.5 per cent compared to an average annual growth of 0.9 per cent recorded from 2005 to 2013. This example highlights the importance of the entire agricultural value chain in enabling inclusive growth.

However, the provincial agricultural sector is subject to key risks which could not only dampen short term growth prospects, but also undermine the longer term potential of the sector[8].

The scarcity of clean water sources could undermine the viability of agricultural crops and threaten the Province's exceptional biodiversity. For example, the National Development Plan (NDP) has identified the expansion of irrigation (throughout South Africa) as critical in ensuring job growth and estimates that if irrigated areas expand by 145 000 hectares, it will be possible to create 1 million jobs.

The solution to the water-scarcity problem does not merely entail extending the existing irrigation possibilities. Critically, the available water is often contaminated by seepage or dumping from sewage systems and pollution (due to poorly selected locations of landfill sites). Better waste-management, and improvement and extension of sewage systems are vital to ensure the availability of clean water.

Putting further pressure on the already water-stressed region is increasing weather-driven volatility and climate change. This could result in drought conditions from higher temperatures and rising sea levels. Increasing costs, resulting from the disaster management response to extreme weather events, have also been recorded.

Farming has a larger environmental footprint than any other sector and has a significant impact on water, land, biodiversity and the atmosphere. The indirect linkages with the rest of the economy amplify this impact. Environmental considerations are, therefore, important when evaluating sector trends and considering future policy strategies. A green economy focus goes beyond reducing environmental risks and ecological scarcities to playing a key role in achieving inclusive growth and promoting human well-being and social equity.

Green economy considerations should be extended to the full economy including the mining industry. Shale gas exploration (also referred to as fracking) could hold risks for agricultural development and water scarcity.

Profitability is also coming under increased pressure due to accelerating costs of inputs, higher taxes (due to fewer rebates), and rising fuel (mainly diesel) and electricity prices. Besides significant increases in electricity prices over the past few years, (unanticipated) load shedding has financial implications as it could result in spoiled produce (particularly dairy products) due to failing cooling and irrigation systems.

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[8] Some of these risks were identified during a conversation with Carl Opperman, the CEO of Agri Western Cape, on 12 August 2014.

Theft of cattle, crop, machinery and equipment and damage to property is becoming an increasing concern in the Western Cape. The Province has had fewer farm attacks compared to other parts of the country, but there are indications that violent crime is increasing.

Theft of telephone and data lines, which are often unprofitable for Telkom to replace in rural areas, has resulted in a telecommunication crisis in areas where mobile data networks are not yet developed. Farmers are, for example, unable to access weather information to plan efficient irrigation and harvesting schedules, and are unable to keep track of market price developments for their produce.

The sustained weaker level of the *rand exchange rate*[9] pushes up costs (in rand terms) of imported products such as fertilisers, fuels and other input products derived from crude oil. International transport costs also rise as shipping costs are linked to a dollar-based oil price. Even sectors that do not use imported products in their production process can be affected as higher prices filter through the economy (the so called pass-through and second round effects).

This outweighs the benefit from improved competitiveness of agricultural exports in international markets even in sectors that do not use imported products. For example, local grain producers may benefit from higher prices on international markets, but if this filters through to higher animal feed prices on the domestic market it will negatively impact the milk and meat industries.

A sensitive, but crucial issue is that of *land reform* and *land claims*. Without policy certainty it is difficult to plan future investment outlays. Furthermore, as highlighted in section 3.4.3 above, previous land claims have often resulted in the underutilisation of land.

Western Cape agriculture has the potential to perform better than currently forecasted, especially if the challenges mentioned above can be addressed successfully. Most importantly, if farmers are able to increase their participation in the full food value chain by beneficiating their produce, it could lead to a virtuous circle of higher growth and accelerated employment creation.

The Province has a young agricultural workforce that is eager to learn and develop its skills, provided that opportunities are made available. An example of inclusive growth in action is the Western Cape's 'Plaaswerker van die Jaar' (farmworker of the year) that incentivises farmworkers to perform better. According to anecdotal evidence from Agri Wes-Cape, workers that have been nominated for the general worker category have climbed the ranks and are being shortlisted for higher management positions. The agricultural policy

9 The rand exchange has weakened to an average of R10.69/$ (R14.58/€) in the first eight months of 2014 from R8.21/$ (R10.55/€) in 2012 and R9.65/$ (R12.82/€) in 2013.

from the Western Cape Government is aptly economic-orientated and supportive of further development and growth in the sector.

3.5 The tourism sector

Tourism in the Western Cape is widely accepted as being one of the most important sectors. Previous editions of this publication have noted that all regions within the Province enjoy a comparative advantage from tourism. The Western Cape, with its diverse tourism offerings, attracts both business travel – especially in the MICE markets (Meetings, Incentives, Conferencing and Events) – but also significant international inbound tourists that are attracted to the wide range of activities.

The majority of tourists visiting the Western Cape (close to 80 per cent in 2013) cite 'holiday' as the main purpose of visiting, with just under 4 per cent doing so for 'business' purposes (Wesgro, 2013). Further purposes for visiting the Western Cape include cuisine, wine tours, events, weddings and flowers. Attractions range from agri and eco-tourism (the Winelands for example), beach related (the Garden Route, West Coast and Cape Town region) and city escapes in Cape Town draw visitors year round. Further draw cards for the leisure tourism market include the V&A Waterfront, Cape Point, Robben Island and Table Mountain.

Cape Town achievements and awards

The City of Cape Town is considered as one of the most beautiful cities in the world. Recent achievements and awards confirm the city's attractiveness. These awards, such as Table Mountain being included in the new seven wonders of nature list, put Cape Town on the map and attract further tourism growth throughout the Province. Some of the most recent awards received by Cape Town include:

- 2014: World Design Capital
- 2014: New York Times' number one spot of 52 places to go in 2014
- 2014: Third place in Lonely Planet's best in travel 2014 top cities
- 2013: World Travel Awards 2013, Africa's leading meetings and conference destination

Source: www.capetown.travel

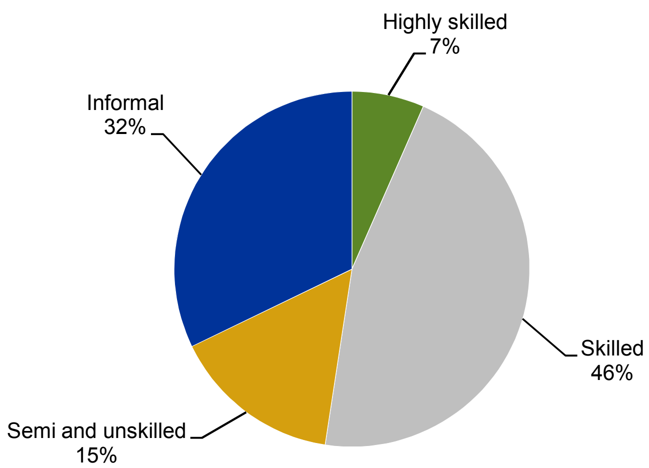
Tourism is one of the most appropriate sectors through which to promote inclusive economic growth and development. Given the significant socio-economic challenges within the Province, the sector should be supported where possible. However, when analysing the sector it is problematic to do so formally as tourism is an amalgamation of many activities and difficult to capture in statistics. The United Nations World Tourism Organisation (UNWTO) defines tourism as the activities of people travelling to and staying in places outside their normal environment for less than one year for leisure, business and other activities not related to the remuneration of an activity in the place being visited (Tourism Satellite Account, 2014).

The tourism sector cannot be measured in its own right as it is an ill-defined industry. Industries are classified by the products they produce, but tourism is typically a consumption based concept that comprises industries such as transport, accommodation, food and beverages, recreation and sport, entertainment and personal services. The Western Cape lends itself perfectly to benefitting from tourism having a significant consumption and services component to total economic activity.

The Western Cape's catering and accommodation sector, the most direct measure of tourism, contributed only 1.4 per cent to GDPR in 2013. However, the Province makes up 21.7 per cent of the national catering and accommodation sector. Given that the Province only contributes 15 per cent to national GDP, the Western Cape's catering and accommodation sector has a revealed comparative advantage. The LQ of 1.4 quantifies this advantage. Considering only the value added by catering and accommodation understates the size of the tourism sector.

The catering and accommodation industry employs 3 per cent (52 951 workers) of the regional workforce. Figure 3.9 illustrates the different contributions of the relevant employment groups to employment in this industry in the Province in 2013. While highly skilled and skilled workers make up just over half (52 per cent; 27 755 workers) of total employment, it is important to note that informal employment constitutes 32 per cent (17 030 workers) of total employment in this sector. This suggests that this industry has the potential for making a bigger contribution to inclusive growth.

Figure 3.9 Western Cape's catering and accommodation sector - employment per skill level (2013)



Source: Quantec Research

3.5.1 Tourism trends

South Africa

Tourism is driven by domestic travel and by inbound (foreign) travel. As such it is important to differentiate between conditions that may affect South Africans' ability (and desire) to travel domestically to the Western Cape, and factors that influence international tourism to the Province. Interestingly, given the diversity of the tourist attractions in the Province, there is also a lot of intra-provincial tourism (i.e. people residing in the Western Cape visiting other areas in the Province).

There are thus many aspects to consider. Given that tourism is consumption driven and dependent on consumers' ability and desire to consume, variables that matter to general consumption patterns will also affect tourism. Typically, leisure travel is a luxury good which implies that factors influencing real disposable income will be the main drivers of the ability to spend.

As discussed in Chapter 2, disposable income and consumer spending growth rates remain well below those achieved in the years before 2011. This implies that domestic leisure tourism was affected by the slowdown in economic activity experienced from 2011 onwards. Given that GDP growth has slowed considerably over the past year business related trips have also declined[10].

The Grant Thornton/Tourism Business Council of South Africa (TBCSA) Tourism Business Index (TBI) weakened further during the second quarter of 2014 in response to weak business conditions in ('other') tourism businesses such as travel agents and conferencing. However, respondents in the sector expect the operating environment to improve to slightly below average trading conditions going forward (Tourism Business Council of South Africa, 2014).

Demand analysis determined that inbound travel to South Africa is highly correlated to the value of the currency[11]. Findings indicated a relatively short lag between any depreciation in the currency and inbound arrivals increasing[12]. Travel, a luxury product (especially leisure travel), will benefit from improved economic conditions in the Eurozone and the USA following the global financial crisis.

[10] While there is limited data available on the volumes of business travel in South Africa it seems that domestic business travel is highly correlated to the domestic production side of the economy (Econex, 2011).

[11] See various Econex Tourism Tools 2009 - 2011 for analysis of the three largest inbound markets by volumes.

[12] With all things constant, but also assuming that domestic prices do not increase immediately to compensate.

While Europe, specifically Germany, the UK and the Netherlands, remain the Western Cape's strongest region for inbound tourist arrivals (Wesgro, 2013), travel to South Africa from China is growing, albeit from a low base. Furthermore, African (especially Sub-Saharan) economies are widely expected to achieve high growth rates and South African tourism is likely to continue to benefit from it.

Eco, agro and community-based tourism

Eco-tourism enables communities to conserve biological and cultural diversity, and creates numerous direct and indirect job opportunities. The Western Cape is particularly suited for attracting so-called agro and eco-tourism, which is broadly defined as responsible travel to natural areas that conserves the environment and improves the well-being of local people (The International Ecotourism Society, 1990).

The Biodiversity and Wine Initiative (BWI) is a key example of how the wine and conservation industries have worked together to minimise the loss of threatened natural habitats and developed sustainable wine production to protect the Province's unique natural heritage. The initiative is beneficial as BWI members not only set aside portions of their land for conservation purposes, but also develop sound water management policies and control alien invasive plant species. Furthermore, participating wine farms can incorporate their biodiversity efforts in their winery's experience and marketing initiatives which, in turn, generates further awareness and support for conservation.

Community-based tourism ploughs back tourism revenue into community and enterprise development programmes thereby ensuring sustainable development.

The Alternative Winelands Tours, developed by the Dreamcatcher Foundation, is an example of successful **community-based tourism**. The tour allows tourists to explore the Cape Winelands through sight-seeing, wine-tasting and personal interaction with farm workers and community members who open up their homes to guests.

Source: Biodiversity & Wine Initiative, www.bwi.co.za and Dreamcatcher Foundation South Africa (www.dreamcatchersouthafrica.com)

Western Cape

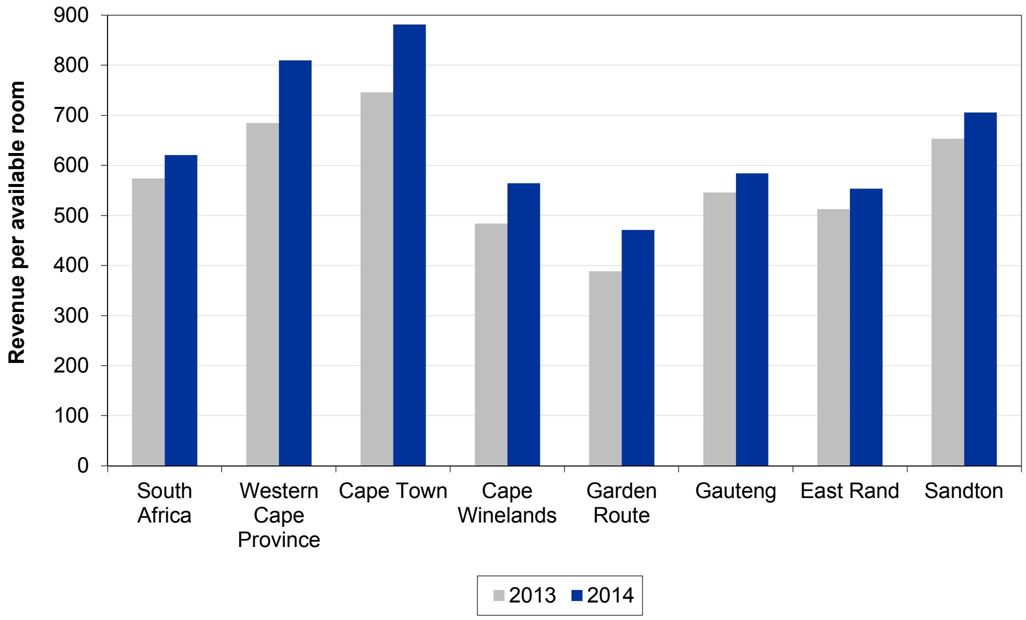
Current data for the hotel and accommodation sectors indicate that 2014 is a much better year for the Western Cape. Hotel occupancies across all levels have increased from 62.8 per cent to 66.2 per cent in the Western Cape (year-to-date from January to June 2014) while average occupancies in South Africa have remained flat at 60.9 per cent over the same period (STR Global, South Africa Hotel Review, 2014). Official statistics, while not available provincially, also point to increased occupancies during the past year (Domestic Tourism Survey, Statistics South Africa).

According to data from STR Global, illustrated in Figure 3.10, the Western Cape (particularly Cape Town[13]) hotel environment is currently the highest yielding within South Africa[14]. This seems to confirm the leading comparative advantage that the region enjoys.

[13] The number of hotels/beds in Cape Town dominate the provincial total.

[14] Based on revenue per available room only.

Figure 3.10 Revenue per available room – year to date (June 2014)



Source: STR Global

In addition to the well maintained road infrastructure and new public transport developments such as the MyCiTi bus in Cape Town, the Western Cape has a world class international airport in Cape Town and a well-developed smaller domestic airport in George. Cape Town International Airport serves as a direct link to most domestic and many international destinations. Unfortunately, the past few years have seen scheduled frequencies drop from two major airlines. Whether this is due to market forces or other factors is unclear, but the impacts are likely to be meaningful over the medium term as the inbound market offerings reshape to adjust to the changed conditions.

Table 3.7 Cape Town International Airport, share of total arrivals

Cape Town (% share of total arrivals)	**Financial year**								***Year-to-date*** *(June)*
	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	
International	15.2	14.7	15.8	14.6	13.4	14.4	13.5	13.3	*10.6*
Regional	18.7	17.2	16.2	14.1	13.5	13.9	15.1	14.1	*12.8*

Source: ACSA

As illustrated in Table 3.7, there is a clear decline in international and regional arrivals to Cape Town as a percentage of the total in South Africa. This will, over time, not be beneficial to the Province and may erode the comparative advantage that the Western Cape enjoys in tourism.

3.5.2 Tourism's inclusive growth potential

The superficially obvious aspects of tourism, such as vacationing tourists shopping in an upmarket area and staying in luxury hotels, hide the reality that tourism may possibly be the most appropriate and accessible sector in which to achieve inclusive economic growth. Tourism extends beyond hotels and restaurants: not a single aspect of the modern South African and particularly the Western Cape economy is not affected, in some way, by tourism.

As mentioned earlier, tourism is an amalgamation of activities, making it difficult to pinpoint the magnitude of the economic contribution to diverse sectors, such as transport or retail trade. However, these linkages are real and meaningful. The Tourism Satellite Account, as published and updated periodically by Statistics South Africa, differentiates between a 'tourism-characteristic' (for example Table Mountain cable cars and hotels and guesthouses) and 'tourism related' (for example, the portion of broader sectors, such as retail trade, that have a component derived from tourism rather than being driven by it). As such it becomes possible to link the spending by foreign or domestic tourists to sectors that would not be immediately obvious. Tourist spending as part of total spending can be expressed as a so called tourism product ratio[15] – see Table 3.9.

Calculating the tourism product ratio

The tourism product ratio is the approximate portion of the total spending on products of a specific sector that might be ascribed to tourism in general.

The ratio is derived by:

- Determining the value of domestic demand (local tourists) and international demand (foreign tourists) to total demand.
- Expressing this as a proportion of domestic supply (i.e. separating the part attributable to tourism).
- A full explanation of the methodology is available in the Tourism Satellite Account publication from Statistics South Africa.

[15] The tourism product ratio is the approximate portion of the total spending on products of a specific sector that might be ascribed to tourism in general. The ratio is derived by determining the value of domestic demand (local tourist) and international demand (foreign tourists) to total demand, which is expressed as a proportion of domestic supply. A full explanation of the methodology is available in the Tourism Satellite Account publication from Statistics South Africa.

Table 3.8 Tourism expenditure by product, South Africa, 2012 R million

Product	Domestic demand	International demand (exports)	Total demand	Total domestic supply	*Tourism product ratio %*
Characteristic Product	*83 181*	*52 009*	*135 189*	*264 060*	*51.2*
Accommodation	18 430	13 389	3 1820	33 117	*96.1*
Restaurants	6 177	9 229	15 407	41 304	*37.3*
Passenger transport services	51 003	21 800	72 802	154 309	*47.2*
Railway passenger	273	110	383	5 510	*7*
Air passenger	15 362	9 854	25 217	26 208	*96.2*
Travel agencies and similar	4 390	1 845	6 235	6 362	*98*
Sports and recreation	3 021	5 592	8 613	27 519	*31.3*
Connected Product	*9 856*	*14 181*	*24 037*	*242 572*	*9.9*
Retail sales food, beverage tobacco	4 882	8 996	13 877	119 184	*11.6*
Retail sales textiles, clothing, footwear and leather goods	2 758	3 000	5 758	59 254	*9.7*
Retail automotive fuel sales	1 987	903	2 890	18 064	*16*

Note: The areas, shaded in grey, forms part of a larger set that informs the product group above and does not add up to the product group.

Source: Stats SA, 2014

The list of tourism product ratio percentages depicted in the right-most column of Table 3.8 is not complete, but serves to illustrate the reach of tourism into other sectors. It can be used to illustrate why tourism is such an important sector through which to achieve inclusive economic growth.

For example, one can use the fact that tourism is linked to 16 per cent of all retail automotive fuel sales to draw the link to the extensive employment that the retail fuel sector generates across the country. Using advanced multiplier techniques, it is possible to deduce formal employment resulting from this portion of fuel sales. Using base year multipliers[16] from 2010, the most current available, indicates that for each R1 million final demand for a sector's output there are potentially up to 14 jobs sustained throughout the economy (Quantec Research).

Table 3.10 depicts typical employment multipliers that apply to the fuel sales category. The multipliers are derived from the South African national Social Accounting Matrix (SAM) and capture not only the direct employment resulting from the sector but also the indirect and induced effects[17].

[16] A multiplier refers to the factor of proportionality that measures how much an endogenous variable will change (for example formal employment) in response to a change in some exogenous variable (for example, R1 million spending).

[17] The amount of labour required in other supporting sectors is called the indirect effect and the employment effect resulting from wages and other income generated in this sector but spent, in turn, in other sectors is called the income or induced effect.

Table 3.9 IO Multipliers 2010 per R1 million of demand for a sectors output: Sales, maintenance, repairs and fuel

Employment	Total (Formal and informal)	Formal	Formal: Highly skilled	Formal: Skilled	Formal: Semi and unskilled	Informal
Direct, indirect and induced	14.1	9.9	1.3	5.3	3.3	4.2

Source: Quantec Research

Important to note is that the 14 jobs, including direct (e.g. forecourt attendants), indirect (e.g. suppliers to the fuel industry) and induced jobs (e.g. due to income generated in this sector but spent elsewhere) are spread across the entire labour force. This implies that tourists, through their demand for fuel, generated jobs directly and indirectly by their spending. This contributed to sustained employment for unskilled and informal workers across South Africa.

Using similar methodology one can deduce that tourism has very significant employment benefits throughout most of the economy. For example, as illustrated in Table 3.10, accommodation has a total employment multiplier of 10 and 10.4 for retail. This suggests the possibility of significant employment in these large employment sectors.

Table 3.10 IO Multipliers 2010 per R1 million, some tourism related and connected products

Employment (direct, indirect and induced)	Total (Formal and informal)	Formal	Formal: Highly skilled	Formal: Skilled	Formal: Semi and unskilled	Informal
Accommodation	10	7.7	0.9	4.1	2.6	2.3
Restaurants	11.7	8.9	1.1	4.8	3.1	2.7
Retail other	10.4	7.4	1	4	2.4	3
Recreation, cultural and sport	11.4	9.2	2.3	4.5	2.3	2.2

Source: Quantec Research

Tourism is indeed very appropriate to enable inclusive growth given that the employment multipliers are highly significant and some of the largest within the current South African economic structure. Tourism therefore needs to be supported and nurtured for its employment creation and sustaining potential. This is specifically relevant to the Western Cape with its strong comparative advantage in tourism within South Africa.

3.5.3 Valuing tourism's contribution to the Province

The satellite accounting framework was developed specifically to determine the economic value and contribution of tourism to the South African economy. The current structure of the Tourism Satellite Account (TSA) does not allow for a provincial breakdown, making it difficult to accurately determine the exact value of tourism to the Western Cape[18]. According to the March 2014 TSA report by Statistics South Africa, tourism's direct gross domestic product was estimated at 3 per cent of total GDP in 2012 (or R67 147 million). Tourism also directly sustained 4.6 per cent of total employment (617 287 jobs) during 2012. The internal tourism consumption in cash (turnover) for South Africa in 2012 was R191 061 million of which inbound tourism generated 45 per cent and the domestic market 55 per cent. While there is no exact way to estimate the actual provincial breakdown it is possible to draw a few conclusions about the probable magnitude of tourism to the Western Cape.

It is clear that the impact is very significant even before quantifying. If one assumes that the domestic hotel market (including 3 star hotels and above) serves as a proxy for the spatial division and demand for tourism, it is possible to approximate the value to the Province. South Africa has a total of 44 776 hotel rooms within their definition[19]. As a percentage of the South African total, the Western Cape with 11 528 hotel rooms has a 25.7 per cent share of the market[20]. Using this approximation indicates that tourism in the Western Cape might directly sustain 25.7 per cent of the total market. This implies that the Western Cape's direct GDPR of tourism is R17 256 million[21]. Furthermore, Western Cape tourism also sustained 158 642 direct jobs during 2012.

While this is mainly an exercise in deductive reasoning, the 25 per cent does seem to be broadly in line with other indicators. For example, Wesgro (2013) reports that the Western Cape received 15.5 per cent of all tourists by numbers but 22.3 per cent of total spending during a recent survey period (third quarter of 2013).

3.5.4 Outlook for the sector

Tourism is expected to remain a mainstay of the provincial economy. Moreover, the provincial catering and accommodation sector is expected to outperform the Western Cape economy as a whole. The sector is expected to expand by an annual average of 3.8 per cent from 2013 to 2018, compared to a 3.0 per cent expected average growth rate for the regional economy. Importantly, the provincial catering and accommodation sector is also forecast to grow at a faster pace than the 2.1 per cent annual average growth currently expected for the national sector over the same period. This suggests that the Western Cape will continue, if not improve, on its competitive edge in the sector compared to the national economy.

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18 Financial recording and reporting methods do not readily allow for this type of analysis as transaction (payment) and delivery often occur in different places.

19 STR Global maintains a comprehensive database of all hotels within their census.

20 STR defines the number both in terms of properties but also rooms.

21 67 147 x 0.257 = 17 256 similarly 617 287 x 0.257 = 158 642

In turn, total employment in the provincial catering and accommodation sector is expected to grow by an annual average of 2.9 per cent from 2013. This is much stronger than the 1.9 per cent growth forecast for the entire regional workforce and, for that matter, the subdued 0.3 per cent growth anticipated for employment in the national catering and accommodation sector.

The biggest risks to the tourism outlook are generally risks to income levels of consumers, both locally and abroad. For example, if the global economic recovery loses steam it will negatively impact the tourism sector. A stronger recovery will have a positive impact.

The level of the exchange rate also has a key impact on tourism trends. If the current weak level is sustained, this will not only attract inbound tourism due to the relative international competitiveness of South Africa, but also encourage local tourism since travelling overseas becomes more expensive.

Apart from these general factors, there are a few particular risks that are specifically relevant to the Western Cape. While income levels determine a consumer's ability to spend they also need the desire to spend in the Western Cape, as opposed to any other potential destination. As such any non-market factor that influences this ability should be carefully analysed.

The world-renowned biodiversity of the Western Cape is at the heart of the attractiveness of the Province. Maintaining the biodiversity and a sustainable environment is therefore vital in generating tourism in general, not just eco and agro-tourism. The linkages with the agricultural sector are vital for regions such as the Cape Winelands where a significant part of the tourism industry is built around the wine sector. Furthermore, climate change and water-scarcity are also issues to be addressed. For example, the numerous golf courses and national parks in the Province as well as the spring flowers in the Cape West Coast could be threatened.

Seasonality will remain a challenge for the Western Cape economy. Tourism vendors also tend to push up their prices (called price gouging) during peak events, detracting from the attractiveness of the sector. Leisure travel has a strong seasonal component, with peak times during holidays and summer. This could make it difficult for (smaller) businesses to remain profitable throughout the year. Leisure travel in particular can be very volatile due to changing preferences and misconceptions about a destination. For example, the recent outbreak of Ebola in West Africa has already resulted in tourists (particularly from Asia) cancelling trips to South Africa, even though the virus has not spread to South Africa.

Changes to long-stay residency permits (tourist visas) may affect the ability or desire of the many international "swallows" that use South Africa as a base during certain (especially summer) periods of the year. Particularly the Western Cape's southern coast line is particularly favoured by these so called swallows. These tourists do not only contribute to consumer spending, but often find it profitable to purchase property instead of long term rentals. This implies that the private residential market may also be affected. The recent census indicated that the Western Cape (25.3 per cent) is second only to Gauteng (55 per cent) in terms of United Kingdom and European nationals residing in South Africa.

Tourism is a consumer good where the consumer makes the final decision. Any regulatory change in South Africa, if not matched internationally, will raise the cost of travel to South Africa. Onerous requirements in terms of travel documentation (for example unabridged birth documents and consent letters from spouses in English) will serve as a disincentive for travel to South Africa, if these requirements are unique to South Africa. China and India have been identified as countries that may have very negative responses to the proposed changes, with an expected contraction as high as 70 per cent due to the lack of infrastructure to comply[22] - specifically visa processing centres that are able to handle the physical presence of applicants as required.

Tourism outlook

Tourism has great benefit and the potential to achieve sustainable inclusive economic growth in the Western Cape. The current environment faces many risks. The well-known Cape Town tourism personality Nils Heckscher sums up the current scenario:

> "The confirmed 1 October implementation of requiring visitors travelling with minors needing to produce an unabridged birth certificate in order to enter South Africa is threatening family travel as we know it. We are just making inroads into the very lucrative market of multi-generational family travel, where families enjoy experiential travel with grandparents, parents and grandchildren. This, as well as the more traditional family travel will be impacted on in a big way. The thought of how this will be implemented and communicated pre travel lets me shudder. Our industry was just recovering but is still in a fragile state. New and complicated visa rules coupled with the current panic about Ebola, which sadly is already having an impact on travel to Africa, are just too many unneeded obstacles. We appear to be our worst enemies, which is so sad as we so badly need a buoyant and strong industry to help address the plague of unemployment."

Source: Personal correspondence with author (Contact www.notjusthotels.co.za)

3.6 Green economy considerations

All economic activity, particularly agriculture and tourism, are subject to the increasing pressure exerted by a growing population and economic production on scarce resources and the environment. This represents the realm of the green economy, which poses a constraint on conventional production processes, but also presents a number of exciting development opportunities.

Efforts to improve well-being and social equity through economic development, growth and job creation are threatened by inadequate responses to environmental risks and ecological scarcities. Inclusive growth

[22] Michael Tollman, CEO of Cullinan Holdings quoted in Tourism Update August 2014. http://tourismupdate.co.za/Contents/Editions/2014/August2014/Cover_Story.html

cannot be sustainable if green economy issues are not comprehensively considered. The Western Cape has the goal of becoming the Green Economic hub of Africa and the lowest carbon emitting province in South Africa. The government's role is to provide an enabling environment for optimal private sector led economic growth.

In the Western Cape, South Africa, and internationally, increasing pressure is being felt, resulting from three significant trends:

1. Declining natural systems and natural resources;
2. Increasing and unsustainable consumption patterns; and
3. Disparity in, and competition for, access to natural resources.

The need for innovative responses to environmental risk is firmly on the global political agenda. The World Economic Forum Global Risk Report[23] identifies the top ten global risks, of which four are environmental. These risks include water crises, failure of climate change mitigation and adaptation, greater incidences of extreme weather events (e.g. floods, storms, fires), and food crises.

Additionally, the Intergovernmental Panel on Climate Change (IPCC) Working Group II, the latest IPCC summary for policy makers, reports significant evidence of observed detrimental impacts of climate change on natural and social systems over the past two decades.[24] It is widely acknowledged that the materialisation of these interconnected risks will disproportionately impact poor communities.

In the Western Cape, the latest State of the Environment Outlook Report indicated that our natural systems and resources – land, inland water, biodiversity, and oceans and coasts – are under significant pressure.[25] Climate change also poses significant bio-physical and economic risks to the Province, as long term scenarios show a drying trend for the Province. Increasing costs, resulting from the disaster management response to extreme weather events, have also been recorded. Presently, the economy of the Western Cape is notably resource intensive. As the population grows, and services are extended to a greater proportion of its citizens in an effort to address inequality, the above context for inclusive growth demands intelligent and decisive responses.

