

**Western Cape Government
Provincial Treasury**

**Provincial Economic Review
and Outlook
2015**

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PR268/2015
ISBN: 978-0-621-43909-0

Foreword

The annual Western Cape Provincial Economic Review and Outlook (PERO) has become a key form of economic intelligence in the Western Cape. It provides a review and analysis of past and forecasted economic growth, labour market dynamics and socio-economic development of the Province.

Together, with its companion study, the Municipal Economic Review and Outlook (MERO), the Provincial Economic Review and Outlook is a toolkit which facilitates decision making for government departments, public entities, business, national and international organisations interested in investing in the Western Cape. It aims to improve our understanding and insight into the Western Cape economy as part of the evidence-based approach to informing and guiding provincial policy, planning and budgeting. Consideration of the regional economy's prospects, opportunities and challenges is critical to ensure that the pursuit of economic growth also increases employment, and improves the quality of life for citizens. Hence, continuing with the theme focusing on "Inclusive growth - unlocking opportunities for growth and jobs".

The current economic environment is weaker, and in terms of economic growth the outlook is more pessimistic. Persistent unemployment, coupled with increasing population pressures and dynamics linked to youth, gender and race remain key challenges in the Western Cape. Other domestic constraints impacting on the economic outlook relate to energy, infrastructure and skills shortages; while outcomes related to education, health and broader social ills continue to impact on and are affected by the levels of economic development.

These current global and domestic economic pressures highlight the fundamental need for careful planning and tough decision making, active economic transformation and appropriate policy responses which creates both economic and human development. Therefore the policy implications of the 2015 PERO research findings strongly reiterate the strategic priorities and initiatives encapsulated in the 2014 - 2019 Provincial Strategic Plan. These include creating an enabling environment through energy security, reducing red tape, skills development and promoting infrastructure led growth. The Western Cape also showcases promising economic opportunities particularly in Agri-processing, Tourism and Oil and Gas - which are key strategic priority areas.

I wish to express my sincere appreciation to the team who have contributed to this year's research and publication and also those who will carry it through into the government's policy, planning and implementation programme.



Dr Ivan Meyer
Minister of Finance
15 October 2015

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Acronyms

ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
API	Agri-Processing Index
ART	Anti-Retroviral Treatment
BER	Bureau for Economic Research
BPO	Business Process Outsourcing
BRICS	Brazil, Russia, India, China and South Africa
CPI	Consumer Price Index
CSP	Community, Social and Personal Services
DSD	Department of Social Development
ECB	European Central Bank
Fed	Federal Reserve Bank
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GHS	General Household Survey
GTL	Gas-to-Liquid
GVA	Gross Value Added
HDI	Human Development Index
HIV	Human Immune Virus
ICT	Information and Communication Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
iMMR	Institutional Maternal Mortality Rate
IMR	Infant Mortality Rate
LFPR	Labour Force Participation Rate
LMDS	Labour Market Dynamic Survey
MDR	Multi-Drug Resistant
MENA	Middle East and North African
MERO	Municipal Economic Review and Outlook
MICE	Meetings, Incentives, Conferencing and Events
MPC	Monetary Policy Committee
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NEET	Not in Education, Employment and Training

NSC	National Senior Certificate
OSSB	Offshore supply base
PBoC	People's Bank of China
PCFI	Public Corporation Fixed Investment
PERO	Provincial Economic Review and Outlook
PMI	Purchasing Managers Index
PMTC	Prevention of mother-to-child-transmission
PNP	Policing Needs and Priorities
PSDF	Provincial Spatial Development Framework
PSG	Provincial Strategic Goal
PSP	Provincial Strategic Plan
PWC	PricewaterhouseCoopers
QES	Quarterly Employment Statistics
QLFS	Quarterly Labour Force Survey
RCTA	Revealed comparative trade advantages
RDP	Reconstruction and Development Programme
RMB/BER	Rand Merchant Bank/Bureau for Economic Research
SA	South Africa
SACENDU	South African Community Epidemiology Network on Drug Use
SADC	Southern African Development Community
SAPS	South African Police Service
SARB	South African Reserve Bank
SIC	Standard Industrial Classification
TB	Tuberculosis
TNPA	Transnet National Ports Authority
U5MR	Under-5 Mortality Rate
UK	United Kingdom
US	United States
WCG	Western Cape Government
WISE	Wine Industry Strategic Exercise
WOSA	Wines of South Africa
XDR	Extreme Drug Resistant

1

Introduction and executive summary

1.1 Background

1.1.1 Purpose of study

The Provincial Economic Review and Outlook (PERO) is an important form of economic intelligence, which provides an objective review and analysis of past and forecasted future economic growth, key labour market dynamics and socio-economic development of the Province. The report provides an analytical reference point for the provincial economic development policies, strategies and interventions utilising an evidence-based platform to inform and guide provincial planning and budgeting.

The 2014 PERO contextualised the challenge of shifting towards an inclusive growth and development trajectory with a spatial focus of growth and development across the Province. The 2015 PERO has expanded on these challenges of and opportunities for inclusive economic growth particularly within the current weaker global and national economic environment.

The concept of 'inclusive growth' captures the Western Cape Government's (WCG) commitment to and strategic imperatives to grow the economy and create jobs as outlined below. Therefore the key focus of both the Provincial Economic Review and Outlook and its companion study, the Municipal Economic Review and Outlook (MERO), is 'unlocking opportunities for growth and jobs'. The MERO provides a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at district/municipal level.

Therefore, the 2015 PERO delves deeper into certain aspects of the Western Cape economy in support of the achievement of the economic development policy imperatives outlined in the National Development Plan, Medium Term Strategic Framework, Western Cape Government Provincial Strategic Plan and Project Khulisa - the Western Cape Government strategy to empower people, grow the economy and create work opportunities.

With the objective to provide an improved understanding and insights into the real economy, in particular of industry activity, their prospects and the constraints they face as well as how to ensure that growth also increases employment, decreases unemployment and improves the quality of life for citizens of the Western Cape the PERO 2015 looks into:

- The relationship between the national and provincial economy and also the global economy in terms of our major trading partners;
- The trends in WC economic growth, the spatial context, the performance of its industry sectors and value chains with a particular focus on the WCG priority sectors of agri-processing, the drivers and constraints that affect domestic and export production of these sectors;
- Labour force dynamics, particularly the demand side and wage distributions derived for sectors and a more detailed analysis of youth unemployment; and
- Socio-economic development aspects of all the citizens of the Western Cape as they are intricately linked to economic growth.

Policy and institutional Initiatives

The **National Development Plan (NDP)** serves as a blueprint to substantially reduce poverty and inequality in South Africa by 2030. According to the NDP, South Africa needs economic growth of around 5 per cent per annum to decisively reduce unemployment and poverty, as well as transform our social and economic order. The transformation required speaks to how land is utilised; transport, energy and communication networks are organised; cities and local government are managed; education, health and social services are improved; ownership is broadened and industries developed; and how we engage with Africa and the rest of the world.

The **Medium Term Strategic Framework (MTSF)** 2014 - 2019 defines the strategic outcomes and targets of government over a five year period. It is the implementation plan of the NDP and the frame of reference outlining the government's main priorities underpinning the strategic direction of government over the 2014 - 2019 period. The MTSF therefore serves as the principal guide to the planning and the allocation of resources across all spheres of government.

The Western Cape Government's Provincial Strategic and Policy Framework comprise of the OneCape 2040 Vision, Provincial Strategic Plan (PSP) 2014 - 2019 and Provincial Spatial Development Framework (PSDF), amongst others. These documents are closely aligned to the national frameworks mentioned above.

The **Provincial Strategic Plan** is a key policy document that sets out the Western Cape Government's vision and strategic priorities. The primary objectives are to create conditions for economic growth, provide better education and achieve better health, safety and social outcomes. The PSP also reflects the PSDF - a critical enabler for development - and the OneCape 2040 vision. The PSP includes 5 Provincial Strategic Goals, namely:

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

Jobs and growth are the number one priority of the WCG. In this regard, Project Khulisa (as a central economic strategy) is a focused action plan to achieve economic growth and job creation through high impact interventions in sectors which offer potential opportunities for the delivery of growth and jobs. It is one of the major projects in the implementation of Strategic Goal 1, to create opportunities for growth and jobs, and specifically contributes toward providing support to key strategic sectors.

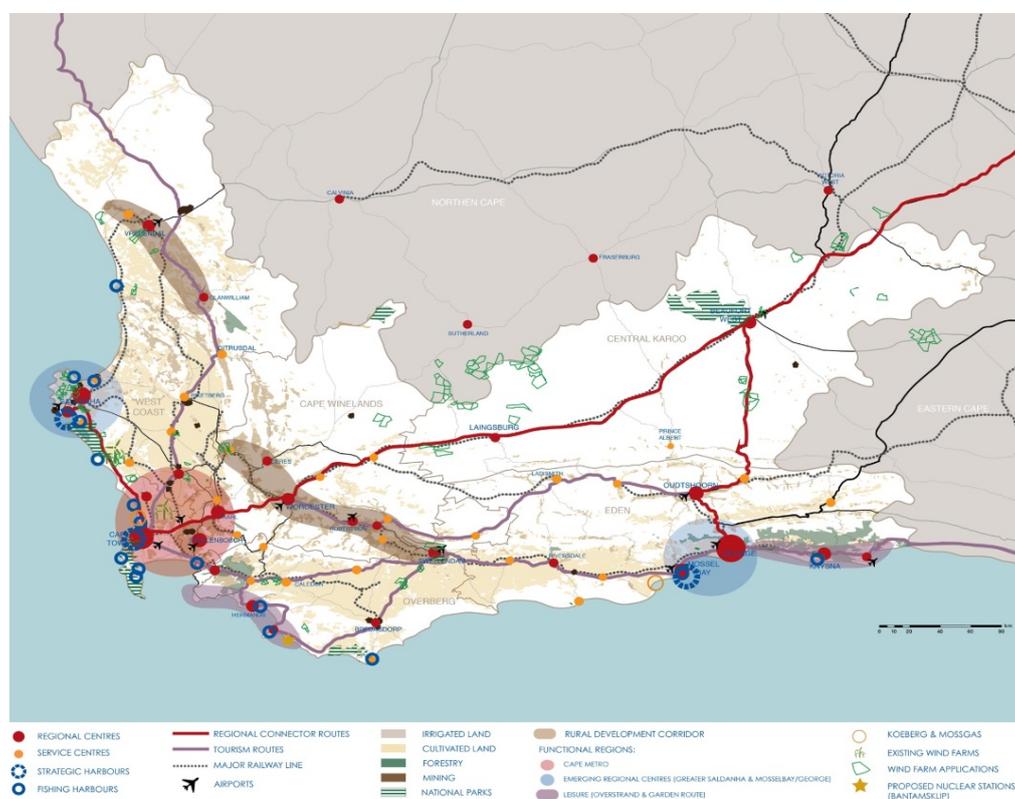
In particular, Project Khulisa focuses on productive and enabling sectors that contribute to the regions competitive advantage and/or having the potential to be catalytic in growing the economy. The sectors identified in this regard include tourism, agri-processing, and oil and gas (rig repair) with a particular focus placed on them over the next 3 to 5 years. In addition, sectors such as the Business Processing Outsourcing (BPO), Film and Information and Communication Technology (ICT) are also identified as important for a well-functioning economy.

Across the Provincial Strategic Goals, several priority projects called Game Changers have also been identified. The Game Changers are high impact, sharply focused catalytic initiatives that will tackle intractable problems or open up a new opportunity that is important to citizens and improves their lives. The Game Changers include broadband and e-learning; after school facilities; alcohol harms reduction; skills; energy security; better living model, and sanitation.

The **Provincial Spatial Development Framework (PSDF)** provides the spatial development policy framework through which the WCG's strategic objectives will, for example, drive economic growth. Therefore, the PSDF's role is to open-up opportunities for inclusive economic growth in urban and rural areas and is broadly focused on growing the economy, building greater environmental resilience and inclusion. The PSDF aims to grow the economy in partnership with non-state actors; utilise infrastructure investment as a primary lever, and improve oversight of the Western Cape's spatial assets.

Below is a diagram depicting the spatial vision of the PSDF:

Figure 1.1 Western Province - space economy synthesised and consolidated framework



Source: Provincial Spatial Development Framework (2014)

These factors culminate into the particular Spatial Logic of the PSDF, which is to:

- Capitalise on the Western Cape's comparative advantages;
- Consolidate existing and emerging regional economic nodes;
- Connect rural and urban markets; and
- Cluster economic infrastructure and facilities along public transport routes.

Implicit within the Provincial Strategic Plan 2014 – 2019 and Provincial Strategic Goals framework are key areas for government to prioritise as well as to work in partnership with key stakeholders which are supported by the PERO

research as critical for the Western Cape. Factors such as skills development, infrastructure, improved education outcomes, youth development as well as moving toward increased export growth, focusing on areas of comparative advantage have consistently been identified as important levers for growth and development.

The PERO research affirms the Provincial Strategic Goals and Game Changers. The PERO can be used as evidence base for planning (provincial, departmental and local) and can serve as an analytical reference point for the provincial economic development strategies and interventions. Using the latest data from Statistics South Africa, Quantec and other data sources, importantly including data provided by WCG departments and entities (Agriculture, Health, Human Settlements, Education and Wesgro). PERO 2015 further contextualises the challenge of shifting towards an inclusive growth and development trajectory in the Province in support of the Western Cape strategic imperative to grow the economy, provide opportunities for socio-economic inclusion and create jobs.

Importantly, the annual PERO and MERO publications also provide the economic context that informs the formulation of the provincial and local government budget policy and planning and budgeting processes.

Inclusive growth

The concept of inclusive growth emerged from a decades-long debate about the definition and policy implications of pro-poor growth. For our purposes it will suffice to follow the most recent emphasis on socio-economic inclusion benefit-sharing and participation as critical mechanisms to achieve and sustain inclusive growth.

The meaning of inclusive growth¹

In 2014 PERO the concept of inclusive growth was defined and explained. A summary of that explanation is given here because of the centrality of the theme in 2015 PERO.

Inclusive growth captures the importance of structural transformation for economic diversification, socio-economic and competition. It puts the emphasis on policies that remove constraints to growth and inequality and creates a level playing field for investment and access to opportunity.

Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked. The emphasis is thereby placed on the idea of equality in terms of access to opportunity, markets, resources, and an unbiased conducive regulatory environment for businesses and individuals.

The focus is on creating work opportunities characterised by increased productive value and growing competitive businesses rather than increasing the quantum of jobs regardless of whether it was done in a sustainable and competitive manner.

¹ As per the 2013 Provincial Economic Review and Outlook.

An analysis of inclusive growth outcomes in India² found that economic growth was a major driver of poverty reduction and inclusiveness in India. Their analysis suggests that boosting spending on education and educational attainment rates leads to better inclusive growth outcomes. The report argues that spending on education - which is a component of spending on social needs - not only fosters growth but, through better jobs and higher incomes, advances equity (by helping the poor more). Sanitation and nutrition are key supporting factors in enabling value through education. These issues are therefore receiving some attention in 2015 PERO.

Drawing on their research findings about inclusive growth in India, Anand et al.³ conclude that growth has been a major driver of poverty reduction in India. They postulate that a protracted slowdown could severely hamper poverty reduction and inclusiveness. The Western Cape may be faced with the same risk.

At a practical level we can investigate and promote inclusive growth in two dimensions: the vertical dimension and the horizontal dimension. The vertical or socio-economic dimension provides a perspective on how different groups in society (ethnicity, gender, age, educational, occupational, etc.) share in the benefits or participate in economic growth. The horizontal or spatial dimension takes as its point of departure the geographic distribution of people. It provides another lens through which we can focus on the manner in which people participate in the process of economic growth and share in its benefits.

In 2015 PERO we continue with a focus on the spatial dimension of inclusive growth, although the vertical dimension also receives much attention, especially in Chapter 4 and Chapter 5.

The spatial dimension of inclusive growth

The main message of The World Bank in its 2009 World Development Report titled *Reshaping Economic Geography* is that economic growth in a spatial context matters greatly as the outcomes of economic growth are also uneven for people.

Therefore, space is an important development dimension for a focus on inclusive growth. There is general consensus that development must be inclusive also in the spatial sense. There are many views on how this is to be achieved.

² Anand, Tulin & Kumar (2014: 5)

³ Anand, Tulin & Kumar (2014: 5)

The views advanced by the World Bank⁴ and other influential reports like the Sapir Report⁵ is that differentiated strategies that should replace the outdated (but still widely practiced) “one-size-fits-all” approaches with its formal sector bias⁶, should be “spatially-blind”⁷.

These spatially-blind strategies advocate that more people will benefit from economic development if the process of economic agglomeration is not held back. The focus, according to this view, should not be on spatial redistribution of economic activity, but on 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. Inclusive growth is accelerated by creating the institutions and making the investments (into infrastructure, education and health) that will strengthen the interactive links between the lagging localities and the fast expanding growth centres.

Infrastructure and inclusive development

In the international literature there is consensus that investment is an essential ingredient for growth. It is becoming clearer that infrastructure will only contribute to inclusive growth if policy focuses on appropriate types of infrastructure. In many developing countries this is exemplified by rural roads that give poor farmers access to markets and access to health care and education for their families. The implication is clear: in such a rural context road infrastructure must be followed by health and educational infrastructure.¹

The achievement of sustained inclusive growth also requires that investment in infrastructure must be complemented by policies which improve utilisation of the infrastructure by disadvantaged groups. For example, a school not being utilised by girl children because of poverty and or gender discrimination. In such a situation building more schools, or more roads to improve transportation to schools, only has value for inclusive growth when complimented by other interventions to enhance utilisation. Physical availability of hard and soft infrastructure should therefore be accompanied by demand-side support to ensure optimal levels of access.

¹. For example: Rauniyar and Kanbur (2010)

The other view advocates a place-based approach instead of space neutral and is highly contingent on context⁸. This approach is reflected in a number of independent reports⁹.

⁴ World Bank (2009)

⁵ Sapir Report (2004)

⁶ Barca, McCann & Rodríguez-Pose (2012)

⁷ World Bank (2009)

⁸ Barca, McCann & Rodríguez-Pose (2012)

⁹ See Barca Report (2009) and the two OECD Reports (2009a, 2009b)

The proponents of a place-based approach essentially take the view that development depends critically on the interaction between geography and institutions. Ignoring this could result in path dependency, sunk costs and often large informal urban settlements with social and environmental problems that are so huge they are beyond the capacity of the state to deal with¹⁰.

The argument for space-based strategies recognises and highlights the role of regional and local governments. It suggests that good local development policies must be based on partnerships between different levels of government with the aim of such partnerships to build local institutions and to draw on local knowledge¹¹.

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 others. In a sense, the Western Cape has adopted the kind of nuanced and contextualised policies alluded to above. In many areas, especially in social policy, space neutral policies were applied. In some other areas, such as institutional development and regional initiatives in the areas of agri-processing, tourism and oil and gas, a more space-based approach was adopted. The findings summarised in Chapter 5 suggest that these policies may have had a positive effect on inclusive growth. Economic growth was faster in the more rural districts of the Province than in the City of Cape Town. As a consequence GDP per capita improved relatively more in those rural districts.

This suggests that the Western Cape may be on a more inclusive growth friendly development path than many other developing countries. In India, for example, measured inclusive growth fell short of average consumption growth (an indication of the potential for inclusive growth) in 13 major states because of the rising urban-rural divide.¹² The Indian states that experienced negative inclusive growth also suffered from widening inequality. In the Western Cape the Gini coefficient improved in the more rural districts, with the exception of West Coast and Overberg Districts, and it worsened in the City of Cape Town. These tentative signs of some progress towards inclusive growth may not be reflected in the country in an international context. In a study that mapped the attainment of inclusive growth for 43 countries¹³ South Africa was found to be the eighth worst country in terms of the degree of non-inclusiveness (see Figure 1.1). South Africa, with an index of 0.75 out of a worst possible score of 1.00, fared worse than most of the other comparable middle-income countries.

¹⁰ Barca et al (2012)

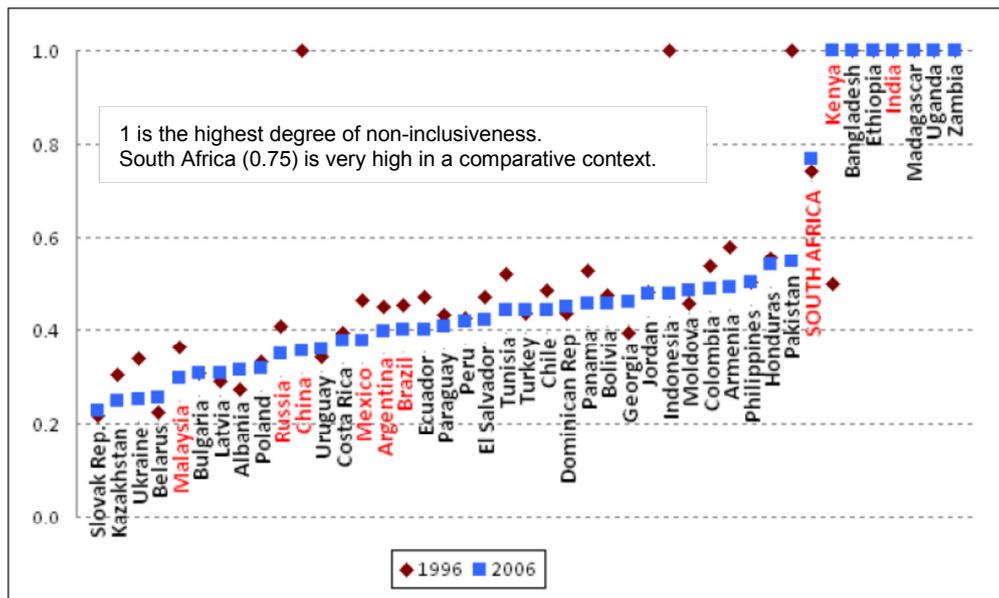
¹¹ Pike, Rodríguez-Pose & Tomaney (2007)

¹² Anand, Tulin & Kumar (2014: 5)

¹³ Ramos, et al (2009)

The authors do not analyse the reasons for a specific country's performance, but the methodology of arriving at the inclusiveness index suggests that South Africa's score is the result of the combination of high inequality, continued poverty and high unemployment, despite growth in recent decades. The findings in the following chapters of 2015 PERO suggest that there cannot be complacency about future improvements in inclusive growth in the Province.

Figure 1.2 Inclusiveness Index for 1996 and 2006



Source: Ramos RA, Ranieri R & Lammens J (2013)¹⁴

1.2 Executive summary

The 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. Although advanced economies continued the higher output growth of 2013 into 2014, emerging and developing economies, led by China, experienced moderating growth during the year. The trend of divergent growth between advanced and emerging and developing economies continued into 2015.

¹⁴ Available at <http://www.econ3x3.org/article/how-inclusive-economic-growth-south-africa>

Advanced economies are showing signs of more robust growth, rising from 1.4 per cent in 2013 to 1.8 per cent in 2014. Downward pressure on growth in emerging and developing economies intensifies, moderating to 4.2 per cent in 2015. The International Monetary Fund (IMF) forecasts global output to rise by 3.3 per cent in 2015 and by 3.8 per cent in 2016. The expected growth rate for 2015 is significantly lower than the 4.0 per cent forecast last year, reflecting the generally more pessimistic economic outlook currently prevailing. The mood may turn more sombre in the course of the year as a more pronounced slowdown in China looks increasingly likely.

Economic activity in South Africa, as with other emerging market economies, slowed in 2013 as a precursor to the more restrained pace of output growth of 1.5 per cent in 2014. The usual domestic issues - including labour unrest, infrastructure bottlenecks and a persisting current account deficit - weighed heavily on economic growth. Most of the decline in economic activity during the second quarter of 2015 can be attributed to a 9.3 per cent quarter-on-quarter fall in primary sector (mining and manufacturing) production. Drought conditions impacted on agriculture while the mining sector decline was driven by weakness in coal and iron ore production. This may already reflect the impact of the commodity demand slowdown experienced in China. The country's economic prospects received a further setback by the secondary sector contracting in the second quarter of 2015 by 4.7 per cent and the tertiary sector easing to growth of only 1.1 per cent.