Only the optimal management of natural resource and restoration of ecosystem services can support growth that is more sustainable into the future, and reduces inequality by supporting livelihoods that lift people out of

23 World Economic Forum, 2014, World Economic Forum Global Risks Report.

24 IPCC, 2014, Climate Change 2014: Impacts, Adaptation, and Vulnerability: SUMMARY FOR POLICYMAKERS.

25 Western Cape Environmental Affairs and Development Planning, 2013, State of Environment Outlook Report for the Western Cape Province 2013.

poverty. Conversely, efforts to improve well-being and social equity through economic development, growth and job creation are threatened by inadequate responses to environmental risks and ecological scarcities. Sustainable development and equitable growth will be undermined unless environmental degradation can be reduced, while concomitantly driving economic development.

The Western Cape Government has completed the Green Economy Investment Mapping Project in 2014. The project provides a sector related review of the status of green economic activity in the private sector to informatively identify the specific efforts required to optimally enable private sector led economic growth while simultaneously following a resource efficient growth path (see text box below).

Green Economy Investment Mapping

The Green Economy Investment Mapping (GEIM) project aims to provide an overview of green economic activities in the Western Cape related to the private sector. In response to private enterprises been seen as the driver of the green economy, with government providing an enabling environment, the project specifically focuses on gaining a clear understanding of market opportunities, green jobs, the extent of green investment and obstacles in the way of business growth.

The 2014 GEIM acted as a pilot study to test the methodological approach. A total of 265 firms in the green economy space were structurally interviewed. The sample was divided into the five sectors identified by the Western Cape's Green Economy Strategic Framework; titled Green is Smart as priority sectors of the green economy within the Western Cape based on its demonstrated comparative advantage in this area. These five sectors and the respective sample sizes are as follows:

- Built environment: 42
- Water: 35
- Waste: 35
- Eco-tourism: 31
- Agri production: 122

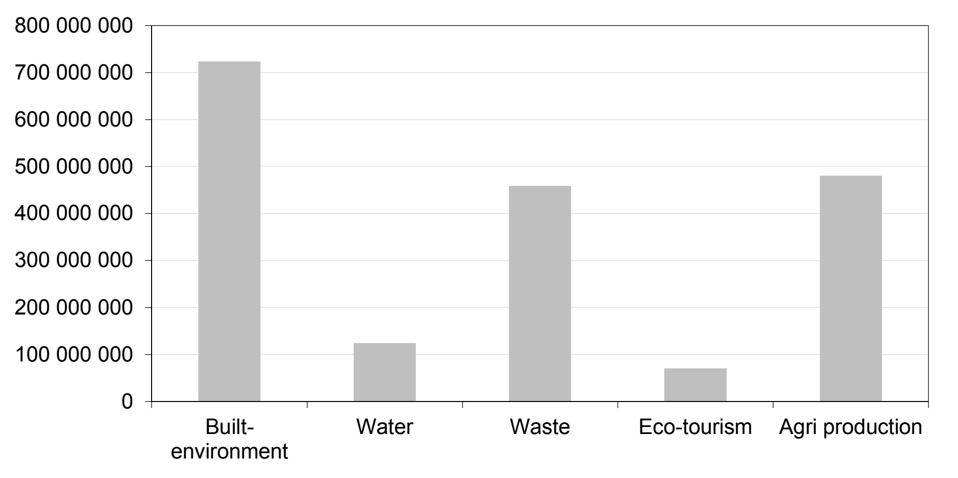
Investment

A key finding of the GEIM was that all firm's do not record green investment and resulted in the sample size related to green investment decreasing to 117. Therefore, the investment data should be interpreted based on the following sample sizes:

- Built environment: 16
- Water: 12
- Waste: 18
- Eco-tourism: 23
- Agri production: 48

The Built environment sector accounted for the highest total investment of R723 million between 2008 and 2013, followed by the agri production sector of R480 million which contributes largely to the overall sample. Additionally, the waste sector accounted for R458 million while the remaining two sectors individually accounted for less than R150 million. Actual investment between 2008 and 2013 for this sample size amounted to a total of R1.8 billion.

Figure 3.11 Green investment by sector in the Western Cape, 2013 - 2014

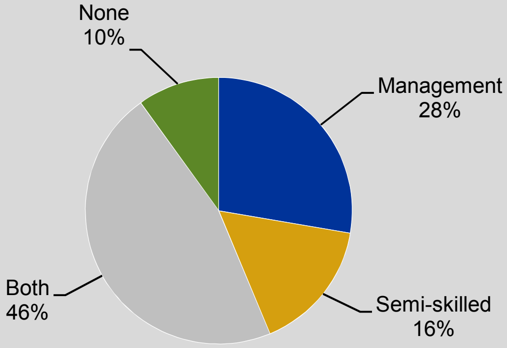


Employment and skills constraints

The agri production sector accounts for 73 per cent of employment based on the sample of 265. Agri production respondents (46 per cent) stated that skills constraints in the sector are particularly focused on managerial and technical skills as well as semi-skilled workers.

More than 50 per cent of employees across the sectors under review are involved in green economic activities with the exception of the water sector which accounts for 35 per cent. Specific skills requirements across sectors include; managerial skills, engineers, artisans and technical specialists.

Figure 3.12 Skills requirements across all sectors in the next three years



Constraints to business growth

The sample included both small, medium and micro enterprises (SMMEs) as well as large firms. Across these categories the constraints to business growth remained the same. In line with the Global Competitiveness Report (2013), the outcomes of GEIM affirm that key constraints to business relate to: complex legislation and red tape; access to a skilled workforce and access to finance.

Source: Western Cape Government, Department of Economic Development and Tourism (2014)

3.7 Conclusion

Having reviewed economic developments and the outlook for, agriculture and tourism, industries with close links to the green economy, it may be concluded that these sectors may contribute significantly to inclusive growth. While acknowledging that the relative importance of the contribution of farming to aggregate economic production and the absolute number of agricultural workers tend to decline in the process of economic development, agriculture and its associated value chains can maintain and potentially expand job and income opportunities in a sustainable way. The same applies to tourism, a cross-sector industry which supports the creation of productive jobs in accommodation, catering, retail, transport and manufacturing. Tourism also has the additional advantage of providing scope for the development of entrepreneurial talent within previously disadvantaged communities.

Agriculture and tourism contribute to a more equal regional distribution of economic activity. Current analyses in the field of economic geography emphasise the importance of agglomeration economies and the spatial concentration of economic activity with rapid economic growth and development. Accepting the importance of this relationship, however, does not ignore the fact that farming and tourism can increase spatial equity by distributing the benefits of economic development inclusively.

Both agriculture and tourism have a diversified structure in the Western Cape. Agriculture production covers a wide range of goods. This gives the Province a clear revealed comparative as reflected in agriculture's proportionally larger contribution to national agricultural output and primary and processed products for national and regional exports.

The agricultural sector is likely to remain a pillar in the Western Cape economy, especially in the rural areas. However, the sector is expected to grow at a lower rate than the provincial economy as a whole, leading to a decline in its direct relative contribution to GDPR. However, primary production should not be viewed in isolation from the value addition that occurs in the production of food and beverages. This sector is expected to undergo much stronger growth, especially if the favourable export potential is realised.

Agriculture is subject to risks which could dampen short term growth prospects and undermine the longer term potential of the sector. This may translate into a negative impact on the maintenance and expansion of employment opportunities, impacting on the role that the sector can play in achieving inclusive growth. A notable risk is that poor labour relations could result in mechanisation which would have the paradoxical effect of increasing the demand for skilled workers, but at the cost of unskilled and semi-skilled jobs. Increasing unemployment, poverty and social instability are likely outcomes.

Green economy considerations are important for farming since agricultural production has a larger environmental footprint than any other sector, with a significant impact on water, land, biodiversity and the atmosphere. The indirect linkages with the rest of the economy amplify this impact. Environmental considerations in evaluating sector trends and in considering future policy strategies require a green economy focus aimed at reducing environmental risks and ecological scarcities. This could facilitate inclusive growth, human well-being and social equity.

Tourism is expected to remain an important source of economic activity in the Western Cape. It is expected that the provincial catering and accommodation sector, which is closely linked to tourism, will outperform the provincial economy as a whole. This growth and the potential to expand the performance in output and employment creation of tourist-related activities are derived from the world-renowned biodiversity of the Western Cape. This provides local and foreign tourists with a range of destinations and products in urban and rural areas. Maintaining the biodiversity and a sustainable environment is a crucial condition for facilitating tourism growth in general and eco and agro-tourism in particular.

Annexure A

Structure, growth and revealed comparative advantage of the Western Cape economy

Sectors: SIC		Western Cape GDPR % share 2013	Western Cape Growth 2000 - 2013	South Africa GDP % share 2013	South Africa Growth 2000 - 2013	LQ ratio 2000	LQ ratio 2013
Agriculture and agro-processing		**8.1%**					
1	Beverages and tobacco	2.12	-0.2	0.98	-0.31	2.23	2.17
2	Agriculture, forestry and fishing	3.81	2.0	2.44	2.05	1.56	1.56
3	Food	2.22	3.8	1.92	4.52	1.33	1.15
Manufacturing (ex. Food and beverages)		**6.9%**					
4	Printing, publishing and recorded media	0.86	1.3	0.49	1.38	1.83	1.73
5	Wearing apparel	0.53	1.9	0.32	2.07	1.75	1.64
6	Footwear	0.16	4.3	0.11	3.94	1.47	1.46
7	Textiles	0.37	2.9	0.27	2.68	1.42	1.40
8	Plastic products	0.62	1.3	0.44	1.42	1.47	1.39
9	Other transport equipment	0.23	5.1	0.18	5.38	1.43	1.33
10	Leather and leather products	0.04	3.9	0.04	3.76	1.29	1.19
11	Other industries	1.23	1.2	1.06	1.13	1.21	1.16
12	Glass and glass products	0.13	2.9	0.12	2.96	1.21	1.14
13	Furniture	0.20	4.8	0.18	4.97	1.21	1.13
14	Coke and refined petroleum products	2.11	6.9	2.07	6.12	0.97	1.02
15	Professional and scientific equipment	0.09	5.7	0.09	5.81	1.09	1.02
16	Wood and wood products	0.33	0.3	0.38	1.05	1.05	0.89
Construction		**4.4%**					
17	Construction	4.37	6.5	3.42	6.64	1.47	1.28
Services		**58.2%**					
18	Catering and accommodation services	1.37	4.1	0.95	3.30	1.41	1.44
19	Business services	21.96	5.1	15.30	4.81	1.49	1.44
20	Finance and insurance	10.94	6.4	8.92	6.30	1.31	1.23
21	Wholesale and retail trade	13.95	4.2	13.09	3.80	1.10	1.07
22	Communication	4.80	6.9	4.66	6.75	1.07	1.03
23	Transport and storage	5.15	3.1	5.47	3.36	1.03	0.94

Source: Quantec Research; own calculations

Annexure B

Western Cape GDPR @ basic prices (constant 2005) by district by sector, 2000 - 2013

	Cape Metro		Cape Winelands		Eden		Overberg		West Coast		Central Karoo	
	Trend 2000-2013	Recovery 2010-2013	Trend 2000-2013	Recovery 2010-2013	Trend 2000-2013	Recovery 2010-2013	Trend 2000-2013	Recovery 2010-2013	Trend 2000-2013	Recovery 2010-2013	Trend 2000-2013	Recovery 2010-2013
Primary sector [SIC: 1-2]	7.9	2.2	0.8	-0.3	1.0	1.5	-0.4	0.6	-0.3	0.0	-0.9	1.2
Secondary sector [SIC: 3-5]	2.9	2.3	2.3	2.1	5.2	3.5	5.9	2.3	1.3	1.7	7.4	3.0
Tertiary sector [SIC: 6-9, 0]	4.1	2.8	5.2	3.7	5.4	4.2	6.0	4.4	5.4	3.9	3.9	2.7
Total	**3.9**	**2.7**	**3.7**	**2.7**	**5.0**	**3.8**	**4.8**	**3.4**	**3.2**	**2.8**	**3.7**	**2.6**
Agriculture, forestry and fishing [SIC: 1]	9.3	2.2	0.7	-0.4	1.2	1.5	-0.4	0.6	-0.2	-0.1	-1.0	1.2
Mining and quarrying [SIC: 2]	-0.4	1.5	3.0	4.0	-2.9	1.5	0.9	2.6	-2.5	3.0	13.8	0.3
Manufacturing [SIC: 3]	2.4	2.7	1.9	2.1	4.4	4.3	5.7	2.6	0.8	1.9	8.4	3.9
Electricity, gas and water [SIC: 4]	3.0	1.0	2.3	2.1	0.7	0.9	1.0	0.4	-2.0	-0.4	-0.3	-0.4
Construction [SIC: 5]	5.8	1.5	6.5	1.7	9.3	2.5	8.1	2.0	6.0	1.5	8.4	2.1
Wholesale and retail trade, catering and accommodation [SIC: 6]	4.0	3.4	5.2	4.8	5.2	5.0	3.5	4.1	3.7	3.4	2.9	2.1
Transport, storage and communication [SIC: 7]	4.6	2.3	5.8	2.2	4.9	2.4	5.8	2.6	3.9	1.7	1.5	0.9
Finance, insurance, real estate and business services [SIC: 8]	5.0	3.0	6.7	3.8	6.6	3.9	10.2	5.6	9.8	5.4	7.4	3.8
Community, social and personal services SIC: 92, 95-6, 99, 0]	2.5	1.4	3.7	2.1	4.7	2.7	3.6	2.4	2.8	2.0	2.5	1.1
General government [SIC: 91, 94]	2.0	2.7	3.4	4.2	4.5	5.4	3.3	3.8	2.6	3.4	2.5	3.5
Total	**3.9**	**2.7**	**3.7**	**2.7**	**5.0**	**3.8**	**4.8**	**3.4**	**3.2**	**2.8**	**3.7**	**2.6**

	Cape Metro		Cape Winelands		Eden		Overberg		West Coast		Central Karoo	
	2000	2013	2000	2013	2000	2013	2000	2013	2000	2013	2000	2013
						% share						
Primary sector [SIC: 1-2]	1.0	1.6	16.4	11.7	8.8	5.5	21.7	11.3	23.4	15.0	15.8	8.8
Secondary sector [SIC: 3-5]	24.8	21.4	33.3	27.1	27.6	27.4	21.4	24.0	28.8	21.7	11.1	17.7
Tertiary sector SIC: 6-9, 0]	74.2	77.0	50.3	61.2	63.5	67.2	56.9	64.6	47.8	63.2	73.1	73.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture, forestry and fishing [SIC: 1]	0.8	1.5	16.1	11.5	8.4	5.3	21.5	11.2	21.7	14.3	15.8	8.7
Mining and quarrying [SIC: 2]	0.2	0.1	0.3	0.2	0.4	0.1	0.1	0.1	1.7	0.7	0.0	0.1
Manufacturing [SIC: 3]	19.9	16.0	29.6	22.7	19.7	17.2	14.2	15.2	23.9	16.6	6.1	11.0
Electricity, gas and water [SIC: 4]	1.6	1.5	1.1	0.9	2.5	1.4	1.9	1.2	1.8	0.9	1.6	1.0
Construction [SIC: 5]	3.2	3.9	2.6	3.5	5.4	8.7	5.3	7.6	3.1	4.3	3.4	5.7
Wholesale and retail trade, catering and accommodation [SIC: 6]	15.9	15.4	12.6	14.4	18.3	17.9	18.0	14.0	12.9	13.1	16.4	13.8
Transport, storage and communication [SIC: 7]	10.2	10.9	5.4	6.9	7.8	7.4	7.1	7.9	7.6	8.2	16.0	11.4
Finance, insurance, real estate and business services [SIC: 8]	30.5	35.8	16.1	23.6	19.5	24.1	14.6	28.4	11.6	27.0	18.4	28.6
Community, social and personal services [SIC: 92, 95-6, 99, 0]	6.0	5.0	5.8	5.8	5.5	5.3	4.9	4.0	4.2	3.8	7.4	6.2
General government [SIC: 91, 94]	11.7	9.9	10.3	10.5	12.5	12.6	12.3	10.4	11.5	11.0	14.8	13.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Quantec Research/Western Cape Provincial Treasury

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 2000 - 2013 (%)	Average annual growth 2010 - 2013 (%)	Share of total WC exports 2013 (%)	Average annual growth 2000 - 2013 (%)	Average annual growth 2010 - 2013 (%)	Share of total SA exports 2013 (%)	Revealed comparative trade advantage 2000	Revealed comparative trade advantage 2013
1	Live animals	11.3	30.0	0.0	12.9	14.0	0.0	0.5	0.5
2	Meat and edible meat offal	1.0	-33.8	0.2	8.0	-7.3	0.1	4.6	2.1
3	Fish, crustaceans, molluscs, aquatic invertebrates nes	7.7	7.7	4.7	7.3	6.3	0.5	8.1	9.3
4	Dairy products, eggs, honey, edible animal product nes	17.5	14.7	0.3	14.2	31.4	0.2	1.1	1.7
5	Products of animal origin, nes	6.1	-3.5	0.1	3.6	3.8	0.0	3.9	5.7
6	Live trees, plants, bulbs, roots, cut flowers etc.	10.6	7.2	0.4	8.1	7.7	0.1	3.4	4.9
7	Edible vegetables and certain roots and tubers	17.5	31.7	0.6	14.8	24.5	0.1	3.6	5.2
8	Edible fruit, nuts, peel of citrus fruit, melons	16.2	15.0	23.9	14.6	17.0	3.2	5.9	7.6
9	Coffee, tea, mate and spices	18.3	29.0	0.3	7.6	27.7	0.1	1.0	3.8
10	Cereals	42.0	34.8	2.5	19.7	39.0	0.8	0.3	3.0
11	Milling products, malt, starches, inulin, wheat gluten	8.4	17.4	0.1	13.7	24.1	0.2	0.5	0.3
12	Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	16.7	6.9	0.7	10.1	-2.0	0.1	2.1	4.9
13	Lac, gums, resins, vegetable saps and extracts nes	22.8	27.5	0.0	7.8	17.7	0.0	1.3	7.8
14	Vegetable plaiting materials, vegetable products nes	25.0	65.1	0.0	12.2	82.1	0.0	1.2	5.1
15	Animal, vegetable fats and oils, cleavage products, etc.	4.1	16.3	0.1	15.3	11.9	0.2	2.2	0.6
16	Meat, fish and seafood food preparations nes	14.0	30.8	0.9	14.3	29.8	0.1	8.2	8.6
17	Sugars and sugar confectionery	19.9	2.9	0.1	4.3	18.5	0.4	0.0	0.2
18	Cocoa and cocoa preparations	11.4	10.5	0.1	8.4	-17.5	0.0	0.8	1.2
19	Cereal, flour, starch, milk preparations and products	18.8	27.6	0.3	18.6	21.6	0.1	2.2	2.4
20	Vegetable, fruit, nut, etc. food preparations	4.5	8.7	4.0	6.4	10.8	0.6	7.6	6.5
21	Miscellaneous edible preparations	18.5	24.5	0.7	17.6	18.3	0.4	1.6	1.9
22	Beverages, spirits and vinegar	13.3	14.1	12.7	12.2	11.6	1.5	7.0	8.5
23	Residues, wastes of food industry, animal fodder	25.8	-18.1	0.4	23.3	3.4	0.1	2.5	3.4
24	Tobacco and manufactured tobacco substitutes	22.4	5.4	1.8	5.9	-0.2	0.2	1.4	10.0
25	Salt, sulphur, earth, stone, plaster, lime and cement	19.8	56.9	1.2	9.5	9.7	0.4	0.8	2.9
26	Ores, slag and ash	5.2	75.1	0.6	24.2	20.6	15.8	0.3	0.0
27	Mineral fuels, oils, distillation products, etc.	8.1	15.7	12.3	11.6	13.2	9.8	1.8	1.3
28	Inorganic chemicals, precious metal compound, isotopes	8.7	-1.1	0.2	5.2	1.4	1.1	0.1	0.2
29	Organic chemicals	3.6	2.4	0.3	13.1	9.8	1.6	0.5	0.2
30	Pharmaceutical products	17.3	19.8	0.3	9.1	29.0	0.3	0.4	1.0
31	Fertilisers	40.0	59.4	0.5	11.1	38.8	0.5	0.1	1.1

Commodity (HS Code)		Western Cape: Average annual growth 2000 - 2013 (%)	Western Cape: Average annual growth 2010 - 2013 (%)	Western Cape: Share of total WC exports 2013 (%)	South Africa: Average annual growth 2000 - 2013 (%)	South Africa: Average annual growth 2010 - 2013 (%)	South Africa: Share of total SA exports 2013 (%)	Revealed comparative trade advantage 2000	Revealed comparative trade advantage 2013
32	Tanning, dyeing extracts, tannins, derivs, pigments etc.	12.1	-7.3	0.3	12.1	11.9	0.3	0.8	0.8
33	Essential oils, perfumes, cosmetics, toiletries	19.8	28.7	1.4	16.9	19.7	0.5	2.0	2.9
34	Soaps, lubricants, waxes, candles, modelling pastes	14.3	12.2	0.2	15.9	22.5	0.4	0.5	0.5
35	Albuminoids, modified starches, glues, enzymes	-6.7	23.4	0.2	0.2	22.8	0.1	9.0	3.8
36	Explosives, pyrotechnics, matches, pyrophorics, etc.	-7.2	25.2	0.1	8.1	16.8	0.2	5.6	0.8
37	Photographic or cinematographic goods	-17.7	-79.1	0.0	6.3	-13.8	0.0	2.8	0.1
38	Miscellaneous chemical products	21.2	-0.4	1.0	12.3	23.5	1.0	0.3	1.0
39	Plastics and articles thereof	7.2	8.6	1.2	14.7	16.6	1.4	1.9	0.9
40	Rubber and articles thereof	24.5	37.7	0.1	9.3	13.7	0.5	0.0	0.3
41	Raw hides and skins (other than furskins) and leather	8.3	105.2	1.6	7.1	49.1	0.5	2.8	3.5
42	Articles of leather, animal gut, harness, travel goods	14.1	5.8	0.1	8.9	24.0	0.0	1.5	3.0
43	Furskins and artificial fur, manufactures thereof	41.9	43.1	0.0	16.8	20.2	0.0	0.2	2.6
44	Wood and articles of wood, wood charcoal	-0.3	-1.0	0.3	2.4	4.2	0.4	0.9	0.7
45	Cork and articles of cork	-0.4	19.9	0.0	-2.1	-21.0	0.0	2.2	2.9
46	Manufactures of plaiting material, basketwork, etc.	6.1	8.7	0.0	6.4	-10.0	0.0	2.7	2.8
47	Pulp of wood, fibrous cellulosic material, waste etc.	36.5	30.2	0.1	6.1	8.6	0.9	0.0	0.1
48	Paper and paperboard, articles of pulp, paper and board	2.9	3.6	0.3	4.8	5.4	0.7	0.4	0.4
49	Printed books, newspapers, pictures etc.	12.6	-6.7	0.3	7.7	-0.1	0.1	2.3	4.3
50	Silk	15.8	107.7	0.0	0.3	26.9	0.0	0.4	2.9
51	Wool, animal hair, horsehair yarn and fabric thereof	-19.1	-26.8	0.0	10.2	24.0	0.5	0.3	0.0
52	Cotton	-19.3	-0.1	0.0	-10.8	-20.9	0.0	4.9	1.5
53	Vegetable textile fibres nes, paper yarn, woven fabric	47.0	25.0	0.0	33.0	37.3	0.0	1.6	6.4
54	Manmade filaments	-21.1	5.9	0.0	-8.7	0.5	0.0	8.8	1.4
55	Manmade staple fibres	3.9	112.5	0.0	0.4	39.4	0.0	0.7	1.2
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc.	6.2	17.8	0.1	14.7	9.1	0.0	4.0	1.6
57	Carpets and other textile floor coverings	14.8	25.4	0.0	6.8	2.6	0.0	0.2	0.4
58	Special woven or tufted fabric, lace, tapestry etc.	-10.4	11.9	0.0	-5.8	6.7	0.0	1.7	1.0
59	Impregnated, coated or laminated textile fabric	6.4	18.6	0.1	10.7	12.2	0.0	2.5	1.6
60	Knitted or crocheted fabric	-1.7	2.0	0.0	3.6	15.0	0.0	6.8	3.7
61	Articles of apparel, accessories, knit or crochet	-3.2	9.4	0.2	-4.0	22.7	0.1	3.2	3.8
62	Articles of apparel, accessories, not knit or crochet	-2.8	7.1	0.2	-2.0	15.8	0.1	2.9	2.8
63	Other made textile articles, sets, worn clothing etc.	9.8	4.9	0.2	12.7	10.0	0.1	2.7	2.1
64	Footwear, gaiters and the like, parts thereof	1.7	-20.3	0.0	10.0	-6.3	0.0	2.9	1.1
65	Headgear and parts thereof	5.8	4.1	0.0	15.5	51.4	0.0	0.9	0.3
66	Umbrellas, walking-sticks, seat-sticks, whips, etc.	-1.2	5.9	0.0	2.7	9.6	0.0	6.6	4.3
67	Bird skin, feathers, artificial flowers, human hair	27.4	42.3	0.1	18.3	38.4	0.0	2.9	8.4

Commodity (HS Code)		Western Cape: Average annual growth 2000 - 2013 (%)	Western Cape: Average annual growth 2010 - 2013 (%)	Western Cape: Share of total WC exports 2013 (%)	South Africa: Average annual growth 2000 - 2013 (%)	South Africa: Average annual growth 2010 - 2013 (%)	South Africa: Share of total SA exports 2013 (%)	Revealed comparative trade advantage 2000	Revealed comparative trade advantage 2013
68	Stone, plaster, cement, asbestos, mica, etc. articles	4.6	47.7	0.1	4.3	24.7	0.1	0.9	1.0
69	Ceramic products	14.3	-0.7	0.1	-	-	0.1	0.6	0.8
70	Glass and glassware	6.1	10.5	0.1	8.9	9.3	0.2	0.6	0.5
71	Pearls, precious stones, metals, coins, etc.	8.6	16.0	1.6	10.9	4.1	21.5	0.1	0.1
72	Iron and steel	11.5	13.6	5.1	9.2	0.3	7.5	0.5	0.7
73	Articles of iron or steel	18.9	17.8	0.8	11.8	9.1	1.3	0.2	0.6
74	Copper and articles thereof	14.9	5.3	1.1	-	9.8	0.8	1.1	1.3
75	Nickel and articles thereof	-2.0	-14.7	0.0	15.1	9.2	0.6	0.0	0.0
76	Aluminium and articles thereof	11.2	17.2	0.4	8.5	6.4	2.3	0.1	0.2
78	Lead and articles thereof	35.4	28.5	0.0	31.9	22.5	0.0	0.4	0.6
79	Zinc and articles thereof	7.3	6.1	0.0	-0.1	-20.2	0.0	0.1	0.4
80	Tin and articles thereof	-7.2	-14.3	0.0	-11.9	-4.5	0.0	0.3	0.7
81	Other base metals, cermets, articles thereof	-35.0	-29.4	0.0	10.6	26.8	0.2	5.9	0.0
82	Tools, implements, cutlery, etc. of base metal	8.3	20.0	0.1	1.6	2.7	0.2	0.2	0.4
83	Miscellaneous articles of base metal	18.3	44.3	0.1	12.4	14.3	0.1	0.6	1.3
84	Nuclear reactors, boilers, machinery, etc.	14.9	9.9	5.6	12.9	12.3	6.3	0.7	0.9
85	Electrical, electronic equipment	9.7	-18.0	1.3	10.4	17.2	1.8	0.8	0.8
86	Railway, tramway locomotives, rolling stock, equipment	-16.9	3.5	0.2	1.0	33.2	0.4	5.7	0.5
87	Vehicles other than railway, tramway	16.4	33.3	1.4	14.4	13.5	8.6	0.1	0.2
88	Aircraft, spacecraft, and parts thereof	0.5	15.0	0.0	6.5	30.7	0.3	0.3	0.1
89	Ships, boats and other floating structures	7.7	16.6	1.3	8.0	14.4	0.1	8.9	9.2
90	Optical, photo, technical, medical, etc. apparatus	16.9	23.2	1.0	13.1	15.3	0.5	1.2	2.1
91	Clocks and watches and parts thereof	16.8	66.7	0.0	12.9	47.8	0.0	0.8	1.4
92	Musical instruments, parts and accessories	-18.7	-56.5	0.0	2.7	6.8	0.0	1.0	0.1
93	Arms and ammunition, parts and accessories thereof	-	-	-	-	-	-	-	-
94	Furniture, lighting, signs, prefabricated buildings	5.8	23.0	0.6	1.8	-7.1	0.5	0.8	1.4
95	Toys, games, sports requisites	9.4	20.0	0.1	8.1	11.2	0.0	1.6	2.0
96	Miscellaneous manufactured articles	15.3	21.8	0.1	16.6	42.8	0.1	1.9	1.8
97	Works of art, collectors pieces and antiques	13.9	66.8	0.2	12.4	37.6	0.1	2.2	2.8
98	Special classifications provisions	-	-32.6	0.0	8.2	23.3	0.0	0.0	0.0
99	Commodities not elsewhere specified	-3.5	80.6	0.3	-17.5	52.5	0.2	0.1	1.2
	Total: All commodities	**10.2**	**13.6**	**100.0**	**10.8**	**10.8**	**100.0**		

Source: Quantec research

4

Labour market dynamics

Key findings

- According to the 2014 mid-year population estimates, the provincial population is estimated at 6.1 million, accounting for 11.3 per cent of the national population. More than two-thirds of the provincial population are of working age (15 to 65 years).
- Participation in the labour market in the Western Cape is relatively high. The narrow labour force participation rate in the Province is estimated at 68.3 per cent in 2014, 11.3 percentage points higher than the national figure. This difference is particularly marked amongst 15 to 24 year olds, with the high participation rate potentially coming at a cost to human capital accumulation.
- There are 2.2 million employed individuals in the Western Cape in 2014. Half are Coloured, 30 per cent are African and 20 per cent are White. The most rapid growth in employment has occurred amongst older age-groups and those with matric or tertiary qualifications.
- The formal non-agricultural sector dominates employment in the Western Cape as in South Africa. This sector accounts for more than three-quarters of total employment. Within the formal sector, the largest employers are community, social and personal services; wholesale and retail trade; financial and business services; and manufacturing.
- The narrow unemployment rate in the Western Cape is estimated at 23.5 per cent in 2014. Unlike most other provinces, the Western Cape has very few discouraged workseekers. The number of unemployed individuals in the Province has grown by 5.6 per cent per annum over the five-year period. This growth occurred mainly in the Coloured population and those aged 35 years or more.
- The unemployed are concentrated geographically: out of 1 500 sub-places with labour force participants, the 100 sub-places with the highest unemployment rates account for 43.1 per cent of the unemployed (2011 Census).

4.1 Introduction

The labour market is one of the most important channels through which ordinary citizens are able to actively engage in the economy. Access to employment provides individuals with access to income and, as a result, the labour market is central to the challenges of poverty and inequality. It is only through a dynamic labour market that inclusive growth can be achieved.