While the Western Cape still manages to outperform the rest of the country, the pace of growth is less than half of what it was at the start of the recession in 2007. After steady growth at an annual rate of 2.7 per cent in 2012, economic growth in the Western Cape slowed to 2.4 per cent in 2013.

Household consumption and real consumer spending contributed largely to slower GDP growth as a moderation in employment growth, (particularly in the private sector) along with a decline in the real private sector wage rate, weighed on real disposable income and therefore consumer spending.

Domestic policy uncertainty remains a concern, especially with respect to creating an environment conducive to private sector fixed investment. Low levels of business confidence and weak domestic demand contributed to contraction in private sector fixed investment, declining by 0.4 per cent in 2014 after growth of 7.6 per cent in 2013. 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, remained a strong performer although construction may turn out to be the best performing sector of the decade.

The Province's economy is more services orientated and is less exposed to the mining sector and the volatility associated with it. 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 if the Euro Area should experience weaker growth. This is especially true for the food and beverage manufacturing (agri-processing) sector.

Over the forecast horizon (2015 - 2020) economic growth in the Western Cape is expected to average 2.7 per cent per year. 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 economy: Sectoral and spatial dimensions

An overview of the Western Cape economic performance by sector delves deeper into the agri-processing, tourism as well as oil and gas sectors. These focal areas have strong backward linkages to Western Cape producers in their value chain.

High potential sectors are identified so that government resources can be prioritised towards interventions in a small number of opportunities rather than spread across the board. This is in line with the number one priority of the WCG and its Provincial Strategic Goal 1 objectives of economic growth and employment creation, which are essential ingredients for achieving inclusive growth.

After general government (3.9 per cent), trade (wholesale and retail trade, catering and accommodation) recorded the fastest average growth rate (3.2 per cent) from 2010 - 2014, followed by finance, insurance, real estate and business services (2.9 per cent).

The primary sector (agriculture, forestry and fishing) and manufacturing, with a combined contribution of 20 per cent of output in the Province, grew at 1.3 and 2.2 per cent, respectively.

A diverse range of products underpins why the agriculture, forestry and fishing sector has been a mainstay of the Western Cape economy and driver of economic development (particularly in rural areas). Despite its relatively small direct contribution to GDP (the Western Cape agricultural sector accounts for 4.2 per cent of provincial output) it has a revealed comparative advantage in agriculture. This is manifested in agri-processing (agriculture, forestry, fishing, food, beverages and tobacco) accounting for 38.6 per cent of the Province's exports.

The economic contribution of primary agriculture is supported by various value chains: its linkages extend to agri-processing producers as intermediate inputs in the production of consumer goods and as backward linkages to its suppliers within the manufacturing and services sector. Increasing farmer participation in the full agriculture value chain via beneficiation of agricultural produce could stimulate inclusive growth and employment creation. The sector with the highest employment and product growth rates over the 2008 to 2011 period was cosmetics from animals and plants (for example, lanolin from wool or rooibos-based skincare products).

The Western Cape was a significant exporter of beverages for the past ten years, accounting for almost 70 per cent of South Africa's total beverage exports (R15.4 billion). Africa and China are becoming increasingly important markets for South African wine exports, while the more traditional European market is a mainstay.

Tourist spending has a strong, positive and sustainable impact on employment in many sectors and districts of the Western Cape economy. Tourism is one of the sectors in which the Province has a comparative advantage. 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.

Tourism in the Western Cape is characterised by its strong links to the agricultural/agri-processing sectors. The development of unique high-quality Western Cape products, from which niche markets could flourish, links closely with tourism.

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 tourist visa requirements could detract from the Province's attractiveness.

1.2.2 Labour market dynamics

While output and consumption recovered relatively soon after the global crisis of 2008, the same cannot be said about the South African labour market. The economy shed 1.1 million jobs in the two years after the local recession hit in the fourth quarter of 2008, more than 90 per cent of which occurred during the first year. It took the economy nearly five years to regain the lost jobs and reach pre-recession employment levels. Despite this growth in employment, unemployment has continued to grow. The number of people unemployed according to the narrow definition increased from just over 4 million people in the fourth quarter of 2008 to 5.2 million people in the second quarter of 2015.

The Western Cape's population has grown relatively rapidly over the past five years to an estimated 6.2 million in 2015. As a result, there are now 4.3 million potential workers resident in the Western Cape. Concomitant with this the

share of the African labour force in the Province grew from 29.2 per cent in 2010 to 36.3 per cent in 2015. The female labour force also grew rapidly during the period, partly because of a relatively fast increase in the labour force participation rate.

Working-age cohorts account for 67.7 per cent of the Provincial population. In 2015, around 53 per cent of the Western Cape's working age population - 2.3 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 estimates that the Western Cape has received just over 143 000 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 351 000 in-migrants - particularly from Gauteng (108 000), the Eastern Cape (80 000) and outside South Africa (84 000) - while 194 000 individuals are expected to leave the Province.

In South Africa, the narrow unemployment rate is estimated at 25.0 per cent in the second quarter of 2015, compared with the Province's 21.7 per cent. Including the non-searching unemployed raises the national unemployment rate to 32.8 per cent, while in the Western Cape unemployment rises only to 23.0 per cent using the broad definition. Unemployment is unevenly distributed amongst the Province's labour force. It is higher for Africans with the narrow unemployment rate at 27.7 per cent compared with 21.5 per cent and 7.9 per cent for Coloureds and Whites. Females also are still at a disadvantage with unemployment at 24.1 per cent compared with 19.5 per cent for men, not least because of employment opportunities for women not rising faster than the female labour force participation rate.

The employed labour force in the Western Cape differs from the national employed in terms of characteristics such as industry, occupation, demographics, type of employment contract, hours worked per week, educational attainment and distribution of wages. Remuneration is a critical characteristic of employment, since this provides individuals and households with command over resources and, potentially, the ability to escape poverty. In the Western Cape a relatively large proportion (22.9 per cent) of the employed in 2014 earned between R2 501 and R4 500 per month compared with South Africa (18.3 per cent). A consequence was a median wage in the Province's agriculture, forestry and fishing sector in 2014 of R2 383 per month. That compared with a median wage of R3 683 in manufacturing and R4 333 in financial and business services.

Another important characteristic of the Western Cape labour force is the high labour force participation of youth between 15 and 24 years of age. In 2015 the age-specific labour force participation rate was relatively high, resulting in

an unemployment rate of 28.7 per cent compared with the national rate of 25.7 per cent. This suggests that there is a tendency for youth in the Western Cape to leave educational institutions earlier in order to enter the labour market. This emphasises the importance of the objective of inclusive growth through an increasingly skilled, healthy and educated labour force.

1.2.3 Socio-economic development in the Western Cape

Economic growth should as a final outcome cause an improvement in the overall quality of life as measured by different socio-economic development indicators if the growth is inclusive. On the other hand, socio-economic improvements also benefit economic growth. Provincial government policies directly aimed at these improvements become agents of economic growth by creating conditions favourable to economic development.

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 economy generally grew at a faster rate (3.8 per cent) than the population (2.3 per cent) between 2001 and 2013. This resulted in an increase in average income (measured by GDP per capita) in the Western Cape from R37 502 in 2001 to R44 553 in 2013. Although there is a noticeable variation in GDP per capita across districts in the Province, it rose in all districts and the City of Cape Town, albeit only marginally in the West Coast District.

Levels of income inequality in the Western Cape as measured by the Gini coefficient are still amongst the highest in the world indicative of highly skew levels of income distribution. The Gini coefficient for the Western Cape registered relatively high at 0.63 in 2001, declining to 0.61 in 2013. The City of Cape Town and the five districts' Gini coefficients range between 0.57 and 0.61 in 2013, with the City of Cape Town's being the highest. This is to be expected given both migration and income patterns; both rich and poor tend to migrate to the City.

The Human Development Index (HDI) measures the ability of the average person to have a long and healthy life, to obtain knowledge and to have a decent standard of living. This is quantified by utilising measures such as life expectancy, literacy and income. All Western Cape districts and the City of Cape Town improved their HDI from 2001 to 2013: the highest was the City of Cape Town at 0.73. The remaining districts' HDIs ranged between 0.71 and 0.64 in 2013.

The rise in per capita income in the Province, combined with the small improvements in income distribution (Gini coefficient) and HDI, suggests that these indicators are moving in the right direction, albeit at a very slow pace and also uneven in terms a spatial development.

The pace of population growth in the Western Cape impacts significantly on the delivery of education in the Province. The Western Cape Education Department experienced an increase in overall learner enrolment of 65 386 learners (7.3 per cent) between 2003 and 2014, with an increase of 16 395 enrolments (1.7 per cent) between 2013 and 2014 alone.

With regard to the quality of education, Learner Systemic Tests conducted in 2014 reflect a modest improvement across grades, with some minor exceptions. High repetition and dropout rates remain a significant challenge in the Western Cape although an upward trend in retention rates was observed.

On the health side, life expectancy has been increasing in the Western Cape and there were improvements in infant, child and maternal mortality rates. The number of people tested for HIV, initiated on anti-retroviral treatment and retained in care after 12 months continues to follow an upward trend in the Province. The Western Cape has one of the highest tuberculosis (TB) infection rates in South Africa, although the number of TB cases decreased over time.

This chapter showed improvements in socio-economic conditions in the Western Cape: access to education, basic services, improved life expectancy, education quality, and infant, child and maternal mortality. It also highlighted the challenges that remain, such as high levels of crime, substance abuse, and persistent inequality. There are also unique spatial characteristics to these dimensions across the districts.

1.3 Policy implications

The review and outlook anticipates relatively low economic growth for South Africa and consequently the Western Cape. The domestic environment comprises of low investment, low levels of business confidence and weak domestic demand as well as electricity constraints and depressed commodity prices. These will have a negative impact on fiscal revenue raising capacity and pose constraints on the resource envelope of government.

The Western Cape regional economy is expected to grow at relatively low rates for the next three years, which is in line with the low growth rate trend experienced over the last few years. Unemployment in the Province is still high coupled with an increase in population pressures and dynamics linked to youth, gender and race. Various constraints are evident as it relates to energy, natural resources, climate change, infrastructure and skills shortages. Further, outcomes related to education, health and broader social ills associated with crime, substance abuse; as well as basic services and

backlogs in housing, continue to have an impact on economic and socio-economic development, and are thus focus areas for work by the Western Cape Government. These factors relate to economic development and speak to a lack of inclusivity of that growth in general terms.

Economies operate within specific spatial contexts and the latter include, but are not limited to, urban concentrations, geographical features; transport links and physical infrastructure that influences economic outcomes. Interrelated to this is that regional variations in legislative or social contexts may also have significant impacts. These spatial variations in economic outcomes are evident at various levels, which include global, national, regional and local.

In an effort to increase jobs, economic opportunity and growth, the Province will be required to capitalise on its relative comparative advantages while simultaneously considering interventions which encourage an economic structure which is more labour intensive to fully utilise the growing unskilled/semi-skilled labour. More broadly, greater incentives for the private sector to grow the economy are an option to explore.

Key policy implications identified in previous years and reiterated with the updated economic information remain relevant. These include the benefits of having manufacturing as a growth sector is important. Particularly one with an export-orientation, ability to develop and transmit modern technology and capacity to create employment opportunities.

In commodity production the agricultural value chain remains an important sector in which the region has a clear comparative advantage. Whilst real growth potential in the export market is currently dominated by agricultural produce and food value chain, there is still a need to add to existing value, and diversify the export base of the Western Cape by growing exports of tradable services and manufacturers. Trade issues, in general, need to be looked at, both constraints and opportunities. Western Cape producers, with the assistance of the provincial and local authorities, should explore how to diversify both the product composition and the destination of exports, as well as add further value to existing value chains through smart business services and logistics.

The Western Cape has to continually explore new markets in Africa and in other emerging and developing countries like China, while maintaining traditional European markets. This will assist in supporting the agri-processing sector which demonstrates a clear comparative advantage and potential export gains.

Value chain analysis and trends in sector development highlights that special attention needs to be paid to linkages within and across promising sectors, to acknowledge and build on good business results, and systematically develop skills and infrastructure where it will have the greatest impact.

Skills development initiatives remain critical and should be viewed from a broad and holistic reference point. For example, improving education outcomes remain a key focus area to improve the (future) employability of young people already in the education system, thereby increasing the future skills profile of the provincial labour force. In addition, appropriate programmes and pathways to education that address the disadvantaged faced by those with incomplete secondary education who have already exited the education system should be considered.

An additional consideration is to investigate the earnings potential of prioritised growth sectors, to ensure that increased employment also equal an increase in standards of living. One of the challenges for policymaking as it relates to labour is to improve the balance between supply and demand across the various labour markets. This requires growing the supply of skills, through a range of interventions related to improving education outcomes.

Women remain relatively disadvantaged within the labour market, which should be carefully considered by policy makers, given the important role women play in stabilising a family unit, which could impact on broader social ills. High youth unemployment requires an improvement in the employability of youth, policy makers will need to strengthen current skills development initiatives.

Infrastructure spending is an important prerequisite for poverty relief and economic growth, and represents a significant portion of government budgets. As an economic enabler, road infrastructure plays an important role in connecting local economies to each other. It is therefore critical that the actions taken by all spheres of government and the private sector are collectively coordinated in order to maximise the returns to their respective infrastructure investments.

Addressing one of the biggest constraints to economic growth, that is energy, also holds potential for boosting the economy with a number of spin-offs across sectors. The renewable energy sector is such a sector that has significant potential spin-offs in technology development, manufacturing, operation and maintenance. The value chain of the sector also makes linkages to many traditional key sectors such as manufacturing and construction.

Addressing ethical business practices and recycling also holds further opportunities. Taking this further would go towards creating a so called circular economy with closed material loops. In short, such a system designs out waste and reuses the durable parts of products that are not consumed. Waste recycling has the potential for job creation whilst also addressing environmental sustainability issues and financial sustainability issues at a local government level.

2

Macroeconomic performance and outlook

Key findings

- Global economic growth remained unchanged at 3.4 per cent in 2014 as rising economic output in advanced economies was negated by moderating growth in emerging and developing economies. Growth remained under pressure in 2015, rising by only 1.9 per cent in the first quarter of 2015, from 2.6 per cent in the fourth quarter of 2014. The outlook suggests that growth will likely remain restrained for the remainder of 2015, albeit more so in emerging and developing countries than in advanced economies.
- Along with weaker global growth, domestic constraints have weighed on the South African economy. Meagre growth of 1.3 per cent was recorded in the first quarter of 2015 followed by a contraction of the same magnitude in the second quarter. Low business and consumer confidence, electricity supply constraints, lower export revenue, fiscal austerity and subdued consumer demand provide the backdrop for a further moderation of full year GDP in 2015.
- The Western Cape economy is not isolated from global and national developments. Growth in 2013 decelerated to 2.4 per cent from 2.7 per cent in 2012. Growth is estimated to have moderated further in 2014. Overall, regional GDP is forecast to average 2.7 per cent between 2015 and 2020, led by the tertiary and construction sectors.

2.1 Introduction

Economic growth in the Western Cape and its expected future prospects are reviewed against the background of the global and national economic experience and prospects. This background is important given the uncertain global economic environment amid fears of a sharper than expected moderation in Chinese economic growth and the possible fallout of higher interest rates in the US.

Domestically, electricity supply constraints, lower export commodity prices and continued weak employment growth mar the outlook. Furthermore, the Western Cape has an export-oriented economy with main subsectors that crucially depend on production for export. Exports, here, are defined as the production of goods and services that are destined for markets beyond the borders of South Africa, thus forming part of the national exporting effort. An important focus point of the 2015 PERO is the contribution that the agricultural value chain makes and can increasingly make to inclusive growth of the region's economy. The export potential of these activities were highlighted in the 2014 PERO (Chapter 3) and in that report reference was made to the export growth potential presented by the African markets. This growth can in part explain the more than threefold increase from 2003 to 2012 in the Western Cape's exports of food and beverages to Africa, supported by a more than an eightfold increase in exports of beverages to Africa. The trade balance (exports minus imports) in these products is heavily in favour of the Western Cape.

In the 2014 PERO the significance of China as a rapidly-growing market for wine was also noted. Although the economy of China is currently experiencing a slow-down in growth, the market is so huge and the rate of growth still so high relative to other economies that even a marginal increase in market share for South African food and beverages could have a substantial impact on production in the Western Cape. Growth in this market and in Africa, while maintaining or even growing market share in traditional markets in Europe and North America, can serve as an important source of inclusive growth in the Western Cape.

The Province, like the country, is a regional economy which depends on leading sectors that produce goods and services for export to other provinces and countries. The economic links to the national and international economy are strong. This implies that the relatively weak growth in domestic demand in the South African market can be compensated for by export growth to Africa and the rest of the world.

2.2 Developments in the global economy

2.2.1 Global economic performance

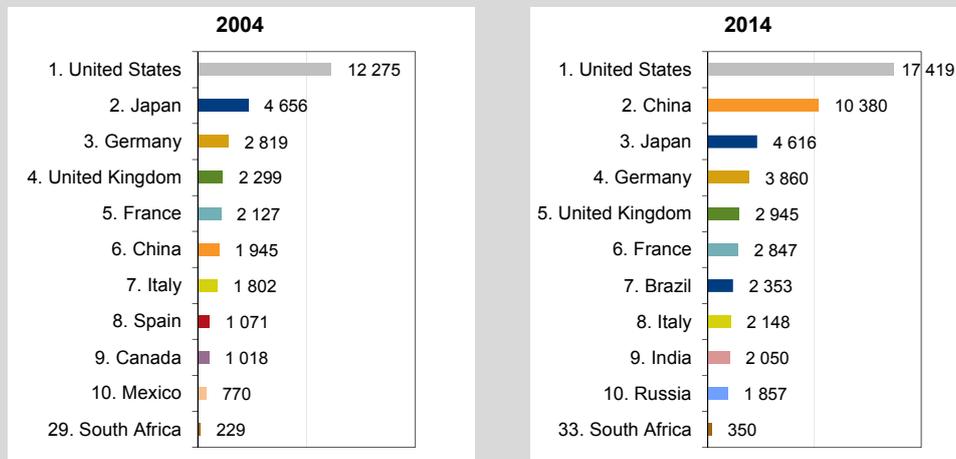
According to the International Monetary Fund (IMF), global output rose by 3.4 per cent in 2014, unchanged from 2013. However, growth in developing and emerging economies moderated during the year, offset by higher growth in advanced economies.

The changing face of the global economy

Much has been made of the rising influence of emerging and developing economies over the past few years, and rightly so. Due to rising population growth, increased globalisation and incomes, emerging economies such as China, Brazil, Russia and India are starting to represent a much larger share of the global economy. Meanwhile, advanced economies were more deeply affected by persisting financial and fiscal crises. According to the IMF, between 2004 and 2014 the size of the Chinese economy increased more than 4-fold and that of Russia doubled. The size of the Indian economy nearly doubled over the same period.

In contrast, the size of advanced economies such as the United States, Germany and France were less than 50 per cent bigger in 2014 compared to 2004. Japan saw the size of their economy shrink by less than 10 per cent between 2004 and 2014. As a result, China, Brazil, Russia and India now occupy more prominent positions on the world economic stage. Although the level of US GDP is still much higher, China is now the world's second biggest economy (from 6th in 2004) with Brazil, India and Russia in 7th, 9th and 10th place respectively.

Figure 2.1 Top 10 economies in US dollar terms (2004 vs 2014)



Source: International Monetary Fund

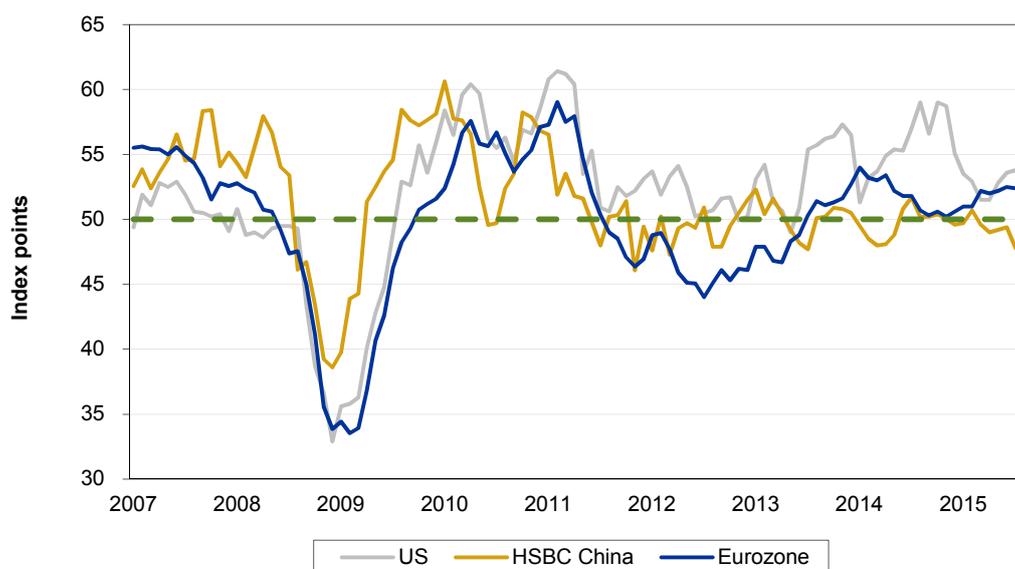
Current growth forecasts suggest that emerging and developing economies are likely to play an even more prominent role going forward. Although growth in emerging and developing economies are expected to slow down in the medium term, the level of growth is still expected to exceed that of advanced economies.

The largest economy in Africa is Nigeria, ranked 26th in terms of size in 2014 after occupying position 39 in 2004. The ten year period saw the Nigerian economy grow by more than 3-fold.

Disappointingly, South Africa slipped in the rankings. After being the 29th biggest economy in the world in 2004 (and the biggest in Africa), South Africa slipped to number 33 in 2014.

The trend of divergent growth between advanced and emerging and developing economies has continued into 2015. Figure 2.2 compares the Purchasing Managers Index (PMI)¹ for the US, Euro Area and China (as a very simple proxy for emerging markets). It can clearly be seen that the PMI in the US and Euro Area at 53.0 and 52.3 index points in August 2015 is outperforming that of China which has been trending below 50 index points for the past 6 months.

Figure 2.2 Selected Purchasing Managers Indexes (2007 - 2015)



Source: JP Morgan (2015)

Performance of advanced economies

After registering growth of 1.4 per cent in 2013, economic growth in advanced economies edged higher to 1.8 per cent in 2014. The tempo of growth improved in most advanced economies, led by the US and Euro Area.

US GDP growth accelerated to 2.4 per cent in 2014, from 2.2 per cent in 2013. The continued growth in the US economy in 2014 has largely been driven by consumers who have continued to benefit from accommodative monetary policy, an improved labour market and the lower oil price among other factors. However, the US economy started 2015 on the back foot. Real GDP growth rose by only 0.6 per cent quarter-on-quarter in the first quarter of 2015, recovering to 3.7 per cent in the second quarter of 2015². Growth during the second quarter of 2015 came largely from a rise in consumption and exports.

The key focus in the US (and globally) is the timing and magnitude of the monetary policy "normalisation". Markets have, since the start of the year, eagerly been anticipating a rise in the Federal Funds Rate (the main interbank

¹ For the PMI, any value above 50 indicates an expansion and below 50 indicates a contraction.

² This is the second quarter estimate for US GDP.

lending rate). Meanwhile, the Federal Reserve Bank (Fed) has expressed some concern about the state of the economy, particularly the labour market while consumer inflation remains below the Fed's 2 per cent target.

European growth recovered noticeably, albeit relatively muted. Economic output in the Euro Area rose to 0.8 per cent in 2014, following a 0.4 per cent contraction in 2013. Growth, at 0.4 per cent and 0.3 per cent in the first and second quarter of 2015, is stronger than for the most part of the last few years. Despite the improvement in overall Euro Area activity, growth within the region remains uneven (see Table 2.1). In Germany, the biggest economy in the Euro Area, growth quickened to 1.6 per cent in 2014, from 0.2 per cent in 2013. To a large degree, this lifted overall growth in the Euro Area.