The demand for labour is a derived demand and depends on the demand for goods and services produced in the economy. Furthermore, the pattern of demand for labour is impacted by production techniques and the relative prices of labour and capital, amongst other things. Over the past 40 years or more, the growth path followed in South Africa has been capital and skills-intensive. This has resulted in favourable labour market conditions for more highly skilled workers compared to their less skilled counterparts, a situation that contributes to inequality. The inclusive growth challenge South Africa faces is how best to engage its less skilled labour force in productive and sustainable work.

In order to achieve a more inclusive growth path, this skewed pattern of economic development needs to be addressed. In particular, an inclusive growth path requires that economic growth entails the increased productive employment of workers in all sectors and locations. Inclusive growth is about making greater use of those resources, including human resources, that are in relatively abundant supply in South Africa.

This chapter provides an overview of the provincial labour market for the five-year period between the second quarter of 2009 and the second quarter of 2014. This period includes the global financial crisis and the aftermath of the recession in the domestic economy. It also covers the period during which the idea of inclusive growth has become more firmly entrenched in the design of economic policy.

Labour market definitions

Working-age population: All individuals aged between 15 and 65 years, whether or not they are economically active.

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).

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.

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.

Discouraged workseeker: 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.

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).

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).

Unemployment rate: The proportion of the labour force that is unemployed.

Informal sector: The informal sector is comprised of (1) employees working in establishments that employ fewer than five employees and who do not deduct income tax from their wages; and (2) employers, own account workers and individuals helping unpaid in household businesses that are not registered for either income tax or value-added tax.

Formal sector: The formal sector covers all employment not included in the informal sector, but excludes domestic workers.

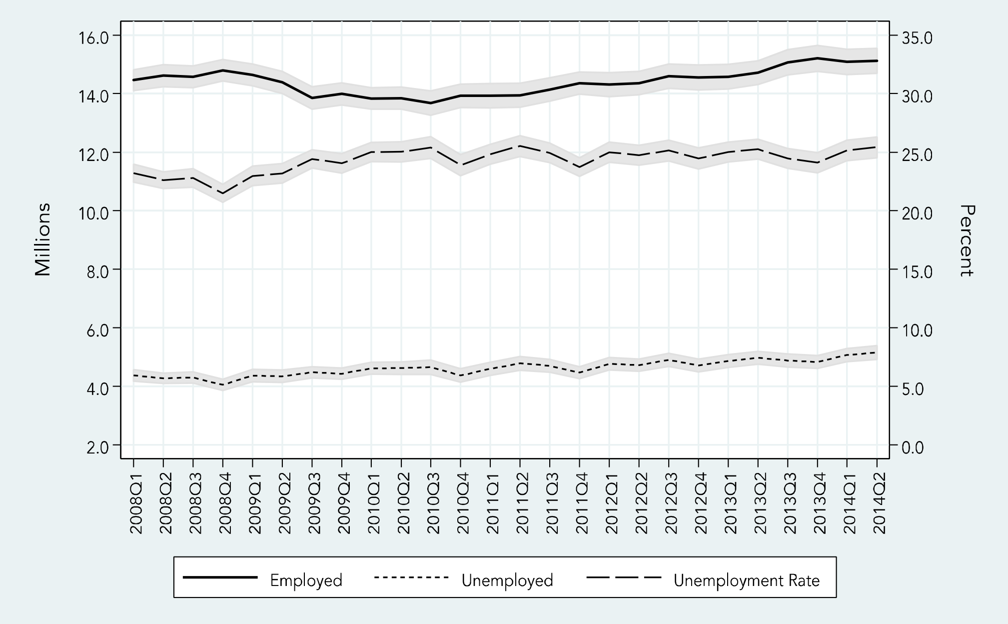
Source: Statistics South Africa (2014)

4.2 Overview of the labour market

Since late 2008, labour market trends in South Africa have been defined by the impact of the global financial crisis and the ensuing recession. Using Quarterly Labour Force Survey (QLFS) data, these trends are highlighted in Figure 4.1. Employment peaked at 14.8 million in late 2008, just prior to the economy going into recession.

What began as a financial crisis in the United States and Europe translated quickly into economic contraction, a decline in global trade and a rapid contraction in the demand for commodities. The impact on the local real economy was initially relatively benign, with the local recession lasting only three quarters (2008Q4 to 2009Q2). The impact on the labour market, however, was dramatic: close to one million jobs were lost during the first nine months of 2009 and total employment eventually plummeting to 13.7 million in the third quarter of 2010. Importantly, job losses were widespread, occurring in both the formal and informal sectors.

Figure 4.1 National employment and narrow unemployment trends since 2008Q1



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

The consequence of these trends is that unemployment - particularly expanded unemployment - rose rapidly, driven by a massive surge in the number of discouraged workseekers[1] (also known as the non-searching unemployed).

A note on data

The primary data source for this chapter is Statistics South Africa's *Quarterly Labour Force Surveys*. These surveys are nationally representative household surveys focused on collecting labour market data from approximately 85 000 individuals. In order to derive statistics that are representative of the country's population, these individuals are weighted using weights constructed by Statistics South Africa. These weights are constructed to ensure that population estimates derived from the survey data are consistent with known population counts at the national level by age-group, gender and race, and at the provincial level by age-group.

One of the key pieces of information that goes into the construction of these weights is the latest Census data. With the data from the 2011 Census having been finalised, Statistics South Africa was able to update recent population estimates to be in line with the Census data. This has meant a revision of the QLFS weights from the first quarter of 2008 to the third quarter of 2013. What this means is that the QLFS data presented in this year's PERO may differ from data presented in previous PEROs due to the reweighting. The reweighting of the data should be borne in mind when comparing estimates from this and previous PEROs.

[1] This topic was covered in 2013 PERO. See also Commission on Growth and Development. 2008. The Growth Report: Strategies for Sustained Growth and Inclusive Development. World Bank. Washington, DC.

Table 4.1 Overview of the Western Cape labour market, 2014Q2

	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	***4 209***	***100.0***	***2 201***	***100.0***	***675***	***100.0***	***2 876***	***100.0***	***68.3***	***23.5***
By Race										
African	1 327	31.5	650	29.5	296	43.8	945	32.9	71.2	31.3
Coloured	2 203	52.3	1 095	49.7	347	51.4	1 442	50.1	65.5	24.1
White	654	15.5	440	20.0	31	4.6	472	16.4	72.1	6.6
By Gender										
Male	2 053	48.8	1 217	55.3	356	52.7	1 573	54.7	76.6	22.6
Female	2 156	51.2	984	44.7	320	47.3	1 304	45.3	60.5	24.5
By Age										
15 to 24 years	1 013	24.1	215	9.8	219	32.4	434	15.1	42.8	50.4
25 to 34 years	1 061	25.2	641	29.1	239	35.4	880	30.6	82.9	27.2
35 to 44 years	976	23.2	683	31.0	136	20.1	819	28.5	83.9	16.6
45 to 54 years	702	16.7	460	20.9	66	9.8	526	18.3	74.9	12.6
55 to 65 years	456	10.8	202	9.2	15	2.3	218	7.6	47.7	7.0
By Education										
Primary	565	13.4	227	10.3	79	11.8	306	10.7	54.2	25.9
Some secondary	1 774	42.2	742	33.7	347	51.4	1 089	37.9	61.4	31.9
Grade 12	1 196	28.4	721	32.8	194	28.7	915	31.8	76.5	21.2
Diploma/ Certificate	359	8.5	266	12.1	40	6.0	306	10.7	85.4	13.2
Degree	260	6.2	218	9.9	9	1.4	227	7.9	87.5	4.1

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 (2014e)

The Western Cape's population has grown relatively rapidly over the past five years. This growth is observed particularly for working-age adults and the elderly above the age of 65 years (2.3 per cent and 4.5 per cent per annum), while the number of children under the age of 15 has increased more slowly (0.6 per cent). As a result, there are now 4.2 million potential workers resident in the Western Cape (Table 4.2).

Table 4.2 Labour market aggregates, 2009 and 2014

	2009Q2	2014Q2	Change	
	Thousands	*Thousands*	*Thousands*	*Per cent*
Western Cape				
Working-age population	3 763	4 209	446	2.3 p.a.
Employment	2 049	2 201	152	1.4 p.a.
Narrow unemployment	515	675	160	5.6 p.a. *
Narrow labour force	2 564	2 876	312	2.3 p.a. †
Expanded unemployment	550	710	159	5.2 p.a. *
Expanded labour force	2 599	2 910	311	2.3 p.a. †
Non-searching unemployed	35	34	(0)	-0.3 p.a.
Narrow unemployment rate	20.0%	23.5%		
South Africa				
Working-age population	32 481	35 575	3 095	1.8 p.a.
Employment	14 386	15 122	735	1.0 p.a. †
Narrow unemployment	4 342	5 154	812	3.5 p.a. *
Narrow labour force	18 728	20 276	1 548	1.6 p.a. *
Expanded unemployment	5 878	7 574	1 696	5.2 p.a. *
Expanded labour force	20 265	22 696	2 431	2.3 p.a. *
Non-searching unemployed	1 536	2 419	883	9.5 p.a. *
Narrow unemployment rate	23.2%	25.4%		

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 (2009, 2014e)

However, for a variety of reasons, a large proportion of the working-age population choose not to or are unable to participate in the labour force, while not every labour force participant is able to find employment. In 2014, around 54 per cent of the Western Cape's working-age population - 2.2 million people - were employed. This is substantially higher than the national proportion of 43 per cent and indicates a lower general level of dependence on the Province's workers. In both instances, though, this employment-to-population ratio is lower than five years' earlier, the result of the recession and the economy's subsequent anaemic growth performance. To put these figures in context, the World Bank (2014) estimates the national employment-to-population ratio for all individuals aged at least 15 years at 39 per cent for 2012, compared to an average of 63 per cent in upper middle-income countries.

The majority of the Province's unemployed - those without jobs who wish to and are able to work - are actively seeking employment. Using the narrow definition, close to 700 000 people are unemployed in the Western Cape. This number rises only marginally when the non-searching unemployed are included.

In this respect the Western Cape differs substantially from most other provinces in that the non-searching unemployed (also referred to as discouraged workseekers) account for just five per cent of expanded unemployment, compared to nearly 32 per cent nationally. A number of factors may explain this difference, including the Province's relatively high level of urbanisation (and the City of Cape Town's dominance within the provincial labour market) and different patterns of educational attainment.

While the working-age population has been growing fairly rapidly, employment growth has been somewhat slower. Coupled with relatively stable labour force participation rates, this has meant that unemployment in the Western Cape has grown at roughly twice the rate of the working-age population since 2009, irrespective of the unemployment definition used. This broad pattern is true nationally too, although growth has been concentrated amongst the non-searching unemployed which has risen by 9.5 per cent per annum over the past five years.

Broadly speaking, the provincial labour market remains weak, with the economy creating jobs at approximately half the rate required to absorb new labour market entrants.

Confidence intervals

The data used in this chapter is from the Quarterly Labour Force Surveys (QLFS) published by Statistics South Africa. These surveys collect information from a small sample of households across South Africa and weight it in such a way that the resulting picture of the labour market reflects reality.

Unfortunately, using a sample of households means that different samples may give very different pictures of the labour market, depending on which households are chosen. Indicators, such as the number of people employed in the Province, presented throughout this chapter are therefore only estimates of the true number.

Confidence intervals are calculated to address this uncertainty. A confidence interval indicates the range within which we are, say, 95 per cent sure that the true value of a certain estimate lies. This range is therefore a valuable marker and should be given as much attention as the point estimate.

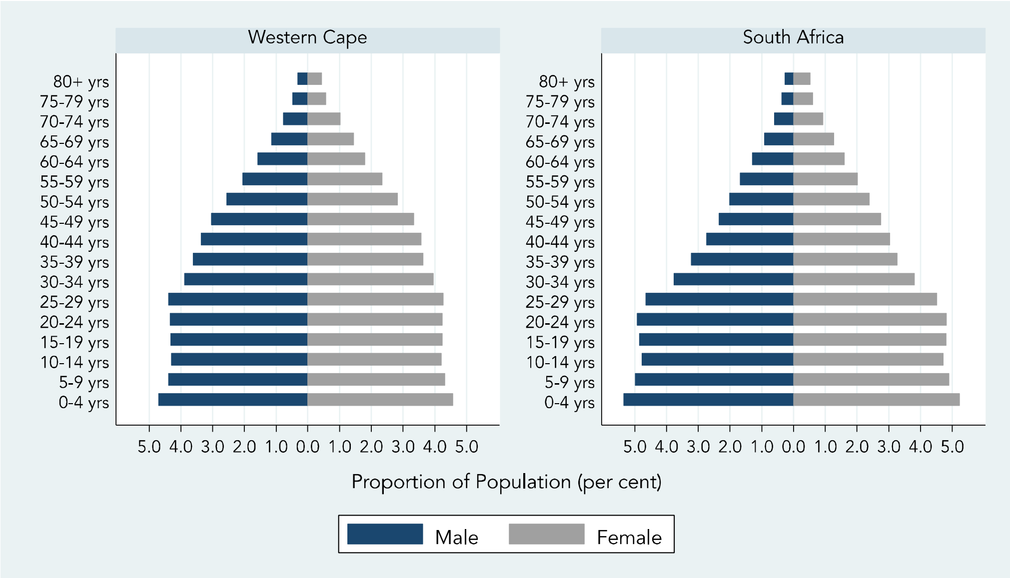
The confidence intervals become particularly important when making comparisons. If the intervals overlap, one cannot say with confidence that a statistically significant change has occurred. In other words, it becomes impossible to tell if a difference between two estimates reflects an actual change in reality, or if it is merely due to the characteristics of the particular sample used.

4.3 The Western Cape population

The Western Cape's current population is estimated at 6.1 million, or 11.3 per cent of the total population, according to the mid-year population estimates (Statistics South Africa 2014c). One of the key determinants of the size of the labour force is the size of the working-age population. This is influenced by longer term demographic trends through the relative sizes of different age cohorts.

The mid-year population estimates show that the Western Cape's population is relatively old compared with the national population. This is illustrated in Figure 4.2 by the comparatively narrow base of the Western Cape population pyramid. Working-age cohorts account for 67.3 per cent of the provincial population compared to 64.5 per cent nationally, while those aged at least 65 years represent respectively 6.2 per cent and 5.5 per cent of the provincial and national populations.

Figure 4.2 Age structure of the population, 2014



Source: Statistics South Africa, Mid-year population estimates, 2014, Statistical release P0302. Pretoria: Statistics South Africa

These differing population age structures mean that there is a lower level of dependence on the working-age population in the Western Cape than in South Africa generally. In 2014, the dependency ratio for the Province is estimated at 48.5 compared to 55.0 nationally. This measure 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. In the Western Cape there are 48.5 dependents for every 100 working-age adults, roughly 12 per cent less than in the country as a whole.

The dependency ratio is not a perfect measure: not all working-age adults are employed and able to support others. The Western Cape's relatively high employment-to-population ratio means that the gap in dependency is actually greater than the 12 per cent difference in the dependency ratio.

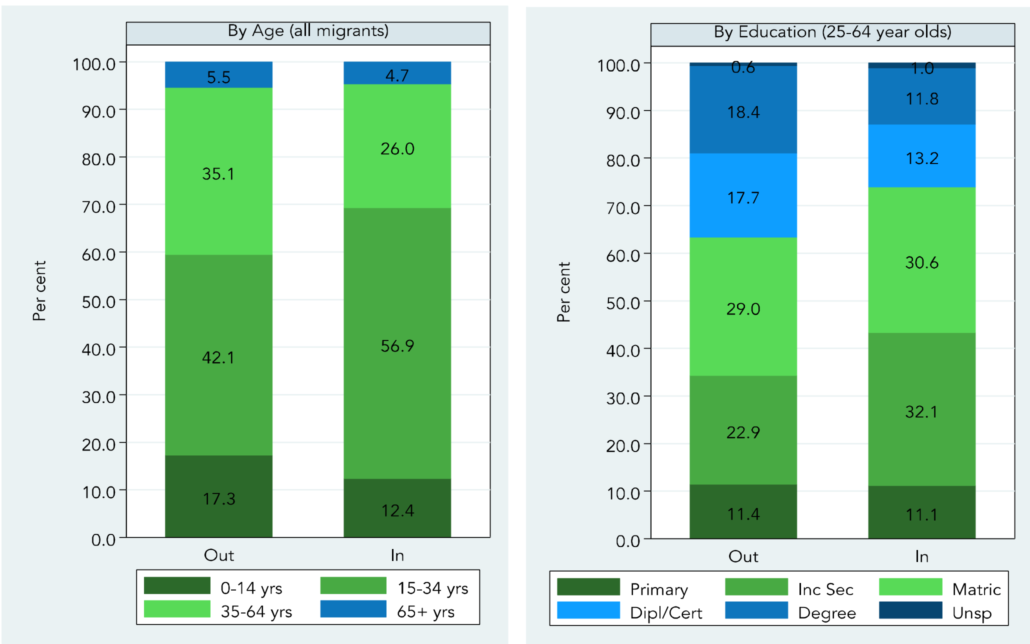
Nationally and provincially, dependency rates are falling. This gives rise to a period known as the demographic dividend[2]. Falling dependency rates have their origins in declining fertility and result in an increase in the size of the working-age population relative to the total population. With fewer 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 (education and health).

[2] 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 ages, 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).

Part of the reason for the growing provincial population is migration, specifically net in-migration from other provinces. Statistics South Africa (2014c) estimates that the Western Cape has received just over 300 000 more in-migrants than the number of out-migrants who left the Province between 2006 and 2011. This trend is projected to continue between 2011 and 2016: the Western Cape is expected to receive around 345 000 in-migrants - particularly from Gauteng (108 000), the Eastern Cape (80 000) and outside South Africa (80 000) - while 195 000 individuals are expected to leave the Province for Gauteng (73 000) and the Eastern Cape (60 000).

Given the difference in the sending regions of in-migrants to and the receiving regions of out-migrants from the Western Cape, these two migration flows are likely to differ in terms of various demographic characteristics. The Census 2011 allows for a comparison of the composition of migration flows and the comparisons of age-structure and educational attainment are presented in Figure 4.3. Youth comprise the majority of in-migrants to the Western Cape (56.9 per cent), followed by adults aged 35 to 64 years (26.0 per cent). Out-migrants from the Western Cape are more often children under the age of 15 years, or adults aged 35 to 64 years, compared with in-migrants. Youth represent 42.1 per cent of out-migrants, a considerably smaller proportion than amongst in-migrants.

Figure 4.3 Characteristics of migrants to and from the Western Cape, 2006 - 2011



Note: Inter-provincial migrants are identified in the Census as those individuals whose province of residence in 2011 differed from their province of residence in 2006. Migrants who move from one province to another and back to the first province within the intercensal period are not captured as such by the Census.

Source: Own calculations, Stats SA (2014a)

If one considers only adults aged 25 to 64 years - in other words, the post-education working-age population - there are important differences in the composition of migration flows. In-migrants are less likely than out-migrants to have a matric qualification: 43.2 per cent of in-migrants have primary or incomplete secondary education, compared to 34.3 per cent of out-migrants. In contrast, 11.8 per cent of in-migrants have degrees, compared to 18.4 per cent of out-migrants. On average, therefore, out-migrating adults have higher educational attainment than in-migrating adults.

Importantly, in-migrating adults have higher educational attainment than non-migrant adult residents of the Province: only 5.4 per cent of non-migrant adults in the Western Cape have degrees and 26.9 per cent have matric certificates, while 20.6 per cent have primary or less education. In-migration therefore contributes to raising the average level of educational attainment within the Western Cape, expanding the pool of skills available to employers.

4.4 The Western Cape labour force

Working-age adults can assume one of three broad statuses related to the labour market: they are either employed, unemployed or economically inactive. Employed and unemployed adults form part of the labour force, which is also referred to as the economically active population. Given the two definitions of unemployment, the labour force can be defined as either narrow or broad. The narrow labour force, which is analysed in this section, includes the employed and the searching (narrow) unemployed, but excludes the non-searching unemployed (discouraged workseekers).

The provincial labour force numbers close to 2.9 million in 2014, up more than 300 000 since 2009 (Table 4.3). Coloureds account for 50.1 per cent of the narrow labour force, followed by Africans (32.9 per cent) and Whites (16.4 per cent). Asians account for just one per cent of the labour force in the Province. Growth in the labour force appears to have occurred for all three major race groups in the Province, although these changes are not statistically significant.

Table 4.3 Composition of the Western Cape narrow labour force, 2009 and 2014

	2009Q2		2014Q2		Change	
	Number ('000s)	*Share (Per cent)*	*Number ('000s)*	*Share (Per cent)*	*Number ('000s)*	*Rate (Per cent)*
Narrow Labour Force	2 564	100.0	2 876	100.0	312	2.3 p.a †
By Race						
African	845	33.0	945	32.9	100	2.3 p.a
Coloured	1 312	51.2	1 442	50.1	130	1.9 p.a
White	400	15.6	472	16.4	72	3.4 p.a
By Gender						
Male	1 408	54.9	1 573	54.7	165	2.2 p.a
Female	1 157	45.1	1 304	45.3	147	2.4 p.a †
By Age						
15 to 24 years	417	16.3	434	15.1	16	0.8 p.a
25 to 34 years	820	32.0	880	30.6	60	1.4 p.a
35 to 44 years	707	27.6	819	28.5	112	3.0 p.a
45 to 54 years	444	17.3	526	18.3	82	3.4 p.a †
55 to 65 years	176	6.8	218	7.6	42	4.4 p.a
By Educational Attainment						
Primary	356	13.9	306	10.7	-49	-2.9 p.a
Some secondary	1 067	41.6	1 089	37.9	22	0.4 p.a
Grade 12	701	27.3	915	31.8	214	5.5 p.a *
Diploma/Certificate	261	10.2	306	10.7	45	3.2 p.a
Degree	147	5.7	227	7.9	81	9.2 p.a *

Notes: 1. An asterisk (*) denotes a statistically significant change between 2009 and 2014 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 (2009, 2014e)

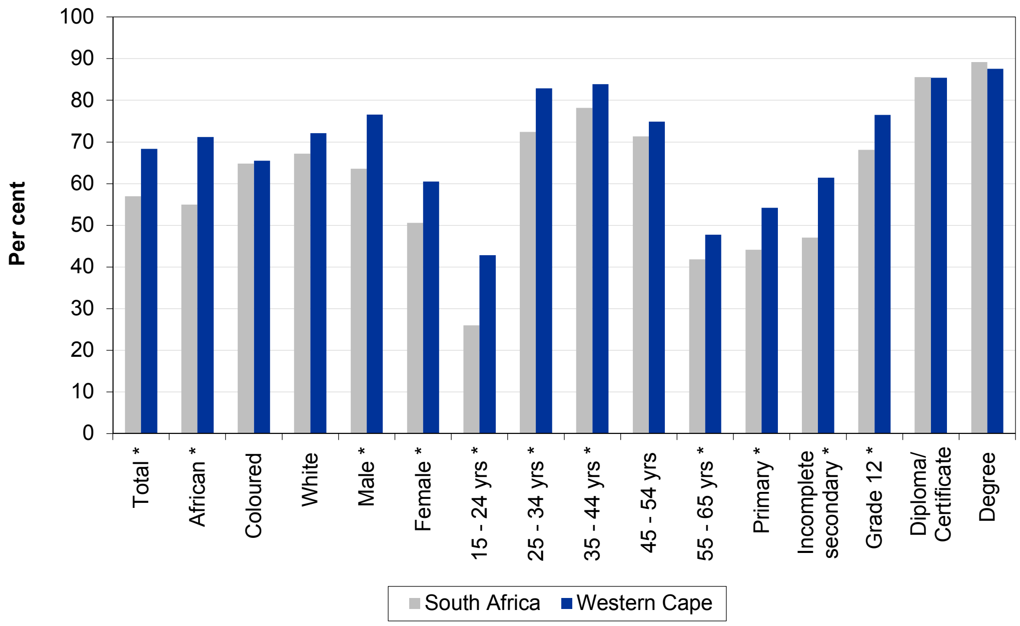
Males outnumber females within the labour force by 9.4 percentage points and number close to 1.6 million. The female labour force has grown slightly more rapidly than that of males at a statistically significant 2.4 per cent per annum. Nearly 60 per cent of the labour force is between the ages of 25 and 44 years, while just 15.1 per cent are under the age of 25. The absolute size of the latter cohort is only marginally changed from five years ago.

The data reconfirms the extent to which the labour force structure has changed in terms of educational attainment. Older, less-educated cohorts are gradually exiting the labour force as younger, better-educated cohorts enter it, leading to strong shifts in the relative sizes of the various educational categories. Between 2009 and 2014, particularly strong growth is observed in the number of degreed (9.2 per cent per annum) and matriculated (5.5 per cent per annum) labour force participants, while the number of participants with no secondary education declined by 2.9 per cent per annum. As a result, matriculants accounted for around two-thirds of the net growth in the size of the labour force, with one-quarter accounted for by graduates with degrees. The provincial economy has therefore seen a significant improvement in the educational profile of potential workers since 2009. It should not be assumed, of course, that an increase in quantity equates to an increase in quality.

The relationship between the size of the working-age population and the labour force is known as the labour force participation rate (LFPR). The lower this rate, the smaller the labour force is relative to the working-age population. At 68.3 per cent, the narrow labour force participation is 11.3 percentage points higher in the Western Cape than in the country as a whole (Figure 4.4). This difference in participation rates is related to working-age individuals' views of labour market conditions and the likelihood of finding employment, particularly since these are narrow labour force participation rates.

Participation rates are impacted by numerous other factors, including the accessibility of the labour market: in areas where it is difficult for workseekers to actively search for employment because they are distant from employers, the narrow LFPR is likely to be relatively low. In other words, urbanisation rates and the degree of spatial concentration of economic activity can affect the likelihood of participation.

Figure 4.4 Labour force participation rates, 2014Q2



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 (2014e)

The observed gap in labour force participation between the Province and the country is echoed across most categories of the demographic covariates analysed: for Africans, males and females, almost all age cohorts, and all educational categories up to Grade 12. The gap is particularly large for Africans, males, youth and those with incomplete secondary educations. But higher labour force participation is not necessarily better, especially for young people. Early entry into the labour force may compromise the human capital accumulation (through education) of the youth and, although it may benefit them and their households through raising incomes in the short-run, it may constrain their earnings ability in later life.

4.5 Employment in the Western Cape

4.5.1 Overview of total employment

Productive employment remains the key mechanism through which individuals and households can escape poverty. Unfortunately, employment is relatively scarce in South Africa. As already noted, the employment-to-population ratio is 43.0 nationally and even the Western Cape's 54.0 is substantially lower than the ratios for adults aged 15+ observed in upper middle income countries such as Peru (72.0 in 2012), Thailand (71.4 in 2012) and China (67.9 in 2011) (World Bank, 2014).

Over the past five years, South African employment has expanded slowly, averaging 1.0 per cent per annum (Table 4.4). Estimates of employment in the Western Cape suggest a slightly more rapid rate of growth, although this growth is not statistically significant. Half of the employed (49.7 per cent) are Coloured, while 29.5 per cent are African and 20.0 per cent are White. Relative to the labour force, Africans are underrepresented and Whites are overrepresented in employment. This under and overrepresentation translates into respectively higher and lower than average rates of unemployment.

Table 4.4 Demographic characteristics of employment, 2009 and 2014

	2009Q2		2014Q2		Change	
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***	***Number ('000s)***	***Rate (Per cent)***
Western Cape						
Total Employment	2 049	100.0	2 201	100.0	152	1.4 p.a.
By Race						
African	582	28.4	650	29.5	68	2.2 p.a.
Coloured	1 078	52.6	1 095	49.7	16	0.3 p.a.
White	383	18.7	440	20.0	57	2.8 p.a.
By Gender						
Male	1 138	55.5	1 217	55.3	79	1.3 p.a.
Female	911	44.5	984	44.7	73	1.6 p.a.
By Age						
15 to 24 years	235	11.4	215	9.8	(20)	-1.7 p.a.
25 to 34 years	627	30.6	641	29.1	14	0.4 p.a.
35 to 44 years	627	30.6	683	31.0	56	1.7 p.a.
45 to 54 years	391	19.1	460	20.9	69	3.3 p.a. †
55 to 65 years	169	8.3	202	9.2	33	3.7 p.a.
By Education						
Primary	277	13.5	227	10.3	(50)	-3.9 p.a.
Some secondary	786	38.3	742	33.7	(44)	-1.1 p.a.
Grade 12	574	28.0	721	32.8	147	4.7 p.a. *
Diploma/Certificate	244	11.9	266	12.1	22	1.8 p.a.
Degree	144	7.0	218	9.9	74	8.7 p.a. †

	2009Q2		2014Q2		Change	
	***Number* (‘000s)**	***Share* (Per cent)**	***Number* (‘000s)**	***Share* (Per cent)**	***Number* (‘000s)**	***Rate* (Per cent)**
South Africa						
Total Employment	14 386	100.0	15 122	100.0	735	1.0 p.a. †
By Race						
African	10 134	70.4	11 084	73.3	950	1.8 p.a. *
Coloured	1 589	11.0	1 603	10.6	14	0.2 p.a.
White	2 189	15.2	1 949	12.9	(240)	-2.3 p.a.
By Gender						
Male	8 111	56.4	8 480	56.1	368	0.9 p.a.
Female	6 275	43.6	6 642	43.9	367	1.1 p.a. †
By Age						
15 to 24 years	1 463	10.2	1 284	8.5	(179)	-2.6 p.a. *
25 to 34 years	4 691	32.6	4 729	31.3	38	0.2 p.a.
35 to 44 years	4 199	29.2	4 657	30.8	458	2.1 p.a. *
45 to 54 years	2 838	19.7	3 061	20.2	224	1.5 p.a. †
55 to 65 years	1 196	8.3	1 391	9.2	195	3.1 p.a. *
By Education						
Primary	2 639	18.3	2 093	13.8	(546)	-4.5 p.a. *
Some secondary	4 665	32.4	4 815	31.8	150	0.6 p.a.
Grade 12	4 153	28.9	4 847	32.1	694	3.1 p.a. *
Diploma/Certificate	1 797	12.5	2 041	13.5	245	2.6 p.a. †
Degree	996	6.9	1 140	7.5	144	2.7 p.a.

Notes: 1. An asterisk (*) denotes a statistically significant change between 2009 and 2014 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 (2009, 2014e)

Males account for 55.3 per cent of employment in the Western Cape in 2014, a marginally smaller proportion than observed nationally and virtually unchanged since 2009.

As with the labour force, employment is dominated by individuals between the ages of 25 and 44 years, accounting for 60.1 per cent of provincial employment in 2014. The age structure of employment is changing in line with the changes in the labour force. Employment for those aged 45 years or more is growing in excess of three per cent per annum on average, while employment amongst the 15 to 24 year olds appears to have declined slightly over the past five years. This is in line with the structural bias of the labour force which favours experienced (more skilled) workers. As a result, growth in employment amongst 35 to 54 year olds accounted for 82 per cent of total employment growth in the Province, although this age group accounted for less than 50 per cent of employment in 2009. These trends are not unique to the Province and are observed nationally.

Employment growth trends continue to be biased in favouring individuals with higher levels of education, both nationally and within the Western Cape. Particularly rapid growth is observed for those with degrees and for those with matric certificates. In contrast, the employment of individuals with only primary education has declined over the period, although only the change at the national level is found to be statistically significant. This is a continuation of the trend as older, less-educated labour force members age out of the labour market.

The formal sector dominates total employment in South Africa: roughly three out of four jobs are in the formal sector, the vast majority in the non-agricultural sector (Table 4.5). Crucially, employment growth since 2009 has been driven by the non-agricultural formal sector which expanded by 1.3 per cent per annum over the five-year period. This pattern is echoed in the Western Cape, although changes in employment at the sectoral level are not found to be statistically significant.

Table 4.5 Sector decomposition of total employment, 2009 and 2014

	2009Q2		2014Q2		Change	
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***	***Number ('000s)***	***Rate (Per cent)***
Western Cape						
Total Employment	2 049	100.0	2 201	100.0	152	1.4 p.a.
Agriculture	158	7.7	142	6.5	-15	-2.0 p.a.
Formal agriculture	151	7.4	138	6.3	-13	-1.8 p.a.
Informal agriculture	7	0.3	4	0.2	-2	-8.5 p.a.
Non-Agriculture	1 750	85.4	1 906	86.6	157	1.7 p.a.
Formal non-agriculture	1 532	74.8	1 697	77.1	165	2.1 p.a.
Informal non-agriculture	217	10.6	209	9.5	-8	-0.8 p.a.
Private households	142	6.9	152	6.9	11	1.5 p.a.
South Africa						
Total Employment	14 386	100.0	15 122	100.0	735	1.0 p.a. †
Agriculture	754	5.2	670	4.4	-84	-2.3 p.a.
Formal agriculture	654	4.5	571	3.8	-83	-2.7 p.a.
Informal agriculture	100	0.7	99	0.7	-1	-0.2 p.a.
Non-Agriculture	12 344	85.8	13 160	87.0	816	1.3 p.a. *
Formal non-agriculture	10 095	70.2	10 772	71.2	677	1.3 p.a. *
Informal non-agriculture	2 249	15.6	2 388	15.8	139	1.2 p.a.
Private households	1 288	9.0	1 292	8.5	4	0.1 p.a.

Notes: 1. An asterisk (*) denotes a statistically significant change between 2009 and 2014 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 (2009, 2014e)

South Africa's informal sector - at 16.5 per cent of total employment - is small compared to economies at a similar level of development. The ILO's 2010 estimate for South Africa of 17.8 per cent is higher than that of Mauritius (11.9 per cent), but lower than those of Latin American countries such as Brazil (24.3 per cent), Mexico (34.1 per cent) and Peru (50.2 per cent) (ILO 2012). The informal sector is even smaller in the Western Cape, accounting for just 9.7 per cent of total employment. The overwhelming majority of informal sector employment is in the non-agricultural sectors of the economy.

Given the differing contributions of the informal sector to total employment in South Africa and in the Western Cape, as well as the small size of provincial informal sector, the following two sections focus on formal and informal sector employment separately.

4.5.2 Formal sector employment

The large size of the formal sector within total employment - 75 per cent nationally and 84 per cent in the Western Cape - means that the structure of formal sector employment is broadly similar to that of total employment. Given provincial demographics, it is unsurprising that the racial composition of formal sector employment in the Province is very different to that of South Africa. At 50.4 per cent, the share of Coloureds in provincial formal sector employment in 2014 is more than four times their share nationally. Whites account for 22.1 per cent of formal sector employment, which is higher than their share of the labour force and of total employment.

Table 4.6 Demographic characteristics of formal sector employment, 2014Q2

	South Africa		Western Cape		
	Number (‘000s)	***Share (Per cent)***	***Number (‘000s)***	***Share (Per cent)***	
Total Formal Sector Employment	11 343	100.0	1 835	100.0	
By Race					
African	7 721	68.1	489	26.6	*
Coloured	1 352	11.9	925	50.4	*
White	1 837	16.2	406	22.1	*
By Gender					
Male	6 650	58.6	1 054	57.5	
Female	4 693	41.4	781	42.5	
By Age					
15 to 24 years	977	8.6	185	10.1	
25 to 34 years	3 628	32.0	555	30.2	
35 to 44 years	3 522	31.0	567	30.9	
45 to 54 years	2 219	19.6	366	19.9	
55 to 65 years	998	8.8	162	8.8	
By Education					
Primary	1 013	8.9	140	7.7	
Some secondary	3 133	27.6	587	32.0	*
Grade 12	4 072	35.9	639	34.8	
Diploma/Certificate	1 898	16.7	244	13.3	*
Degree	1 108	9.8	211	11.5	

Notes: 1. An asterisk (*) denotes a statistically significant change 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 (2014e)

As is the case by race, patterns of labour market advantage for men emerge in the comparisons of the gender breakdown of the labour force, total employment and formal sector employment. Women’s share of provincial formal sector employment (42.5 per cent) is two percentage points lower than their share of total employment and nearly three percentage points lower than their share of the labour force.

Individuals aged 25 to 44 years account for 61.1 per cent of formal sector employment in the Western Cape, while 19.9 per cent are between the ages of 45 and 54 years. Interestingly, there is a relatively large proportion of young people under the age of 25 years within formal sector employment in the Western Cape, although the difference is not statistically significant.

The educational attainment of formal sector workers in the Western Cape in 2014 is broadly similar to the national breakdown, although there are some differences. In the Western Cape, a relatively large proportion of formal sector workers have only some secondary education (32.0 per cent compared to 27.6 per cent nationally). Conversely, the Province has relatively few formal sector workers with diplomas and/or certificates (13.3 per cent compared to 16.7 per cent nationally). Of the 1.8 million formal sector workers in the Western Cape in 2014, 11.5 per cent have degrees, while 34.8 per cent have matric certificates.

The South African economy is a services-dominated economy in terms of both output and employment. The tertiary sector accounts for 69.5 per cent of formal sector employment, followed by the secondary sector's 21.8 per cent and 8.7 per cent in the primary sector (Table 4.7). This pattern is broadly similar in the Western Cape, although the secondary sector is somewhat larger in the Province, accounting for one-quarter of formal sector employment.

Table 4.7 Industrial composition of formal sector employment, 2014Q2

	South Africa		Western Cape	
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***
Total Formal Sector Employment	**11 343**	**100.0**	**1 835**	**100.0**
Agriculture	571	5.0	138	7.5 †
Mining and quarrying	416	3.7	5	0.3 *
Primary Sector	987	8.7	143	7.8
Manufacturing	1 547	13.6	307	16.7 *
Utilities	114	1.0	16	0.9
Construction	812	7.2	133	7.2
Secondary Sector	**2 474**	**21.8**	**457**	**24.9** *
Wholesale and retail trade	2 147	18.9	373	20.3
Transport, storage and communication	741	6.5	134	7.3
Financial and business services	1 846	16.3	337	18.4
Community, social and personal (CSP) services	3 146	27.7	391	21.3 *
Tertiary Sector	**7 880**	**69.5**	**1 235**	**67.3**

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 or, in the case of race, to the omission of Asians from the table.

3. The Quarterly Employment Statistics (QES) for March 2014 estimates that 486 000 formal sector workers are employed in mining and quarrying (Statistics South Africa, 2014d). If we use this figure, mining for South Africa would make up 4.3 per cent of total employment.

Source: Own calculations, Stats SA (2014e)

Four industries each account for more than 15 per cent of formal sector employment in the Western Cape: community, social and personal (CSP) services, which includes government, being the largest at 21.3 per cent of employment. CSP services is followed by wholesale and retail trade (20.3 per cent of formal sector employment), financial and business services (18.4 per cent) and manufacturing (16.7 per cent). Together, these four industries account for more than three-quarters of all formal sector jobs. These industries combined account for a similar proportion of formal sector employment nationally, although CSP services is a substantially larger employer within the national formal sector (6.4 percentage points larger than the provincial share) and manufacturing is 3.1 percentage points smaller.

While the primary sector is of similar relative size provincially and nationally, its components do differ significantly. Mining and quarrying is a far larger employer in the national economy than in the provincial economy. It is highly likely that the QLFS data underestimate this gap given that preliminary estimates from the Quarterly Employment Statistics - which receives employment data from the Department of Mineral Resources - puts employment in the industry at 4.3 per cent of total employment (Statistics South Africa, 2014d). In contrast, the Western Cape's agricultural sector is a relatively large contributor to provincial formal sector employment, providing employment for 7.5 per cent of those employed in the formal sector.

Long-term trends have favoured more highly skilled workers over their less skilled counterparts and this trend has been observed within formal sector employment in the Western Cape. In 2014, roughly one-fifth of formal sector employment consists of high skilled workers, one-fifth consists of low skilled workers and the remaining three-fifths comprise the six occupational categories classified as skilled (Table 4.8).

Table 4.8 Occupation structure of formal sector employment, 2014Q2

	South Africa		Western Cape	
	Number ('000s)	***Share (Per cent)***	***Number ('000s)***	***Share (Per cent)***
Total Formal Employment	***11 343***	***100.0***	***1 835***	***100.0***
Managers	1 159	10.2	222	12.1
Professionals	880	7.8	160	8.7
High Skilled	**2 040**	**18.0**	**383**	**20.9 †**
Technicians	1 462	12.9	224	12.2
Clerical	1 577	13.9	258	14.1
Service and sales	1 721	15.2	262	14.3
Skilled agriculture	42	0.4	8	0.5
Crafts	1 176	10.4	189	10.3
Operators and assemblers	1 061	9.4	149	8.1
Skilled	**7 038**	**62.1**	**1 091**	**59.4**
Elementary	2 263	20.0	362	19.7
Low Skilled	**2 263**	**20.0**	**362**	**19.7**

Notes: 1. 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 (2014e)

The national and provincial occupational structures of formal sector employment are very similar to each other, with the only statistically significant difference between them being in the proportion of high-skilled workers. Individuals employed in high-skilled occupations - managers and professionals - account for 20.9 per cent of formal sector employment in the Western Cape, compared with 18.0 per cent nationally.

Low-skilled elementary workers remain the largest occupational category within formal sector employment, both nationally and within the Western Cape. Within the Province, they are followed by service and sales workers (14.3 per cent) and clerical workers (14.1 per cent). Technicians, managers and crafts workers each account for more than 10 per cent of formal sector employment in the Province (and in South Africa).

Table 4.9 turns to the characteristics of formal sector employment. In particular, the table presents data relating to the conditions and 'quality' of formal sector employment in 2014. Interestingly, there are statistically significant differences across most of the characteristics presented between South Africa and the Western Cape.

Table 4.9 Characteristics of formal sector employment, 2014

	South Africa 2014	Western Cape 2014
Contract duration		
Limited duration	15.4	12.7 †
Permanent nature	66.8	70.4 †
Unspecified duration	12.0	9.4 *
Contract type		
Written contract	87.4	86.1
Benefits		
Medical aid	35.7	33.0
UIF contributions	64.5	76.3 *
Pension contributions	54.9	56.8
Paid leave	69.8	77.0 *
Paid sick leave	73.6	79.3 *
Paid maternity leave (women only)	63.2	70.0 *
Usual hours of work per week		
1 – 19	2.0	1.1 *
20 – 39	7.8	6.0 *
40 – 44	45.5	49.0 †
45 – 49	26.4	29.8 †
50+	18.3	14.1 *
Other		
Trade union membership	32.5	25.8 *

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 (2014e)

Nationally and provincially, permanent contracts are the most common type of employment contract within the formal sector. At 70.4 per cent, permanent contracts are slightly more widespread in the Western Cape than in the country. Conversely, contracts of limited and unspecified duration are less common. Despite this difference, the prevalence of written contracts is high, with 86.1 per cent of formal sector workers in the Western Cape reporting having written contracts.

Across a range of benefits, formal sector workers in the Western Cape enjoy a relatively favourable position. Access rates to all three types of leave are higher in the Province than in the country as a whole: 79.3 per cent of formal sector workers in the Province report having access to paid sick leave, 77.0 per cent have access to paid (annual) leave and 70.0 per cent of females in the sector have access to paid maternity leave. In all three cases, access rates are roughly five to seven percentage points higher in the Western Cape. Formal sector workers in the Province are also more likely to have employers making UIF contributions on their behalf (76.3 per cent compared with an average of 64.5 per cent nationally).

In terms of the number of hours usually worked per week, there is a relatively high concentration of formal sector workers between 40 and 49 hours in the Western Cape when compared with South Africa as a whole (78.8 per cent compared with 71.9 per cent). Nearly half (49.0 per cent) of formal sector workers in the Province report usually working between 40 and 44 hours per week, while 29.8 per cent report working 45 - 49 hours per week. This compares to 45.5 per cent and 26.4 per cent respectively for formal sector workers in South Africa. As a result, the proportions of workers in the Western Cape usually working relatively short hours (less than 40) or relatively long hours (50 or more) are lower than those observed nationally.

Finally, the unionisation rate of formal sector workers is relatively low in the Western Cape, at 25.8 per cent in 2014. This compares to approaching one-third (32.5 per cent) nationally and 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.

Wages in the Western Cape, 2013

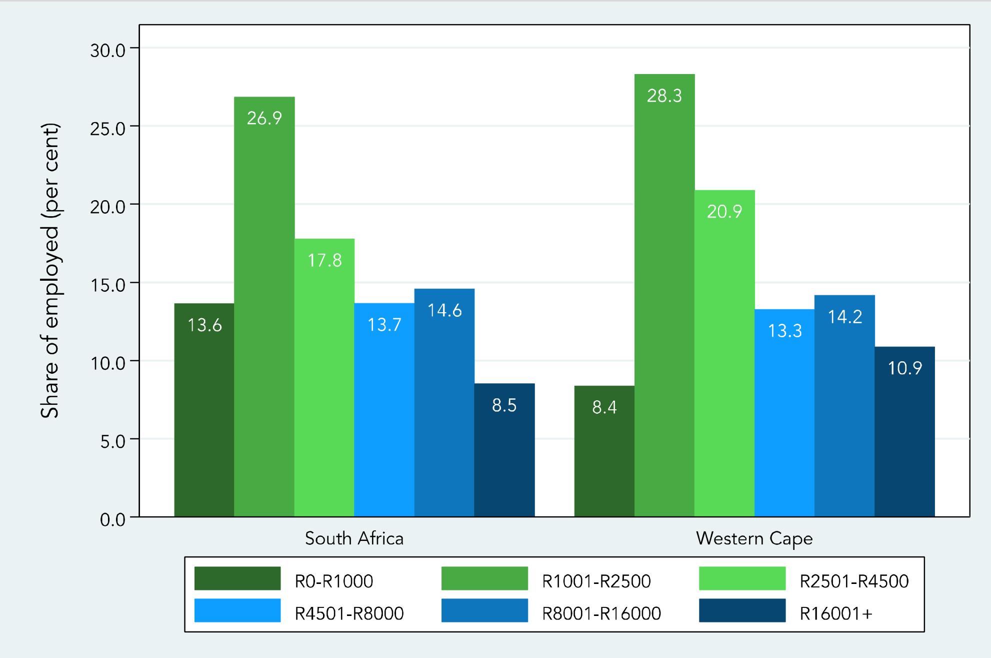
Wage data is relatively scarce in South Africa and, while Statistics South Africa collects wage data in the QLFS, it is not released as part of the QLFS dataset. Instead, Statistics South Africa only releases this data as part of the Labour Market Dynamics Survey (LMDS) dataset, which is essentially a combination of the four QLFS's in a particular calendar year. The most recent LMDS available is for 2013.

Figure 4.5 presents the distribution of workers - in both the formal and the informal sectors - across six broad income categories. The median monthly wage in South Africa is estimated at R3 033 for 2013, while that of the Western Cape is around 14 per cent higher at R3 466 per month.

Median monthly wages in the Province are higher due to relatively fewer workers in the lowest wage category (up to R1 000) and relatively more workers in the top wage category (R16 001+). At the same time there are relatively more workers in the Western Cape that report earnings between R2 501 and R4 500.

There are various potential reasons for the differing distributions of workers across the wage categories, but one of the main reasons is likely to be the different composition of employment in the Western Cape. In terms of individual characteristics, the Province has a relatively high proportion of workers with higher levels of education and relatively more managers and professionals. In terms of the types of jobs, the Western Cape has fewer low-wage informal sector jobs and fewer contract jobs, which tend to be associated with lower wages.

Figure 4.5 Monthly wages, 2013



Note: Proportions do not add up to 100 due to the omission of the 'unspecified' category. Individuals reporting wages in bands are assigned the midpoint value of the band; this has no impact on the distribution of individuals across the bands in this figure as they are aligned to Statistics South Africa's bands, but it does impact the calculated means. Further, the use of midpoints impacts on the value of the confidence intervals and, for this reason, statistical significance is not tested.

Source: Own calculations, Stats SA (2014b)

4.5.3 Informal sector employment

As already noted, South Africa's informal sector is considerably smaller than in other middle income countries, despite the fact that unemployment is very high. This coexistence of high unemployment and low levels of informality makes the South African labour market quite unique. In most other countries the informal sector is able to absorb the unemployed into work, thereby lowering unemployment. Since this process has not occurred in South Africa, households that lack access to formal sector employment often lack access to informal employment, rendering them vulnerable to poverty. Cut-off from the labour market, these households find it particularly difficult to access the benefits of economic growth or wage increases.

It is estimated that just over 200 000 individuals in the Western Cape are employed in the informal sector, representing 8.6 per cent of national informal sector employment (Table 4.10). Compared to the Province's share of national employment of 14.6 per cent, this confirms that the provincial informal sector is even smaller relative to total employment. Indeed, the share of the informal sector within total employment, at just 9.7 per cent in the Western Cape, is nearly seven percentage points lower than the national figure.

Table 4.10 Demographics of informal sector employment, 2014Q2

	South Africa		Western Cape	
	Number (‘000s)	***Share (Per cent)***	***Number (‘000s)***	***Share (Per cent)***
Total Informal Sector Employment	2 487	100.0	213	100.0
By Race				
African	2 168	87.2	76	35.6 *
Coloured	159	6.4	106	49.6 *
White	107	4.3	32	14.8 *
By Gender				
Male	1 543	62.1	137	64.0
Female	944	37.9	77	36.0
By Age				
15 to 24 years	253	10.2	27	12.8
25 to 34 years	806	32.4	56	26.1 †
35 to 44 years	723	29.1	68	31.8
45 to 54 years	469	18.9	44	20.4
55 to 65 years	236	9.5	19	8.8
By Education				
Primary	568	22.9	36	16.9 †
Some secondary	1 100	44.2	79	37.1
Grade 12	617	24.8	64	29.8
Diploma/Certificate	130	5.2	18	8.7
Degree	31	1.3	7	3.3

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 (2014e)

As a result of the different provincial demographics, informal sector employment in the Western Cape differs significantly from that in the whole country in terms of race. Roughly half (49.6 per cent) of informal sector employment in the Province is accounted for by Coloureds, with Africans accounting for 35.6 per cent and Whites just 14.8 per cent. This stands in stark contrast to the national informal sector, which is dominated by Africans who make up 87.2 per cent of informal sector employment.

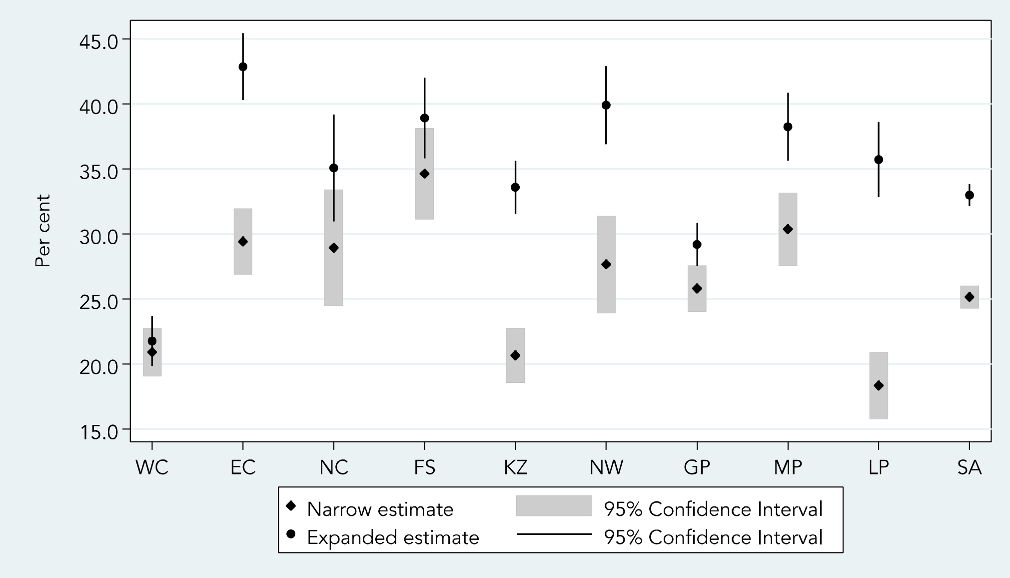
Informal sector workers are considerably more likely to be male when compared to workers in the formal sector. Nearly two-thirds (64.0 per cent) of those employed in the Province's informal sector are male. The Western Cape's informal sector workers are slightly more likely to be older than is the case nationally: 38.9 per cent are under the age of 35 years, compared to 42.6 per cent nationally. However, it is only in the proportion of 25 to 34 year olds that there is a statistically significant difference between the national and provincial estimates (32.4 per cent compared to 26.1 per cent).

Unsurprisingly, the educational profile of informal sector workers is weaker than that of the formal sector employed: more than two-thirds (67.1 per cent) of informal sector workers nationally have either primary or only some secondary education, compared with 36.5 per cent of formal sector workers. Compared with the informal sector nationally, the provincial informal sector is somewhat better educated: an estimated proportion of 54.0 per cent have either primary or some secondary.

4.6 Unemployment in the Western Cape

In South Africa, the narrow unemployment rate is estimated at 25.4 per cent in the second quarter of 2014 (Figure 4.6). Including the non-searching unemployed raises the unemployment rate to 33.4 per cent, eight percentage points higher than the narrow unemployment rate. In the Western Cape, the unemployment rate is estimated at 23.5 per cent and 24.4 per cent using the narrow and broad definitions respectively. The small gap between the unemployment rates using these two definitions means that there are very few individuals in the Province who are not actively seeking employment (i.e. there are very few discouraged workseekers).

Figure 4.6 Provincial and national unemployment rates, 2014



Note: Detailed estimates can be found in Annexure D.

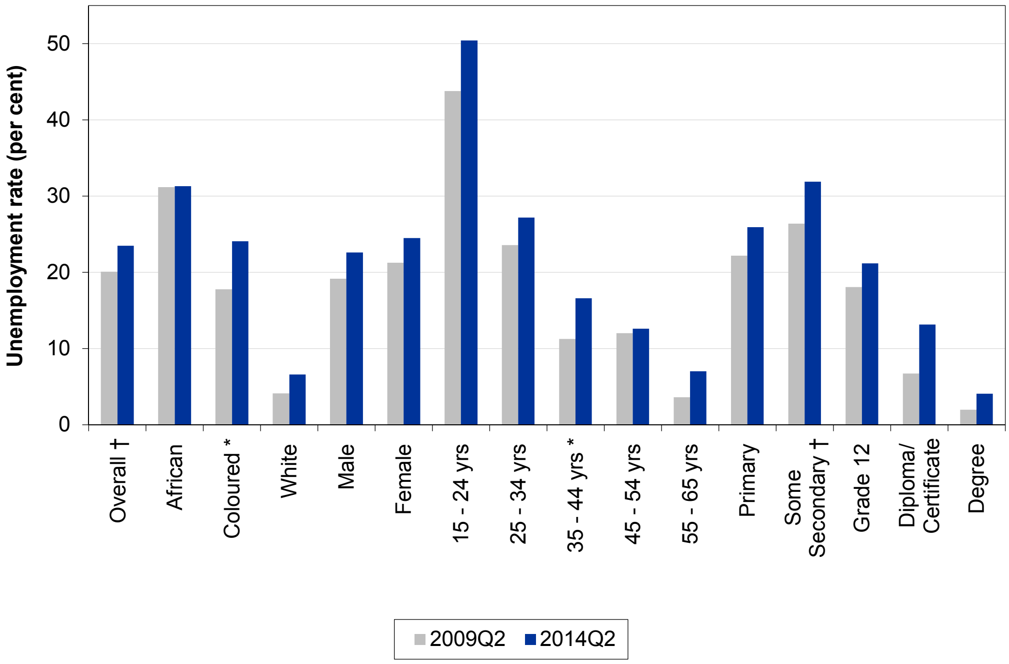
Source: Own calculations, Stats SA (2014e)

In most other provinces, the gap between the narrow and broad unemployment rates is relatively large. Nationally, the eight percentage point gap is equivalent to roughly one-third of the narrow unemployment rate. In contrast, the gap in the Western Cape is equivalent to just four per cent of the narrow unemployment rate.

Interestingly, the Western Cape's narrow unemployment rate is statistically indistinguishable at the 95 per cent level of confidence from those of KwaZulu-Natal and Limpopo. This is despite the fact that the Western Cape has virtually no discouraged workseekers, while in KwaZulu-Natal and Limpopo a large proportion of the unemployed are non-searching.

Within the Western Cape unemployment rates vary significantly across demographic covariates. Figure 4.7 presents narrow unemployment rates across these covariates for 2009 and 2014. The narrow unemployment rate has increased over the five-year period from 20.1 per cent to 23.5 per cent. This increase is evident across most of the covariates presented, although the change is only statistically significant in a relatively small number of them. Specifically, the narrow unemployment rate is found to have increased for Coloureds (by 6.3 percentage points to 24.1 per cent), for 35 to 44 year olds (by 5.3 percentage points to 16.6 per cent), for those with some secondary education (5.5 percentage points to 31.9 per cent) and for those with diplomas and/or certificates (by 7.5 percentage points to 14.3 per cent).

Figure 4.7 Western Cape narrow unemployment rates, 2009 and 2014



Note: Detailed estimates can be found in Annexure D. 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 (2009, 2014e)

In 2014, the unemployment rates for Africans, Coloureds and Whites were statistically different from each other, with Africans most likely and Whites least likely to be unemployed. Similarly, differences by age group were statistically significant except for 35 to 44 year olds and 45 to 54 year olds, which had overlapping confidence intervals.

Despite an average unemployment rate of 23.5 per cent in the Western Cape, 50.4 per cent of 15 to 24 year olds in the labour force were unemployed. There is also a strong relationship between educational attainment and the rate of unemployment, which falls as educational attainment rises. While 31.9 per cent of those with some secondary education are unemployed, this is true of 21.2 per cent of those with matric certificates, 13.2 per cent of those with diplomas and/or certificates and 4.1 per cent of those with degrees.

The number of unemployed individuals in the Western Cape has grown relatively rapidly over the past five years, averaging 5.6 per cent per annum (Table 4.11). The majority of this increase is accounted for by the increase in unemployment amongst Coloureds, which increased at 8.3 per cent per annum. Unemployment is estimated to have increased for Africans and Whites too, although the changes are not found to be statistically significant.

Table 4.11 Demographic composition of unemployment, 2009 and 2014

	2009Q2		2014Q2		Change	
	Number ('000s)	*Share (Per cent)*	*Number ('000s)*	*Share (Per cent)*	*Number ('000s)*	*Rate (Per cent)*
Western Cape						
Total Unemployment	***515***	***100.0***	***675***	***100.0***	***160***	***5.6 p.a. ****
By Race						
African	264	51.2	296	43.8	32	2.3 p.a.
Coloured	233	45.3	347	51.4	114	8.3 p.a. *
White	16	3.2	31	4.6	15	13.6 p.a.
By Gender						
Male	270	52.3	356	52.7	86	5.7 p.a. *
Female	246	47.7	320	47.3	74	5.4 p.a. *
By Age						
15 to 24 year olds	183	35.5	219	32.4	36	3.6 p.a.
25 to 34 year olds	193	37.5	239	35.4	46	4.4 p.a.
35 to 44 year olds	80	15.5	136	20.1	56	11.3 p.a. *
45 to 54 year olds	53	10.4	66	9.8	13	4.4 p.a.
55 to 65 year olds	6	1.2	15	2.3	9	19.0 p.a.
By Education						
Primary	79	15.3	79	11.8	1	0.1 p.a.
Some secondary	281	54.6	347	51.4	66	4.3 p.a.
Grade 12	127	24.6	194	28.7	67	8.9 p.a. *
Diploma/Certificate	18	3.4	40	6.0	23	18.1 p.a. †
Degree	3	0.6	9	1.4	6	26.0 p.a.
South Africa						
Total Unemployment	***4 342***	***100.0***	***5 154***	***100.0***	***812***	***3.5 p.a. ****
By Race						
African	3 798	87.5	4 375	84.9	577	2.9 p.a. *
Coloured	383	8.8	543	10.5	160	7.2 p.a. *
White	104	2.4	170	3.3	66	10.4 p.a.
By Gender						
Male	2 224	51.2	2 638	51.2	414	3.5 p.a. *
Female	2 118	48.8	2 516	48.8	398	3.5 p.a. *
By Age						
15 to 24 year olds	1 370	31.5	1 378	26.7	8	0.1 p.a.
25 to 34 year olds	1 755	40.4	2 014	39.1	259	2.8 p.a. *
35 to 44 year olds	793	18.3	1 134	22.0	341	7.4 p.a. *
45 to 54 year olds	356	8.2	513	10.0	158	7.6 p.a. *
55 to 65 year olds	68	1.6	116	2.2	47	11.1 p.a. *
By Education						
Primary	732	16.9	626	12.1	(107)	-3.1 p.a.
Some secondary	1 928	44.4	2 385	46.3	457	4.4 p.a. *
Grade 12	1 408	32.4	1 713	33.2	305	4.0 p.a. *
Diploma/Certificate	207	4.8	330	6.4	124	9.8 p.a. *
Degree	38	0.9	80	1.5	41	15.6 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 (2009, 2014e)

The increase in unemployment overall is observed for both men and women and for 35 to 44 year olds. The latter age-group accounts for roughly one-third of the total increase in unemployment since 2009. In terms of educational attainment, the increase in unemployment is largely concentrated amongst those with incomplete or complete secondary education, with the most rapid growth rates observed amongst better educated cohorts.

These patterns are observed nationally too, although the average growth rate of narrow unemployment, at 3.5 per cent per annum, is somewhat slower than the provincial rate of growth. As in the Western Cape, growth in the number of unemployed individuals was most rapid amongst the elderly and the more educated cohorts.

4.7 The labour market geographically

Economies operate within very specific spatial contexts and these contexts - urban concentrations, geographical features, transport links, physical infrastructure and so on - can have a strong influence on economic outcomes. Similarly, regional variations in legislative or social contexts may also have significant impacts. These spatial variations in economic outcomes are evident at various levels: globally, regionally, nationally and even locally.