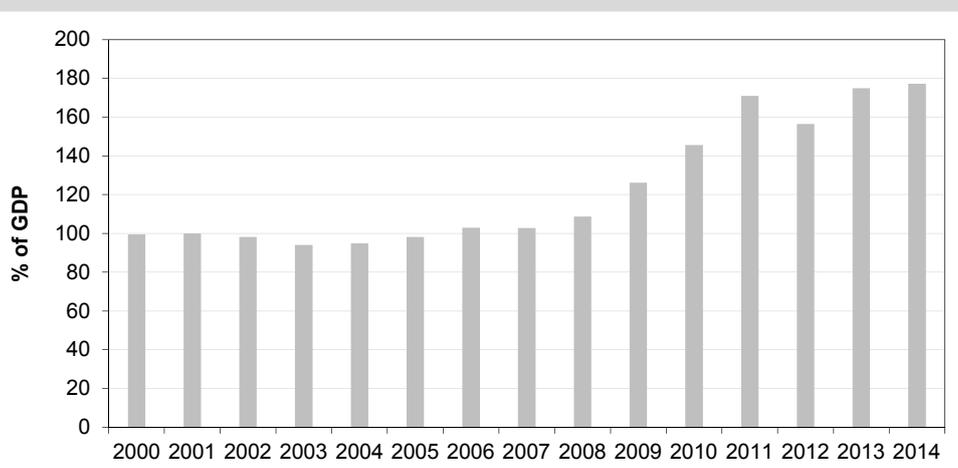
In January 2015 the European Central Bank (ECB) expanded the existing private sector asset purchase programme to include the purchase of sovereign bonds. For now it seems as though the expanded asset purchasing programme has been able to lift inflation expectations thereby improving financial conditions.

Fiscal crisis in Greece: Lessons for South Africa

The European Commission recently ratified a proposal for a third Greek bailout to the value of €86 billion. This bailout comes after months of uncertainty regarding the future of the Greek economy and its place in the European Union. The past few months has seen Greece default on repayments to the IMF, close the local stock exchange and limit withdrawals from the banking sector (to prevent a run on the banks). All this to no avail. It had to bow to its creditors and agree on a new package of arguably harsher, fiscal austerity measures.

On the heels of the financial meltdown in 2008, it was revealed that Greece had understated the extent of its fiscal liabilities and that government expenses exceeded government revenue by much more than initially thought. This caused a stir in the market and essentially resulted in bailouts by the IMF, the European Central Bank and the European Commission, the so called "troika", in order to restore calm to the market. The other motive was that a large chunk of Greek debt was held by French and German banks. Failure by Greece to meet the debt obligations would have had dire consequences for these two economies.

Figure 2.3 Greek gross government debt as % of GDP



Source: International Monetary Fund (2015)

Gross Greek government debt as a percentage of GDP rose to as high as 171 per cent in 2011 before stabilising in 2012. Since 2010 Greece has managed to rein in spending and increase tax collection (revenue). However, their broader economic woes continued. While they have been relatively austere, the lack of economic growth meant that the fiscal deficit and government debt as a percentage of GDP has not improved, in fact, the latter deteriorated in 2013 and 2014.

The market reaction was not as stark in June 2015 as with the fiscal crises in 2012. The yield of the Greek benchmark 10-year bond rose as high as 41.6 per cent in February of 2012, before subsiding on the back of the various bailout packages. The yield on the benchmark 10-year Greek bond only increased to 15.3 per cent in the most recent episode.

A key lesson for South Africa is that fiscal discipline cannot only be achieved through austerity alone, but economic growth also needs to accelerate for tax revenue to increase.

Economic growth in the United Kingdom (UK) accelerated to 2.9 per cent in 2014, from 1.7 per cent in 2013. Growth moderated somewhat in 2015. Following a rise of 0.9 per cent quarter-on-quarter in the fourth quarter of 2014, economic output in the UK eased to 0.4 per cent in the first quarter of 2015 before quickening to 0.7 per cent in the second quarter³. The rebound in growth in the second quarter was largely due to a noticeable improvement in net exports, while domestic demand softened.

In Japan, GDP growth declined by 0.1 per cent in 2014 after relatively robust growth of 1.6 per cent in 2013. Consumer demand remained weak following the hike in consumption taxes in mid-2014, this despite significant monetary stimulus and rising wages. However, growth rebounded to 0.4 per cent quarter-on-quarter during the first quarter of 2015. This rebound was largely due to a spike in private sector investment while growth in consumer demand remained muted. The recovery was short-lived as the economy fell back into contractionary territory in the second quarter of 2015, shrinking by 1.1 per cent quarter-on-quarter, after consumer demand fell unexpectedly in July. The second quarter contraction was also linked to weaker Japanese exports caused by a slower growing Chinese economy.

Performance of emerging and developing countries

Growth in emerging and developing economies, although higher than that of advanced economies, has come under increased strain over the past few years. While growth in advanced economies moved higher in 2014, in emerging and developing economies output growth softened. GDP growth of 4.6 per cent was recorded for 2014, from 5.0 per cent in 2013 (Table 2.1).

One of the key features of the underperformance of emerging and developing economies (including South Africa) since the start of 2014 has been the fall in commodity prices. While the lower price of commodities such as oil has been beneficial in terms of lowering inflation, in general, the lower commodity prices have been detrimental to the export performance

³ The second quarter estimate is a preliminary figure.

(particularly in terms of export revenue) of emerging and developing economies.

Most concerning for global growth, has been the slowdown in China. In 2014 growth in China moderated to 7.4 per cent, from 7.7 per cent in 2013. Growth moved even lower to 7.0 per cent in both the first and second quarter of 2015. In addition, since mid-June, a sharp correction in the Chinese on-shore equity market has compounded growth fears. This has seen a renewed sharp decline in industrial commodity prices, including copper and iron ore. Chinese authorities are trying to change the structure of growth to move away from export and government investment driven growth to more sustainable, internal sources of demand. The People's Bank of China devaluated the currency in mid-August sending not only the local market, but global markets in a tail spin. Although the magnitude of the devaluation was marginal (3 per cent against the dollar), it signalled that domestic demand may not be robust enough to support overall growth and exporters needed a boost to make up for benign domestic demand, contrary to their stated policy direction.

Growth in Latin America and the Caribbean eased to 1.3 per cent in 2014, from 2.9 per cent in 2013. Growth in Brazil, the largest economy in the region, moderated noticeably from 2.7 per cent in 2013, to 0.1 per cent in 2014. Growth continued to moderate in 2015. In fact, Brazil was in a technical recession (two or more consecutive quarters of declining output) during the first half of 2015. Lower commodity prices along with a significant depreciation in the real against the US dollar were largely to blame for the weak economic performance. Efforts by Brazilian authorities to rein in fiscal spending also weighed on domestic demand.

In Russia, the growth in economic output eased from 1.3 per cent in 2013 to 0.6 per cent in 2014. The fall in the oil price and international sanctions weighed on the Russian economy in 2014. In addition, a noticeable depreciation in the rouble led to inflation fears. These inflation concerns in turn saw the Central Bank of Russia tighten monetary policy (in this case by raising the interest rate) at the end of 2014. Russia entered a technical recession during the first half of 2015. Growth in economic output accelerated in India, from 6.9 per cent in 2013, to 7.3 per cent in 2014.

Sub-Saharan Africa in contrast, has been resilient. Growth was only moderately lower in 2014 at 5.0 per cent compared to 5.2 per cent in 2013. Growth in Nigeria in particular buoyed the region's economy. The increase in economic output in Nigeria accelerated to 6.3 per cent in 2014, from 5.4 per cent in 2013. This was despite the lower oil price which is a significant source of export revenue for Nigeria.

2.2.2 Global economic outlook

A slight moderation in the momentum of global economic growth to 3.3 per cent is expected for 2015. However, the IMF predicts improved growth of 3.8 per cent in 2016. According to the IMF, growth between advanced and emerging and developing economies is likely to remain uneven in 2015 before both starts trending upward in 2016.

Table 2.1 Global economic outlook, 2015 to 2016

	Size of Global		Forecast (%)		
	GDP in 2014 (%)	GDP Growth (%) 2013	GDP Growth (%) 2014	2015	2016
World output	100	3.4	3.4	3.3	3.8
Advanced economies	60.9	1.4	1.8	2.1	2.4
United States	22.5	2.2	2.4	2.5	3.0
Euro Area	17.3	-0.4	0.8	1.5	1.7
Germany	5.0	0.2	1.6	1.6	1.7
France	3.7	0.7	0.2	1.2	1.5
Italy	2.8	-1.7	-0.4	0.7	1.2
Spain	1.8	-1.2	1.4	3.1	2.5
Japan	6.0	1.6	-0.1	0.8	1.2
United Kingdom	3.8	1.7	2.9	2.4	2.2
Other advanced economies ⁴	11.2	2.2	2.8	2.7	3.1
Emerging and developing economies	39.1	5.0	4.6	4.2	4.7
Sub-Saharan Africa	2.2	5.2	5.0	4.4	5.1
Nigeria	0.7	5.4	6.3	4.5	5.0
Middle East and North Africa	4.1	2.4	2.7	2.6	3.8
Emerging and Developing Europe	2.5	2.9	2.8	2.9	2.9
Russia	2.4	1.3	0.6	-3.4	0.2
Developing Asia	19.3	7.0	6.8	6.6	6.4
China	13.4	7.7	7.4	6.8	6.3
India	2.7	6.9	7.3	7.5	7.5
Latin America and the Caribbean	7.5	2.9	1.3	0.5	1.7
Brazil	3.0	2.7	0.1	-1.5	0.7
Mexico	1.7	1.4	2.1	2.4	3.0
Consumer prices					
Advanced economies		1.4	1.4	0.0	1.2
Emerging and developing economies		5.9	5.1	5.5	4.8

Source: International Monetary Fund (2015)

Outlook for advanced economies

The IMF expects economic growth in advanced economies to edge up to 2.1 per cent in 2015 and 2.4 per cent in 2016.

The disappointing performance by the US economy during the first quarter of 2015 is expected to have been temporary and the uptick in growth in the second quarter of 2015 is testament to that. Despite the expected recovery, the weaker performance in the first quarter of 2015 will weigh on full year growth. GDP growth of 2.5 per cent is expected in 2015 (marginally higher than in 2014) with more pronounced growth of 3.0 per cent predicted for 2016. The impact of the interest rate hiking cycle poses a downside risk to the economy as does a further appreciation of the US dollar.

⁴ All advanced economies except the US, Euro Area, Japan and UK.

With the Greek sovereign debt concerns of mid-2015 now somewhat out of the way, GDP growth in the Euro Area is expected to remain on track (not that a fallout in Greece would have had too great a direct impact on the Euro Area economy). Overall, economic output is forecast to accelerate to 1.5 per cent and 1.7 per cent in 2015 and 2016. Growth in Germany, the largest economy in the region, is predicted to lead the way, rising by 1.6 per cent in 2015 (flat from 2014) and 1.7 per cent in 2016.

Growth in the Japanese economy is expected to accelerate to 0.8 per cent in 2015 and further to 1.2 per cent in 2016. Continued interventions in the form of quantitative and qualitative easing⁵, a weaker yen and lower commodity prices are expected to help lift economic growth.

Outlook for emerging and developing countries

Emerging and developing economy growth is forecast to moderate to 4.2 per cent in 2015, before recovering to register growth of 4.7 per cent in 2016.

In contrast, growth in China is expected to continue to moderate. GDP growth of 6.8 per cent is predicted in 2015 and 6.3 per cent in 2016. If this should materialise, China's economy will register its slowest growth rate since 1990. The rebalancing of the Chinese economy seems to be more painful than initially thought. Of importance, however, is that even though growth in China is slowing, it is still higher than much of the rest of the world.

Growth in the remaining BRICS (excluding South Africa⁶) countries is also expected to remain weak in 2015, with the exception of India. Economic output in Brazil and Russia is forecast to contract by 1.5 per cent and 3.4 per cent in 2015 before accelerating modestly by 0.7 per cent and 0.2 per cent in 2016. In contrast, economic growth in India is expected to accelerate to 7.5 per cent in 2015. The Indian economy is forecast to continue expanding at 7.5 per cent in 2016.

Growth in Sub-Saharan Africa is also forecast to weaken in 2015 as the impact of lower commodity prices on export revenue starts to take effect. This is a reflection of the weaker demand from China discussed earlier. Overall, GDP growth of 4.4 per cent for 2015 and 5.1 per cent for 2016 is expected.

2.2.3 Global inflation outlook

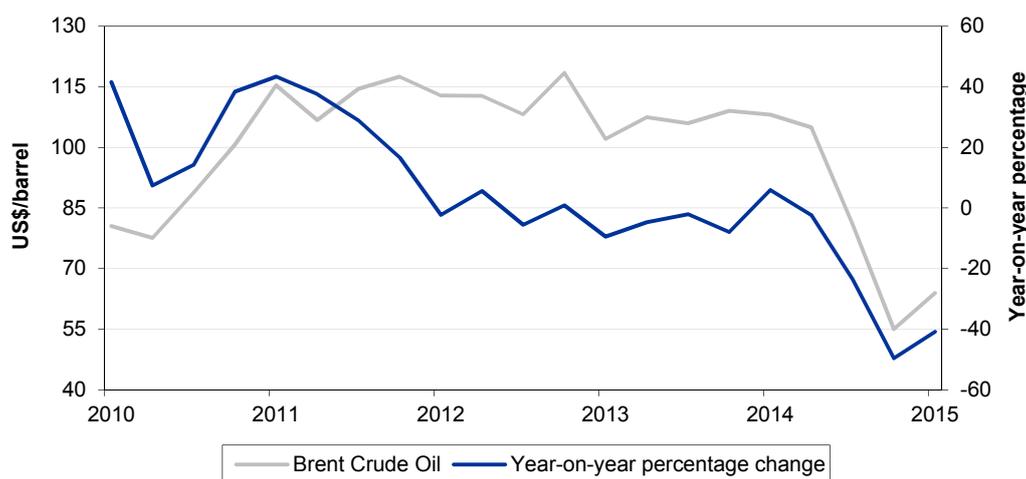
Commodity prices received a significant boost in recent years with robust growth coming from emerging and developing economies, particularly China. Growth in these economies is now noticeably worse and the outlook (at least for 2015) is for benign growth at best. As a result, commodity prices

⁵ Qualitative easing refers to activities by the Central Bank to change the composition of assets on their balance sheet.

⁶ South Africa is discussed in depth in the next section.

have fallen. After contracting by 7.5 per cent in 2014, the IMF predicts a further 38.8 per cent drop in the oil price in 2015. Besides weaker demand from emerging and developing economies, concerns regarding the current oil supply glut are also weighing on the oil price. The price of non-oil commodities is predicted to decline by 15.6 per cent in 2015 and 1.7 per cent in 2016.

Figure 2.4 Brent Crude Oil (2010 - 2015)



Source: Reuters (2015)

The implications of lower commodity prices for inflation are not that pronounced, especially in emerging and developing countries where inflation is expected to rise to 5.5 per cent in 2015, from 5.1 per cent in 2014. Inflation in emerging and developing economies is expected to slow down to 4.8 per cent in 2016. In contrast, the IMF projects that inflation in advanced economies will be zero for 2015, from 1.4 per cent in 2014. Thereafter inflation is predicted to edge higher to 1.2 per cent in 2016.

2.2.4 Risks to the world outlook

The biggest risk to the global economy is a more pronounced slowdown in China. The current slowdown has already manifested itself in the form of lower exports from other emerging and developing economies as well as through lower commodity prices. Furthermore, a continued correction of the Chinese stock exchange may delay the shift from government investment led growth to growth led by consumer demand.

Linking to the weaker growth in China, lower commodity prices may prove a double-edged sword to global growth. Globally, consumers will benefit from a continued fall in the oil price, but commodity exporting countries may struggle as export revenue declines.

On the upside of the outlook is the possibility of economic growth in the US gaining momentum (this will have to be despite the impending interest rate hikes). Faster growth in the US may not be enough to offset slower growth in China.

Given its commodity dependency as well as stronger links with China and the rest of emerging Asia over the past few years, Sub-Saharan Africa growth may disappoint.

2.3 Developments in the South African economy

2.3.1 Performance of the South African economy

After registering growth of 2.2 per cent in 2013, economic output rose at a more restrained pace of 1.5 per cent in 2014.

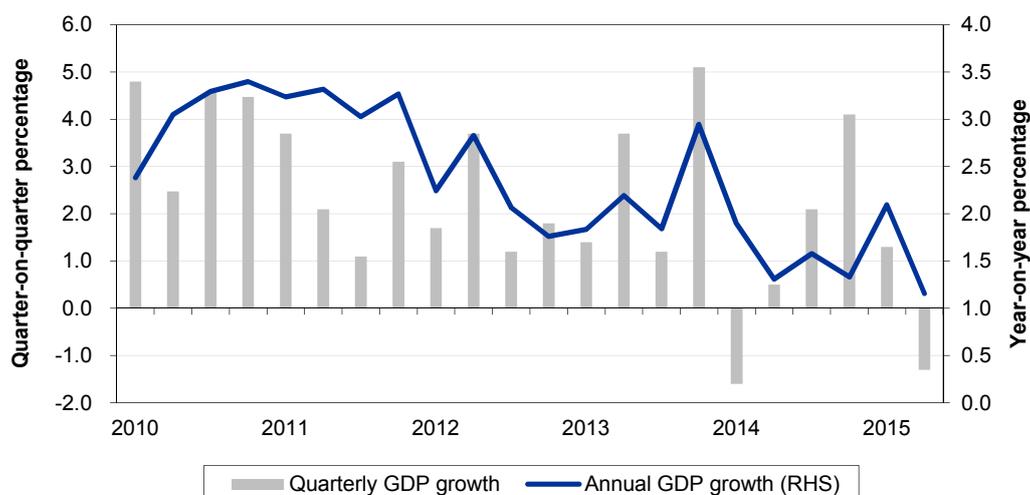
The economy remained under pressure during the first quarter of 2015, expanding by only 1.3 per cent quarter-on-quarter⁷. This worsened in the second quarter of 2015 and the economy contracted by 1.3 per cent. The contraction was broad based in contrast to the past where weak growth in one or a few sectors was offset by faster growth in others. This will likely provide for a downward adjustment in the South African economic growth outlook for the remainder of 2015 and the near term.

The primary sector (agriculture and mining) was the hardest hit, declining by 9.3 per cent quarter-on-quarter after increasing by 3.3 per cent in the first quarter. Agriculture is likely to have been weighed down by drought conditions while the quarterly decline in the mining sector was driven by weakness in coal and iron ore production. This may already reflect the impact of the commodity demand slowdown experienced in China.

The secondary sector (manufacturing, electricity and construction) contracted for a second consecutive quarter, declining by 4.7 per cent after a 1.4 per cent fall in the first quarter of 2015. The electricity sector decline in the second quarter was simply a symptom of the problems Eskom is facing with power generation, while the weakness in manufacturing may reflect some of the consequences of the electricity supply shortages. With a contribution of -0.8 percentage points, manufacturing weighed most on the overall GDP number.

Of greatest concern is the tertiary sector. Growth eased for the third quarter in a row to 1.1 per cent from 1.5 per cent in the first quarter of 2015. The trade (retail, wholesale, motor trade, catering and accommodation), transport and financial sectors all registered a weaker performance relative to the first quarter of 2015.

⁷ Seasonally adjusted and annualised.

Figure 2.5 South African GDP growth (2010 - 2015)

Source: Statistics South Africa (2015)

The GDP figure for the second quarter of 2015 was more or less in line with the change in business confidence. The RMB/BER Business Confidence Index, after registering a level of 49 points in the first quarter of 2015, fell to 43 points during the second quarter. In addition, the Barclays Purchasing Managers Index (PMI)⁸ also slowed to an average of 47.3 index points during the second quarter of 2015, from 50.6 in the first quarter.

2.3.2 Outlook for the South African economy

Table 2.2 South African economic outlook⁹, 2015 to 2016

	2013	2014	2015f	2016f
Final consumption expenditure, households	2.9	1.4	1.9	1.7
Durable goods	9	5.3	1.9	2.1
Semi-durable goods	5.3	3.2	2.9	2.5
Non-durable goods	1.5	0.8	2.3	1.2
Services	2.2	0.5	1.2	1.7
Gross Fixed Capital Formation	7.6	-0.4	1.7	2.1
Private	8.1	-3.4	1	1.9
Government	11.6	10.3	3.9	2.5
Public corporations	3.1	1.6	2.1	2.3
Exports of goods and services	4.6	2.6	5.2	3.9
Interest rates (fourth quarter averages)				
3-month BA rate	5.13	5.86	6.27	6.63
10-year Government Bond	7.2	8.25	8.1	8.57
Prime overdraft rate	8.5	9.07	9.42	9.98
Inflation (annual average %)				
Producer prices	6	7.4	4.4	6.4
Consumer prices	5.7	6.1	5.1	6.2
Nominal wage rate (Private sector)	5.5	5.7	6.5	7.5

⁸ Until June 2015 referred to as the Kagiso PMI.

⁹ The current forecasts were formulated in July 2015. Given recent domestic economic developments the forecasts may be a bit optimistic.

	2013	2014	2015f	2016f
Exchange rates (annual average)				
R/US dollar	9.65	10.84	12.12	12.63
R/Euro	12.82	14.4	13.22	12.79
R/Pound sterling	15.11	17.86	18.25	18.63
Yen/R	10.12	9.75	10.03	9.92
Gross Domestic Expenditure	1.4	0.6	1.9	1.6
Gross Domestic Product	2.2	1.5	1.7	1.7
Current account balance (R billion, seas. adj.)	-203.8	-206.6	-216.6	-233.9
<i>(as % of GDP)</i>	-5.8	-5.4	-5.3	-5.3

Source: Bureau of Economic Research (f denotes forecast) (2015)

Final household consumption expenditure

The slower GDP growth in 2014 came largely from household spending, particularly in the second half of 2014. A moderation in employment growth, particularly in the private sector, along with a decline in the real private sector wage rate weighed on real disposable income and therefore consumer spending.

The macroeconomic environment is expected to remain challenging for consumer spending over the forecast horizon even more so than previously thought. The hike in the interest rate in July 2015 is expected to be followed by a further 75 basis point increase by the end of 2016. This is set to weigh on disposable income as debt servicing costs start to rise. Furthermore, the higher interest rate environment may dampen appetite for new debt. Higher inflation and slow employment growth is also predicted to constrain consumer spending.

There is some upside risk in the form of lower petrol prices. The recent lifting of sanctions in Iran has seen the oil price fall noticeably, igniting fears that the current oil supply glut will intensify. However, a further depreciation in the Rand/Dollar exchange rate may offset the gains from the lower oil price.

Table 2.3 Outlook for drivers of consumer spending, 2015 to 2016

	2013	2014	2015f	2016f
Employment	3.1	1.9	1.7	0.7
Real Disposable income	2.5	1.4	1.9	1.7
Nominal wage (private sector)	5.5	5.7	6.5	7.5
Inflation (CPI)	5.7	6.1	5.1	6.2
Consumer spending	2.9	1.4	1.9	1.7

Source: South African Reserve Bank/Bureau of Economic Research (f denotes forecast) (2015)

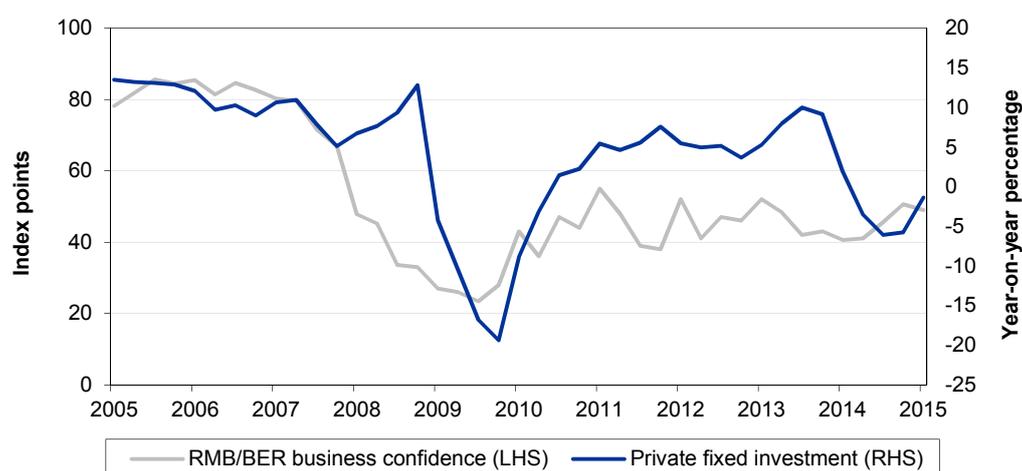
Although consumer spending is forecast to improve between 2014 and 2015, growth is set to remain weak compared to 2013. In 2013, consumption expenditure rose by 2.9 per cent. This was due to reasonably robust employment growth which saw real disposable income increase despite a decline in the real private sector wage rate. In 2015 the opposite is true. Employment growth is set to moderate, but consumers will benefit from higher real wages. Similarly in 2016, accelerating inflation will likely be offset by higher

nominal wages (i.e. the real wage rate growth remains positive), but employment, particularly private sector employment, is predicted to perform dismally.