Labour market analysis in South Africa is unfortunately constrained in terms of the relative scarcity of labour market data at local level. The key household surveys conducted by Statistics South Africa are designed to be nationally representative and the only markers of sub-provincial geographical areas that are included in the datasets are for the metros. The primary constraint for generating reliable estimates of labour market statistics at a detailed geographical level is sample size and, as a result, it is only the Census and the Community Survey that can provide such estimates.

The Western Cape economy is characterised by a high degree of spatial concentration, with the City of Cape Town dominant in terms of both population and production. According to the QLFS, close to two-thirds (63.8 per cent) of the provincial population is located within the City of Cape Town in 2014, while 26.8 per cent are located in other urban areas within the Province and 4.5 per cent are located in rural areas (Table 4.12).

Table 4.12 Intra-provincial Labour Market Aggregates (share of total), 2014

	City of Cape Town		Rest of Western Cape	
	Urban Formal (Per cent)	*Urban Informal (Per cent)*	*Urban (Per cent)*	*Rural (Per cent)*
Total population	63.8 [60.702; 66.813]	5.0 [3.494; 6.528]	26.8 [23.848; 29.691]	4.5 [3.306; 5.617]
Working-age population	64.3 [61.152; 67.461]	5.3 [3.902; 6.756]	26.1 [22.996; 29.162]	4.3 [3.235; 5.335]
Employed	64.3 [60.947; 67.568]	4.9 [3.676; 6.087]	25.5 [22.390; 28.639]	5.3 [3.874; 6.819]
Narrow unemployed	65.8 [59.961; 71.573]	8.8 [5.989; 11.655]	23.3 [17.484; 29.091]	2.1 [0.973; 3.274]
Narrow labour force	64.6 [61.233; 67.991]	5.8 [4.387; 7.227]	25.0 [21.707; 28.276]	4.6 [3.409; 5.770]
Expanded unemployed	63.5 [57.857; 69.093]	8.4 [5.695; 11.097]	25.9 [20.258; 31.482]	2.3 [1.134; 3.384]
Expanded labour force	64.1 [60.665; 67.468]	5.7 [4.334; 7.143]	25.6 [22.276; 28.926]	4.6 [3.424; 5.763]
Non-searching unemployed	18.3 [2.011; 34.612]	-	76.8 [59.134; 94.383]	4.9 [-2.529; 12.389]
NEETs (15 - 34 years)	65.5 [60.468; 70.588]	7.5 [4.925; 10.088]	23.9 [19.075; 28.780]	3.0 [1.789; 4.287]

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 (2014e)

Across most of the various aggregates presented in this table, shares are relatively stable for each of the four geographical categories: just under two-thirds for formal urban areas of the City of Cape Town; around six per cent for informal urban areas of the City of Cape Town; 25 per cent for urban areas in the rest of the Province; and around four per cent for Western Cape rural areas.

Attention is drawn to one aggregate for which this does not hold: non-searching unemployed. It is striking that more than three out of four discouraged workseekers are located not in the City of Cape Town, but in the rest of the Province's urban areas. Granted, the Province has very few discouraged workseekers and their total absence in informal urban areas within the City of Cape Town is related to the small sample. Nevertheless, this pattern seems to suggest a different dynamic within labour markets in urban areas in the rest of the Province when compared with the City of Cape Town.

As noted earlier, the Census is a useful source of data for information at local level. Unfortunately, the Census is not a particularly good source of *labour market* data as it does not have a full labour market module. As a result, the Census questionnaire is not as effective as the QLFS in making some of the finer distinctions in labour market status. This implies that unemployment rates derived from the Census are not comparable with those derived from surveys such as the QLFS. Nevertheless, the Census is able to give some indication as to the relative unemployment rates in different areas. In other words, it can be used to identify which areas have relatively high or relatively low unemployment rates.

In Annexure E, local unemployment rates are mapped for the City of Cape Town (Annexure E1) and the five districts (Annexure E2 – E6). Unemployment rates for 15 to 64 year olds are calculated at the sub-place level for all sub-places within the Western Cape. Sub-places are then grouped according to these unemployment rates in quintiles, five equally sized groups of sub-places. Quintile 1 represents the 20 per cent of sub-places (around 300 in total) with the lowest unemployment rates, while quintile 5 represents the 20 per cent of sub-places with the highest unemployment rates.

The maps reconfirm some of the spatial inequalities that exist within the Western Cape. Given the scale of the maps, this is most evident in the map of the City of Cape Town, although it is also discernible in the urban areas of George, Knysna, Mossel Bay, Paarl and Worcester, for example. Although the 300 sub-places in quintile five represent one-fifth of the sub-places in the Western Cape with labour market participants, they account for 75.0 per cent of the unemployed according to the Census. In fact, the 100 sub-places with the highest unemployment rates account for 43.1 per cent of the unemployed. More than 90 per cent of the unemployed are located within the fourth and fifth quintiles.

These maps point to the importance of local data on labour market conditions and its value for policymaking at both provincial and local level. They also vividly illustrate the extent to which the bulk of the unemployed are concentrated geographically, as well as identifying particular areas where large proportions of the labour force are unemployed. These two types of areas do not always overlap and represent an important policy choice in terms of targeting: should policy target those areas where the unemployment rate is the highest, or should it target those areas in which most of the unemployed reside.

4.8 Conclusion

Provincial labour market trends over the past five years have been mixed. This is not surprising given that the period has been dominated by the labour market impact of the domestic economic recession and the subsequent slow recovery in the labour market.

The provincial working-age population has been growing more rapidly than that of the country as a whole over the past five years. Labour force participation in the Province is higher than that in South Africa. Estimates of employment indicate that there has been net job creation over the period - although this change is not statistically significant - while there are relatively few non-searching unemployed in the Province.

The Western Cape's formal sector is relatively large and its formal sector workers are generally more likely to have permanent employment and access to various benefits. However, unemployment has grown relatively rapidly in the Western Cape, while employment in agriculture - a key economic sector for the Province - is estimated to have been stagnant at best.

Within this context it is also important to note that the historical fault lines of economic and labour market disadvantage, entrenched under apartheid, remain. For example, Africans remain more likely to be unemployed and are more likely to be employed in the informal sector than their share of the labour force would suggest. Similarly, younger individuals and those with lower levels of education are more likely to be unemployed. A more inclusive growth path would therefore require more labour intensive patterns of production that favour less skilled workers. At the same time policy should continue to strengthen investments in education and training, and health.

This chapter has also looked briefly at some of the spatial characteristics of the provincial labour market. The data reveals a high degree of concentration of population and employment in the Province, with the City of Cape Town accounting for nearly 70 per cent of the population and of employment, and a slightly greater proportion of unemployment. Strikingly, it is estimated that out of 1 500 sub-places within the Western Cape with labour force participants, the 100 sub-places with the highest unemployment rates account for 43.1 per cent of the unemployed, according to the 2011 Census.

While the recession reversed many of the employment gains that accrued particularly during the mid-2000s, it appears that the economy has been able to grow employment, albeit at a slower pace than previously. Apart from the need to accelerate employment growth, perhaps one of the key challenges for policymakers is to ensure that employment gains going forward are more sustainable, more aligned to the profile of our available human resources, and more resilient in the face of economic downturns. This will be key to ensuring that the benefits of economic growth are truly shared by all.

Annexure D

Detailed estimates

Annexure D1 Narrow labour force participation rates, 2014

	South Africa		Western Cape		
	Estimate	*95% Confidence Interval*	*Estimate*	*95% Confidence Interval*	
Overall	57.0	[56.270; 57.720]	68.3	[66.807; 69.875]	*
By Race					
African	54.9	[54.095; 55.785]	71.2	[68.050; 74.396]	*
Coloured	64.8	[63.352; 66.345]	65.5	[63.692; 67.247]	
Asian	56.7	[53.204; 60.292]	69.3	[56.111; 82.458]	
White	67.2	[64.945; 69.372]	72.1	[67.976; 76.280]	
By Gender					
Male	63.6	[62.694; 64.504]	76.6	[74.773; 78.443]	*
Female	50.6	[49.732; 51.496]	60.5	[58.361; 62.576]	*
By Age Group					
15 to 24 years	26.0	[24.949; 26.967]	42.8	[39.968; 45.672]	*
25 to 34 years	72.5	[71.327; 73.591]	82.9	[80.537; 85.277]	*
35 to 44 years	78.2	[77.152; 79.240]	83.9	[81.564; 86.178]	*
45 to 54 years	71.4	[70.083; 72.632]	74.9	[71.818; 78.004]	
55 to 65 years	41.8	[40.212; 43.438]	47.7	[44.011; 51.478]	*
By Educational Attainment					
Primary	44.1	[42.744; 45.553]	54.2	[50.895; 57.515]	*
Some secondary	47.1	[46.083; 48.069]	61.4	[59.015; 63.775]	*
Grade 12	68.1	[66.876; 69.308]	76.5	[74.124; 78.854]	*
Diploma/Certificate	85.6	[84.094; 87.050]	85.4	[81.496; 89.382]	
Degree	89.2	[87.364; 91.049]	87.5	[82.589; 92.483]	

Note: An asterisk (*) denotes a statistically significant difference between South Africa and the Western Cape at the 95 per cent level of confidence.

Source: Own calculations, Statistics South Africa (2014e)

Annexure D2 Provincial unemployment rates, 2014

	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	23.5	[21.628; 25.331]	24.4	[22.549; 26.211]	1.04
Eastern Cape	30.4	[27.782; 33.001]	43.3	[40.651; 45.850]	1.42
Northern Cape	32.3	[28.707; 35.835]	38.1	[34.668; 41.517]	1.18
Free State	35.0	[31.463; 38.497]	39.0	[35.804; 42.249]	1.12
KwaZulu-Natal	23.6	[21.422; 25.790]	35.7	[33.767; 37.718]	1.51
North West	26.0	[22.234; 29.669]	38.9	[36.136; 41.696]	1.50
Gauteng	24.6	[22.768; 26.360]	28.5	[26.724; 30.228]	1.16
Mpumalanga	29.4	[25.835; 33.030]	38.2	[35.126; 41.240]	1.30
Limpopo	15.9	[13.656; 18.151]	33.5	[30.616; 36.446]	2.11
South Africa	**25.4**	**[24.528; 26.312]**	**33.4**	**[32.519; 34.222]**	**1.31**

Source: Own calculations, Statistics South Africa (2014e)

Annexure D3 Narrow unemployment rates, 2009 and 2014

	2009Q2		2014Q2	
	Estimate	*95% Confidence Interval*	*Estimate*	*95% Confidence Interval*
Western Cape	***20.1***	***[18.461; 21.741]***	***23.5***	***[21.622; 25.337] †***
By Race				
African	31.2	[27.756; 34.626]	31.3	[28.303; 34.282]
Coloured	17.8	[15.873; 19.712]	24.1	[21.111; 27.033] *
Asian	25.6	[0.811; 50.387]	6.9	[-0.106; 13.837]
White	4.1	[2.252; 5.989]	6.6	[4.088; 9.137]
By Gender				
Male	19.2	[16.943; 21.365]	22.6	[20.347; 24.902]
Female	21.3	[19.234; 23.272]	24.5	[22.072; 26.949]
By Age Group				
15 to 24 years	43.8	[39.649; 47.954]	50.4	[45.283; 55.534]
25 to 34 years	23.6	[20.791; 26.325]	27.2	[23.607; 30.789]
35 to 44 years	11.3	[8.734; 13.794]	16.6	[14.000; 19.173] *
45 to 54 years	12.0	[9.340; 14.717]	12.6	[9.899; 15.322]
55 to 65 years	3.6	[1.152; 6.130]	7.0	[4.254; 9.767]
By Educational Attainment				
Primary	22.2	[17.856; 26.512]	25.9	[21.365; 30.472]
Some secondary	26.4	[23.552; 29.195]	31.9	[28.541; 35.229] †
Secondary	18.1	[15.349; 20.794]	21.2	[18.675; 23.682]
Diploma/Certificate	6.7	[3.672; 9.761]	13.2	[9.095; 17.237] †
Degree	2.0	[0.285; 3.693]	4.1	[1.757; 6.379]
South Africa	***23.2***	***[22.358; 24.010]***	***25.4***	***[24.528; 26.312] ****
By Race				
African	27.3	[26.269; 28.248]	28.3	[27.264; 29.336]
Coloured	19.4	[17.653; 21.188]	25.3	[22.858; 27.749] *
Asian	10.9	[8.097; 13.620]	12.1	[8.327; 15.788]
White	4.5	[3.553; 5.499]	8.0	[5.579; 10.451] *
By Gender				
Male	21.5	[20.596; 22.448]	23.7	[22.723; 24.735] *
Female	25.2	[24.020; 26.443]	27.5	[26.341; 28.605] †
By Age Group				
15 to 24 years	48.4	[46.471; 50.243]	51.8	[49.630; 53.889] †
25 to 34 years	27.2	[25.985; 28.475]	29.9	[28.370; 31.370] †
35 to 44 years	15.9	[14.827; 16.941]	19.6	[18.383; 20.776] *
45 to 54 years	11.1	[9.887; 12.382]	14.4	[13.107; 15.605] *
55 to 65 years	5.4	[4.365; 6.461]	7.7	[6.344; 9.004] †
By Educational Attainment				
Primary	21.7	[19.982; 23.471]	23.0	[21.135; 24.902]
Some secondary	29.2	[27.903; 30.578]	33.1	[31.723; 34.532] *
Secondary	25.3	[24.110; 26.529]	26.1	[24.821; 27.404]
Diploma/Certificate	10.3	[9.048; 11.596]	13.9	[12.320; 15.536] *
Degree	3.7	[2.549; 4.887]	6.5	[5.007; 8.042] *

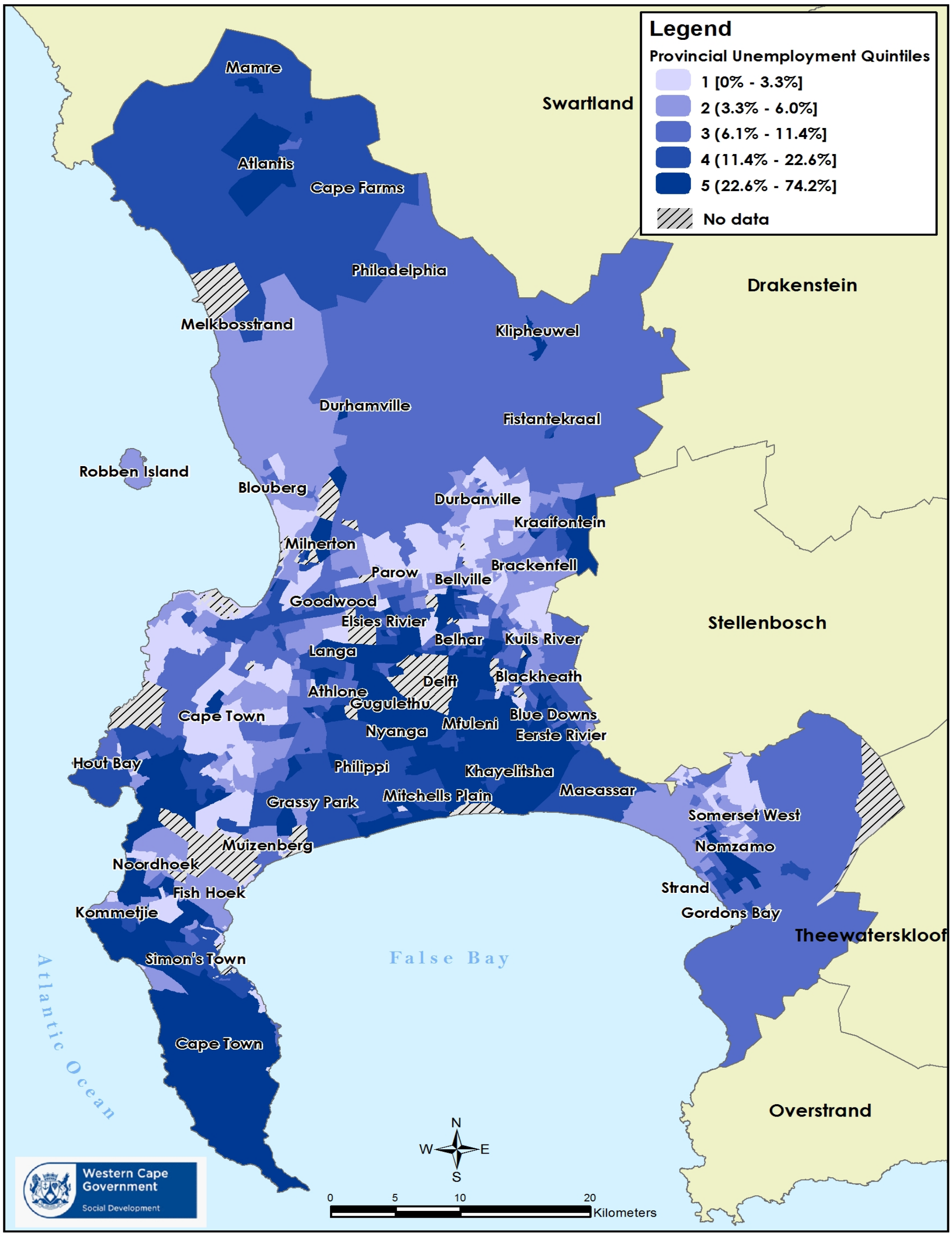
Note: An asterisk (*) denotes a statistically significant change between 2009 and 2014 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: Own calculations, Statistics South Africa (2009, 2014e)

Annexure E

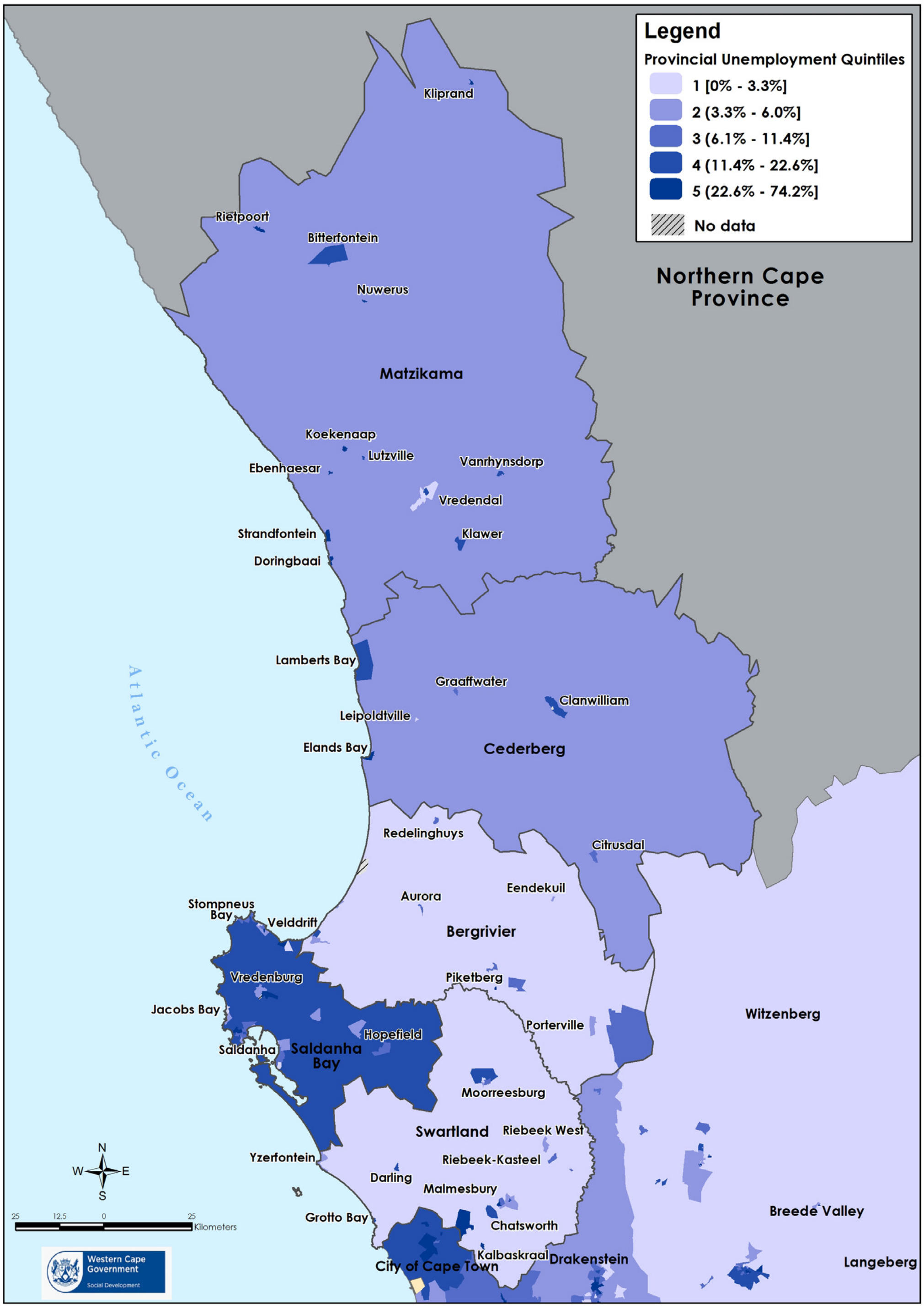
Mapping local unemployment rates in the Western Cape

Annexure E1 Local unemployment rates in the City of Cape Town, 2011



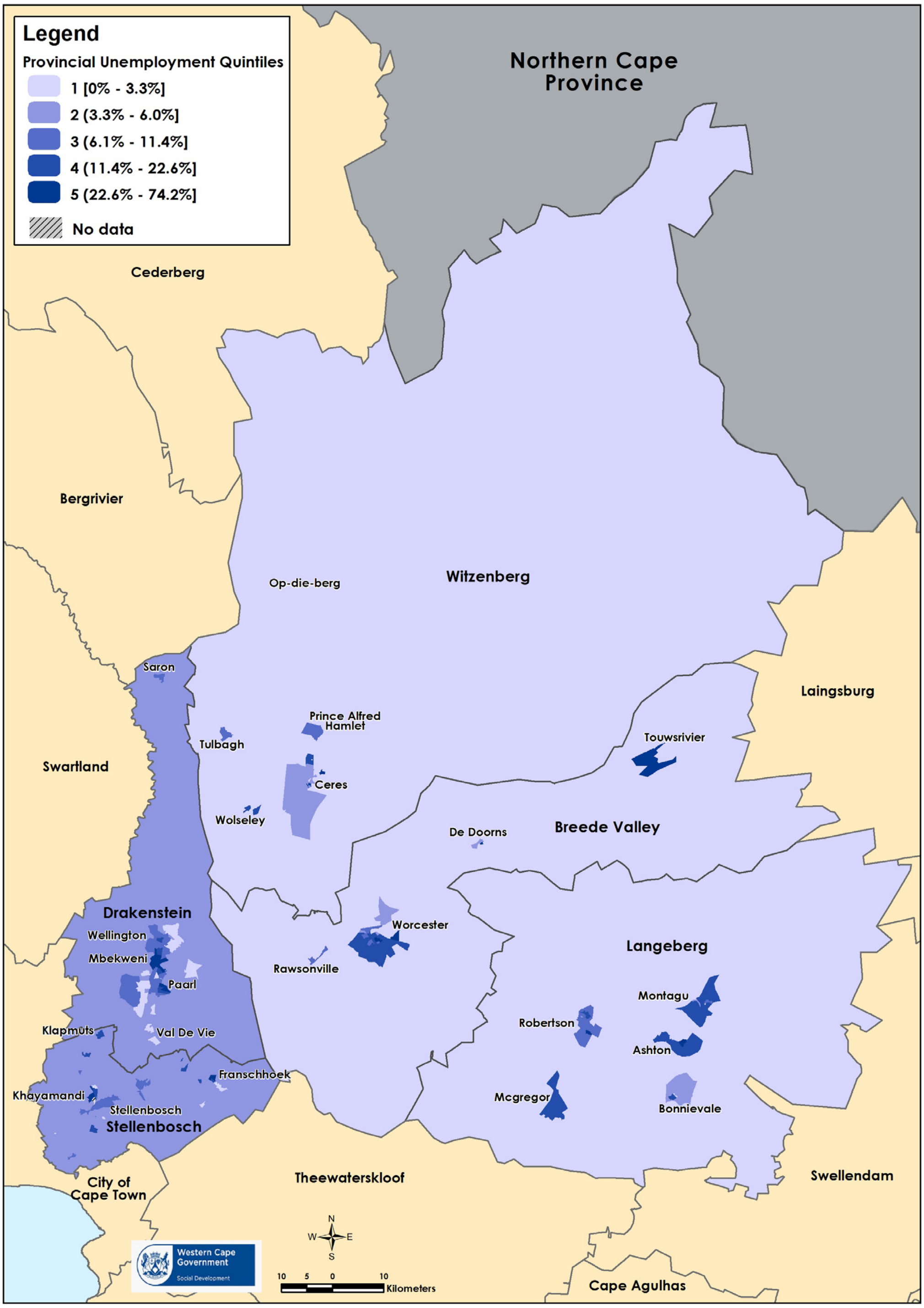
Source: *Own calculations, Stats SA (2014a)*

Annexure E2 Local unemployment rates in the West Coast District, 2011



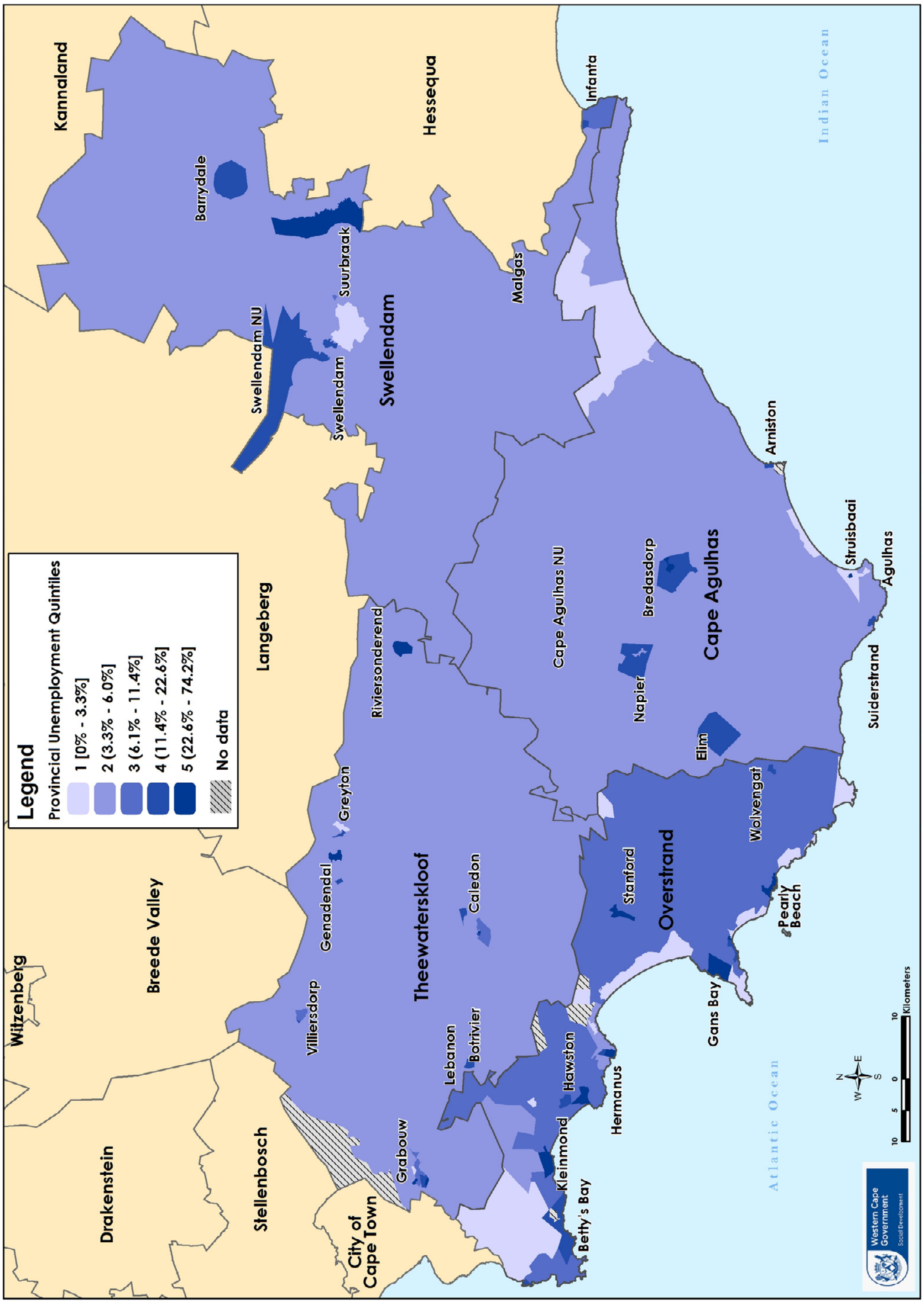
Source: Own calculations, Stats SA (2014a)

Annexure E3 Local unemployment rates in the Cape Winelands District, 2011



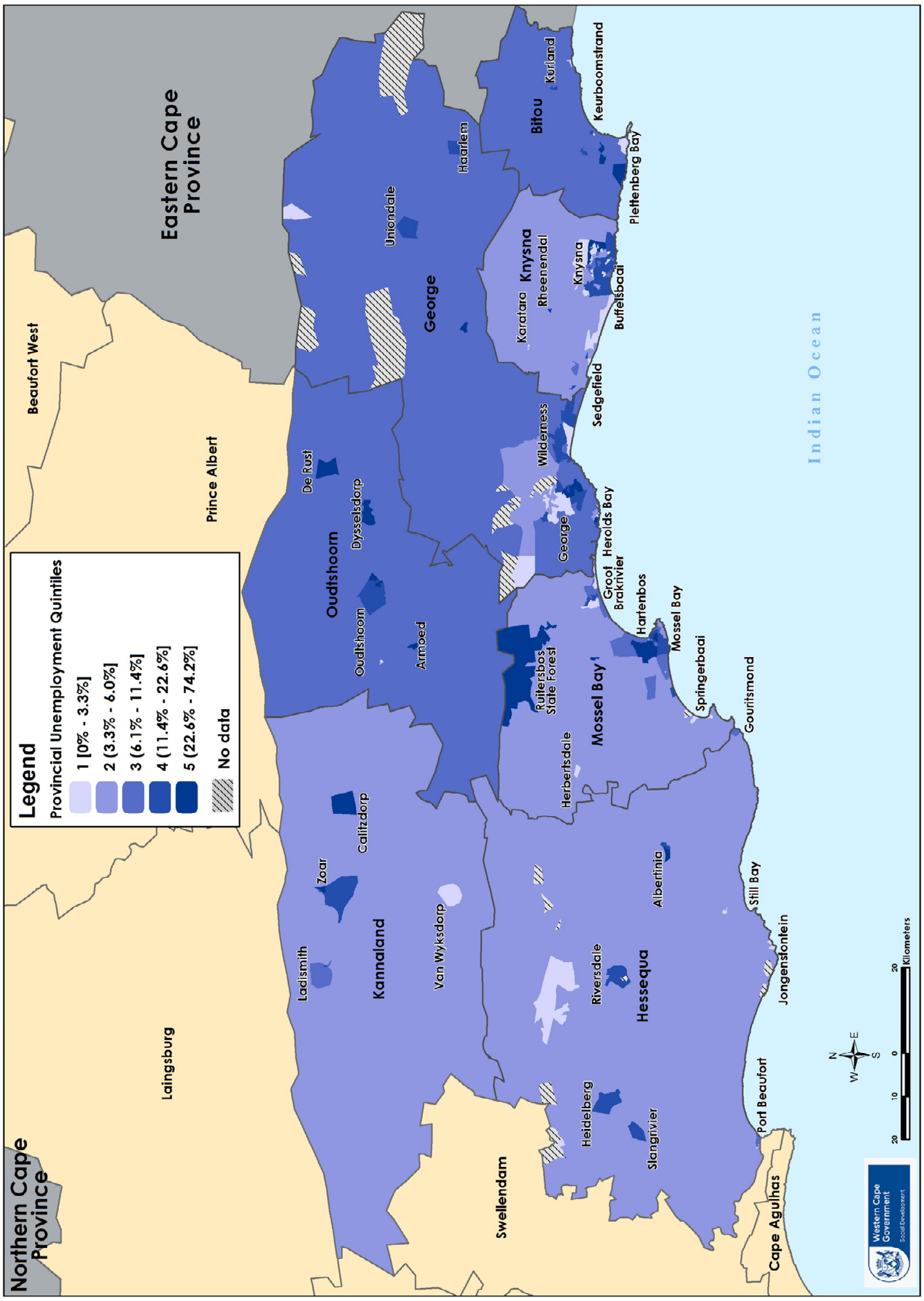
Source: Own calculations, Stats SA (2014a)

Annexure E4 Local unemployment rates in the Overberg District, 2011



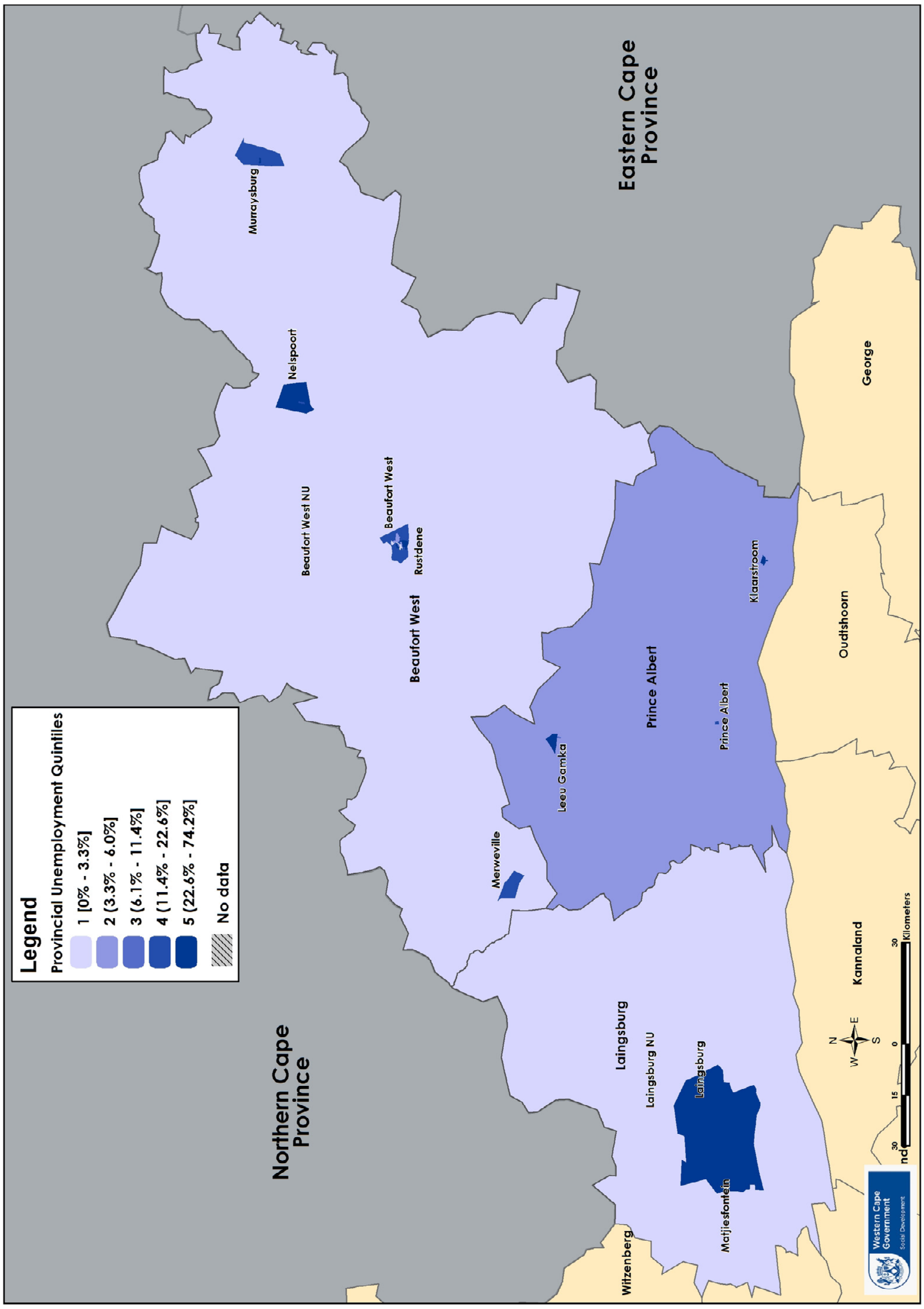
Source: Own calculations, Stats SA (2014a)

Annexure E5 Local unemployment rates in the Eden District, 2011



Source: Own calculations, Stats SA (2014a)

Annexure E6 Local unemployment rates in the Central Karoo District, 2011



Source: Own calculations, Stats SA (2014a)

5

Socio-economic developments in the Western Cape

Key findings

- The provincial population is predicted to grow by 10.5 per cent between 2014 and 2024 - a total increase of more than 630 000 people. An uneven pattern of growth is noted at a district level, ranging from a declining population in Oudtshoorn to an increase of 18.6 per cent in Bitou. The City of Cape Town is projected to increase its population by 9.8 per cent over the same period.
- The provincial economy generally grew at a faster rate than the population between 2001 and 2011. There is a clear variation in GDPR per capita across districts in the Province. For all districts, and the City, per annum household income is concentrated in the R9 601 to R153 600 range. The City of Cape Town has a far larger proportion of households earning in excess of R153 600 per annum than the other districts.
- In the Western Cape, the Gini coefficient registered a relatively high 0.63 in 2001, declining to 0.58 in 2011. The Cape Metro and five districts Gini coefficients range between 0.57 and 0.59, with the City of Cape Town topping the scale.
- Learner Systemic Tests conducted in 2013 reflect a modest improvement across grades, with numeracy pass rates improving. High repetition and dropout rates remain a significant challenge in the Western Cape although an upward trend in retention rates has been observed.
- Life expectancy increased in the Western Cape and infant, child and maternal mortality improved. However, the trend across the districts differs.
- The Western Cape experiences some social problems, such as crime, to a greater extent than most other provinces.

5.1 Introduction

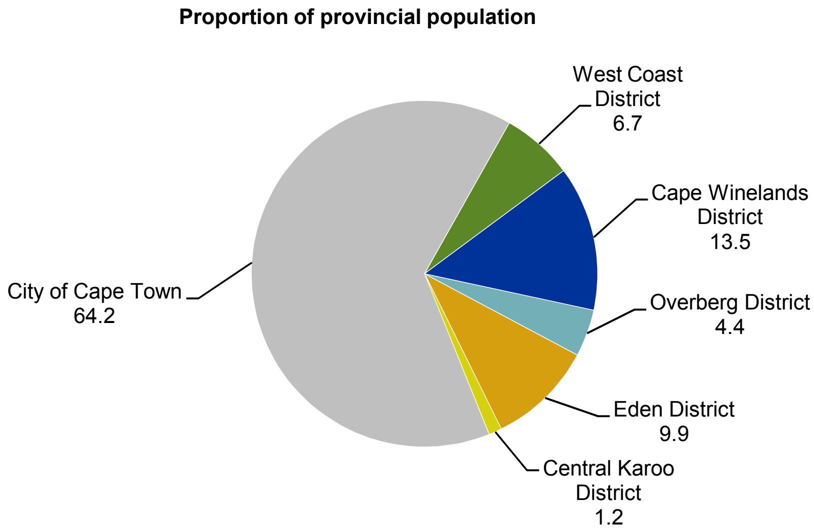
This chapter provides an overview of selected socio-economic conditions in the Western Cape, including population growth projections due to the impact it has on the provision of public services. Education and Health outcomes are also considered. This includes key indicators such as learner access, matric pass rates, literacy, numeracy, learner retention, life expectancy and leading causes of mortality. Given its developmental impact, access to basic services as well as crime in the Province is explored. The threat of crime is also addressed. Greater emphasis is placed on the spatial dimensions of the socio-economic conditions in an attempt to understand whether growth has been inclusive across the Province.

5.2 Population dynamics

5.2.1 Spatial distribution of the provincial population

The Western Cape population is currently estimated at 6.1 million[1]. While the population has increased by more than 300 000 people between 2011 and 2014, the spread of the population across municipal districts is not expected to have changed significantly since the 2011 Census. In 2011 the majority of the Western Cape population resided in the City of Cape Town. Cape Winelands District is the second most populous region followed by the Eden District, West Coast District and Overberg District. The Central Karoo District is sparsely populated and accounts for only 1.2 per cent of the provincial population.

Figure 5.1 District population as a share of the Western Cape population



Source: Census 2011, Stats SA

1 See Chapter 4 for a comprehensive overview of the Western Cape population based on the 2014 Mid-year population estimates.

5.2.2 Population growth projections

Understanding the changes in the population's demographic structure facilitates a proactive response to anticipated needs and demands. In particular, it enables a more varied and bespoke set of interventions and approaches to promote inclusive growth.

In 2014 the Western Cape population had a median age of 28.7 years which is slightly older than the South African population median age of 25.3 years. The population is ageing across the board as can be seen by the increase in median ages as well as the increase in old age dependency ratios[2] between 2010 and 2014 (Table 5.1).

Table 5.1 Median ages and dependency ratios for the Western Cape and South Africa, 2010 and 2014

	Western Cape			South Africa	
	2010	2014	2024	2010	2014
Median age	27.9	28.7	32.4	24.3	25.3
Youth dependency ratio	41.3	39.3	36.3	48.8	46.4
Dependency ratio	49.6	48.5	48.1	56.8	55.0
Old age dependency ratio	8.4	9.2	11.8	8.0	8.5

Source: Stats SA 2014b, PwC 2014, own calculations

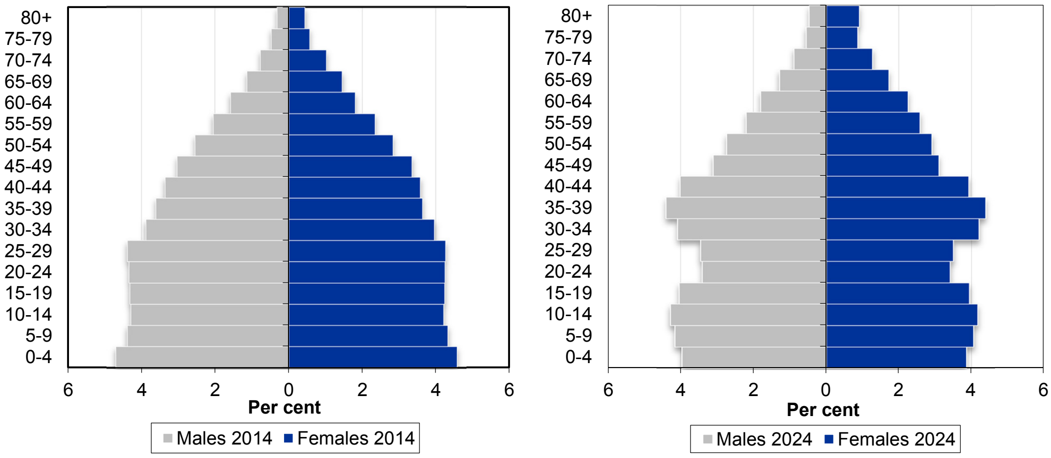
The decline in the total fertility rate[3] in South Africa began in the 1960s. Western Cape total fertility rates are predicted to decline from 2.52 between 2001 and 2006 to 2.40 between 2011 and 2016 (Stats SA 2014b). Nationally, differences exist by population group with Whites and Indians already experiencing below replacement levels of fertility while the Coloureds and Africans both have above replacement levels of fertility (Stats SA, 2010a).

The Western Cape population is forecast to grow by 10.5 per cent between 2014 and 2024 - a total increase of more than 630 000 people. Given the current demographic composition of the Western Cape population, the median age is expected to increase to 32.4 years by 2024. The changing age structure of the population is reflected in the population pyramids in Figure 5.2, below.

2 The dependency ratio 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. The youth and old-age dependency ratios measure the size of the youth (children below 15 years) and older persons (aged 65 years and older) to the size of the working age, respectively.

3 The total fertility rate is the average number of children that would be born per women over her lifetime, given current patterns.

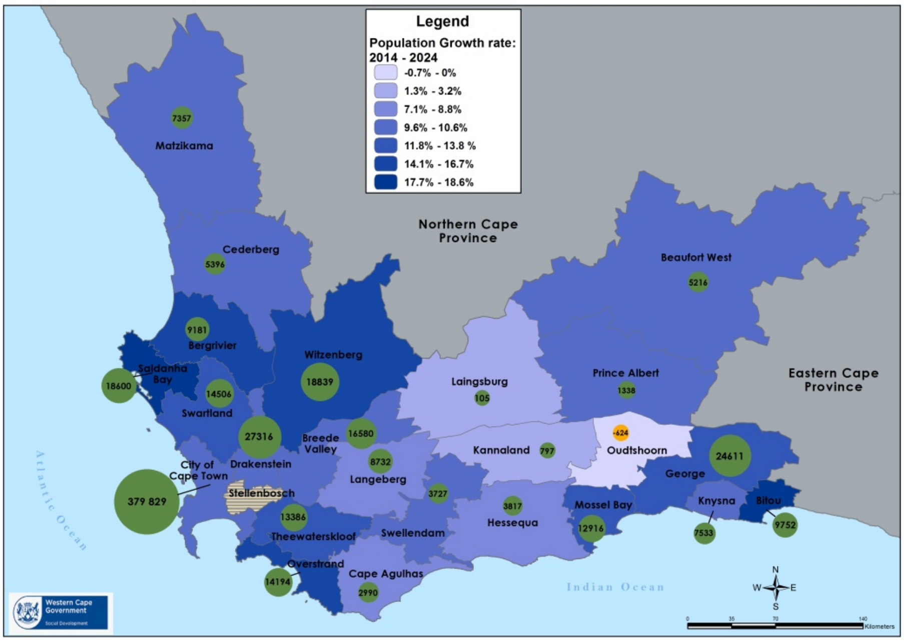
Figure 5.2 Western Cape population age structure, 2014 and projection to 2024



Source: PwC, 2014

Figure 5.3 below shows the population growth rates for Western Cape municipalities. The pattern of growth is not even, ranging from a declining population in Oudtshoorn to an increase of 18.6 per cent in Bitou. The City of Cape Town is projected to increase its population by 9.8 per cent over the period. While the City of Cape Town is not the fastest growing region, it accounts for 59.7 per cent of the predicted population growth within the Province.

Figure 5.3 Municipal population growth rates and absolute increases in population between 2014 and 2024[4]



Source: Department of Social Development

[4] The Stellenbosch population forecast is being revised and was not available at the time of print.

Population dynamics matter for per capita output growth. The link, however, is not through growth in the total population but rather through changes in the structure of the population[5].

Falling dependency ratios represent an opportunity for faster economic growth. The Western Cape is currently benefitting from this increase in the working age population relative to dependents, though the increase is partly driven by the effects of migration and not only declines in fertility and mortality rates. It is not given that faster economic growth will occur as a result of this demographic dividend. Sound policies are required to capitalise on it. This 'window of opportunity' will eventually close as dependency rates rise due to an increasing older population.

5.3 Income, poverty and human development

According to Stats SA (2011 Census) the average household income, in nominal terms, in the country has doubled in the country over the last decade. However, high levels of income inequality still persist. This makes it imperative that strategies promote inclusiveness so that the poor can also benefit from economic growth.

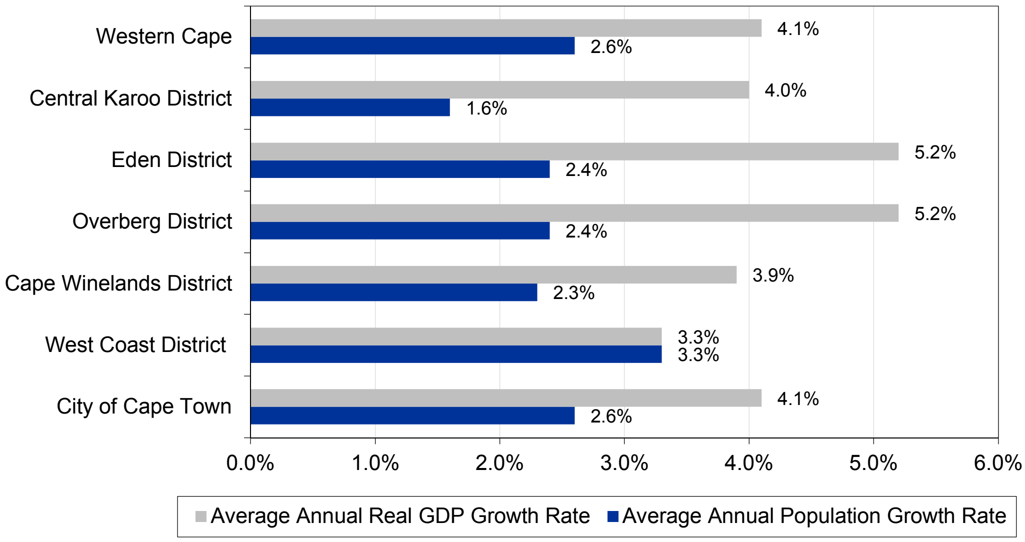
5.3.1 Per capita economic growth

Between 2001 and 2011 the Western Cape population grew at an average annual rate of 2.6 per cent, in part because of net in-migration to the Province. During this time the economy grew at 4.1 per cent on average per annum.

Figure 5.4 below depicts the average annual real GDPR growth rates and average annual population growth rates per district for the period 2001 to 2011. The economic growth rates of the Central Karoo, Eden, Overberg and Cape Winelands districts and the City of Cape Town were greater than their corresponding population growth rates. In the case of the West Coast District the economic growth rate equaled its population growth rate.

[5] Bloom, 1997. The impact of a changing population age structure on the economy stems from differing consumption and income generation patterns for different age groups.

Figure 5.4 Western Cape population and real GDP growth rate by district, 2001 - 2011

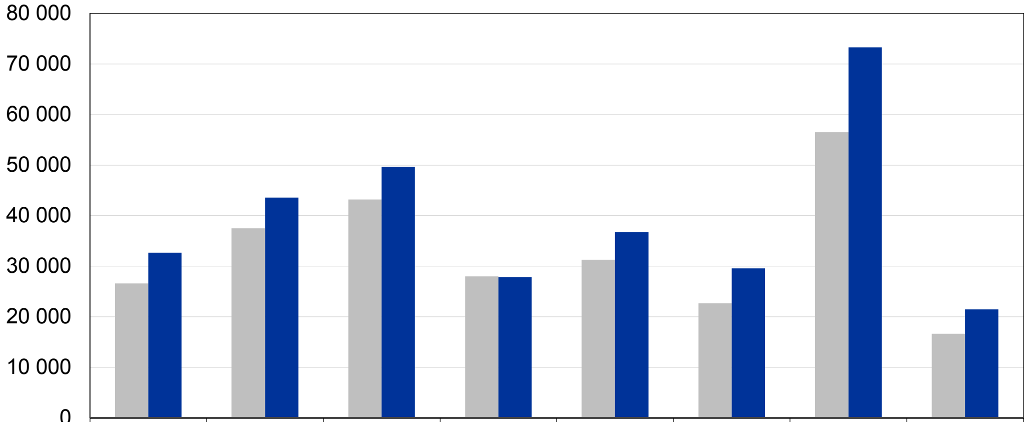


Source: Statistics South Africa, Census 2001 and Census 2011

The West Coast District has the highest average annual population growth rate (3.3 per cent). It is more than double that of the Central Karoo District (1.6 per cent). This reflects the higher net in-migration into West Coast District.

As the provincial economy grew at a faster rate than the population GDPR per capita increased from R37 496 in 2001 to R43 557 in 2011. There is a notable variation in GDPR per capita across districts. GDPR per capita rose in all districts and the City of Cape Town, with the exception of the West Coast District where GDPR per capita remained constant over the period.

Figure 5.5 GDPR per capita by district, 2001 - 2011



	South Africa	Western Cape	City of Cape Town	West Coast	Cape Winelands	Overberg	Eden	Central Karoo
2001	26 608	37 496	43 179	27 966	31 282	22 666	56 506	16 655
2011	32 697	43 557	49 647	27 885	36 730	29 580	73 304	21 492

Source: Quantec, 2013

Over the 2001 – 2011 period the Eden, Overberg and Central Karoo districts experienced the largest increase in GDPR per capita. This is mainly ascribed to the higher real GDPR growth rates of these districts.

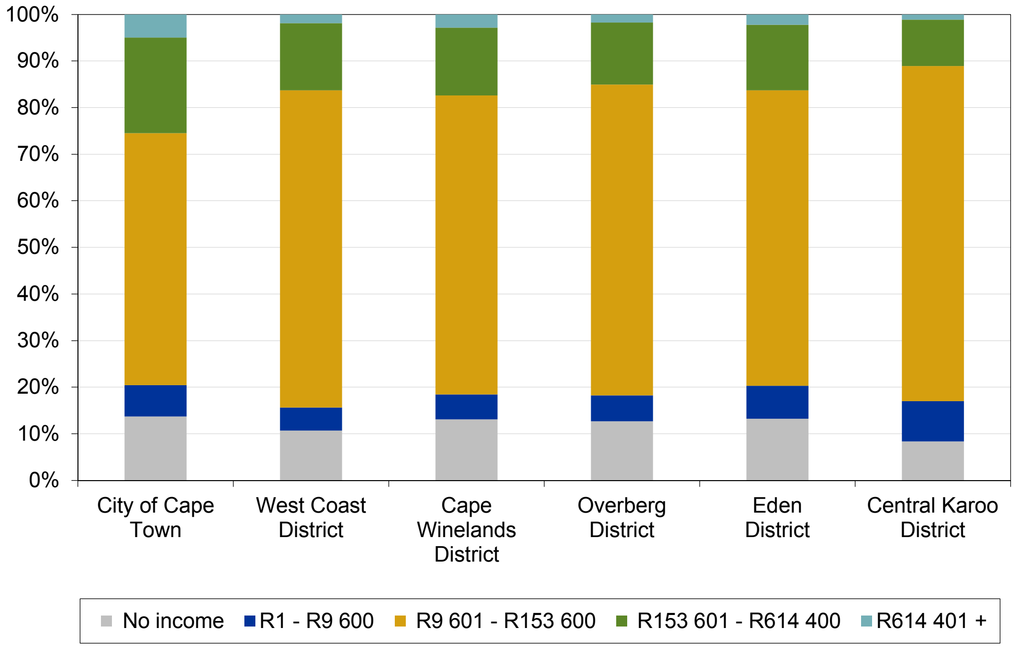
GDPR per capita is not a complete measure of human well-being, as it does not measure the distribution of income amongst the population. Rising per capita GDPR signals growth in the local economy but does not necessarily imply that the growth was inclusive.

5.3.2 Household income dynamics

Figure 5.6 depicts the percentage distribution of household income per district for 2011. More than 10 per cent of the population in all districts and the City of Cape Town, with the exception of the Central Karoo District, recorded a household income of zero.[6] For all districts and the City, per annum household income is concentrated in the R9 601 to R153 600 range. This income bracket is very large, however, and does not provide enough information to analyse household economic circumstances.

The City of Cape Town has a far larger proportion (25.5 per cent) of households earning in the top two household income brackets, i.e. where household income exceeds R153 600 per annum. Households earning in these two higher income brackets are least common in the Central Karoo.

Figure 5.6 Household incomes per district, 2011

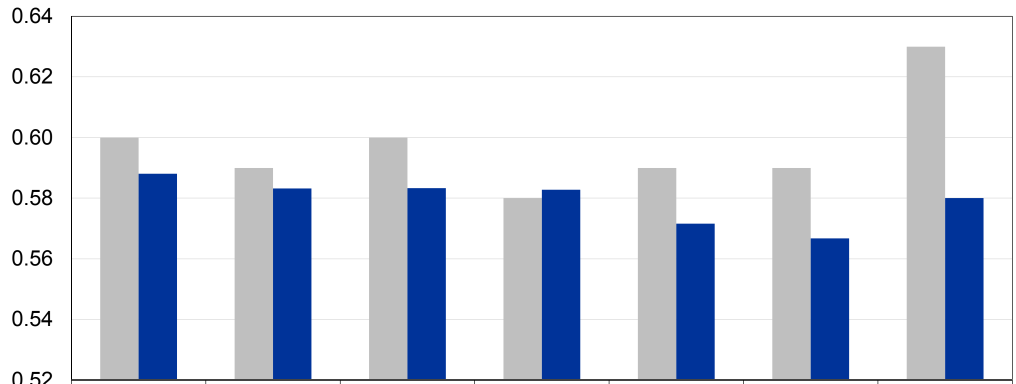


Source: Statistics South Africa, Census 2011

6 There appears to be some uncertainty about the data as those recording zero income includes many households in affluent areas.

One of the commonly used measures of income inequality is the Gini coefficient[7]. In 2001, South Africa experienced high levels of income inequality, recording a Gini coefficient of 0.77. While the Gini coefficient remains high, it has since declined to 0.70 in 2011 if Census 2011 data are used, though other sources seem to show stable or even rising income inequality. In the Western Cape, the Gini coefficient registered a relatively high 0.63 in 2001, declining to 0.58 in 2011. This decline too may result from income data deficiencies in the Census rather than reflect an underlying trend.

Figure 5.7 Gini coefficients per district, 2001 - 2011



	City of Cape Town	West Coast District	Cape Winelands District	Overberg District	Eden District	Central Karoo District	Western Cape
2001	0.60	0.59	0.60	0.58	0.59	0.59	0.63
2011	0.59	0.58	0.58	0.58	0.57	0.57	0.58

Source: Global Insight, 2013

Marginal improvements can be observed in the Gini coefficients in districts across the Province (Figure 5.7). The Cape Metro and five districts Gini coefficients range between 0.57 and 0.59, with the City of Cape Town topping the scale. This is however expected given both migration and income patterns; both rich and poor tend to migrate to the City.

5.3.3 Measures of development

The Western Cape Socio-economic Index was developed by the Department of Social Development in order to identify areas with higher relative development needs.

[7] 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.

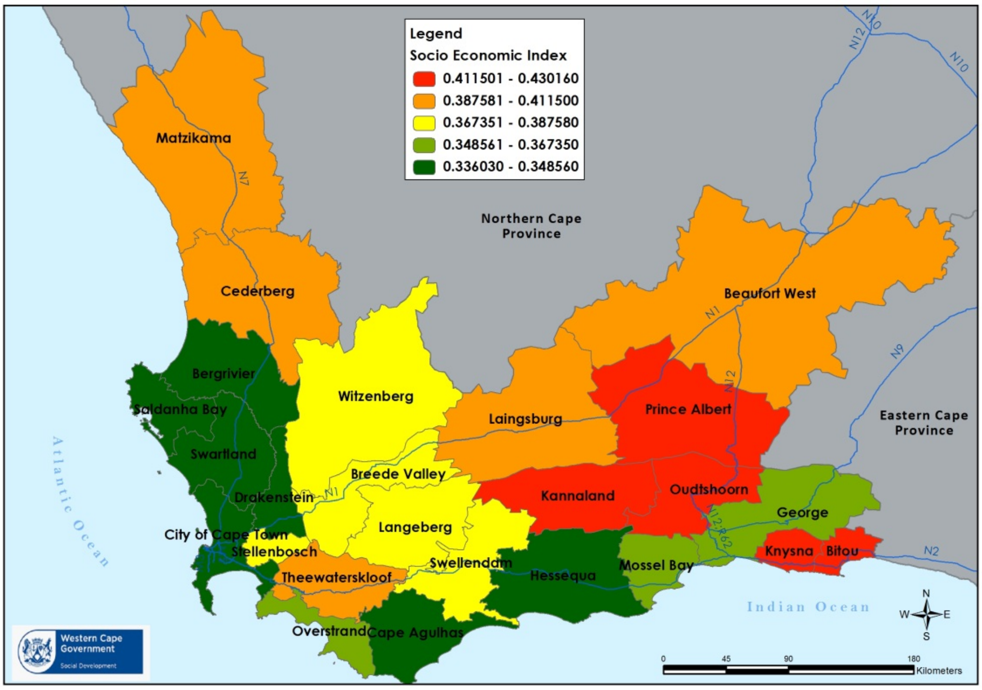
The Western Cape Socio-economic Index

The Western Cape Socio-economic Index is a composite index composed of four unequally weighted sub-indices: a household services index (30%), an education index (20%), a housing index (20%), and an economic index (30%). The four sub-indices are in turn composed of unequally weighted variables derived from Census 2011. Each area of analysis is assigned an index value relative to values of other sub-places in the province. Values are scaled to range between zero and one with higher index values representing higher need.

It should be noted that such summary measures as represented by the index and its sub-indices may be misleading when viewed in isolation. It should therefore be used as a starting point for analysis rather than the final basis for decision making.

While the data are based on sub-place level, it is presented in Figure 5.8 at municipal level. The full variability in socio-economic conditions is less clear when municipal averages are presented. This is because the considerable variability at sub-place level, which the index attempts to capture, is masked at the municipal level. Drakenstein Municipality has the lowest index value (0.336) and by this measure it has the lowest development need while Prince Albert Municipality has the highest index value (0.430) and the highest development need. The City of Cape Town has an index value 0.349 and is ranked sixth when compared to other Western Cape local municipalities.