Gross fixed capital formation

Fixed investment contracted by 0.4 per cent in 2014, following growth of 7.6 per cent in 2013. Investment by the private sector, after growing by 8.1 per cent in 2013, declined by 3.4 per cent in 2014. Low levels of business confidence and weak domestic demand were largely to blame. Investment by public corporations (Eskom, Transnet, etc.) was also weaker at 1.6 per cent in 2014, from 3.1 per cent in 2013. In contrast, fixed investment by general government, albeit slightly lower, remained robust. Growth of 10.3 per cent in investment by general government was registered in 2014, compared to the 11.6 per cent in 2013.

Figure 2.6 Business confidence vs Private sector investment (2005 - 2015)



Source: South African Reserve Bank/Bureau of Economic Research (2015)

Although fixed investment growth continued to underperform in the first quarter of 2015, the annual growth rate of 0.3 per cent in the first quarter was an improvement on the preceding three quarters when growth had declined. The real value of private sector investment fell by 1.4 per cent in the first quarter of 2015, an improvement on the 5.8 per cent decline recorded in the fourth quarter of 2014. A subdued domestic growth outlook and low levels of business confidence should dissuade the corporate sector from embarking on major capacity expansions, limiting private sector capital expenditure to maintaining existing operations. In the mining sector, additional negatives are the downbeat outlook for commodity prices, a heavy regulatory burden and poor labour conditions. This is expected to be accompanied by muted fixed investment outlays.

Public corporation fixed investment (PCFI) also disappointed in the first quarter of 2015 posting a small quarterly decline. According to the SARB, this was mainly a function of declining fixed investment by Eskom. Strikes and technical problems experienced with the commissioning of the first unit of the Medupi power station largely explain the weakness.

Government fixed investment continued to post robust growth at the start of 2015 posting a faster than expected quarterly growth rate of 1.2 per cent in the first quarter. The SARB mentions that the rise was driven by increased capital outlays on infrastructure by provincial and local governments. This was done with the aim to improve service delivery, and more than offset a decline in spending by the central government. Looking ahead, fiscal constraints and persistent underspending of capital budgets by municipalities (who receive the largest capital expenditure allocation), means that the growth in investment by general government will likely be slower in coming years.

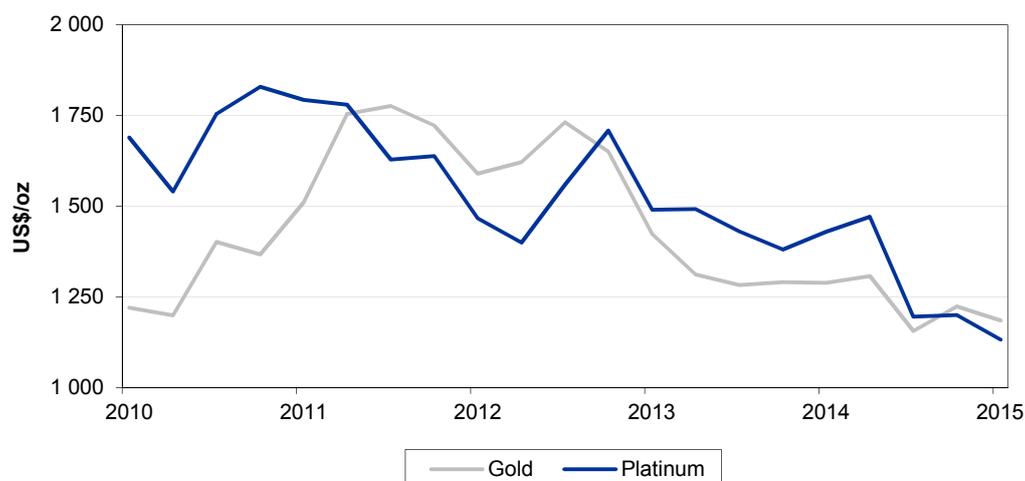
The RMB/BER business confidence index dropped sharply in the third quarter to a four-year low of 38 points from 43 points. The five-point drop followed a six-point decline in the second quarter. A fall in the index to below 30 points signals a pending recession.

Balance of payments and exchange rate outlook

Imports fared poorly for the most part of 2014. Overall, the value of imports fell by 0.5 per cent in 2014 from growth of 1.8 per cent in 2013 (which was weak already). Subdued domestic demand coupled with the weaker exchange rate depressed imports. There was a slight recovery in the fourth quarter of 2014 and the first quarter of 2015 when growth of 6.1 per cent and 4.8 per cent was recorded.

Exports did slightly better. After rising by 4.6 per cent in 2013 the growth in the value of domestic exports slowed down to 2.6 per cent in 2014. Falling commodity prices since 2013 contributed to this decline in export growth (see Figure 2.7). As a result, the current account deficit as a percentage of GDP narrowed from 5.8¹⁰ per cent in 2013 to 5.4 per cent in 2014.

¹⁰ Figures are rounded to the nearest decimal point.

Figure 2.7 Gold and platinum prices (2010 - 2015)

Source: Reuters (2015)

The rand has traditionally been more sensitive to global developments than to domestic developments. However, in recent years global challenges were compounded by domestic currency constraints. Arguably, the key domestic negative is SA's large twin budget and current account deficits, which require sustained large foreign capital inflows to finance.

The rand, as is the case for most emerging market currencies, has depreciated noticeably against the US dollar since the start of the year. However, on a trade weighted basis (see Figure 2.9) the rand has remained relatively stable during 2014 and for much of 2015. From a competitiveness perspective, this means that the rand has not depreciated by as much. On a trade weighted basis, the rand was only about 4 per cent weaker for the year to July. This has changed somewhat in recent weeks. The recent devaluation in the yuan and subsequent fears regarding Chinese emerging market growth resulted in a significant depreciation in the rand in August (approximately 3.6 per cent¹¹). Thus, as is the case with most emerging market currencies, the rand has depreciated noticeably against the US dollar since the start of the year.

Combined with labour unrest and the electricity shortage which are hampering GDP growth, the large twin deficits have reduced South Africa's relative attractiveness to foreign investors. These factors are likely to continue to weigh on investor sentiment throughout the remainder of 2015 and 2016. At the same time, the external environment is expected to become less supportive once the US Fed starts to raise the policy interest rate. Despite this, uncertainty remains about the exact timing and magnitude of the Fed's interest rate hiking cycle.

¹¹ Comparing the average Rand/US Dollar rate for August with that of July.

Inflation and interest rate outlook

Consumer inflation, as measured by the Consumer Price Index (CPI), remained close to or above the upper-end of the South African Reserve Bank's target of 3 to 6 per cent for most of 2014. Overall, CPI averaged 6.1 per cent in 2014, compared to 5.7 per cent in 2013. CPI has been more benign for much of 2015: after registering year-on-year growth of 4.1 per cent during the first quarter of 2015, consumer inflation accelerated to 4.6 per cent during the second quarter. One of the main reasons for the lower CPI is as a result of base effects¹². However, it is clear that consumer inflation is starting to trend upwards with quarter-on-quarter consumer inflation quickening to 2.4 per cent in the second quarter of 2015, from 0.5 per cent in the first quarter.

According to Statistics South Africa, the biggest contributor to inflation during the second quarter of 2015 was the housing and utilities component which, with an annual growth of 5.5 per cent, contributed 1.4 percentage points to overall inflation. This was followed by the miscellaneous and other goods and food and non-alcoholic beverages components which added 1.1 and 0.7 percentage points to CPI during the second quarter of 2015. The transport index, which includes the petrol price, has continued to subtract from inflation in 2015 (0.8 and 0.1 of a percentage point in the first and second quarter of 2015), highlighting the impact of the lower oil price.

Inflation expectations have started trending upwards despite relatively benign inflation for most of 2015. According to the BER, inflation expectations for 2015 ticked up by 0.2 of a percentage point in the second quarter of 2015 to 5.6 per cent. Average inflation expectations also rose for 2016, to 6.1 per cent from 5.9 per cent in the first quarter of 2015. This means that inflation is predicted to be higher, on average, than the SARB's upper target for 2016.

As a result of rising inflation expectations, amongst other things, the Monetary Policy Committee (MPC) of the SARB saw it appropriate to raise the repurchase rate (repo rate) by 25 basis points in July to 5.75 per cent. This sees the continuation of the rate hiking cycle which started with a 50 basis point hike in January 2014. A further 75 basis point hike (0.75 per cent) is expected before the end of 2016, leaving the prime rate at 10.0 per cent in December 2016.

¹² The base effect is a consequence of an abnormally high level of CPI in the comparative period, in this case, the first half of 2014.

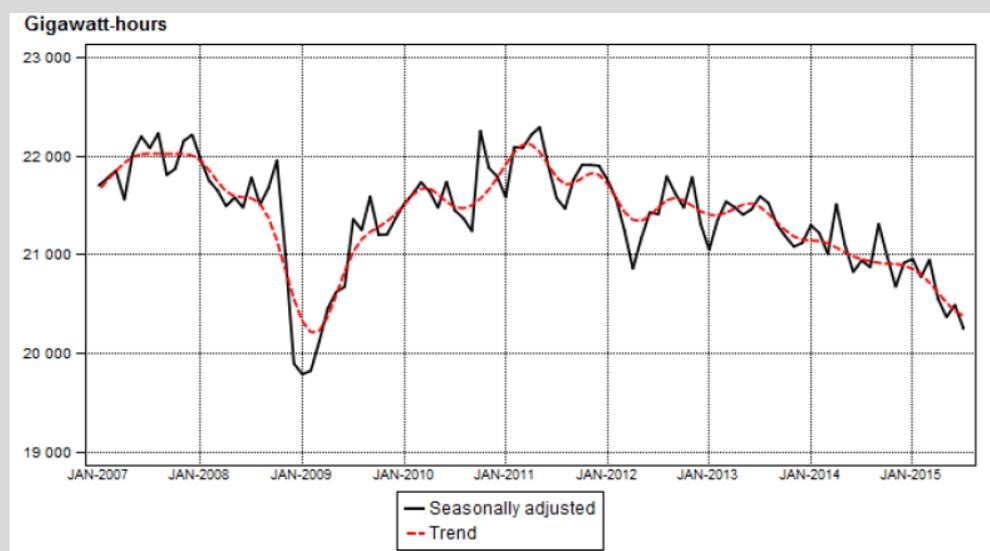
South Africa's energy constraints

South Africa has been recently affected by electricity supply shortages accompanied by abnormal tariff increases.

An International Monetary Fund (IMF) team visited South Africa in June 2015 to discuss the outlook, risks, and policy challenges facing the South African economy. The IMF concluded that electricity shortages were one of the key constraining factors to real GDP and per capita income growth. The IMF described the severe electricity shortages as “the greatest obstacle to growth, reducing economic activity, sapping confidence, and discouraging investment”.

A report by Statistics South Africa (2015) reveals a declining trend in electricity generation in South Africa since early 2011. The decline in electricity generation is a worrying trend for the South African economy since there is a strong causal relationship between electricity generation and economic growth.

Figure 2.8 Electricity production in South Africa, 2007 - 2015



Source: Statistics South Africa (2015)

Furthermore, a Statistics South Africa (2013) study observed that reliable electricity generation is not only important for economic growth but also for exports. According to a TIPS (2014) study the impact of electricity tariff increases will impact the mining industry by varying degrees. Surface mining activities will be affected to a lesser extent because of its larger dependence on diesel rather than electricity. However, underground mining operations are much more vulnerable to an increase in electricity tariffs. Gold mines in particular have been negatively affected by tariff increases.

The challenge of higher electricity shortages could bring new opportunities for mining and linked manufacturing to embrace the green economy. In particular, the manufacturing of catalytic converters which account for 40 per cent of the global demand for platinum, a mineral of which South Africa holds 75 per cent of the world resources.

2.3.3 Risks to the national outlook

Similar to the global economy, the risks to South Africa's economic growth is firmly tilted to the downside. The two important sources of risk are international and domestic in origin.

From an international perspective:

- Weaker growth in China will see the demand for commodities decline and consequently also commodity prices. This will weigh on South Africa's export performance.
- A bigger than expected fallout from the US interest rate hiking cycle, particularly if more aggressive (i.e. the interest rate moves higher or faster) than currently predicted. This may have a significant impact on South Africa's ability to attract much needed foreign investment with consequences to the Rand/US Dollar exchange rate and the sustainability of the current account deficit.
- On a positive note, a continued decline in the oil price may provide some relief to consumers, dependent on the Rand/US Dollar exchange rate.

Domestic risks include:

- Concerns regarding the electricity supply: Eskom has been able to shield businesses from the full brunt of load-shedding by opting for load-shedding after typical office hours and over weekends. Further delays to the completion of projects aimed at providing additional electricity generating capacity will weigh on production.
- Fiscal discipline: The National Treasury has managed to rein in spending over the past few quarters. However, without additional revenue (unlikely without faster economic growth) government's fiscal deficit may worsen.
- Continued labour market unrest may disrupt production in key sectors such as mining and manufacturing, weighing on growth.

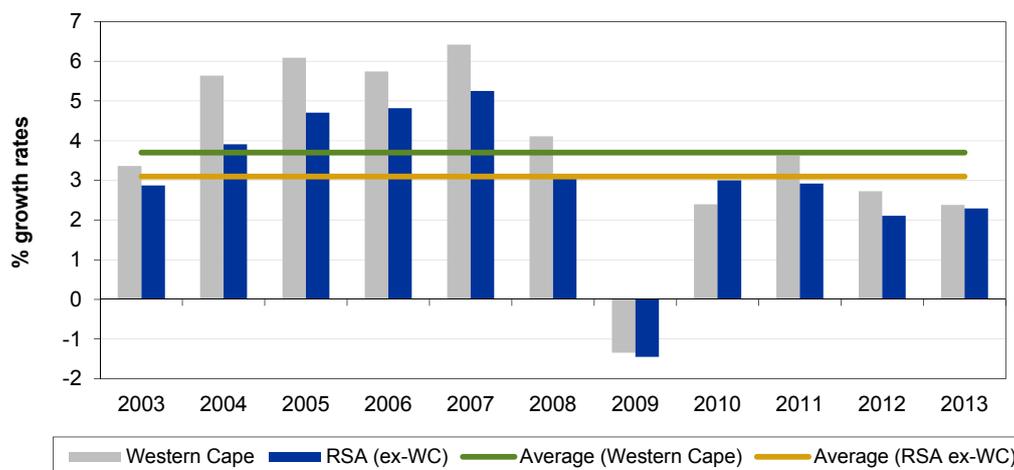
2.4 Developments in the Western Cape economy

2.4.1 Western Cape economic performance

Growth in the Western Cape has followed a similar trend to that of the national economy. While the Western Cape still manages to outperform the rest of the country, the pace of growth is notably lower than before the recession in 2009.

In 2013, economic output in the Western Cape increased by 2.4 per cent compared to 2.7 per cent in 2012. This is less than half the pace of growth registered at the start of the economic slowdown in 2007 of 6.4 per cent.

Figure 2.9 Western Cape growth vs rest of South Africa (2003 - 2013)

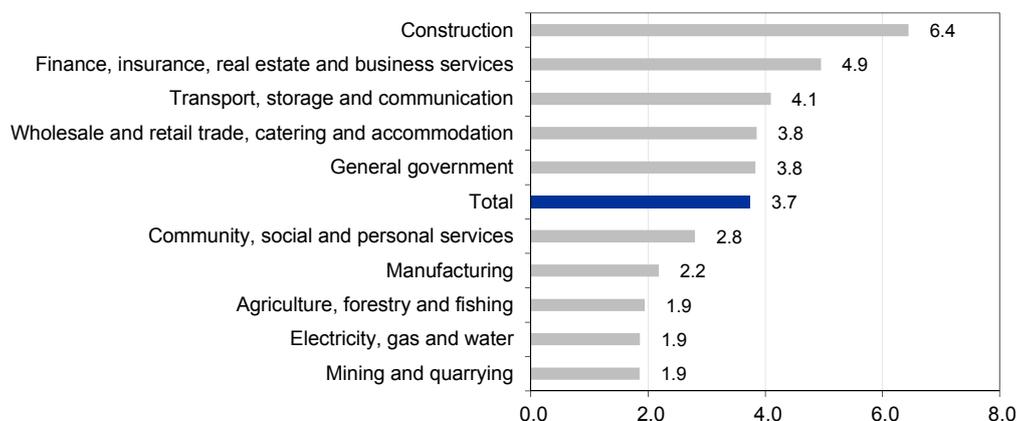


Source: Statistics South Africa (2014)

The fastest growing sector during 2013 was the general government sector at 4.6 per cent. This was followed by the finance, insurance, real estate, and business services and construction sectors at 3.3 and 3.0 per cent, respectively. The growth in the finance, real estate and business services sector is important as it remains the single biggest sector in the Western Cape economy, representing 24.5 per cent¹³ of overall activity in 2013.

Over the longer term the fastest growing sector in the Western Cape was the construction sector, followed by the finance, insurance, real estate and business services sector at an average of 6.4 per cent and 4.9 per cent. On the opposite side of the spectrum, the slowest growing sectors over the ten year period were the mining and quarrying and electricity, gas and water sectors with average growth of only 1.9 per cent. Luckily, these sectors represent only a very small portion of the total economic activity in the Province.

Figure 2.10 Fastest growing sectors in the Western Cape (2003 - 2013)

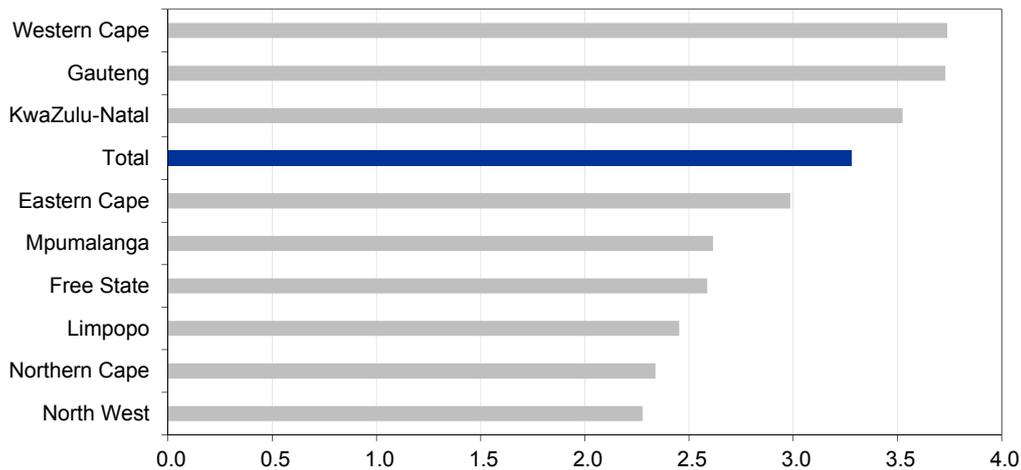


Source: Statistics South Africa (2014)

¹³ At current prices.

As mentioned previously, even at these lower growth rates the Western Cape economy continues to outperform the rest of the country. Compared to the rest of South Africa where growth averaged 3.1 per cent between 2003 and 2013, growth in the Western Cape averaged 3.7 per cent. Over the period 2003 to 2013, the Western Cape registered the joint fastest growth, along with Gauteng.

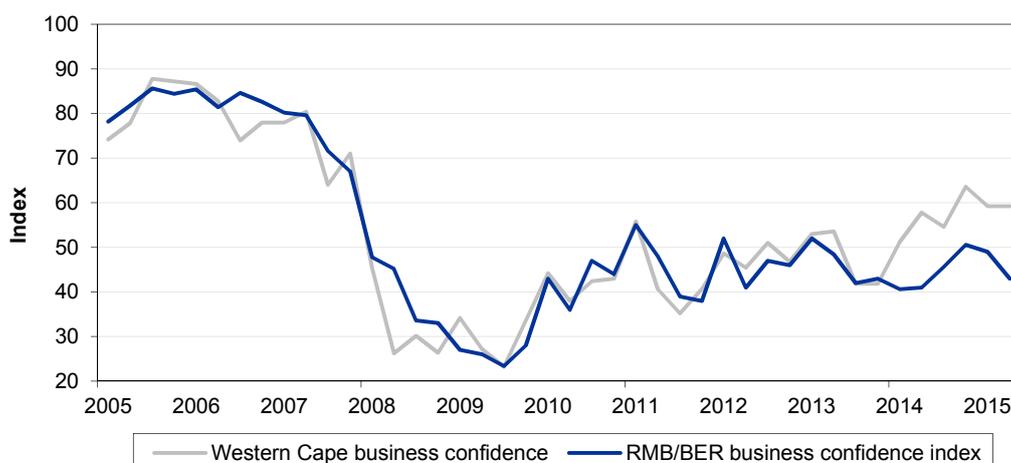
Figure 2.11 Average growth per province (2003 - 2013)



Source: *Statistics South Africa (2014)*

Economic growth in 2014¹⁴, in step with the national economy, moderated further, but is expected to beat growth in the rest of South Africa. Business confidence in the Western Cape remained well above the neutral 50 index point mark for much of 2014. Average business confidence was 57 index points for the Province while 44 index points was recorded nationally in 2014. The business confidence index is an average of the business confidence of the following sub-sectors namely building, manufacturing, retail, wholesale and new vehicle sales. In the Western Cape, building confidence was higher than the rest of South Africa due to faster growth in building work. Manufacturers confidence was also higher than its national counterpart - supported by growing domestic and export sales. Retailer confidence was similar to national retailer confidence. Generally, there is more broad-based demand in the Western Cape than the rest of South Africa, which is lifting confidence.

¹⁴ Official statistics to be released in November 2015.

Figure 2.12 National vs Western Cape business confidence (2005 - 2015)


Source: Bureau of Economic Research (2015)

BER/Quantec estimates put Western Cape GDP growth at 1.8 per cent¹⁵ in 2014 (see Table 2.4).

2.4.2 Outlook for the Western Cape economy

Like the national economy, growth in the Western Cape is expected to be under pressure in the short term. However, a mild uptick in economic activity to 1.9 per cent in 2015 and 2.0 per cent in 2016 is expected.

Table 2.4 Western Cape economic outlook¹⁶, 2015 to 2016 (%)

Description	2013	2014e	2015f	2016f	Forecast average (2015 - 2020)
Agriculture, forestry and fishing	0.9	4.8	1.8	2.0	2.3
Mining and quarrying	2.8	-1.0	2.1	1.8	2.0
Manufacturing	0.6	0.4	0.9	2.0	2.2
Electricity, gas and water	-0.6	-1.8	-0.7	1.9	1.8
Construction	3.0	4.1	2.8	2.2	3.7
Wholesale and retail trade, catering and accommodation	2.5	1.7	1.5	2.0	2.7
Transport, storage and communication	1.7	0.9	2.2	2.1	3.2
Finance, insurance, real estate and business services	3.3	2.3	3.1	2.6	3.4
Community, social and personal services	1.9	1.3	0.9	1.2	1.7
General government	4.3	2.8	1.0	0.8	1.3
Regional Gross Domestic Product	2.4	1.8	1.9	2.0	2.7

Source: Bureau of Economic Research/Quantec Research. (e denotes estimate, f denotes forecast) (2015)

¹⁵ At basis prices which excludes the impact of taxes and subsidies. Earlier estimates for national GDP were at market prices.