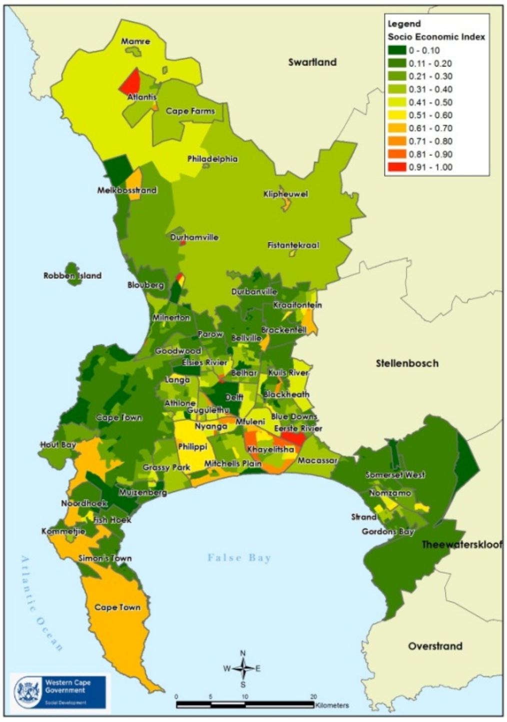
Figure 5.8 Western Cape Socio-economic Index map



Source: Department of Social Development

Nine of the ten sub-places with highest need are found within the City of Cape Town, despite the City as a whole having a low relative need. According to the index, Durhamville in the City of Cape Town has the greatest need of all sub-places within the Western Cape. Its needs are especially acute in the economic and household services domains.

Figure 5.9 Western Cape Socio-economic Index map, City of Cape Town



Source: Department of Social Development

Similar to the Socio-economic Index is the Human Development Index (HDI). The HDI is similar in that it is also a composite, relative index. 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.

Table 5.2 Human Development Index, 2001 and 2011

District	2001	2011
City of Cape Town	0.71	0.74
West Coast District	0.63	0.67
Cape Winelands District	0.63	0.69
Overberg District	0.63	0.69
Eden District	0.64	0.71
Central Karoo District	0.57	0.65

Source: Statistics South Africa, Census 2001 and 2011

Table 5.2 above shows that in all Western Cape districts and in the City of Cape Town HDIs have improved from 2001 to 2011. In 2011, the highest HDI levels were recorded in the City of Cape Town followed by Eden and the Overberg districts. The districts registering the lowest HDI levels in the Province in 2011 were the Central Karoo and the West Coast districts. The Central Karoo District HDI improved the most, from 0.57 in 2001 to 0.65 in 2011; followed by the Eden, Overberg and Cape Winelands districts.

The higher HDI levels within the Western Cape reveal that both economic and social development has benefited the population of the Province, particularly within the City of Cape Town. It may be an indication that growth in the Western Cape is becoming more inclusive. Notwithstanding this, poverty, inequality, unemployment and social ills persist in communities throughout the Province.

5.4 Education

This overview is focused on education within the context of the broader economy and the social environment. The analysis reflects education trends and how these relate to the general theme of inclusive growth within a spatial context.

5.4.1 Learner enrolment trends

Growth of the population places greater demands on the education system even if the goal is simply to maintain an acceptable standard of education. The population of the Western Cape grew by 28.7 per cent between 2001 and 2011, resulting in an increase in the number of learners enrolled at public schools.

Table 5.3 Number of learners enrolled at public schools

	2011	2012	2013	2014 SNAP	Difference 2011 - 2014
Grade R	50 495	58 953	59 565	62 067	11 572
Grade 1 – 12	921 776	934 992	948 595	963 390	41 615
Special Needs Schools	18 878	19 470	19 627	17 945	-933

Note: The SNAP Survey provides initial estimates of learner numbers before the full Annual Survey of Schools is undertaken

Source: WCED, 2014

The increase in learner numbers resulted in an increase in demand for teachers. Between 2011/12 and 2013/14, the number of teachers in public ordinary schools increased from 28 265 to 28 612 in order to maintain teacher/ pupil ratios.

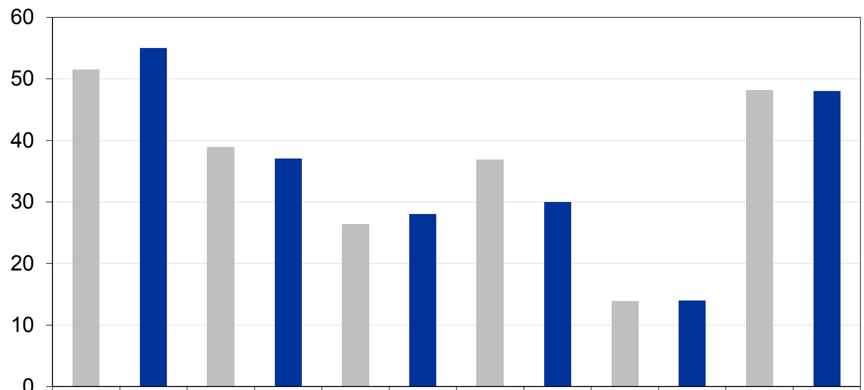
All South African public ordinary schools are categorised into five groups, called quintiles, largely for purposes of the allocation of financial resources. Quintile one is the 'poorest' quintile, while quintile five is the 'least poor'. These poverty rankings are determined nationally according to the poverty of the community around the school, as well as certain infrastructural factors.

Schools in quintile 1, 2 and 3 have been declared no-fee schools. According to the Department of Basic Education, only 8.6 per cent of learners in the Western Cape fall into the poorest quintile in South Africa. It also explains why in the Western Cape only just over 40 per cent of schools are no-fee schools (quintiles 1, 2 and 3) when the average for South Africa is above 60 per cent.

5.4.2 Education quality

The Western Cape Education Department (WCED) use Learner Systemic Tests to measure the quality of education[8]. The 2012 and 2013 test scores are illustrated in Figure 5.10.

Figure 5.10 Systemic Grades 3, 6 and 9 results for public ordinary schools, 2012 and 2013: Percentage that passed



	Grade 3				Grade 6				Grade 9			
	Numeracy		Literacy		Maths		Language		Maths		Language	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Percentage passed	51.5	55	38.9	37	26.4	28	36.9	30	13.9	14	48.2	48

Source: WCED, 2014

A pass score is 50 per cent. Numeracy test pass rates reflect a modest improvement across grades. Literacy pass rates decreased across grades albeit marginally so in Grade 9. The average test score for literacy in Grade 9 has however increased marginally.

The Annual National Assessment (ANA) results provide a picture of levels of performance in literacy and numeracy in South Africa covering *inter alia* the key transitional stages of the education system, which are Grades 3 and 6 in the primary school and Grade 9 in secondary schools. According to the Department of Basic Education's report of 2013, the Western Cape consistently achieves higher scores than South Africa's average across the ANA assessments. However, in the majority of grade assessments for both language and mathematics, the Gauteng province achieves a higher average than the Western Cape[9].

2013 was the sixth year of the National Senior Certificate (NSC) examination. In 2013, 3 566 more candidates passed than in 2012 with the Western Cape

[8] From 2002 to 2009, the WCED administered language and mathematics tests to Grade 3 and 6 learners, with Grade 9 learners tested for the first time in 2010. In 2011, the WCED amended the tests in order for results to be comparable internationally by increasing the level of cognitive challenge in the language tests. Specifically, longer and more complex texts were included in the tests.

[9] See Annexure H for more detail on the test scores.

achieving an 85.1 per cent pass rate, up from 82.8 per cent in 2012. The NSC pass rate was 73.3 per cent for Mathematics and 70.9 per cent for Physical Science. The number of schools with a lower than 60 per cent pass rate decreased from 26 to 23 between 2012 and 2013. In 2013, the Western Cape achieved its highest percentage of Bachelor's degree passes (40.9 per cent), reflecting the drive for skilled labour and improving the potential for inclusive growth.

Table 5.4 National Senior Certificate results for the Western Cape, 2009 - 2013

Year	Wrote	Passed	% Passed	Access to B. Degree	% Access to B. Degree	Schools with pass rate < 60%
2009	44 931	34 017	75.7	14 324	31.9	85
2010	45 783	35 139	76.8	14 414	31.5	78
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

Source: WCED, 2014

When disaggregated to a municipal level, Langeberg (92.8 per cent) and Laingsburg (92.4 per cent) accounted for the highest pass rate in 2012. On the other hand, Swartland Municipality (72.5 per cent) had the lowest matric pass rate in the Western Cape in 2012. In 2012, 67 per cent of Grade 12 learners achieved 50 per cent or more in both Mathematics and Physical Science in Stellenbosch Municipality, accounting for the highest overall pass rates in the Western Cape municipalities.

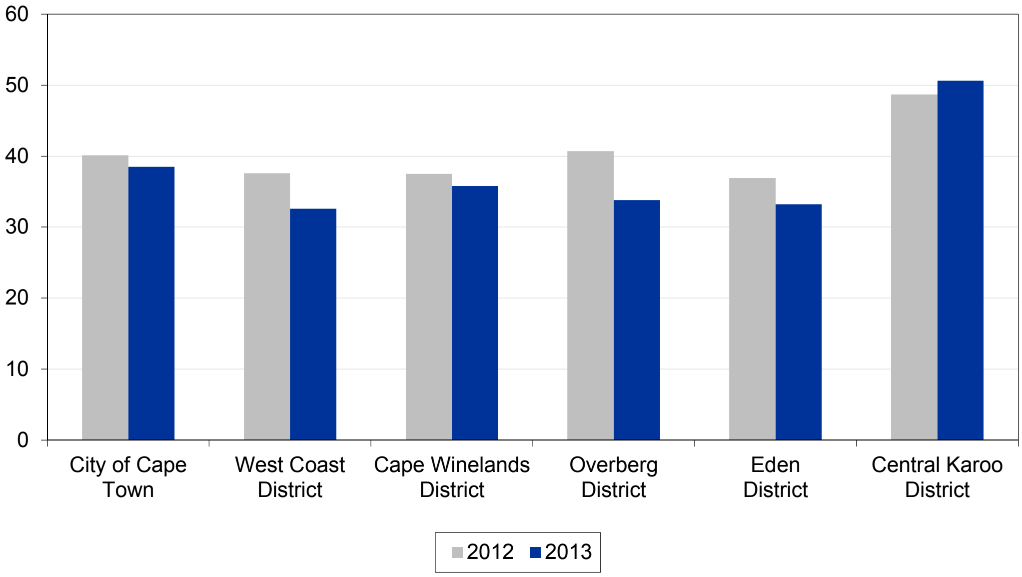
5.4.3 Learner drop-out and retention

Considerable advances in the Western Cape education system are apparent. However, the high repetition and dropout rates remain a significant challenge. Not only do these learners have a higher probability of being unemployed, they are also more susceptible to the social ills experienced in the Province.

A significant number of learners drop out of the schooling system after Grade 9 in the Western Cape. Approximately 50 per cent of the learners who enrolled in the Western Cape public school system in 1997 did not reach Grade 12. According to Census 2011, learners in the Western Cape start dropping out of school at the age of 12 and this reaches a peak at age 16 (13.7 per cent)[10]. This outcome directly places youth at risk and decreases the chance of them becoming productive citizens. Figure 5.11 depicts the average drop-out rate by district in the Western Cape. The drop- out rate in the City of Cape Town decreased from 40.1 per cent in 2012 to 37.4 per cent in 2013, while the drop-out rate in the Central Karoo District increased from 48.7 per cent to 50.6 per cent over the same period.

[10] Department of the Premier, 2013. Educated Cape 2040: Building Blocks of Future Prosperity.

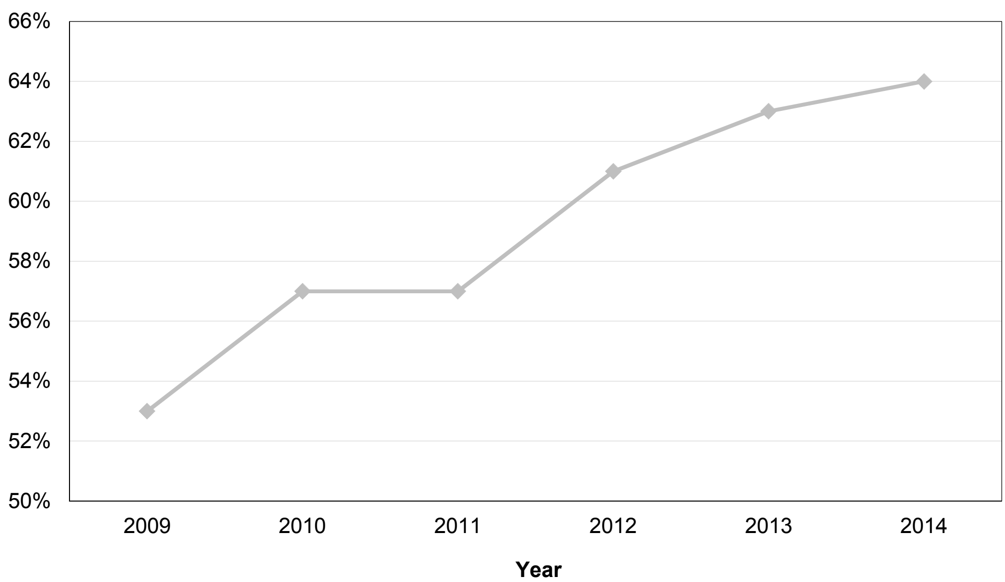
Figure 5.11 Average percentage drop-out rate by district, 2012 and 2013



Source: WCED, 2014/15

Almost 45 per cent of Western Cape youth aged 20 to 24 years and 35 per cent of those aged 25 to 29 years can be categorised as not employed, or undergoing education or training (NEETs). On the other hand, Figure 5.12 below portrays an upward trend in retention rates from 52.5 per cent in 2009 to 64 per cent in 2014 between Grades 10 and 12. Therefore, within the context of both drop-out rates and retention rates the Western Cape has made significant progress in keeping learners in school.

Figure 5.12 Retention rates: Percentage of learners remaining in school for Grades 10 - 12

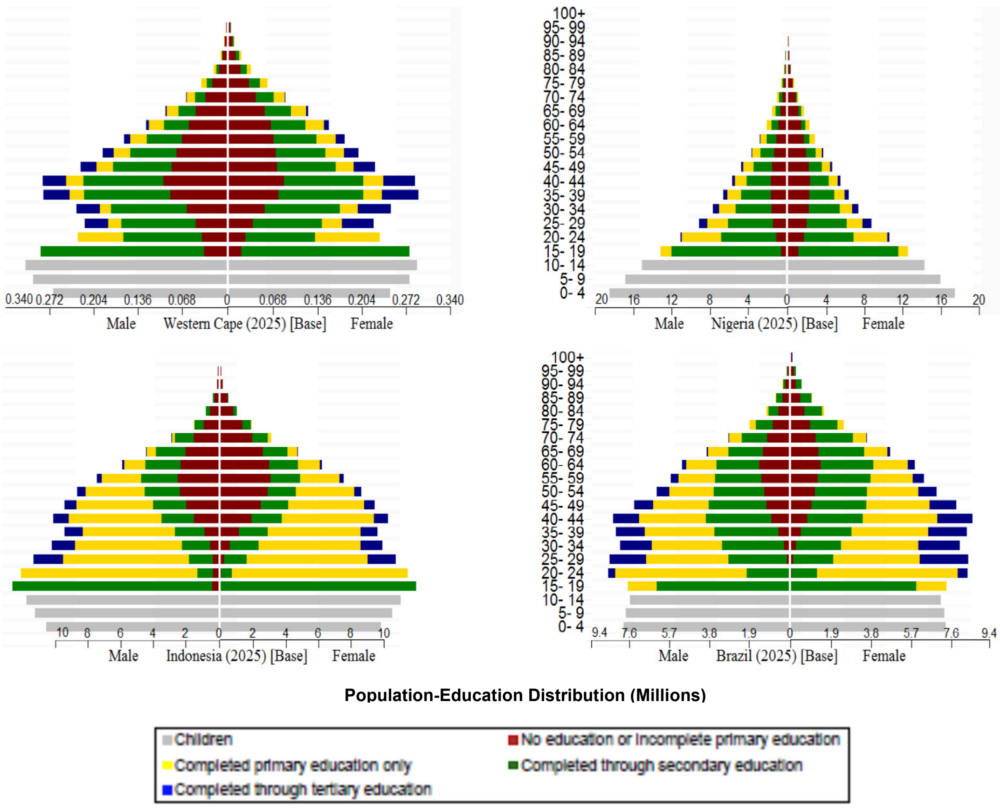


Source: WCED

5.4.4 International comparisons

The FuturesCape[11] model was used to draw international comparisons between the Western Cape and other emerging markets. These emerging markets include Nigeria, Indonesia and Brazil. These countries have average annual percentage growth rates which are comparable to that of the Western Cape. They also had similar rankings in education indicators in the Global Competitiveness Report 2013 - 2014[12].

Figure 5.13 International comparison of educational attainment, 2025



Source: FuturesCape

The Western Cape follows a similar trend to the other countries, with the exception of Indonesia. The 2025 forecast shows a shrinking cohort of those who have not completed primary education, reflecting advances in the retention of learners. A significant proportion of the population will however only have completed primary education. Indonesia and Brazil are forecasted to carry a greater percentage of population with a completed secondary education than the Western Cape. The Province's population aged between 30 and 45 who have completed tertiary education is in line with Brazil and greater than that of Nigeria and Indonesia.

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11 The forecasts utilise a multi-issue systems dynamics model that forecasts enrolment, retention, and graduation rates and educational attainment by age for 186 countries and the 9 provinces of South Africa.

12 World Economic Forum. (2013) *The Global Competitiveness Report 2013 – 2014.*

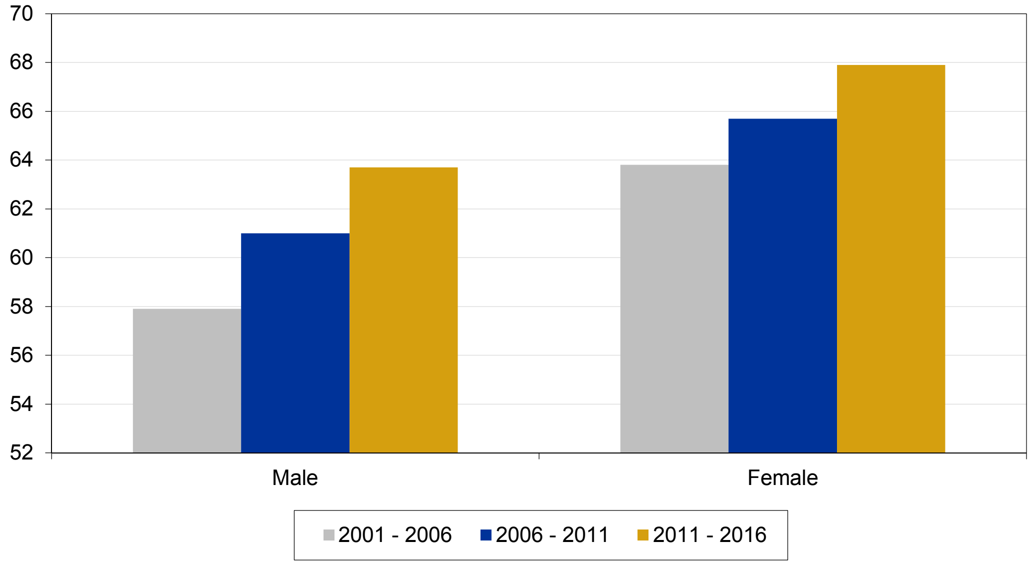
5.5 Health

Diverse factors influence health outcomes, including economic conditions, sanitation, water, housing, education and health services. Certain health outcomes such as the infant mortality rate, child mortality rate and life expectancy at birth are therefore often used as a summary measure of social and economic conditions.

5.5.1 Life expectancy

Female and male life expectancies have been improving in all provinces of South Africa. The Western Cape has the highest life expectancy for both females and males in South Africa, with life expectancy at birth of 67.9 and 63.7 for females and males respectively for the period 2011 - 2016.

Figure 5.14 Average life expectancy for males and females in the Western Cape, for 2001 - 2006, 2006 - 2011 and 2011 - 2016



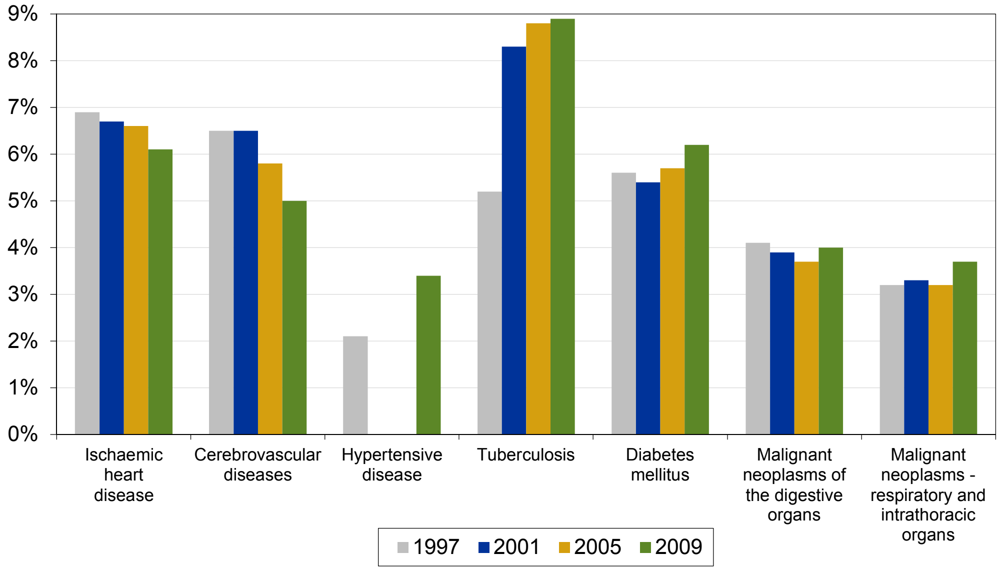
Source: Statistics South Africa, Mid-year population estimates 2014

Life expectancy in the Western Cape continues to be influenced by what has been termed the 'quadruple burden of disease', where the causes of death have been grouped into four broad groups. The first group is a high burden in mortality from poverty related disease, such as tuberculosis (TB), pneumonia and diarrhea. The second group is high mortality burden from disease typically associated with a more affluent lifestyle, such as strokes, heart disease and diabetes. The third group is high mortality due to deaths from HIV/AIDS and lastly, the fourth mortality group refers to high levels of deaths due to injuries or trauma from homicides, traffic crashes, drowning's and fires.

5.5.2 Mortality trends

For the period 1997 to 2009, TB, heart diseases, diabetes and strokes were the single leading causes of death in the Western Cape. Notably the proportion of deaths due to TB and diabetes increased from 5.2 per cent in 1997 to 8.9 per cent in 2009 and from 5.6 per cent in 1997 to 6.2 per cent in 2009. In contrast, the proportion of deaths due to heart disease decreased from 6.9 per cent in 1997 to 6.1 per cent in 2009 and from 6.5 per cent in 1997 to 5.0 per cent in 2009 for strokes.

Figure 5.15 Underlying cause of death in the Western Cape, 1997, 2001, 2005, 2009

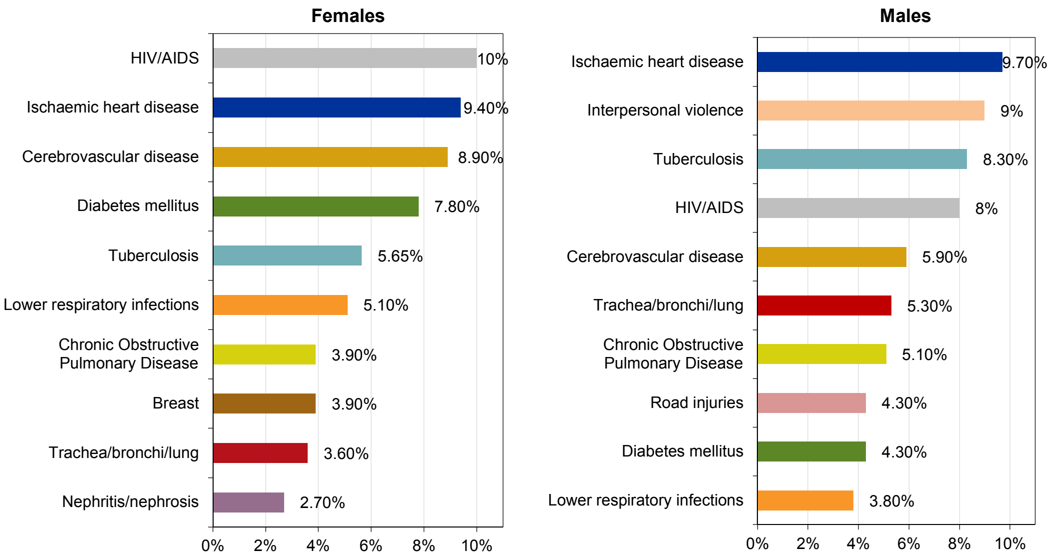


Source: 20 year data trends, 2014, WCG Department of the Premier

Data on the number and causes of deaths in the Western Cape in 2011 were collected through a mortality surveillance system that captured data on natural and unnatural deaths from death notifications from both the Department of Home Affairs and Forensic Pathology Services at the Western Cape Department of Health. When assessed against Statistics South Africa 2011 data on total deaths per district, the Western Cape mortality surveillance system had a completeness of 94.1 per cent.

In 2011, there were 23 557 male deaths and 19 481 female deaths recorded in the Province. Ischaemic heart disease was the leading cause of death for males while it was the second leading cause of death for females. For both males and females, five of the top ten causes of death were non-communicable disease, also referred to as chronic diseases, and these constituted a similar burden to HIV/AIDS and TB.

Figure 5.16 Top ten causes of death for males and females in the Western Cape, 2011



Source: Western Cape Mortality Profile, 2011

The years of life lost (YLL) measure takes into account the number of deaths as well as the age at which death took place, thus being sensitive to premature death. When considering this measure rather than simply the number of deaths, interpersonal violence is the leading cause of premature mortality for males, contributing 12.8 per cent to YLL, while it is the second leading cause of male deaths (9.0 per cent). HIV/AIDS is the fourth leading cause of all male deaths but is the second leading cause of premature death for males, contributing 10.4 per cent to YLL. In contrast, interpersonal violence does not feature as one of the top ten leading causes of death for females. HIV/AIDS is the leading cause of premature deaths for females contributing 15.0 per cent to YLL as well as being the leading cause of death amongst females.

At district level, the leading cause of premature mortality for each district, including the City of Cape Town (with the exception of the West Coast District) was HIV/AIDS. This is followed by TB in all districts but not the City of Cape Town, where interpersonal violence ranked second and TB third. In the West Coast District, HIV/AIDS ranked second and ischaemic heart disease third. It is interesting to note that interpersonal violence ranked within the top five causes of premature mortality within all districts and the City.

Table 5.5 Leading causes of premature mortality within the Western Cape districts, 2011

Rank	Cape Winelands		Central Karoo		Cape Town		Eden		Overberg		West Coast		Western Cape	
1	HIV/AIDS	12.1%	HIV/AIDS	14.9%	HIV/AIDS	13.0%	HIV/AIDS	12.3%	HIV/AIDS	9.3%	TB	11.7%	HIV/AIDS	12.4%
2	TB	9.8%	TB	11.4%	Interpersonal violence	9.7%	TB	10.1%	TB	8.5%	HIV/AIDS	8.7%	TB	8.6%
3	Interpersonal violence	6.6%	COPD	7.5%	TB	7.7%	Ischaemic heart disease	7.0%	Ischaemic heart disease	8.0%	Ischaemic heart disease	8.3%	Interpersonal violence	8.3%
4	Cardio-vascular disease	6.0%	Interpersonal violence	5.5%	Ischaemic heart disease	6.7%	Cerebro-vascular disease	6.7%	Interpersonal violence	6.5%	Cerebro-vascular disease	6.4%	Ischaemic heart disease	6.6%
5	COPD	5.6%	Lower respiratory infections	5.3%	Lower respiratory infections	4.7%	Interpersonal violence	5.3%	Cerebro-vascular disease	6.1%	Interpersonal violence	5.6%	Cerebro-vascular disease	5.1%
6	Road injuries	5.3%	Ischaemic heart disease	5.1%	Diabetes mellitus	4.7%	Diabetes mellitus	4.8%	Trachea/ bronchi/ lung	5.6%	COPD	5.4%	Lower respiratory infections	4.8%
7	Ischaemic heart disease	5.1%	Cerebro-vascular disease	5.1%	Cerebro-vascular disease	4.4%	Lower respiratory infections	4.7%	Lower respiratory infections	5.1%	Lower respiratory infections	5.4%	Road injuries	4.5%
8	Lower respiratory infections	4.9%	Trachea/ bronchi/ lung	4.7%	Road injuries	4.4%	COPD	3.9%	Road injuries	4.8%	Road injuries	5.2%	Diabetes mellitus	4.5%
9	Trachea/ bronchi/ lung	4.2%	Road injuries	3.6%	Trachea/ bronchi/ lung	3.5%	Trachea/ bronchi/ lung	3.8%	COPD	4.7%	Trachea/ bronchi/ lung	4.2%	Trachea/ bronchi/ lung	3.8%
10	Diabetes mellitus	4.0%	Diabetes mellitus	2.7%	COPD	2.6%	Road injuries	3.6%	Diabetes mellitus	3.8%	Diabetes mellitus	3.9%	COPD	3.5%

Source: Western Cape Mortality Profile, 2011

The increasing prevalence of non-communicable diseases amongst the Western Cape population is also evident from self-reported survey data. Such data are likely to under-estimate the true prevalence of non-communicable disease, as some respondents may be reluctant to admit they have been diagnosed with certain diseases while many will be unaware they have a non-communicable disease.

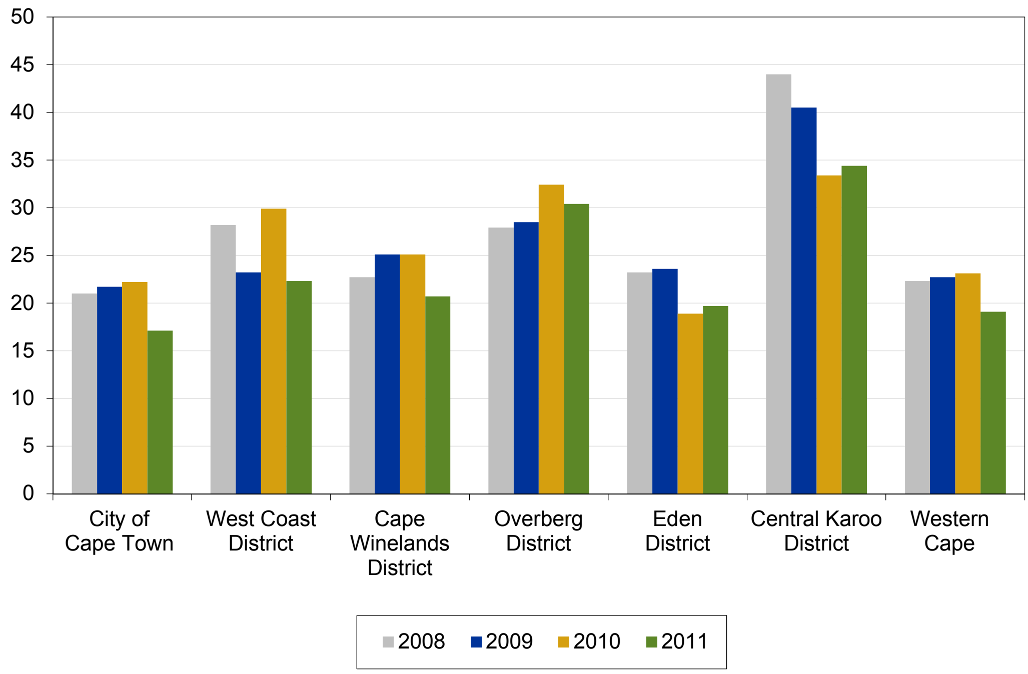
The Community Survey shows that there are 950 000 people who have hypertension and 330 000 patients with diabetes in the Western Cape. The Western Cape Department of Health estimates that while 450 000 people are receiving care for hypertension this only represents 47 per cent of those who require treatment. Similarly, it is estimated that there are 200 000 people with diabetes of whom only 61 per cent are on treatment. It is estimated that 12 per cent of the Western Cape population are responsible for 50 per cent of visits at primary healthcare facilities, with the majority of these visits being for non-communicable diseases.