¹⁶ The current forecasts were formulated in July 2015. Given recent domestic economic developments the forecasts may be a bit optimistic.

Again, as expected nationally, growth in the Western Cape is predicted to improve more noticeably as of 2017. This improved outlook is ascribed to an expectation of improved stability in Europe and China, which will lift national consumption expenditure and fixed capital formation and consequently accelerate growth in South Africa. As a result, the Western Cape is also expected to see improved growth as of 2017. Between 2017 and 2020, regional GDP is forecast to rise by an average of 3.1 per cent per year. Overall, economic activity is predicted to rise by an average of 2.7 per cent between 2015 and 2020.

After posting modest growth in 2013, the value of agricultural output is expected to have risen by 4.8 per cent in 2014. Milder growth of 1.8 per cent and 2.0 per cent is forecast for 2015 and 2016. The bulk of primary sector activity in the Western Cape is in the agricultural sector due to the Province's relatively small mining sector.

Within the secondary sector, continued strong growth in the construction industry is likely to buoy overall growth. The residential building market in the Western Cape is predicted to continue to fare better than the rest of the country while capital expenditure by the public sector is likely to remain supportive. In the manufacturing sector, initiatives to maintain the agri-processing sector's national and global competitiveness (see Chapter 3) should see economic activity continue to accelerate. Furthermore, investment in oil and gas capacity should see this subsector of manufacturing also register reasonably robust growth, boosting manufacturing activity. Overall, the manufacturing sector is predicted to post growth of 2.2 per cent on average between 2015 and 2020.

Growth in tertiary sector activity is predicted to remain the mainstay of economic growth in the Western Cape. Economic output in the finance, insurance, real estate and business services sector is forecast to increase by an average of 3.4 per cent between 2015 and 2020, followed by average growth of 3.2 per cent in transport, storage and communication sector. Weak consumer demand is likely to weigh on the wholesale and retail trade, catering and accommodation sector (trade) over the short term. However, concomitant with a predicted improvement in spending in 2017, the trade sector is also expected to recover. Growth in this sector is forecast to register average growth of 2.7 per cent between 2015 and 2020.

In contrast, increased pressure on government finances will weigh on services by general government. Average growth of only 1.3 per cent is forecast between 2015 and 2020. Continued infrastructure investment by provincial and municipal governments along with private investment in the housing sector – especially from 2017 - should buoy the construction market over the forecast horizon. Average growth of 3.7 per cent is forecast between 2015 and 2020.

2.4.3 Risks to the provincial outlook

The risks to the outlook for the Western Cape economy are similar to that which plagues the national economy. Some elements which may weigh more prominently on the Western Cape economy include:

- Weaker growth in the Euro Area: the Western Cape sends a greater proportion of its exports to the Euro Area than the rest of South Africa so slower growth in the Euro Area will have a more pronounced effect on the Western Cape economy. This is especially true for the food and beverage manufacturing (agri-processing) sector.
- Given the Western Cape's reliance on the tertiary sector, lower than expected employment growth will constrain consumer demand and thereby growth in the trade sectors.
- Swings in the currency will also influence growth in the Province. A weaker exchange rate should benefit export competitiveness as well as boost international tourism. However, this could also result in higher imported inflation.

2.5 Conclusion

The economic environment remains challenging both internationally and domestically. Weak growth in key emerging and developing economies such as China and Brazil may not be offset by the modest improvement in growth recorded in advanced economies (most notably the US and Euro Area). Furthermore, the risks to an already subdued economic outlook are firmly tilted towards the downside.

Domestic constraints such as electricity shortages, the twin fiscal and current account deficits and continued labour market concerns exacerbate the global pressures on the national economy.

The Western Cape has over the years been able to grow at a faster pace than the rest of the economy. While this will likely remain true over the forecast period, due to the constraints to growth, the pace will be more restrained than in the past. Growth in the Province is predicted to average 2.7 per cent between 2015 and 2020, led by the tertiary sector.

3

Development of the Western Cape economy: Sectoral and spatial dimensions

Key findings

- The analysis of changes to the industrial structure confirms the observation of previous PEROs that the Western Cape economy is becoming more services-oriented. Services grew on par with or even faster than the national economy from 2010 to 2014, which helped lift the Province's overall economic growth rate above that of the country.
- Agriculture, forestry and fishing, metals, metal products, machinery and equipment; construction; water; electrical machinery and apparatus; and catering and accommodation services are industries which have strong backward linkages to Western Cape producers in their value chains.
- These linkages are especially prominent for agri-processing, part of a typical commodity value chain. The tourism sector is more geared towards the supply of services.
- The Province is becoming a services-oriented regional economy, but its agricultural roots are still evident in the non-metro regions, particularly the West Coast District and Cape Winelands District. In addition, the closely linked agri-processing sector reveals a comparative edge in all non-metro districts, except the Central Karoo District. The Province's agri-processing sector is also a key sector for employment and exports.
- Unlike national exports that are commodity driven, in 2014 the Province's three biggest export sectors were: food, beverages and tobacco; petroleum products, chemicals, rubber and plastic; and agriculture, forestry and fishing. It is not surprising that the Province has a comparative trade advantage relative to other provinces in exports from the agri-value chain.

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 examining the output and employment performance in the Western Cape in more detail. This adds to the background against which the Province's progress towards inclusive growth can be analysed. It also sets the stage for the analysis of labour market dynamics in Chapter 4.

Inclusive growth, the theme underpinning PEROs since 2013, is a principal theme in the 2015 PERO. The attainment of inclusive growth is to be achieved by unlocking opportunities for growth and jobs. In the sector analysis the focus of the 2015 PERO therefore falls on three sectors with high growth and employment potential over the next three to five years: agri-processing, tourism, and oil and gas.¹ These sectors are discussed in some detail in this chapter.

High potential sectors are identified so that government resources can be prioritised towards interventions in a small number of opportunities rather than be spread across the board. This is in line with the Western Cape Government's number one priority and its Provincial Strategic Goal 1 (PSG 1) objectives of economic growth and employment creation, which are essential ingredients for achieving inclusive growth. It indirectly also has important links with the Province's four other Provincial Strategic Goals related to improving education and opportunities for youth development, wellness, quality of life and embedding good governance. These linkages are further explored in Chapter 5.

Similar to previous PEROs, consideration is also given to the regional distribution within the Province by linking development at a sub-regional level to overall provincial performance.

3.2 A comparative economic sector overview

The high-potential sectors are reviewed in this section in a provincial context by providing a comparative description that links all sectors to economic growth, employment and trade. Each sector's relative position is identified.

Agri-processing, tourism, and oil and gas feature prominently in the findings below (see sections 3.3, 3.4 and 3.5), although the mechanisms through which they are linked to growth, employment, inclusive growth and trade will vary, as it does for each industry.

In the comparative economic sector overview it is important to consider the findings on each industry variable (economic growth, employment, inclusive

¹ These sectors were identified by Project Khulisa for their high potential to achieve economic growth. See Report on the first phase of Project Khulisa, Ministry of Economic Opportunities, Western Cape Government.

growth and trade) within the context of the national and global economic environment, as well as industry specific nuances. For example, nationally determined factors such as wage rates, labour legislation, taxation, energy as well as the availability of skills cannot be ignored when interpreting the findings. This caveat is highlighted since much of the broader context falls beyond the scope of PERO.

3.2.1 Western Cape economic growth

In Chapter 2 it was noted that even at lower national growth rates, the Western Cape economy continues to outperform the rest of the country (Figure 2.10). Compared to the rest of South Africa where growth averaged 3.1 per cent between 2003 and 2013, growth in the Western Cape averaged 3.7 per cent. Over the period 2003 to 2013, the Western Cape registered the joint fastest growth, along with Gauteng.

As noted in previous PEROs, the Western Cape economy is becoming more services-oriented. In 2014 the services sectors constituted 73.6 per cent of production in the Province (Table 3.1). All the tertiary subsectors (barring transport, storage and communication), on average, grew on par with or even faster than the national economy from 2010 to 2014, which helped lift the Province's overall economic growth rate above that of the country. After general government (3.9 per cent), trade (wholesale and retail trade, catering and accommodation) recorded the fastest average growth rate (3.2 per cent) from 2010 to 2014, followed by finance, insurance, real estate and business services (2.9 per cent).

Table 3.1 Western Cape Gross Domestic Product Regional (GDPR) trends per sector (2010 - 2014)

Sector	Western Cape				South Africa			
	Size (Rm)	Size (Rm)	Share (%)	Yoy (%)	Size (Rm)	Size (Rm)	Share (%)	Yoy (%)
	2010	2014	2014	2010 - 2014	2010	2014	2014	2010 - 2014
Agriculture, forestry and fishing	14 524	15 731	4.2	1.3	65 605	71 659	2.6	1.7
Mining and quarrying	885	937	0.2	1.8	230 350	227 260	8.3	0.8
Manufacturing	55 383	58 430	15.5	2.2	358 699	379 090	13.9	2.3
Electricity, gas and water	7 443	7 418	2.0	0.2	67 940	67 765	2.5	0.4
Construction	14 644	16 177	4.3	2.2	95 453	103 358	3.8	1.8
Wholesale and retail trade, catering and accommodation	53 608	60 249	16.0	3.2	370 581	411 083	15.1	3.0
Transport, storage and communication	35 030	37 925	10.1	1.9	229 499	252 648	9.3	2.3
Finance, insurance, real estate and business services	98 687	112 531	29.9	2.9	523 526	591 019	21.7	2.7
Community, social and personal services	23 371	25 262	6.7	1.6	148 561	160 410	5.9	1.6
General government	34 997	41 120	10.9	3.9	404 647	464 911	17.0	3.4
Total	338 569	375 781	100.0	2.6	2 494 860	2 729 204	100.0	2.4

Source: Quantec Research

Can the services sector alone drive inclusive growth?

There are some similarities between the South African economy and that of the Philippines. In the latter agriculture contributed 7.1 per cent to GDP growth, secondary industry (26.3 per cent) and services (66.6 per cent). The share of the services sector in total output was 55.2 per cent in 2009. The Philippine economy has become dominated by services and over the last decade the growth in services was strongly driven by business process outsourcing (BPO).

The Philippines is the only East Asian country that did not follow the typical growth pattern of an increase in the proportion of national income derived from manufacturing; a rise in the labour share engaged in manufacturing, and an increase of labour productivity, thereby transforming their production structure toward more sophisticated or high value-added manufacturing products. As a consequence the Philippines was no longer the early leader that it was in the 1950s and 1960s, with a relatively advanced manufacturing sector and well-developed human capital. Despite these favourable initial conditions and being located in growing East Asia, the country failed to achieve the high growth that other countries in the region achieved over the last few decades. Over the last 5 decades, gross domestic product (GDP) per capita dropped from being one of the top in the region to almost the bottom. The country has had the slowest rate of poverty reduction in the past decades, despite its relatively low levels of absolute poverty in early days.

An Asian Development Bank (ADB) study¹ investigated whether the Philippine services sector alone could drive inclusive growth. The study considered factors like job creation, labour demand, labour productivity growth, linkages with the rest of the economy and export potential. The study's conclusion, in short, was that the global service revolution is not yet a sufficient source for inclusive growth. The services-led growth in the past and even the rapidly growing BPO industry in recent years could not create enough productive jobs to absorb the abundant labour in the country. Despite its big contribution to export earnings, employment by the BPO industry accounts for only about 1 per cent of the total labour force. It is unlikely that the BPO industry, which demands more skilled workers, can provide enough job opportunities for a large number of Filipino workers with moderate skills.

Services alone, at least in the Philippines, cannot drive inclusive growth. The study recommended that the Philippine economy needed a stronger industrial base to create more productive employment opportunities to translate the growth benefits to the entire population. At the same time, service labour productivity should be improved by moving up the value chain. To this end, it needed to undertake major reforms in the higher education system to ensure a steady stream of qualified workers for high productivity services.

¹ *Usui, N (2012)*

In addition to the changing structure and growth rate of the Province's economy, it is also of interest to get some insight into how the growth of a sector impacts on the rest of the provincial economy. The value chain of an industrial sector gives us that insight. Ideally, this should be done with input-output table analysis, but in its absence, backward linkages can serve as a rudimentary indicator of the value chain potential with upstream producers.

Value chains

Value chain refers to the activities undertaken by firms to bring a product or service from production to consumable end use. Each link in a value chain can be seen as a bundle of activities aimed at designing, producing, marketing, delivering or supporting the final product or service. A value chain is also supported by secondary activities throughout the process, such as procurement, human resource management, and infrastructure and technological development.

A typical, modern-day value chain involves inputs from various industry levels in the broader economy. This makes the potential for value chain expansion wider than traditional economic rationale may predict. Capitalising on the value chains in prioritising high-potential sectors offers a realistic opportunity for inclusive growth if links in the value chain are correctly identified and optimally exploited to realise maximal employment potential.

Differences in value chains, such as the level of concentration and integration, may be a key source of comparative advantage. In order to reduce risks and minimise costs, some global enterprises are cutting out middlemen in order to reduce the number of suppliers within the value chain. For example, global supermarkets were generally at the end of the value chain, but are now involved at the centre of the chain by introducing global-source systems. Supermarkets then buy directly from the farm gate in larger volumes, affording them power to negotiate lower unit prices.

It is important to note, however, that multiple external factors are essential for the upgrading and development of value chains. Key external factors include improving skills and education; improving access to electricity; encouraging R&D and skills development; limiting barriers to trade and entry; supplying adequate infrastructure to support logistics and restricting captive relationships in the value chain.

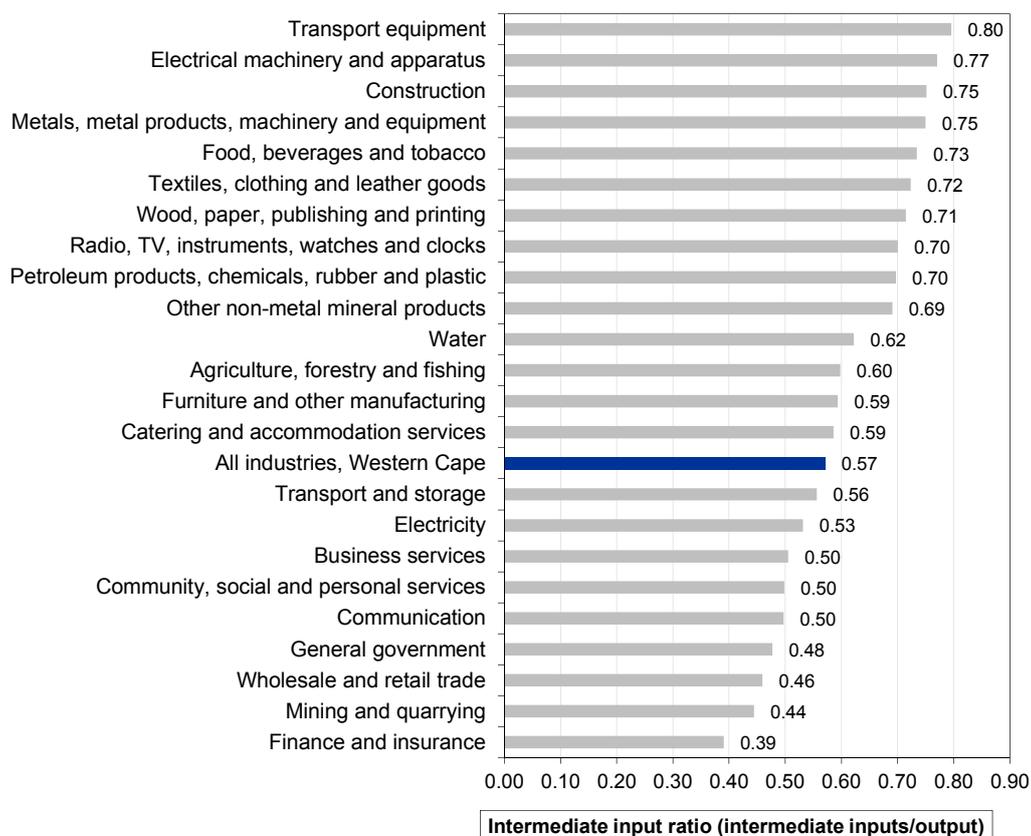
Upstream activity encompasses the intermediate inputs² required to produce the end product or service. As a crude proxy for upstream value chain potential, the intermediate input ratio³ is used to rank the main sectors within the Western Cape.⁴ The ratios for the main sectors in the Western Cape in 2013 are shown in Figure 3.1.

A high intermediate input ratio suggests a relatively high potential for an upstream value chain (or backward linkages). Although the ratio is merely a crude indicator of upstream value chain potential, it provides some preliminary insight into the relative strength of that potential for each industry. Whether the potential of a specific industry in the Province can be realised depends on many factors. An important consideration is the extent to which intermediate inputs are sourced from within the Province ("domestic intermediate inputs") or from outside its borders ("intermediate imports").

² Intermediate inputs (or intermediate consumption) refer to all goods and services bought by the producer to combine with the 'primary inputs' (factors of production or value added) to produce the final output. In explicit terms, primary inputs plus intermediate inputs equals the final output.

³ Intermediate input ratio = $\frac{\text{Output} - (\text{Gross Value Added})}{\text{Output}}$. The higher the ratio, the higher the share of intermediate inputs required in generating the value added of a particular sector.

⁴ The intermediate input ratio is described as "crude" from a policy perspective since it is not possible to identify without sophisticated input-output analysis the geographic origin of the inputs. A high ratio may include inputs largely imported from other regions (provinces) or from abroad. Typically, value chains will stretch across regional and national borders.

Figure 3.1 Intermediate input ratio, Western Cape, 2013

Source: Quantec Research, Own calculations

Agriculture, forestry and fishing; metals, metal products, machinery and equipment; construction; water; electrical machinery and apparatus; and catering and accommodation services are industries which all feature above the provincial average in terms of its intermediate input ratio. These inputs are integral components in the value chain for the agri-processing, tourism, and oil and gas priority sectors. The oil and gas sector, for example, is reliant on multiple intermediate inputs, highlighting its upstream to mid-stream value chain potential.

A higher share of intermediate inputs for these three sectors may imply a greater potential for economic growth derived from the backward linkages in these industries. The exact transmission mechanism through which this may occur falls beyond the scope of PERO.

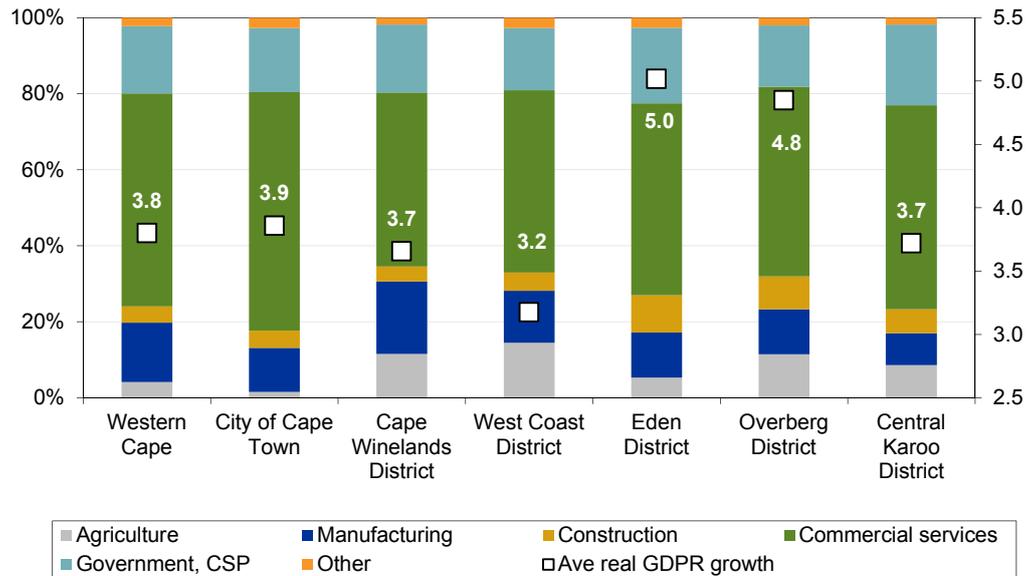
3.2.2 The spatial aspect of economic growth

It is increasingly recognised that the spatial location of economic growth is a critical area for investigation. A particular industry can, for instance, derive its growth from various sources: growth in the wider region (which may be the province or the country); changes in the industrial structure of the local economy; or economic activities shifting to the region.

This section briefly considers the industry structure of the Western Cape across its provincial districts. It provides a backdrop against which the spatial aspect of economic growth can be explored.

Figure 3.2 shows the industry composition of six Western Cape regions, with the average real GDP (Regional Gross Domestic Product) growth rate of the region over the 2005 - 2013 period indicated in the figure.

Figure 3.2 Western Cape regions: Industry structure and real economic growth, 2005 to 2013



Source: Quantec Research

It was pointed out in the 2014 PERO that some catch-up is taking place as economic growth in Eden District and Overberg District outpaced growth in the City of Cape Town and the adjacent Cape Winelands District. Real economic growth averaged around 5 per cent per annum in Eden District and Overberg District compared with 3.9 per cent and 3.7 per cent in the City of Cape Town and Cape Winelands District, respectively. West Coast District has been lagging (at 3.2 per cent per annum), whilst relatively high growth was registered off a low base in Central Karoo District. This district contributes less than 1 per cent of provincial GDP.

Regarding the industry structure, the analysis is at a relatively high level of aggregation, with manufacturing and commercial services shown as consolidated sectors. Commercial services are distinguished from the other two main tertiary sectors, i.e. the general government and community, social and personal services. It consists of a diverse range of tertiary economic activities: wholesale and retail trade, catering and accommodation services; transport and communication; and finance, insurance, real estate and business services⁵. The commercial services sector dominates economic

⁵ It needs to be pointed out that the personal services sector also contains some important commercial services; however, the data availability did not allow disaggregation.

activity in all six Western Cape districts. It accounts for 63 per cent of the City of Cape Town's GDP and 46 per cent of GDP for Cape Winelands District. On average, this sector contributed 56 per cent to the provincial GDP in 2013.

The second largest sector is the government and community, social and personal services, accounting for close to 18 per cent of the provincial GDP in 2013. At 15.5 per cent of Western Cape GDP in 2013, the manufacturing sector is the third largest. In line with national trends this sector's contribution has declined over the past 20 years. Across the provincial districts, the largest share for manufacturing is found in Cape Winelands District, accounting for 19 per cent of the region's GDP in 2013.

The construction industry contributes 4.3 per cent to Western Cape GDP. In 2013 the sector accounted for 9 to 10 per cent of GDP in the fast-growing Eden District and Overberg District. The agricultural sector has a similar contribution to provincial GDP. It varies significantly across the districts, with the contribution to GDP measuring 14.5 per cent in West Coast District and 11 to 12 per cent in Cape Winelands District and Overberg District.

Table 3.2 Western Cape GDP forecasts by sector by district, 2015 - 2020

Sector	Forecast: 2015 - 2020 (Average % growth per annum)					
	City of Cape Town	West Coast District	Cape Winelands District	Overberg District	Eden District	Central Karoo District
Agriculture, forestry and fishing [SIC: 1]	2.8	0.8	2.5	1.9	2.2	0.9
Mining and quarrying [SIC: 2]	2.3	1.2	2.2	2.3	1.0	4.8
Manufacturing [SIC: 3]	2.0	2.0	2.2	3.3	3.3	4.0
Electricity, gas and water [SIC: 4]	1.8	1.2	1.9	1.3	1.2	-0.7
Construction [SIC: 5]	3.6	4.2	3.2	3.4	4.5	3.4
Wholesale and retail trade, catering and accommodation [SIC: 6]	2.6	2.9	3.1	2.4	3.4	2.0
Transport, storage and communication [SIC: 7]	3.1	3.5	3.5	3.5	3.8	1.2
Finance, insurance, real estate and business services [SIC: 8]	3.2	3.7	3.9	5.1	4.3	3.9
Community, social and personal services [SIC: 92, 95-6, 99, 0]	1.6	2.1	1.9	2.1	2.7	1.3
General government [SIC: 91, 94]	1.2	1.5	1.4	1.3	1.5	1.2
Total	2.6	2.6	2.8	3.3	3.4	2.5

Source: Quantec Research

As depicted in Table 3.2, the City of Cape Town economy is forecast to grow, on average 2.6 per cent over the next five years. The Eden District and Overberg District economies are expected to average 3.4 per cent and 3.3 per cent, respectively over the forecast horizon.

The Cape Winelands District economy and the West Coast District economy are expected to grow on average 2.8 per cent and 2.6 per cent, respectively over the next five years. Similarly, albeit at a low base, the Central Karoo District economy is expected to grow, on average 2.5 per cent over the same period.

Building plans passed and buildings completed

As discussed in the previous section, construction⁶ is expected to be the fastest growing sector over the next five years in some of the Western Cape districts, especially the City of Cape Town. Growth in construction is derived from infrastructure spending (on roads, etc.) and the construction of residential and non-residential buildings. As was noted in Chapter 2 continued infrastructure investment by provincial and municipal governments along with private investment in the housing sector - especially from 2017 - should buoy the construction market over the forecast horizon. Continued growth in the latter sector is supported by Table 3.3 which shows the value of building plans passed in South Africa in 2014. When compared to its share of GDP and population, the Province has a higher proportional value of building plans passed by municipalities, outperforming most provinces. The relatively high proportion of building plans passed in the Province is an indicator that the construction industry is likely to continue to be a strong performer in the short to medium-term.

Statistics South Africa conducts a monthly survey of metropolitan municipalities and large local municipalities on building plans passed and buildings completed for the private sector. An annual survey of the remaining municipalities is conducted regarding buildings completed. The monthly survey represents approximately 90 per cent of the total value of buildings completed.

Source: Statistics South Africa

Table 3.3 Value of building plans passed, 2014

	All plans passed: Total value R'000	Share of value of plans passed (%)	Share GDP (%)	Share population (%)
Western Cape	23 730 773	24.6	13.7	11.3
Eastern Cape	4 567 436	4.7	7.7	12.6
Northern Cape	1 078 026	1.1	2.0	2.2
Free State	3 926 965	4.1	5.1	5.1
KwaZulu-Natal	16 371 116	17.0	16.0	19.9
North West	3 993 274	4.1	6.8	6.8
Gauteng	36 872 523	38.2	33.8	23.9
Mpumalanga	4 323 209	4.5	7.6	7.8
Limpopo	1 690 902	1.8	7.3	10.4
South Africa	96 554 224	100.0	100.0	100.0

Source: Statistics South Africa (2014)

⁶ The broad sub-sectors of the construction sector are residential (housing), non-residential (office properties, shopping centres) and civil construction (roads, bridges etc.)

3.2.3 Western Cape Sector Employment

Key labour market dynamics are discussed in more detail in Chapter 4. In line with output distribution, the services sectors (including government) were the largest employers in the Province and national economy, followed by the manufacturing sector (Table 3.4). In the Western Cape manufacturing sector, the food, beverages and tobacco subsector (i.e. agri-processing) was the largest employer at 24 per cent followed by metals, metal products, machinery and equipment at 19 per cent. Despite the Western Cape economy growing at a slightly faster pace than the national economy, employment growth has been more muted. This is mainly due to a contraction in employment in the Province's construction sector and slower job growth in the Western Cape's general government sector. The contraction of the construction sector occurred across the country and is in sharp contrast with the strong growth of construction in previous years. No specific reasons for rapid turnaround in construction are given by analysts and it seems as if it is a reflection of the general decline in confidence in the country's economy. Declining confidence may have been fuelled by factors such as the platinum strike, the weakening rand, the rising interest rates and uncertainty about the state of the world economy, especially emerging markets. Some of these factors are discussed in more depth in Chapter 2. The pace of job creation in some of the services sectors in the Western Cape has well exceeded that of the national economy.

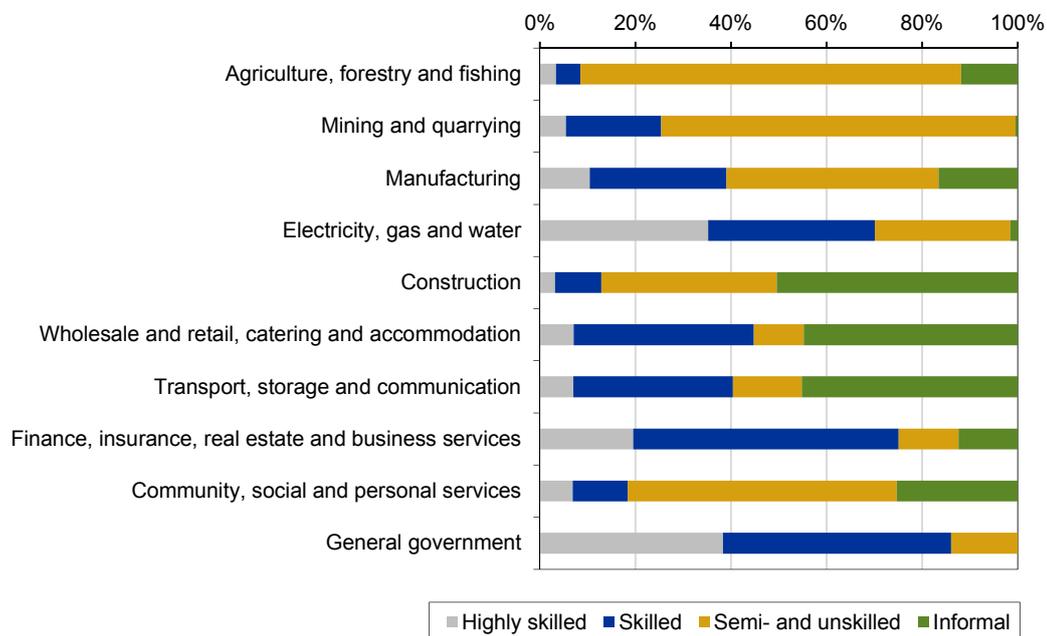
Table 3.4 Western Cape employment per sector, 2014

Sector	Western Cape		South Africa	
	Size 2014	Share (%) 2014	Size 2014	Share (%) 2014
Agriculture, forestry and fishing	160 466	8.4	800 977	5.4
Mining and quarrying	3 657	0.2	487 671	3.3
Manufacturing	229 898	12.1	1 319 734	8.9
Electricity, gas and water	6 466	0.3	62 546	0.4
Construction	110 995	5.8	1 157 154	7.8
Wholesale and retail trade, catering and accommodation	428 223	22.5	3 568 492	24.1
Transport, storage and communication	87 399	4.6	798 296	5.4
Finance, insurance, real estate and business services	360 078	18.9	2 236 151	15.1
Community, social and personal services	279 935	14.7	2 358 991	15.9
General government	236 384	12.4	2 022 913	13.7
Total	1 903 501	100.0	14 812 925	100.0

Source: Quantec Research

Figure 3.3 illustrates the labour-skills mix per sector in the Western Cape economy. As expected, the primary sectors are dominated by semi- and unskilled labour, while the tertiary industry, particularly Finance, insurance, real estate and business services has a bigger share of highly skilled employees. The construction; transport, storage and communication; and wholesale and retail trade, catering and accommodation sectors have a significant share of informal labour. Compared to the national economy, the Western Cape economy is tilted slightly more to the formal and skilled side. A third of the Province's workers are categorised as skilled followed by semi- and unskilled (30 per cent), informal (24 per cent) and highly-skilled (13 per cent).

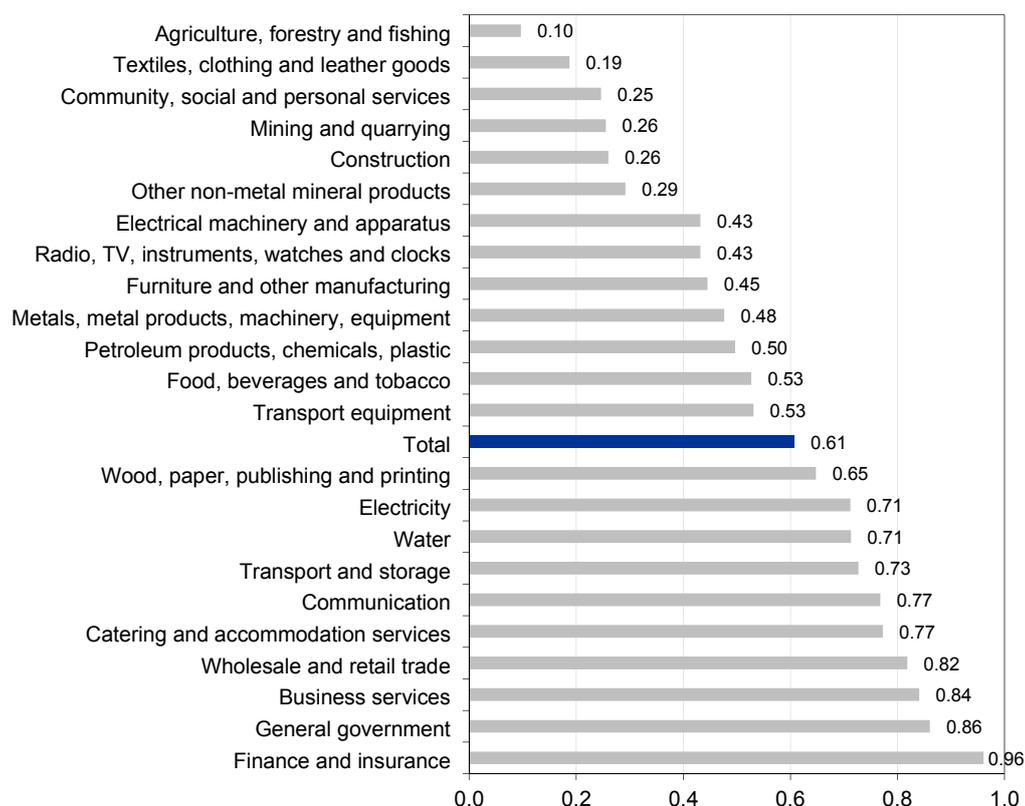
Figure 3.3 Share of highly skilled, skilled, semi- and unskilled and informal workers per sector (2013)⁷



Source: Quantec Research

The sum of the highly skilled and skilled workers expressed as a proportion of total formally employed workers represents the skilled worker ratio. It serves as a simple measure of the skills level of an industry's formal employment. The three industries in the Province with the lowest skilled worker ratios are agriculture, forestry and fishing, textiles, clothing and leather goods, and community, social and personal services (Figure 3.4). Industries like these are important given the relatively low skills level of the provincial and national labour force. The strategic focus on agri-processing is therefore appropriate given its potential employment creation, especially for the low and unskilled.

⁷ The highly skilled, skilled and semi- and unskilled are working in the formal sector; employees in the informal sector are not separated in their different skills levels. The classification is based on Quarterly Labour Force Survey (QLFS) of Statistics South Africa, 2015.

Figure 3.4 Skilled worker ratios for Western Cape industries, 2013

Source: Quantec Research, Own calculations

Interpreted slightly differently, the skilled worker ratio is a proxy for the level of skill required by an industry if it is to grow. Agriculture, forestry and fishing, for example, requires workers that are relatively low skilled for its growth. However, there are other factors that can exert a binding constraint on the sector's growth, including shortage of specific skills. This is discussed in Chapter 4.

3.2.4 Western Cape Trade

Western Cape trade source and destination markets

The top three export destinations for the Western Cape have remained among the top destinations for a number of years (Wesgro, 2014). The leading three countries for Western Cape exports reside in the European Union, namely the Netherlands (R6.8 billion), the United Kingdom (R6.6 billion), and Germany (R3.8 billion), accounting for a combined 23 per cent of total exports (see Table 3.5). New entrants in the top 10 from 2012 include Japan, Kenya and China (China was a top market in 2011). Exports to Japan were primarily driven by major maize exports, reaching R1.5 billion in 2013. Exports to Kenya were fuelled by flat-rolled products of iron or non-alloy steel coils which saw a 98 per cent increase from 2012. China mainly imported copper, copper alloy or scrap as well as sheep, lamb skins and iron ore.

In the case of specific regions, the highest value exports were to the European Union, realising export growth of 19 per cent between 2012 and 2013, followed by the Southern African Development Community (SADC) (33 per cent) and Eastern Asia (45 per cent) (see Annexure E).

Table 3.5 Top ten export destination markets for Western Cape, 2013

Rank	Importers	Value 2013 (R bn)	% Share	% Growth 2012 - 2013	% Share SA ⁸ exports, 2013
1	Netherlands	6.74	9	-0.91	22.49
2	United Kingdom	6.66	8.89	25.04	21.01
3	Germany	3.85	5.14	25.33	9.17
4	Mozambique	3.78	5.05	148.62	14.2
5	United States	3.49	4.65	4.38	5.33
6	Singapore	2.7	3.61	9.17	29.07
7	Japan	2.65	3.53	117.68	5
8	Angola	2.54	3.4	11.83	27.97
9	Kenya	2.29	3.05	64.53	31.27
10	China	2.12	2.84	49.39	1.94

Source: Wesgro (2014), Own calculations

The top source markets for imports to the Western Cape in 2013 were Saudi Arabia (R37.7 billion), China (R28.0 billion) and India (R16.4 billion). Many of the source markets are oil producing countries, exporting oil to the Western Cape. Imports from India increased by 75 per cent in 2013, while imports from Germany increased by 65 per cent.

Table 3.6 Top ten import source markets for Western Cape, 2013

Rank	Exporters	Value 2013 (R bn)	% Share	% Growth 2012 - 2013	% Share SA ⁹ imports, 2013
1	Saudi Arabia	37.67	20.19	-0.32	48.64
2	China	28.01	15.01	39.27	18.12
3	India	16.37	8.77	75.28	31.53
4	Nigeria	13.59	7.28	-20.73	38.84
5	Germany	8.1	4.34	65.45	7.85
6	Singapore	7.54	4.04	75.42	39.67
7	United Kingdom	6.58	3.53	21.31	20.08
8	Italy	5.24	2.81	38.49	20.23
9	United States	4.71	2.52	13.8	7.42
10	Netherlands	4.64	2.48	-11.23	28.73

Source: Wesgro (2014), Own calculations

⁸ Refers to percentage share of WC exports of total SA exports to respective export destination market.

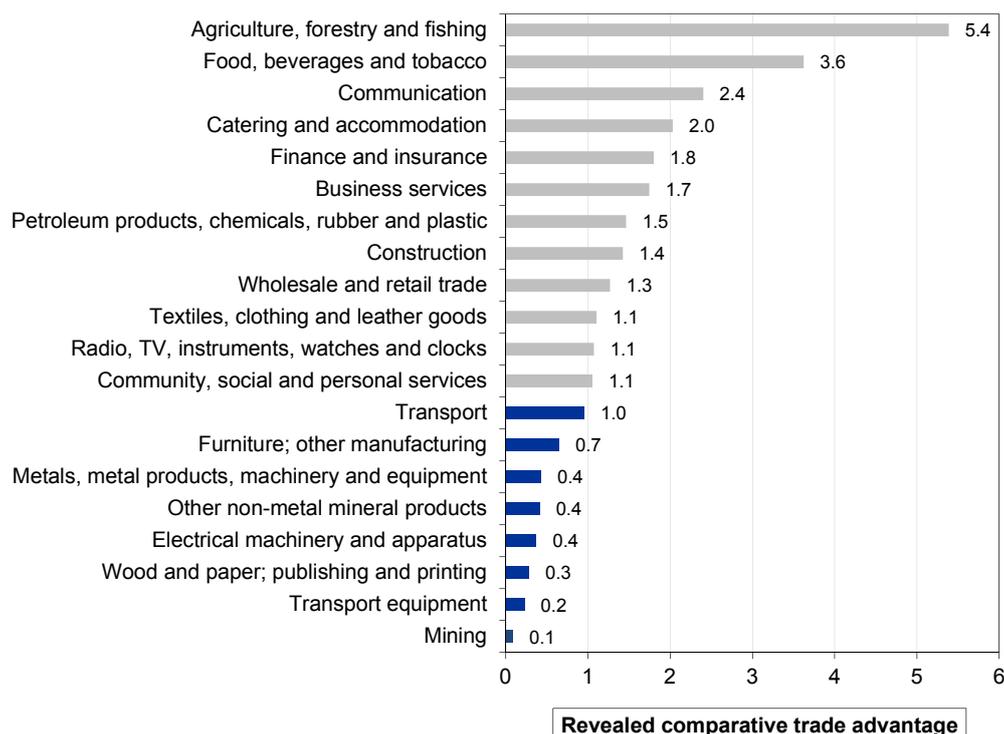
⁹ Refers to percentage share of WC imports of total SA imports from respective import source market.

Western Cape sector revealed comparative trade advantages

In 2014 the Province's three biggest export sectors were food, beverages and tobacco (21.2 per cent), petroleum products, chemicals, rubber and plastic (17.7 per cent) and agriculture, forestry and fishing (17.4 per cent)¹⁰. This is very different from national exports that are driven by commodities. At the national level the biggest export sectors are mining (21.4 per cent) and the metals, metal products, machinery and equipment subsector (21.3 per cent).

Figure 3.5 depicts the revealed comparative trade advantages¹¹ (RCTA) of Western Cape sectors. A level above one signals a comparative advantage for that sector relative to the rest of South Africa, while a level below one indicates a comparative disadvantage. The Province has a comparative trade advantage in exports from the agri-value chain, but importantly also in several services industries. The latter include communication (which includes telecommunication and mobile telephony), catering and accommodation, finance and insurance, and business services sectors (e.g. call centres).

Figure 3.5 Revealed comparative advantage per Western Cape sector (2014)



Source: Quantec Research

¹⁰ In Annexure D a list of the sector's revealed comparative trade advantage and average growth rates (2010 - 2014) is provided.

¹¹ The relevant sector's export share of total provincial (regional) exports is expressed as a ratio of the same sector's share of South African exports to calculate a revealed comparative trade advantage ratio.

Imports were composed mostly of petroleum products, chemicals, rubber and plastic (25.2 per cent) and mining (17.9 per cent). The Western Cape's biggest net export sector was the agri-value chain followed by the services sectors of wholesale and retail trade, business services and finance and insurance.

Western Cape export and import products

According to Wesgro (2014), in 2013 the top export products from the Western Cape included petroleum oils (except crude), grape wines, citrus fruit, fresh apples, pears and quinces as well as grapes¹². The top performing export in the top 10 was maize, the exports of which increased by over R1 billion relative to the previous year¹³. Other top exports in terms of growth were liqueur (66 per cent) as well as apples, pears and quinces (53.5 per cent). The top destination market for citrus fruit (R1.7 billion) and grapes (R1.9 billion) was the Netherlands and the top destination market for hot rolled iron and steel products was Kenya (R1.7 billion).

The top imports to the Western Cape in 2013 included crude and non-crude petroleum oils; diodes and transistors; liqueur, spirits and undenatured ethyl alcohol; prepared or preserved fish as well as medicaments. Imports of diodes and transistors as well as generators and converters grew by over 1 000 per cent during the 2012 – 2013 period. However, crude petroleum realised negative growth of 17 per cent from 2012.

3.3 Western Cape Priority Sectors

In addition to our focus on creating an enabling environment for the whole economy to grow and create jobs, through Project Khulisa, the WCG has identified those areas of the Western Cape economy which have the greatest potential for accelerated and sustained economic and employment growth within a three to five year framework. Using a process of careful consideration Project Khulisa identified six high potential sectors: Tourism (business and leisure tourism, and more specialised niches); Business Process Outsourcing (BPO) (the entire BPO service offering); Agri-processing (value added activities in food and beverages, including the potential for domestic production and export); Film (the entire production value chain of the making of films, television programmes and commercials); Oil and gas (midstream services with immediate impact potential, such as rig repair); Renewables (the construction of sites, associated manufacturing and operations to expand the solar and wind electricity-generating capacity). (See the Project Khulisa textbox.)

¹² See Annexure F for a more detailed and comprehensive analysis.

¹³ It is important for the reader to note that this increase was highly seasonal and a phenomenon occurring every 2 - 3 years.

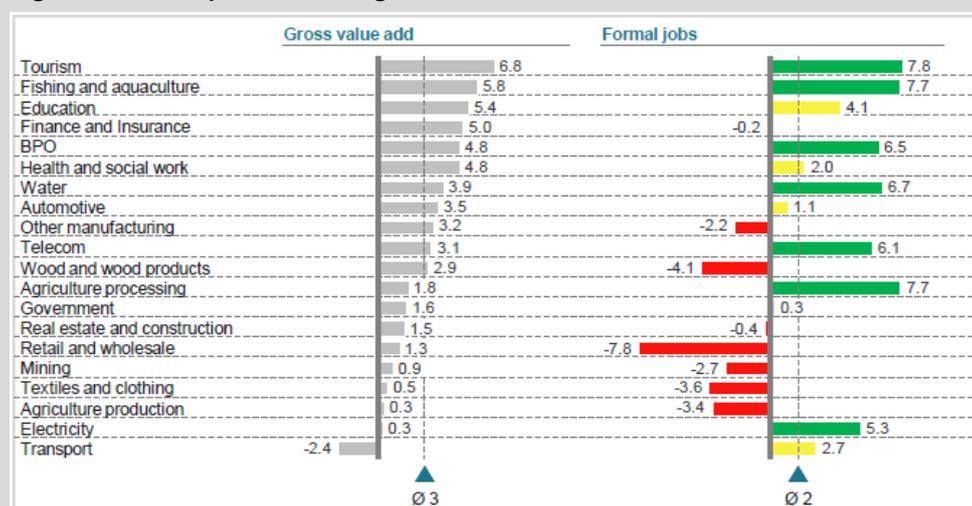
Project Khulisa

Khulisa means “cause to grow” in isiXhosa. Project Khulisa’s purpose was to accurately identify the parts of the Western Cape economy with the greatest potential for accelerated, sustained growth and job-creation – and then identify and drive the specific actions that government and business can take to unlock that potential.

As a first step, Project Khulisa developed an economic model of the Western Cape using the best available public data on GVA and GDP, formal employment, and historic growth. The model was based on a new taxonomy which defined an accurate, commonly agreed “sector list” to understand the structure of the Western Cape economy.

The model provided a multi-year, historic picture of the Western Cape economy; and a sector-by-sector breakdown of the economy, including GVA and formal jobs. For sectors where data had not been reported, the project team developed figures based on a variety of sources including outside-in estimates, sector strategies, and annual reports. In the model, all the sectors are fully additive to arrive at a comprehensive, economy-wide picture (see figure below).

Figure 3.6 Compound annual growth rate, 2009 - 2013



Source: Global insights, Project Khulisa team analysis

Through a comprehensive prioritisation and filtering process, those parts of the Provincial economy which offer the greatest potential return in terms of jobs (particularly low-skilled, rural jobs - to address the province’s greatest unemployment challenge) and growth in the 3 - 5 year horizon, were selected as strategic priority areas for provincial focus. They were also chosen because, unlike others which are thriving due to existing efforts (such as the services sector - grows because productive industries needs to be serviced), these hold significant opportunities to transform the Western Cape economy if they receive focused attention and investment by the public and private sector, working together:

- Tourism - including both business and leisure tourism, as well as other more specialised niches.
- Agri-processing - with a focus on food and beverages; includes export and domestic product potential.
- Oil and gas - with the focus on areas of immediate potential, particularly midstream services such as rig repair; exploration was purposely discounted as the lead teams are too long to deliver impact on jobs and growth within the next five years.

Enablers

Five key enablers of growth and job creation in the aforesaid sectors - namely, energy security, water, skills development, other infrastructure, and reducing red tape were also identified. These enablers are transversal in nature and envisaged to be the building blocks to grow the entire Western Cape economy.

The Energy Security enabler refers to the high cost and uncertain supply of electricity and the impact thereof on the profit and sustainability of businesses. As a scarce limited resource, clean and sufficient supply of water is essential in almost all industries.