5.5.3 Infant, child and maternal mortality

Infant and childhood mortality is a reflection of both a country's health status and that of its children. It is also a reflection of the quality and efficiency of the health system and its contribution to health outcomes.

In the Western Cape, the infant mortality rate improved from 22.3 per 1 000 live births in 2008 to 19.1 per 1 000 live births in 2011. At district level, the Central Karoo had the highest infant mortality rate, despite significant improvement from 44.0 to 34.4 per 1 000 live births between 2008 and 2011. In contrast, the City of Cape Town had the lowest infant mortality rate, improving from 21.0 to 17.1 per 1 000 live births over the same period. The Overberg District is the only district where the infant mortality rate was higher in 2011 at 30.4 per 1 000 live births than in 2008 at 27.9 per 1 000 live births.

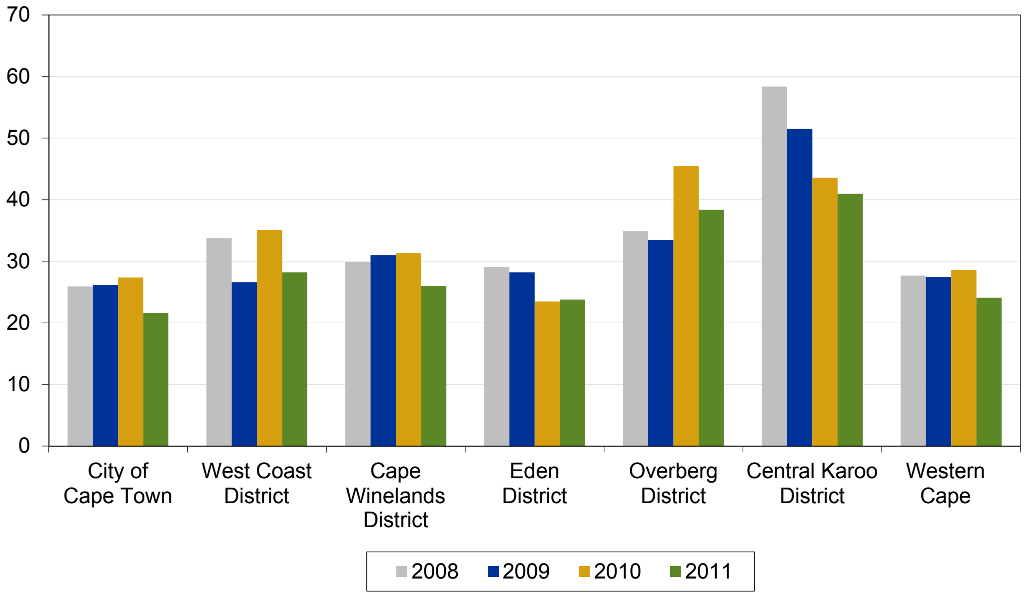
Figure 5.17 Infant mortality rate (per 1 000 live births) within districts, 2008 - 2011



Source: Western Cape Mortality Profile, 2011

The provincial child mortality rate increased from 27.7 per 1 000 live births in 2008 to 28.6 per 1 000 live births in 2010. The mortality rate subsequently improved significantly to 24.1 per 1 000 live births in 2011. The Central Karoo District also had the highest child mortality rate, despite significant improvement from 58.4 to 41.0 per 1 000 live births between 2008 and 2011. In turn, the City of Cape Town also had the lowest child mortality rate that improved from 25.9 to 21.6 per 1 000 live births over the same period. The child mortality rate increased in the Overberg District from 34.9 to 38.4 per 1 000 live birth between 2008 and 2011.

Figure 5.18 Child mortality rate (per 1 000 live births) by district, 2008 - 2011



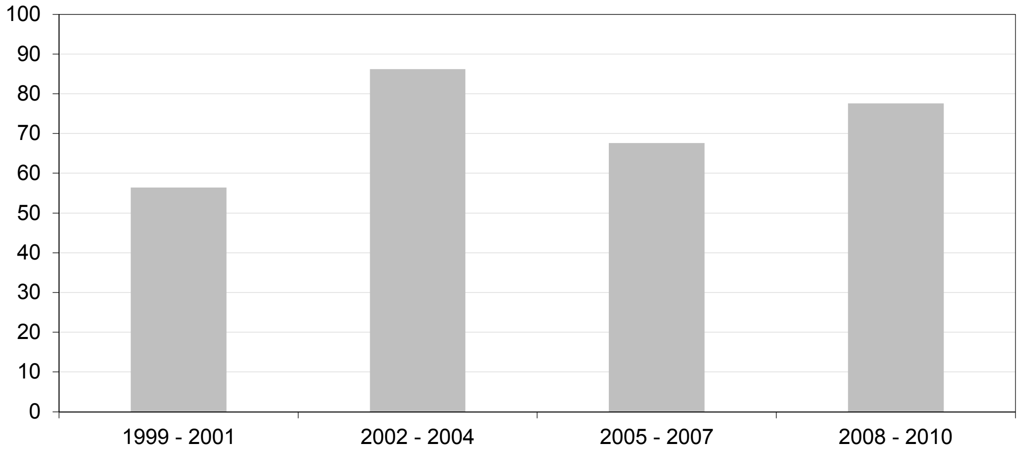
Source: Western Cape Mortality Profile, 2011

Maternal health is one of South Africa's top four health priorities. Complications related to pregnancy and childbirth are the leading causes of mortality amongst women of reproductive age in most developing countries. South Africa is amongst the forty countries in the world with the highest maternal mortality[13].

For the period 1999 to 2010, the maternal mortality rate has increased from 56.4 maternal deaths per 100 000 live births for the three year period 1999 - 2001 to 77.6 maternal deaths per 100 000 live births for the period 2008 - 2010. The number of maternal deaths amounted to 227 in the period 2008 - 2010 compared to 126 maternal deaths in the period 1999 - 2001.

[13] WHO, 2013. The WHO defines a maternal death as "the death of a woman while pregnant or within 42 days of termination of pregnancy, irrespective of the duration and site of pregnancy, from any cause related to or aggravated by the pregnancy or its management but not from accidental or incidental causes".

Figure 5.19 Institutional Maternal Mortality rate (maternal deaths per 100 000 live births)



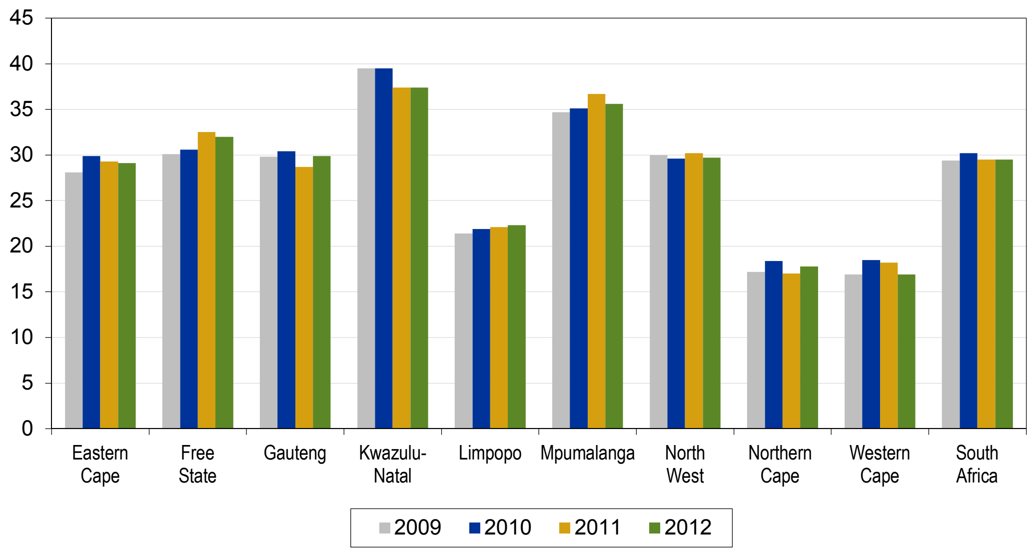
Source: 5 year data trends, 2014, WCG Department of the Premier

5.5.4 HIV/AIDS and TB

South Africa has the largest number of people living with HIV/AIDS in the world, estimated at 5.6 million in 2012. The HIV epidemic hampers a country's ability to achieve several developmental goals including the halting and reversal of TB infections. South Africa has the third highest TB burden in the world. The country is facing the challenge of managing concomitant HIV and TB infections along with the increasing incidence of drug resistant TB.

In 2012, the Western Cape was the province with the lowest HIV prevalence rate amongst pregnant women between the ages of 15 and 49 years who attended an antenatal clinic.

Figure 5.20 HIV prevalence amongst antenatal women, 2009 - 2012



Source: The 2012 National Antenatal Sentinel HIV and Herpes Simplex Type-2 Prevalence Survey in South Africa, National Department of Health, 2013

The HIV prevalence amongst pregnant women between the ages of 15 and 49 years was 16.9 per cent in the Province in 2012. The data indicates that the prevalence has stabilised, with the rate declining to the level recorded in 2009 by 2012. Women between the ages of 15 and 24 are at high risk of HIV infection as sexual debut most frequently occurs in this age group. There has been a decline in antenatal HIV prevalence amongst women aged 15 to 24 years in Western Cape, from 11.7 per cent in 2011 to 9.6 per cent in 2012.

While unable to stem the transmission of HIV, antiretroviral therapy (ART) significantly extends the lives of people living with HIV/AIDS. In 2013/14, there were 134 212 patients receiving ART within the Western Cape. In 2013/14 the 'prevention of mother-to-child transmission' (PMTCT) rate was 1.7 per cent in the Province, one of the lowest rates in the country.

Globally, the TB pandemic is slowly being stopped in its tracks with new cases of TB declining over several years (WHO, 2012). Both the incidence (new and recurrent cases) and prevalence (all cases) of TB in South Africa remain high (WHO, 2012/13)[14]. In the Western Cape, the cure rate for positive Pulmonary Tuberculosis has marginally increased from 79.4 per cent in 2009/10 to 81.7 per cent in 2012/13[15]. The number of individuals who tested positive for TB amounted to 14 722, while the number of smear positives who were cured amounted to 12 023 in 2012/13. The Western Cape still has the third highest number of new TB infections in South Africa with 746 cases per 100 000 individuals.

5.6 Municipal services and housing

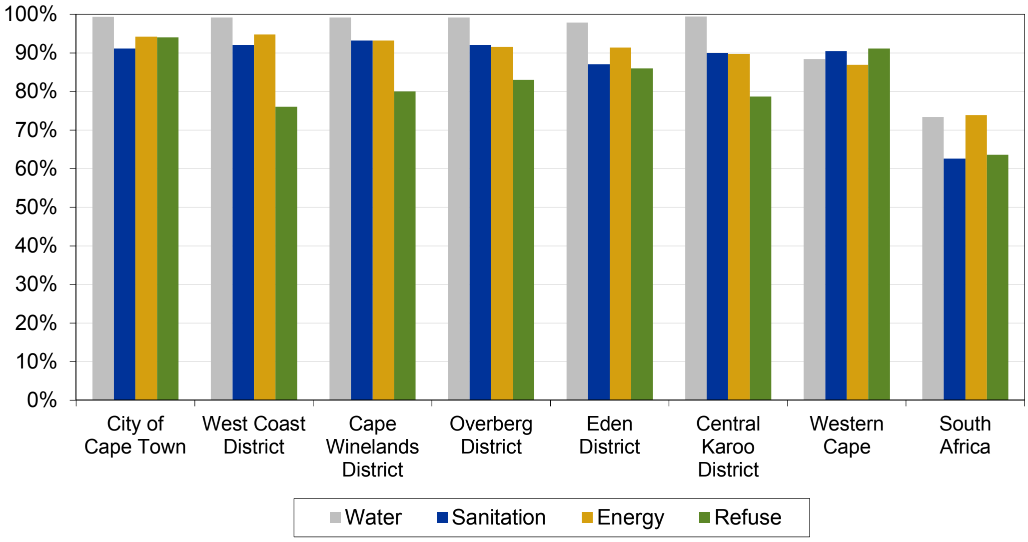
The adverse effects of poverty can be directly observed through the standard of living and quality of life of many households within the Province. For this reason, municipalities support those living in abject poverty by providing them with free basic services such as water, electricity, sanitation and refuse removal. These efforts aim to promote inclusive growth.

Figure 5.21 below depicts access to basic services, nationally, in the Western Cape, and further disaggregating to district level. When compared to the 2001 Census data, access to all basic services and housing had improved by 2011. Access to all basic services across districts, the City of Cape Town and the Province as a whole is significantly above access for the country. Despite improvements in access, some districts continue to face challenges in expanding access to all municipal services.

[14] The incidence is higher than prevalence, an indication of the severity of the pandemic.

[15] This in the highest provincial cure rate in the country and is approaching the WHO target of an 85 per cent cure rate.

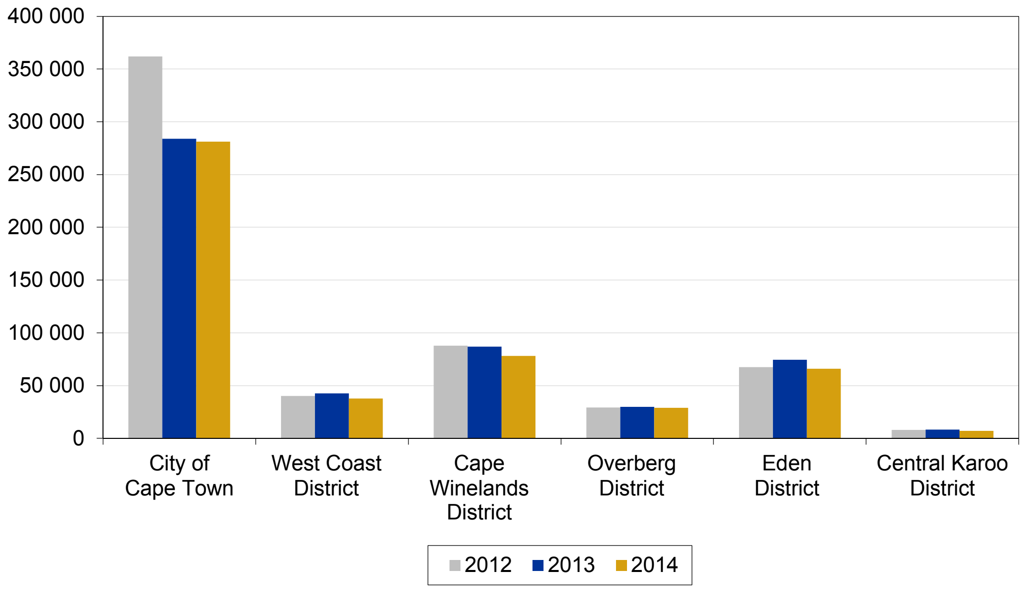
Figure 5.21 Percentage of households with access to basic services, 2011



Source: Census 2011, Quantec 2013

The housing backlog estimates presented in Figure 5.22 below are based on estimates provided by each municipality as captured in the Western Cape Housing Demand Database and the City of Cape Town's housing database. Given the dynamic nature of the databases the figures provided are subject to continuous update and refinement. At the end of 2012 the City of Cape undertook an extensive data cleaning exercise, with a similar exercise undertaken by the Western Cape Department of Human Settlements in 2013. Updating and cleaning the database is the main contributor to the declining backlog rather than accelerated provision of housing.

Figure 5.22 Western Cape housing backlog estimate, 2012 - 2014



Note: District data for 2014 as at 1 September 2014
City of Cape Town data for 2014 as at 11 September 2014

Source: Department of Human Settlements

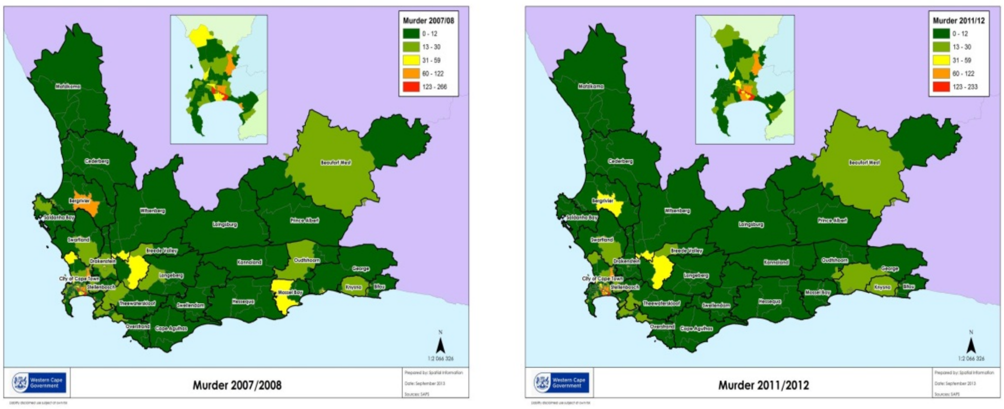
5.7 Crime

The comparatively favourable socio-economic conditions in the Western Cape, relative to other provinces in South Africa, do not extend to all areas. Specifically, the incidence of crime and interpersonal violence, alcohol and substance abuse and youth at risk within the provincial context are areas that warrant careful consideration.

5.7.1 Interpersonal violence

Figure 5.23 below highlights the murder rate in the Western Cape in the periods 2007/08 and 2011/12. The Western Cape has a relatively high murder rate at a provincial level with the highest concentration of murders in the City of Cape Town, having increased between the aforementioned periods. Inter-personal violence was the third leading cause of premature mortality in the City of Cape Town in 2011.

Figure 5.23 Spatial disaggregation of murder rate by municipality



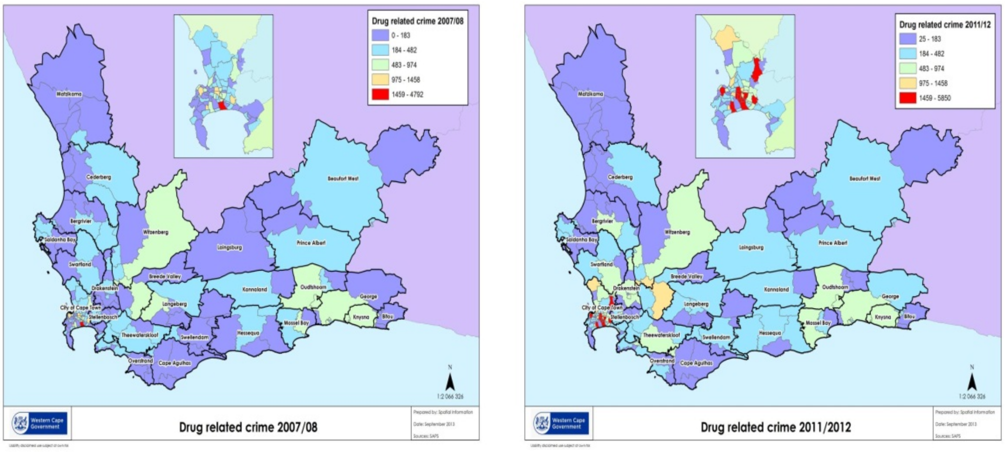
Source: Department of Community Safety, Department of the Premier

Violence in the community has also affected schools in 2013. Fourteen schools in Manenberg (a suburb of Cape Town) had to be closed for several days because of concerns for the safety of children and staff due to gang activity in the neighbourhood. Additional funds from the education budget had to be allocated to provide protection. Schools that must operate while exposed to gang violence in their immediate surroundings function in an environment unconducive to learning. Consequently, learning outcomes and investment in the education of future workers and adult members of the community are negatively affected. According to the 2008 Living Conditions Survey, 12.3 per cent of respondents in the Western Cape viewed crime as a major problem at school, more than twice the national average.

5.7.2 Alcohol and substance abuse

The Western Cape has a high incidence of drug related crime. Figure 5.24 below provides a spatial disaggregation of incidence of drug related crime in the Western Cape.

Figure 5.24 Drug related crime by municipality

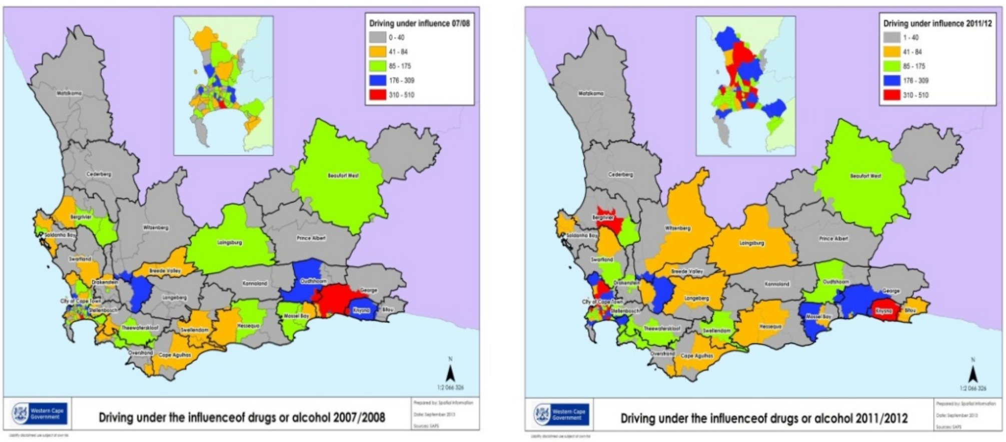


Source: Department of Community Safety, Department of the Premier

The City of Cape Town has the highest concentration of drug related crime and also saw an increase over the aforementioned periods.

Figure 5.25 illustrates the number of people in the Western Cape, by municipality, who have been apprehended driving under the influence of drugs or alcohol.

Figure 5.25 Driving under the influence of drugs or alcohol by municipality



Source: Department of Community Safety, Department of the Premier

The incidence of people driving under the influence of drugs and/or alcohol is relatively spread across the Western Cape. The highest concentration and increase over the aforementioned periods is found in the City of Cape Town.

5.8 Conclusion

Improved life expectancy, declining infant and child mortality rates, more and better matric passes, improved learner retention and improving access to basic services are some of the more important indicators used to highlight improving socio-economic conditions in the Province. Despite progress on this front, challenges remain. These include the incidence of interpersonal violence and substance abuse, the growing incidence of chronic disease, high learner dropout rates and marginal progress in addressing inequality.

The variation in socio-economic conditions across the Province is clear, with some regions having benefitted more from inclusive growth than others. In promoting the objective of inclusive growth, a balanced approach, informed by an awareness of spatial complexities, should be considered when developing and implementing policy interventions to improve socio-economic conditions.

Annexure F

Western Cape Socio-economic Index

Municipality	Household Services Index	Education Index	Housing Index	Economic Index	Socio-economic Index	Rank
West Coast						
Matzikama	0.1518	0.5928	0.1105	0.5103	0.4064	18
Cederberg	0.1277	0.6375	0.0946	0.4970	0.3998	16
Bergrivier	0.0713	0.5840	0.0692	0.4342	0.3381	3
Saldanha Bay	0.0275	0.4553	0.1230	0.5242	0.3367	2
Swartland	0.0531	0.5521	0.0931	0.4687	0.3420	4
Cape Winelands						
Witzenberg	0.1008	0.6167	0.1049	0.4659	0.3764	13
Drakenstein	0.0636	0.4663	0.1012	0.4933	0.3360	1
Stellenbosch	0.1399	0.4488	0.1466	0.5089	0.3757	12
Breede Valley	0.1333	0.5198	0.1414	0.5046	0.3876	15
Langeberg	0.0902	0.6015	0.0980	0.5031	0.3807	14
Overberg						
Swellendam	0.1068	0.5980	0.0926	0.4684	0.3721	11
Theewaterskloof	0.1362	0.5726	0.1314	0.5212	0.4048	17
Overstrand	0.1000	0.4155	0.1333	0.5460	0.3636	9
Cape Agulhas	0.0892	0.5134	0.0843	0.4796	0.3475	6
Eden						
Kannaland	0.1421	0.6488	0.0810	0.5657	0.4291	24
Hessequa	0.0674	0.5461	0.0524	0.4918	0.3443	5
Mossel Bay	0.0744	0.4358	0.1069	0.5569	0.3568	8
George	0.0953	0.4767	0.1099	0.5361	0.3674	10
Oudtshoorn	0.1453	0.5485	0.1029	0.5836	0.4179	22
Bitou	0.1430	0.4506	0.1731	0.6276	0.4263	23
Knysna	0.1834	0.4510	0.1524	0.5745	0.4168	21
Central Karoo						
Laingsburg	0.1190	0.6735	0.0534	0.5337	0.4086	19
Prince Albert	0.1087	0.6701	0.0807	0.5880	0.4302	25
Beaufort West	0.0624	0.6123	0.0362	0.6506	0.4115	20
City of Cape Town	0.1023	0.3823	0.1315	0.5253	0.3486	7

Annexure G

Grades 3, 6 and 9 Systemic results for public ordinary schools, 2012 - 2013

	Grade 3				Grade 6				Grade 9			
	Numeracy		Literacy		Maths		Language		Maths		Language	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Wrote	77 621	81 883	77 623	81 888	74 422	73 908	74 407	73 900	78 825	79 699	78 677	74 534
Passed	39 975	45 036	30 195	30 299	19 647	20 916	27 456	21 800	10 957	10 682	37 922	35 627
Pass %	**51.5**	**55.0**	**38.9**	**37.0**	**26.4**	**28.0**	**36.9**	**30.0**	**13.9**	**14.0**	**48.2**	**48.0**
Mean	**48.9**	**51.0**	**43.7**	**43.0**	**39.5**	**39.0**	**45.1**	**39.0**	**29.2**	**29.0**	**50.7**	**51.0**

Source: WCED, 2014

Annexure H

Western Cape, Gauteng and national performance in the 2013 National Annual Assessment tests

		% average achievement			% of learners achieving 50% or above		
Grade	**Subject**	**Western Cape**	**Gauteng**	**South Africa**	**Western Cape**	**Gauteng**	**South Africa**
Grade 1	Home language	64.5	65.4	60.4	75.3	77.9	71.4
Grade 2	Home language	62.0	60.2	56.5	72.9	69.2	64.6
Grade 3	Home language	49.9	54.8	50.8	54.9	63.1	57.0
Grade 4	Home language	54.1	53.4	49.3	63.2	59.9	52.1
Grade 5	Home language	55.8	51.6	45.6	64.2	56.1	44.7
Grade 6	Home language	63.0	61.3	58.8	76.7	71.7	67.6
Grade 9	Home language	48.6	44.0	43.1	46.3	38.6	37.0
Grade 4	First add. language	41.4	46.4	39.2	45.7	34.6	30.9
Grade 5	First add. language	39.1	47.5	36.5	29.8	48.9	26.7
Grade 6	First add. language	48.1	52.4	45.7	46.4	56.6	41.2
Grade 9	First add. language	36.0	38.1	33.2	19.2	25.6	17.1
Grade 1	Mathematics	61.1	65.0	59.6	73.2	79.2	71.3
Grade 2	Mathematics	62.2	64.5	58.9	74.5	78.6	70.0
Grade 3	Mathematics	57.4	58.9	53.1	66.0	69.6	59.1
Grade 4	Mathematics	42.2	43.8	36.8	36.5	40.1	27.1
Grade 5	Mathematics	39.7	40.8	33.4	31.4	33.9	21.2
Grade 6	Mathematics	44.9	44.7	39.0	37.7	38.4	26.5
Grade 9	Mathematics	17.0	15.9	13.9	7.2	5.2	3.4

Source: Department of Basic Education, Annual National Assessment 2013: Tables 4.6 to 4.19

Appendix

Western Cape statistics

Indicator	GDP at basic prices – Total R million	GDP – Agriculture R million	GDP – Mining R million
2007	230 567	8 503	446
2008	241 132	10 004	415
2009	238 293	9 879	382
2010	244 474	9 696	395
2011	253 946	9 730	390
2012	261 285	9 916	385
Annual average growth	**2.6**	**3.4**	**-2.8**

Indicator	GDP - Manufacturing R million	GDP - Electricity R million	GDP - Construction R million
2007	43 300	3 630	9 801
2008	44 195	3 490	10 511
2009	40 375	3 514	10 897
2010	42 452	3 561	10 961
2011	43 781	3 600	11 020
2012	44 556	3 615	11 309
Annual average growth	**0.7**	**-0.1**	**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
2007	35 758	23 292	71 511
2008	35 855	23 956	76 889
2009	35 329	24 241	77 080
2010	36 716	24 704	78 531
2011	38 415	25 512	82 609
2012	39 864	26 047	85 600
Annual average growth	**2.2**	**2.3**	**3.7**

Indicator	GDP – Community and social services R million	GDP – General government R million
2007	12 228	22 099
2008	12 732	23 084
2009	12 569	24 028
2010	12 602	24 856
2011	12 881	26 008
2012	13 175	26 819
Annual average growth	**1.5**	**3.9**

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
2007	18 526 949	8 692 352	3 506 052
2008	17 405 545	8 097 330	3 613 514
2009	12 261 287	4 936 990	2 375 782
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
5-yr annual average growth	**2.9**	**2.6**	**4.8**

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
2007	6 328 545	12 381 016	6 905 910
2008	5 694 701	13 427 640	6 592 344
2009	4 948 515	13 205 877	6 005 474
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
5-yr annual average growth	**4.0**	**5.2**	**2.5**

Indicator	Building completed: Province - Western Cape: Non-residential buildings R'000	Building completed: Province - Western Cape: Additions and alterations R'000
2007	2 558 415	2 916 691
2008	2 867 334	3 967 962
2009	3 289 662	3 910 741
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
5-yr annual average growth	**8.4**	**8.4**

Indicator	Electricity consumption	Air traffic (Arrivals)	Air traffic (Departures)
2007	23 410	4 467 141	4 502 231
2008	23 245	4 338 173	4 369 647
2009	22 583	4 125 761	4 146 771
2010	23 093	4 302 292	4 332 258
2011	22 779	4 492 699	4 509 032
2012	22 975	4 511 830	4 549 110
2013	22 714	4 441 541	4 467 745
5-yr annual average growth	**-0.4**	**0.5**	**0.5**

Indicator	Crop estimates (Wheat)	Vehicle sales
2007	812 000	57 152
2008	860 000	38 131
2009	675 000	26 987
2010	530 000	37 604
2011	710 000	45 597
2012	897 600	51 358
2013	928 000	52 050
5-yr annual average growth	**4.2**	**9.1**

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