Working with the private sector, the Western Cape Government has devised specific action plans for the above sectors. The WCG has also set stretch targets for growth and job creation in the aforesaid sectors, which, if realised, would significantly impact the Provincial economy and its residents. Realising these goals requires public and private sector investment, and intense focus over time.

The analysis contained in Chapter 3 is based on the Standard Industrial Classification sector groupings from which one can discern trends linked and relevant to the Project Khulisa identified sectors. E.g. Agri-processing includes the Food, Beverages and Tobacco sector, Tourism includes hotels and restaurants and a fraction of retail and transport.

Source: Project Khulisa (2014)

In 2015 PERO the spotlight is focused on three of these sectors: Agri-processing, tourism and oil and gas. The value chains of these sectors are highlighted where possible.

3.3.1 Agri-processing

Despite its relatively small direct contribution to GDP the agricultural sector has been a mainstay of the Western Cape economy and driver of economic development, particularly in rural areas¹⁴. The closely-linked agri-processing sector is a key sector in terms of its contribution to GDP, employment and exports, as mentioned in section 3.2.

In the recently adopted SADC report¹⁵ agriculture-led growth and agricultural value chains were identified as "clear-cut priorities for accelerated industrialization". The Western Cape's prioritisation of this sector will allow the Province to benefit from growth opportunities in the region and beyond.

¹⁴ The structure, risks and outlook for the agriculture, forestry and fishing sector was discussed in detail in 2014 PERO. This was preceded in 2013 PERO by an extensive review of the food value chain of agri-processing, including the food, beverages and tobacco sector.

¹⁵ Southern African Development Community, *Industrialization Strategy and Roadmap 2015 - 2063* (2015: 16).

Agri-processing is an example of a quintessential commodity value chain. Moreover, it also forms part of tourism's service value chain. In the growth process, the industrial linkages of the value chain play a key role. The value chain can reach beyond the borders of a municipality, a province and, increasingly, the country as industries are incorporated into global value chains. An understanding of these value chains will allow policy authorities to support the sector and intervene where necessary.

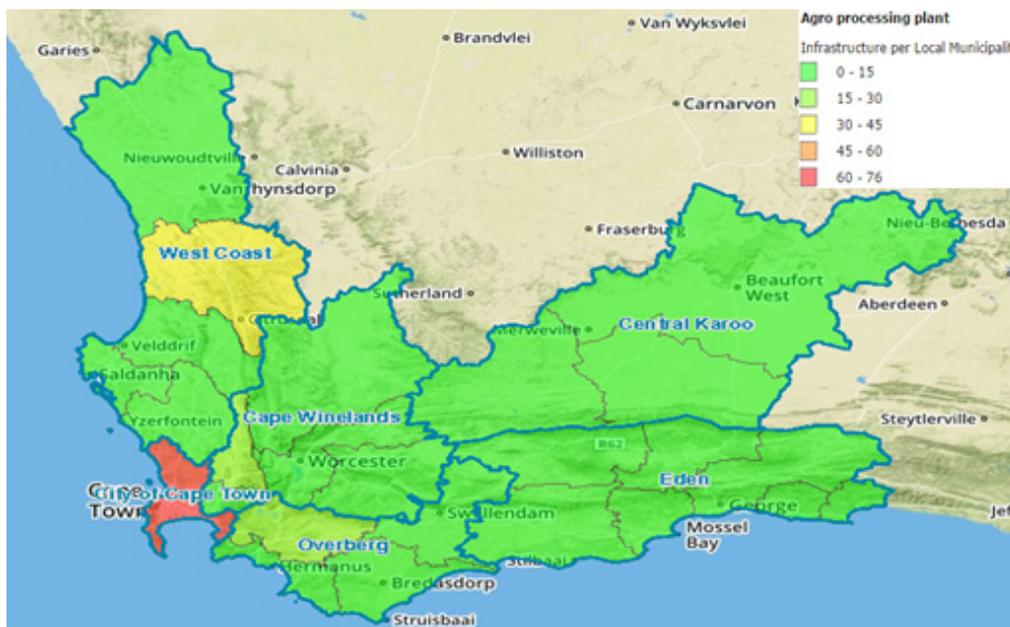
Section 3.2.1 showed the upstream value chain potential across sectors in the Western Cape. Agriculture, forestry and fishing and food, beverages and tobacco - products and services linked to the agri-processing sector – had a relatively high ratio of intermediate inputs in 2013. In 2011 (2013 PERO: 63) it was shown for the proxy agri-processing sector (these two sectors combined), that 79 per cent of intermediate inputs came from domestic (Western Cape) sources. Only 21 per cent of intermediate inputs were sourced from outside the Province (i.e. intermediate imports). Agri-processing therefore has a strong positive impact on stimulating the upstream links in the value added chain of the sector. Its forward linkages to producers in the Province (i.e. intermediate output going to domestic producers as their intermediate inputs) was not as strong (23.9 per cent of the sector's output), but still significant. This illustrates the positive value chain impact of the agri-processing sector, though caution is taken when making this assertion since the analysis is limited by data constraints.

The spatial distribution of agri-processing

Currently, the spatial distribution of agri-processing in the Province is concentrated in the City of Cape Town, although relative to population it is less unbalanced. The Province has 619 fruit packing facilities and 269 fruit drying, cheese making, olive oil pressing, fish packing and other processing facilities¹⁶. Currently three districts host over three-quarters of the Province's 269 agri-processing plants (see Figure 3.7). More than half of the Province's agri-processing plants are in the City of Cape Town and West Coast District (of which Cederberg municipal area has the majority), mostly linked to the region's rooibos and fruit industry. Cape Winelands District, particularly the Drakenstein and Stellenbosch municipal areas are home to a further 23 per cent of agri-processing plants.

¹⁶ This category excludes white and red meat abattoirs.

Figure 3.7 Number of agri-processing plants per district

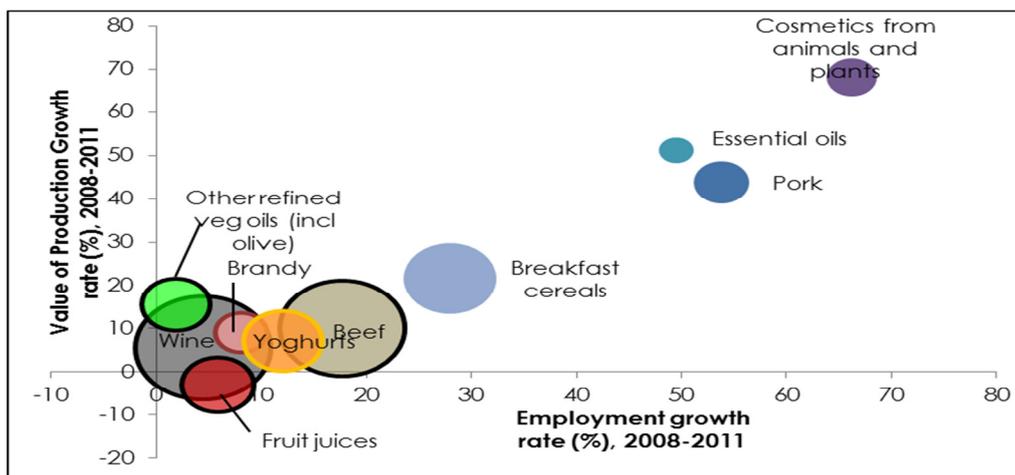


Source: Western Cape Department of Agriculture

Development potential of agri-processing

The Western Cape's Department of Agriculture identified key subsectors within broader agri-processing in order to ascertain where focused interventions would yield the highest return. Through qualitative and quantitative analysis, ten subsectors were identified (Figure 3.8).

Figure 3.8 Priority agri-processing subsectors in the Western Cape¹⁷



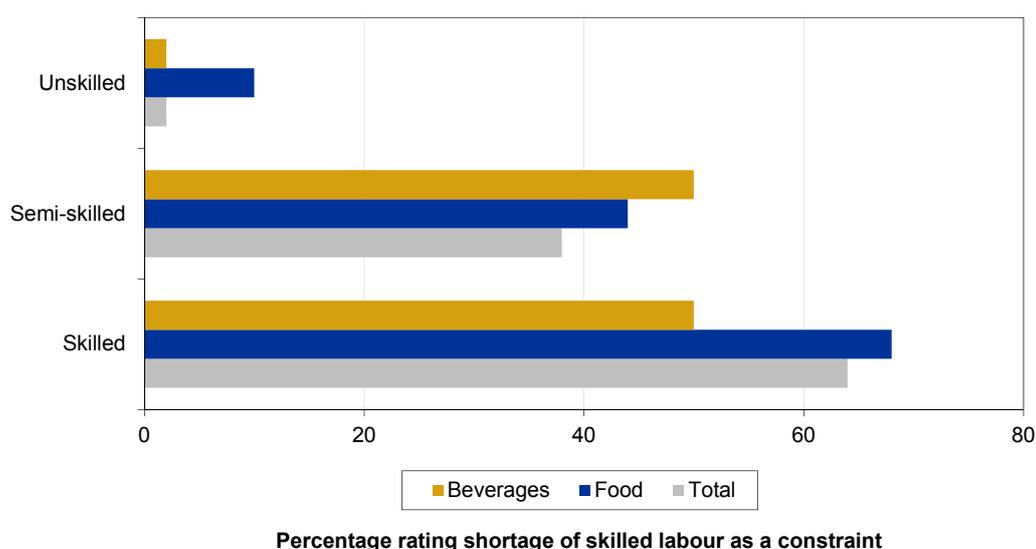
Source: Pienaar, L & Partridge, A (2015)

¹⁷ The size of the bubbles refers to the current value of production per product (2011).

The sector with the highest employment and production growth rates over the 2008 to 2011 period was cosmetics from animals and plants (for example, lanolin from wool or rooibos-based skincare products). This sector was followed by essential oils (such as lavender or citrus peel oil), pork, breakfast cereals and beef. The latter three in particular create opportunities given shifts in consumption patterns stemming from the growing middle class in South Africa and the rest of Africa.

While these estimates reveal opportunities for sustained job growth in the agri-processing sector, the lack of skills is a key constraint. The broader agricultural value chain is moving away from low skilled and low paid workers towards better skilled and better paid, but fewer, workers to cope with the increasing complexity of production processes. According to the BER's Manufacturing Survey (second quarter of 2015)¹⁸, the lack of skilled and semi-skilled labour in the food subsector is a bigger constraint than it is for the total manufacturing industry (see Figure 3.9). Indeed, of the 16 subsectors surveyed, the food subsector is the second-most constrained by the lack of skilled workers.

Figure 3.9 Shortage of skills in food and beverages subsectors (2015Q2)¹⁹



Source: BER (2015)

¹⁸ These statistics refer to the national food, beverages and manufacturing sectors. However, the trends should be similar to what is observed in the Western Cape.

¹⁹ The index is calculated as follows: The answer of respondents rating a particular constraint as "serious" is weighted by 0.67 per cent; those rating it as "slightly" by 0.33 per cent and those rating it as "not a constraint at all" are discarded. The results are then multiplied by 100/67 = 1.49 to convert it to an index that can vary between 0 and 100.

Trade potential and export growth

As already highlighted in section 3.2, the Province's agriculture and agri-processing sectors have a key comparative advantage *vis-à-vis* the national economy. Table 3.7 lists the 20 product categories with the highest RCTA²⁰ in the Western Cape economy. In Annexure C a complete list of Western Cape exports is provided.

Table 3.7 Revealed comparative advantage of Western Cape commodity exports, 2014

Rank	Export category	Revealed comparative trade advantage 2014
1	Tobacco and manufactured tobacco substitutes	8.2
2	Ships, boats and other floating structures	8.1
3	Vegetable textile fibres (not elsewhere specified) paper yarn, woven fabric	7.3
4	Fish, crustaceans, molluscs, aquatic invertebrates nes	7.2
5	Beverages, spirits and vinegar	6.2
6	Edible fruit, nuts, peel of citrus fruit, melons	5.9
7	Vegetable, fruit, nut, etc. food preparations	5.3
8	Meat, fish and seafood food preparations nes	5.3
9	Commodities not elsewhere specified	4.5
10	Bird skin, feathers, artificial flowers, human hair	4.4
11	Cork and articles of cork	4.2
12	Live trees, plants, bulbs, roots, cut flowers etc.	3.9
13	Oil seed, oleagic fruits, grain, seed, fruit, etc. nes	3.7
14	Lac, gums, resins, vegetable saps and extracts nes	3.6
15	Products of animal origin, nes	3.6
16	Articles of apparel, accessories, not knit or crochet	3.5
17	Residues, wastes of food industry, animal fodder	3.5
18	Fur skins and artificial fur, manufactures thereof	3.4
19	Articles of apparel, accessories, knit or crochet	3.4
20	Umbrellas, walking-sticks, seat-sticks, whips, etc.	3.3

Source: *Quantec Research*

Many of these export categories are products from the agriculture value chain. The fourth category on the list, beverages, spirits and vinegar, is a key export item for the Western Cape and made up almost 10 per cent of the Province's total exports in 2014. The Western Cape has been a significant exporter of beverages for the past ten years and has consistently maintained a trade surplus. The Province accounts for almost 70 per cent of South Africa's total beverage exports (R15.4 billion). The majority (14 per cent) of the Western Cape's beverages exports was destined for the United Kingdom in 2013, followed by Germany (11 per cent) and Angola (6 per cent). South Africa is the world's ninth largest producer of wine (and accounts for just under 4 per cent of total global production).

²⁰ Revealed Comparative Trade Advantage.

The wine industry remains one of South Africa's key agri-exporters. As highlighted in PERO 2014, Africa and China are becoming increasingly important markets for South African wine exports, while the more traditional European market is a mainstay. Additionally, cross-sector linkages are also important as it is estimated that the wine sector contributes R4.5 billion indirectly to tourism (Wesgro, 2014).

Outlook: Turning challenges into opportunities

The BER/Quantec forecast for the Food Beverage and Tobacco manufacturing subsector expects growth to accelerate from the average 0.9 per cent recorded from 2005 to 2014, to 2.5 per cent from 2015 to 2020. Job growth is also expected to accelerate from an average 0.5 per cent decline to 1.4 per cent growth. The agriculture sector is expected to add an additional 10 000 jobs over this period, with growth accelerating from 1.9 per cent to 2.3 per cent.

Some of the key opportunities and challenges relevant to the realisation of the expected growth form the basis of the sections that follow.

Water management and climate change

It is common knowledge that water scarcity²¹ is becoming an increasingly bigger problem for the Western Cape. Two priority interventions that can address the water scarcity problem are the development of new water infrastructure for purposes related to agriculture and the introduction of water-demand management programmes to improve water-use efficiency.

Electricity supply disruptions

As mentioned in Chapter 2, load-shedding was a key constraint on the broader South African economy. It had serious impacts on the agri-processing sector since it affects production across the supply chain.

Electricity supply interruptions as a constraint is exacerbated by steep electricity tariff increases that directly affect the agricultural and agri-processing sectors' cost and profit structures. It also has a negative impact on the disposable income of local households. Even eating habits of particularly low income households shifted from rice to maize products due to its shorter cooking time. These shifts ultimately affect the profit margins throughout the entire value chain.

²¹ See Troskie, D.P. (2015): Improve local production capacity for domestic and key strategic markets. Agri-processing open day 20 July 2015.

Green economy and renewable energy

The green economy has reconfigured the relationship between the economy and the natural systems and resources on which it depends, to identify opportunities which simultaneously drive economic growth, social development and the protection of environmental resources and systems. Investing in natural resources and natural system conservation supports economic growth that is more sustainable into the future and supports livelihoods. Such investment includes renewable energy as an alternative to conventional energy sources.

South Africa obtains 90 per cent of its electricity from fossil sources and its electricity has for many decades been among the cheapest in the developing world. However, in the past seven years South Africa has experienced particular difficulties in reliable energy supply as rolling blackouts have extensively cost the economy. In response to this threat of electricity insecurity a process of procuring large quantities of renewable energy has commenced. Renewable energy has since gained momentum with a rise in the development and adoption of technologies such as solar photovoltaics (PV), wind energy, biogas and concentrated solar power, among others.

The Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is one of the primary pathways to entry into the renewable energy market for utility-scale power generation. Since it was established in 2011, the REIPPPP has procured over 5 000 megawatts (MW) in four bidding rounds. At the time of writing, 77 projects covering solar PV, onshore wind, biomass, small hydro, concentrated solar power and landfill gas technologies were in various stages of development. While the Northern Cape dominates the solar resource and that the East Coast has strong wind resources, the Western Cape has its own share of both wind and solar projects. Of the 64 successful projects bid in the first three rounds, 39 projects were bid by developers based in the Western Cape, representing a share of over 60 per cent.

The renewable energy sector has significant potential spin-offs in technology development, manufacturing, operation and maintenance. The value chain of the sector also makes linkages to many traditional key sectors such as manufacturing and construction. The key segments of renewables in South Africa include; utility- scale REIPPPP, the commercial- and industrial- scale market, and the residential- scale market. These main segments all cut across the components of the value chains which include; Manufacturing, Project Development, Engineering, Procurement and Construction (EPC) and Operation and Maintenance. Particular services are bundled into a single offering or company which typically includes more than one component. This is an attempt to secure a larger market opportunity by expanding a company's value chain reach.

Source: GreenCape (2012, 2014 and 2015) Renewable Energy Market Intelligence Report Department of Environmental Affairs and Development Planning (2014) and Institute of Futures Research & Van de Rheede, T. (2014)

Compliance and market access

Developed economies have implemented stringent non-tariff trade barriers which could hamper access to traditional export markets. In addition, consumers are becoming more ethically, socially and environmentally responsible and demand environmentally friendly or organic produce. However, as highlighted in the Department of Agriculture's Annual Performance Plan 2015/16, this also provides a key opportunity to develop new markets. The compliance requirement could encourage the conditions for farm employees to improve due to ethical trade programmes. Consumers and agri-processors are often willing to pay a premium for ethically produced products.

Recycling and a circular economy

Ethical trade programmes not only focus on the conditions on the farm, but also take account of issues like recycling and environmentally-friendly packaging.

The aggregate recycling sector in the South African economy employs over 100 000 people. There are important indirect benefits such as reducing landfill space. The supply-chain itself can in some cases be a benefit, as waste can be collected at the point of consumption where products are delivered.

Taking this further would go towards creating a so called circular economy with closed material loops. In short, such as system designs out waste and reuses the durable parts of products that are not consumed. It is estimated that in terms of job creation potential, waste recycling can generate 4 500 jobs in the Province. There are several private sector Waste to Energy (WtE) projects currently taking place in the Western Cape:

- Small-to-medium scale biogas
- Landfill gas to electricity
- Small-scale pyrolysis plants generating biodiesel
- Biodiesel from waste oils
- Fuel replacement in industrial boilers using biomass

On a municipal basis, projects have also been initiated. However becoming a true circular economy is a very long-term process and requires the committed participation of every individual actor in the economy.

Source: Barry, H. (2015); Lochner, F. (2014); and Institute of Futures Research & Van de Rheede, T. (2014)

Unique Western Cape products

As identified in PERO 2014 (page 44):

“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. 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.”

Some of these products are unique to the Western Cape and provide a key opportunity export growth. Geographical indication, which is a specific sign or name used for products corresponding to a specific geographical location or origin, could be helpful for the Western Cape (for example, “Karoo Lamb” or “Boland Waterblommetjies”). Developing geographical indicators would be a mechanism to link into the global value chain.

Honeybees and the fruit industry – the threat of American Foulbrood disease

The sustainability and growth of the Western Cape horticultural industry is not only at risk with the largely known factors like climate change, exchange rates, export barriers, to name but a few, but also with smaller, sometimes unknown, and often regarded as less important factors, like bees and the pollination services it provides for agriculture in the Western Cape.

“The South African Beekeeping industry is relatively small both in global terms and in terms of the overall South African agricultural sector. However, the critical importance of honeybees for agriculture and conservation far exceeds the value currently derived from honeybees by beekeepers. It has been estimated that the value-added by managed honeybee pollination to the South African deciduous fruit industry alone is in the region of R189 - R828 million per annum (16 - 69 times the R12 million that beekeepers presently receive for this service). Honeybees and the wild honeybee population are also vitally important in the conservation of floral reserves and in terms of biodiversity.”

(The SA Beekeeping Industry: NAMC, Section 7 Report, 2008)

The fruit industry alone faces massive losses due to the threat of American Foulbrood disease (AFB), which has and continues to wipe out bee colonies at an alarming rate. It is estimated that about a third of the bees of the Western Cape are infected (SA Bee Industry Organisation (SABIO), 2015). Furthermore, the Western Cape fruit industry employs thousands of workers which will be directly and indirectly affected if the industry is not protected from this risk. Although accurate information is currently not available, it is estimated that the beekeeping industry provides approximately 3 000 direct jobs (some estimates put this at 10 000). According to SABIO, the bee industry job multiplier is 2.3. It is estimated the honeybees are indirectly responsible for between 300 000 and 500 000 jobs.

Urgent and comprehensive action is required on government level to ensure that the correct measures are enforced and that the bee farmers are registered and their hives inspected in order to protect horticultural industries. Currently, the industry receives no direct financial support from government. Indirect support for research is received via the ARC, but the extent of this funding is relatively modest. Government support to agriculture is currently focused largely on BEE related areas including land reform and new farmer settlement and support (including support for infrastructure).

Source: Western Cape Department of Agriculture

3.3.2 Tourism

The tourism sector has been flagged by previous publications, most recently in PERO 2014, as one of the most important sectors in the Western Cape economy through which inclusive economic growth and development can be promoted. Similar to agri-processing that can be seen as a linkage of different product value chains, the tourism sector is a key example of a services value chain. This section extends the analysis of tourism in Chapter 3 of PERO 2014.

Table 3.8 shows that the Western Cape attracts mainly holiday-makers. But the MICE (Meetings, Incentives, Conferencing and Events) market is also important for Cape Town in particular, and accounts for just over five per cent of domestic tourism in the Province. Importantly, the MICE market both locally and internationally is less affected by seasonal patterns. This has potentially important implications for countering the highly seasonal nature of tourism in the Province.

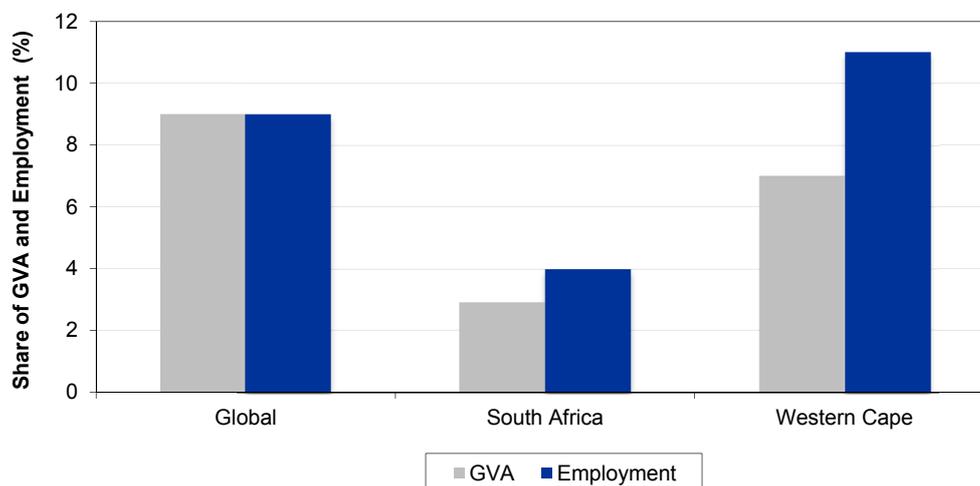
Table 3.8 Main purpose of visit per visitor type (2014)

	Holiday/leisure	Business (MICE)	VFR*	Education
International	95.8%	1.3%	1.1%	1.0%
Domestic	89.6%	5.4%	1.5%	1.6%
All	92.1%	3.8%	1.4%	1.3%

* Visiting friends and relatives.

Source: Wesgro Western Cape Tourism Trends (2014)

Tourism is an amalgamation of activities across subsectors and hence difficult to formally capture in official statistics. According to Statistics South Africa's Tourism Satellite Account, tourism contributed 2.9 per cent (R103.6 billion) to the national economy. This highlights the Western Cape's revealed comparative advantage (Figure 3.10).

Figure 3.10 Tourism contribution to GVA and employment (2013)²²


Source: South African Government (2015), Project Khulisa (2014)

The official statistics for the catering and accommodation subsector provides a proxy measurement of the tourism industry. In 2014, this sector contributed 1.4 per cent to the Provincial economy (in comparison, South Africa's catering and accommodation sector contributes 1.9 per cent to GVA). Tourism is also important in employing lower-skilled workers. This together with the relative ease of entry into the sector implies that the health of the sector is highly relevant to generating and sustaining inclusive economic growth. Globally, the sector provides 9 per cent of all jobs.

²² It must be noted that the global, South African and project Khulisa methodologies differed somewhat. The most striking difference is that the global figure includes indirect jobs as well, while the Project Khulisa report only considers direct employment. This means that, if anything, the share of tourism compared to total GVA and employment could be slightly higher in the Province compared to what is currently displayed on the figure.

Section 3.2.1 presented an analysis of upstream value chain potential across sectors in the Western Cape. Agriculture, forestry and fishing – products and services closely linked to the tourism sector – was shown to strengthen its upstream value chain potential post-2007. This tentative finding alludes to a positive backward industry impact for the tourism sector, though caution is taken when making this inference since the analysis is limited by data constraints.

The next section focusses on the links between tourism and agri-processing.

Link between tourism and agri-processing

According to Wesgro (2014), the main activities undertaken by visitors to the Western Cape in 2014 were: scenic drives (17 per cent), culture/heritage (15 per cent), outdoor activities (15 per cent), gourmet restaurants (14 per cent) and wine tasting (8 per cent). The latter three categories emphasise the strong link between the agricultural/agri-processing sectors and the tourism industry. Most of these activities are interrelated and impossible to separate. Leisure tourists often seek nature settings, such as beaches and parks, and increasingly also seek more rural experiences. According to Elsenburg's Agri Stats, the Western Cape has a total of 1 957 working farms that offer accommodation facilities (Table 3.9). The majority of these are located in the Cape Winelands District and Eden District. In fact, many tourists seek a more informal experience characterised by a lack of extensive infrastructure (such as tarred roads, built accommodation and electricity). This could be beneficial for developing rural communities, unlocking areas that may have little industrial potential.

Table 3.9 Agri-tourism per district: Number of farms that offer accommodation, 2013

Cape Winelands District		Central Karoo District		Eden District	
Breede Valley	77	Beaufort West	63	Bitou	86
Drakenstein	95	Laingsburg	33	George	175
Langeberg	131	Prince Albert	43	Hessequa	55
Stellenbosch	229			Kannaland	62
Witzenberg	73			Knysna	52
				Mossel Bay	85
				Oudtshoorn	65
Total	605	Total	139	Total	580
Overberg District		West Coast District		City of Cape Town	
Cape Agulhas	34	Bergrivier	50		73
Overstrand	61	Cederberg	105		
Swellendam	84	Matzikama	31		
Theewaterskloof	95	Saldanha Bay	52		
		Swartland	48		
Total	274	Total	286	Total	73

Source: Western Cape Department of Agriculture (2015)

The development of unique high-quality Western Cape products links closely with tourism. Particularly some lifestyle-linked goods, such as essential oils, cosmetics and high-end wines and brandy, can be linked to services extended in the tourism industry.

An example is the ostrich industry located between the Swartberg and Outeniqua mountains. The tourism industry started in 1938 and has since expanded with working ostrich farms offering tours and accommodation. The products of Ostrich leather, feather and eggs, as well as other arts and crafts are also sold.

The wine and brandy industry is another key example with working farms offering wine tastings, cellar tours, meals and accommodation on the estates. Indeed, many of the Wine Industry Strategic Exercise (WISE) objectives with accompanying projects speak directly to goals set in the tourism industry. The most relevant being to develop brand South Africa's local marketing strategy as well as establishing a single South African information portal and search engine.

Outlook: Turning challenges into opportunities

The BER/Quantec forecast does not estimate tourism separately due to its intricate links with the rest of the economy and the difficulty of separating the tourism industry from other sectors. However, the catering and accommodation subsector is expected to continue to outpace the provincial growth rate. The subsector is forecast to grow by an average of 3.2 per cent from 2015 to 2020 compared to the 2.7 per cent growth rate forecast for the Western Cape economy. Job growth in the subsector is forecast to accelerate from 0.6 per cent during 2005 - 2014 to 2.0 per cent during 2015 - 2020.

Despite the Province's advantage as a tourist destination, significant challenges were also identified: awareness, accessibility and attractiveness. In the subsequent sections, some of these challenges and opportunities will be discussed in more detail, particularly those linking the agri-processing and tourism value chains.

The Western Cape has a thriving domestic tourism market. Some districts' tourism offices (Table 3.10) receive more domestic than foreign visitors. Wesgro (2014), using a regional visitor tracking survey, estimates that 57 per cent of tourists were domestic visitors (with 66 per cent being residents of the Western Cape visiting other regions within the Province). While such visitor tracking surveys are based on international best practice, the sample could be skewed as it only measures those entering a tourist information centre and domestic tourists might be less inclined to do so. Selection bias may also affect Cape Town as it is the main point of entry either by air or sea.

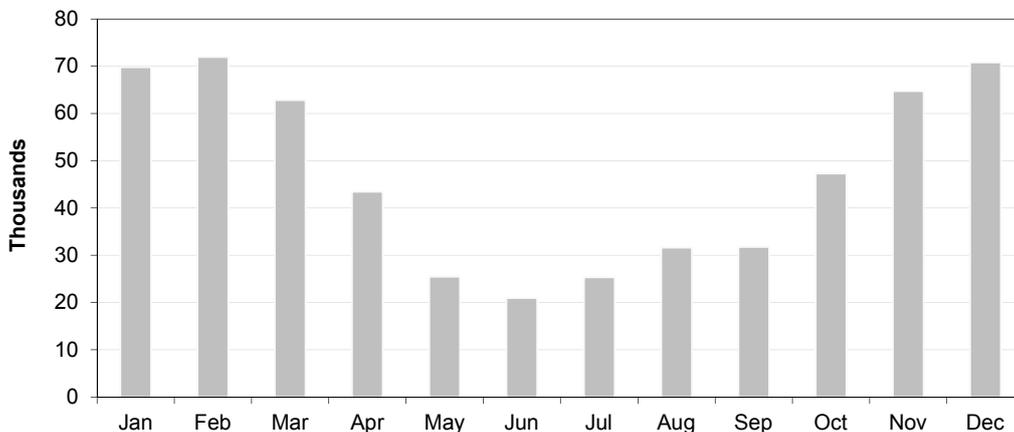
Table 3.10 Origin of tourists per district (2014)

	City of Cape Town	Cape Wine-lands District	West Coast District	Overberg District	Eden District	Central Karoo District
% international	79.7%	50.3%	21.4%	44.3%	43.7%	6.8%
% domestic	15.6%	48.9%	77.3%	55.3%	56.0%	93.1%

Source: Wesgro (2014)

Attracting domestic visitors could offset the strong seasonality of the Western Cape tourism sector. For example, Cape Town International Airport (Figure 3.11) in the months of December, January and February receives more than three times the number of arrivals than during the winter months. While seasonality also features in arrivals to O.R. Tambo and King Shaka International Airports, it is less pronounced.

Figure 3.11 Number of foreign arrivals in Cape Town International Airport, 2014



Source: Statistics South Africa (2014)

A downside for domestic tourism is the bleak picture of South African economic growth portrayed in Chapter 2. The domestic market is closely linked to disposable income and the performance of the economy; consequently low income growth will impact negatively on holiday spending. The Review of South African Tourism (2015) indicated that an increasing percentage of South Africans (48 per cent in 2014) do not travel because they cannot afford it due to low income or unemployment. The 21 per cent that indicated they had no reason to travel is a key market to target proactively and to encourage travelling.

Fortunately the bleak domestic situation might be offset by improved income levels in the rest of the world coupled to the weak rand exchange rate. The combination of better growth in our traditional markets and continued strong growth in the rest of Africa, as well as a weak currency would historically have led to a surge in tourist arrivals from abroad. This is currently curtailed due to issues discussed in the next section.

New South African Visa Regulations

South Africa's new Immigration Regulations were signed off on 16 May 2014 by President Jacob Zuma, and came into effect on 26 May 2014, marking the official commencement of the Immigration Amendments Acts of 2007 and 2011. The amendments to the act impacted on foreigners looking to visit, study, work, live and own a business in South Africa.

A Western Cape Department of Economic Development and Tourism (DEDAT) (2014) report²³ found that since the regulations' came into effect it drew much controversy and also the regulations' implementation has been met with criticism by members of the public, immigration practitioners, business in general, lawyers, and affected industries. The DEDAT report made a comparison between the visa regulations of South Africa and those of the BRICS countries, Kenya, Turkey and Mauritius. The DEDAT (2014) report observed that the South African (SA) immigration regulations application and renewal processes were relatively more onerous. For example, the requirement to apply in person at a SA embassy and to do biometric fingerprint scanning resulted in substantive costs and effort for travellers wanting to visit the country. In contrast, the other countries permitted either electronic (online) applications, visas on arrival, or application by third parties such as immigration practitioners or travel agents, making it less cumbersome for tourists and investors to legally enter the country (DEDAT, 2014).

According to the South African Reserve Bank (2015) there was a noteworthy decrease in spending by foreign visitors visiting South Africa and that this was in part ascribed to the adverse effect of the implementation of more stringent regulations affecting visa permits. Preliminary estimates postulated that the level of gross travel receipts had decreased by 9 per cent in the second quarter of 2015 (SARB, 2015). Additionally, the Reserve Bank stated that this decline could be attributed to the legislation requiring that visitors travelling with minors be in possession of unabridged birth certificates from 1 June 2015. Further, this was in addition to capturing biometric data and a personal appearance by the visitor when applying for a visa to visit South Africa.

Source: Western Cape Department of Economic Development and Tourism (2014), South African Reserve Bank (2015)

Despite this, opportunities and/or interventions will be explored to boost the awareness of the Western Cape in key markets and sectors; improve accessibility to Cape Town and the Province; and advance the attractiveness of the Province through competitive product offerings and compelling packaging.

3.3.3 Oil and gas

The broader oil and gas industry is usually divided into upstream and downstream sectors. The upstream sector refers to the searching for and recovery and production of crude oil and natural gas. The downstream sector involves the selling and distribution of natural gas and products derived from crude oil, including fuel.

²³ The purpose of the report was to provide an analysis of the new Immigration regulations in order to understand the changes made to the immigration regime and the visa application process, and the impact on selected sectors of the South African economy.

The oil and gas sector in the Western Cape includes exploration (upstream activity), but extends to mid-stream services such as rig repair and maintenance. Midstream activities in oil and gas are dependent on multiple intermediate inputs (see section 3.2.1), making the sector highly cross-cutting in nature. Other midstream value chains include fabrication and construction, distribution and logistics, and exploration and production services.

Significant challenges face the expansion of mid-stream activities in oil and gas. Lack of skilled labour is cited as a major external barrier, amongst others, and highlights the importance of key external factors in the upgrading and development of value chains (see section 3.2.1).

Oil and gas sector trends

The Western Cape geographic location is ideal for serving both the eastern and western African markets. Its location could give it an edge over other rig repair hubs in Europe, Singapore and Dubai. International service providers could be attracted to the long-term economic rationale of locating a hub close to the expanding African market. The continent's share of global oil production is around 10 per cent of the world's total and untapped proven oil reserves on the continent are about 8 per cent of the world's total. Although exploration has stalled on the back of the lower oil price, the African oil industry is likely to continue to grow, or at least remain steady, providing a service-market for the Western Cape. According to Transnet, 80 to 100 oil rigs are in operation off the west coast of Africa and a further 120 oil rigs pass by the southern tip of Africa each year.

Within the Province, Saldanha Bay is targeted to become the key oil rig repair hub. Saldanha Bay hosts the country's largest oil-storage facility (about 45 million barrels). The country's leading gas facility is stationed at the Port of Mossel Bay – close to PetroSA's gas-to-liquid refinery – operating as a service hub for the regional gas industry.

The recent sharp decline in the international oil price and expectations that the price will remain relatively low in the next few years is a key concern within the broader oil industry. According to the PWC Africa Oil and Gas Review (2015), the low oil price has slowed industry activity on the African continent, particularly exploration activity. Furthermore, it is estimated that offshore rigs declined by 18 per cent between June 2014 and June 2015 on the back of a 48 per cent decline in the Brent crude oil price and 31 per cent fall in the average gas price. In the West Africa region alone the contracted offshore rig count fell from 69 in July 2014 to 53 in July 2015.

The downward pressure of the lower oil price on profit margins resulted in more than two-thirds of respondents indicating an interest in adopting formal cost reduction measures over the next three years. This implies that companies may decide to avoid the costs of towing a rig to Singapore (which could take up to 100 days for a rig that rents out for \$50 000 per day), by towing to

Saldanha Bay instead. This could be an important driver of demand for Saldanha's services. Also, over 90 per cent of respondents to PWC's survey expect the oil price to gradually increase over the next few years, which means that market players will remain interested in the longer-term potential of African oil market²⁴.

According to the PWC survey, over 70 per cent of respondents in the broader oil industry believe that the oil price will have a significant impact on their business over the next three years. Other constraining factors include regulatory compliance, lack of skills and skills retention as well as foreign currency volatility.

Outlook: Turning challenges into opportunities

As with agri-processing, the opportunities to develop the oil and gas midstream services sector also present challenges that can become binding constraints if they are ignored. These include investment in infrastructure at Saldanha Bay and the strengthening of local skills in midstream oil and gas.

The next sections summarise some of the opportunities that are already being developed in the Province.

Saldanha Bay Industrial Development Zone

The Saldanha Bay Industrial Development Zone (SBIDZ) was officially launched on 31 October 2014. The IDZ designation allows the area to be customs free. The zone is intended to become an oil, gas, and marine repair, engineering and logistics services complex, targeting upstream exploration and production services. The SBIDZ is set to be a rig repair hub, requiring extra depth to serve modern rigs. Saldanha Bay is a natural, deep water port and can accommodate vessels with a draft of up to 21.5 metres. The port will be geared to serve two rigs simultaneously.

The SBIDZ will include logistics, repairs and maintenance as well as fabrication activities. In addition, an offshore supply base – Transnet National Ports Authority (TNPA) – will be developed to supply rigs with food, materials and waste-collection services. As such, Transnet argues that the offshore oil and gas industry may create 6 300 direct new jobs and a further 25 200 indirect employment opportunities. By early August 2015, nondisclosure agreements had been signed with 20 local and international investors.

²⁴ For the broader South African oil industry, the lower oil price has meant that offshore exploration will likely be delayed, not only due to costs but also regulatory uncertainty. Shale gas plans continue to progress. South Africa is estimated to hold one of the top 10 shale gas resources in the world (PWC, 2015).

3.4 Conclusion

The cross-sectoral and value chain linkages, including downstream beneficiation opportunities, are reasons why developing the agri-processing sector is key to an inclusive growth strategy. While agriculture alone is already critical to the socio-economic development in rural areas, the exploration of value-chain opportunities could strengthen this significantly. Food and beverage processing is the key manufacturing activity in all the non-metro districts (except Central Karoo District). Important linkages are also developing in tourism. The growth of the catering and accommodation sector (and retailing in Eden District) is indicative of the vibrancy of tourism in most districts, notably the Cape Winelands District, Eden District and Overberg District. Non-agricultural job opportunities in the agri-processing sector could help to reduce poverty and kick start broader job creation.

The Western Cape's tourism industry is well developed and not only attracts international visitors, but also has a thriving domestic market. The high-quality lifestyle products that are produced within the broader agricultural and agri-processing sectors can make the Province more attractive by providing services to the tourism market. The current environment of slow economic growth, both locally and globally, and a sustained weak exchange rate could boost the Western Cape's tourism sector. Yet, constraints such as the onerous visa requirements for foreign visitors and the strong seasonality of tourism in the Province remain key challenges.

The oil and gas subsector, albeit relatively small, has the potential to generate economic growth and jobs. The midstream services subsector could benefit from the continued exploration and production efforts in western and eastern Africa. It is therefore important that the construction on the identified Saldanha-site continues timeously so that the required infrastructure is in place. The lower international oil price and uncertain domestic regulatory environment may keep offshore exploration efforts on hold for the near future, but could provide important opportunities over the longer term.

Annexure A

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

Sectors: SIC	Western Cape		South Africa		LQ ratio	
	GDPR % share	Growth	GDP % share	Growth	2000	2013
	2013	2000 - 2013	2013	2000 - 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

Annexure B

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

	Cape Metro		Cape Winelands		Eden		Overberg		West Coast		Central Karoo	
	Trend	Recovery	Trend	Recovery	Trend	Recovery	Trend	Recovery	Trend	Recovery	Trend	Recovery
	2000-2013	2010-2013	2000-2013	2010-2013	2000-2013	2010-2013	2000-2013	2010-2013	2000-2013	2010-2013	2000-2013	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

Annexure C

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

Commodity (HS Code)	Western Cape			South Africa			Revealed comparative trade advantage 2010	Revealed comparative trade advantage 2014
	Average annual growth 2000 - 2014 (%)	Average annual growth 2010 - 2014 (%)	Share of total WC exports 2014 (%)	Average annual growth 2000 - 2014 (%)	Average annual growth 2010 - 2014 (%)	Share of total SA exports 2014 (%)		
1 Live animals	21.0	79.9	0.1	16.1	12.0	0.1	0.2	0.9
2 Meat and edible meat offal	7.9	-5.7	0.4	17.2	7.7	0.3	3.1	1.3
3 Fish, crustaceans, molluscs, aquatic invertebrates nes	8.3	12.0	3.9	8.4	11.0	0.5	9.9	7.2
4 Dairy products, eggs, honey, edible animal product nes	26.6	59.7	0.7	19.7	17.2	0.3	0.9	2.1
5 Products of animal origin, nes	6.7	2.4	0.1	7.1	11.6	0.0	7.2	3.6
6 Live trees, plants, bulbs, roots, cut flowers etc.	11.2	11.5	0.3	9.0	9.7	0.1	5.2	3.9
7 Edible vegetables and certain roots and tubers	20.3	52.5	0.6	20.3	12.8	0.2	1.3	3.0
8 Edible fruit, nuts, peel of citrus fruit, melons	16.3	16.4	18.6	15.5	17.6	3.2	8.7	5.9
9 Coffee, tea, mate and spices	20.5	37.1	0.3	13.6	16.8	0.1	1.6	2.1
10 Cereals	34.1	-6.2	0.5	20.2	20.2	0.9	2.2	0.6
11 Milling products, malt, starches, inulin, wheat gluten	19.8	65.2	0.2	15.7	15.5	0.2	0.2	0.7
12 Oil seed, oleag fruits, grain, seed, fruit, etc., nes	17.0	10.7	0.6	11.7	4.1	0.2	4.1	3.7
13 Lac, gums, resins, vegetable saps and extracts nes	22.7	26.8	0.0	13.4	28.1	0.0	5.4	3.6
14 Vegetable plaiting materials, vegetable products nes	22.9	33.9	0.0	17.5	76.6	0.0	7.5	1.7
15 Animal, vegetable fats and oils, cleavage products, etc.	9.3	42.0	0.2	18.2	12.0	0.3	0.4	0.6
16 Meat, fish and seafood food preparations nes	15.3	32.0	0.8	17.8	18.8	0.1	5.0	5.3
17 Sugars and sugar confectionery	25.9	30.7	0.2	7.6	12.9	0.6	0.3	0.3
18 Cocoa and cocoa preparations	16.6	30.1	0.1	12.9	-2.7	0.1	0.5	1.1
19 Cereal, flour, starch, milk preparations and products	23.4	48.3	0.5	23.7	18.0	0.3	1.1	1.9
20 Vegetable, fruit, nut, etc. food preparations	10.3	17.0	3.9	11.4	11.8	0.7	6.3	5.3
21 Miscellaneous edible preparations	22.6	42.8	0.9	20.4	15.3	0.5	1.1	1.8
22 Beverages, spirits and vinegar	13.4	13.6	9.7	13.4	12.6	1.6	8.5	6.2
23 Residues, wastes of food industry, animal fodder	35.2	57.1	1.0	30.5	17.2	0.3	1.5	3.5
24 Tobacco and manufactured tobacco substitutes	25.2	22.2	2.3	9.7	3.2	0.3	6.0	8.2
25 Salt, sulphur, earth, stone, plaster, lime and cement	19.3	47.0	1.0	12.7	10.1	0.6	0.8	1.7
26 Ores, slag and ash	10.1	82.5	0.8	22.4	15.7	13.3	0.0	0.1
27 Mineral fuels, oils, distillation products, etc.	15.1	30.6	16.0	12.9	12.1	10.6	1.2	1.5
28 Inorganic chemicals, precious metal compound, isotopes	9.6	8.8	0.2	5.9	4.4	1.0	0.3	0.2
29 Organic chemicals	5.3	8.5	0.3	13.3	12.6	1.6	0.3	0.2
30 Pharmaceutical products	24.5	45.2	0.5	14.4	13.9	0.5	0.6	1.1
31 Fertilisers	28.0	39.9	0.1	10.7	19.6	0.4	0.3	0.4

Chapter 3: Development of the Western Cape economy:
Sectoral and spatial dimensions

Commodity (HS Code)	Western Cape			South Africa			Revealed comparative trade advantage 2010	Revealed comparative trade advantage 2014
	Average annual growth 2000 - 2014 (%)	Average annual growth 2010 - 2014 (%)	Share of total WC exports 2014 (%)	Average annual growth 2000 - 2014 (%)	Average annual growth 2010 - 2014 (%)	Share of total SA exports 2014 (%)		
32 Tanning, dyeing extracts, tannins, derivs, pigments etc.	14.8	11.0	0.3	13.7	13.0	0.4	1.3	0.8
33 Essential oils, perfumes, cosmetics, toiletries	21.0	34.5	1.4	20.2	17.5	0.7	1.7	2.0
34 Soaps, lubricants, waxes, candles, modelling pastes	21.4	39.0	0.3	18.6	13.4	0.5	0.4	0.6
35 Albuminoids, modified starches, glues, enzymes	15.8	27.6	0.2	18.0	17.5	0.1	3.1	3.1
36 Explosives, pyrotechnics, matches, pyrophorics, etc.	-2.4	38.3	0.2	8.4	12.0	0.2	0.7	1.1
37 Photographic or cinematographic goods	-7.6	-55.7	0.0	3.7	-12.6	0.0	7.1	0.3
38 Miscellaneous chemical products	21.4	9.3	0.9	14.1	23.7	1.2	1.9	0.8
39 Plastics and articles thereof	11.7	25.7	1.7	16.5	17.5	1.8	1.0	1.0
40 Rubber and articles thereof	27.7	46.9	0.2	11.6	12.4	0.6	0.1	0.3
41 Raw hides and skins (other than fur skins) and leather	4.5	21.3	0.7	6.9	29.2	0.4	3.4	1.8
42 Articles of leather, animal gut, harness, travel goods	20.7	35.3	0.2	16.3	22.1	0.1	2.2	2.3
43 Fur skins and artificial fur, manufactures thereof	42.1	46.5	0.0	14.6	10.6	0.0	1.6	3.4
44 Wood and articles of wood, wood charcoal	4.6	26.5	0.4	6.7	10.2	0.6	0.6	0.7
45 Cork and articles of cork	1.1	74.5	0.0	1.2	-1.9	0.0	0.6	4.2
46 Manufactures of plaiting material, basketwork, etc.	12.0	61.1	0.0	11.4	3.4	0.0	0.6	2.6
47 Pulp of wood, fibrous cellulosic material, waste etc.	26.6	5.8	0.0	7.4	13.0	0.9	0.1	0.0
48 Paper and paperboard, articles of pulp, paper and board	9.5	30.9	0.5	7.1	4.4	0.8	0.3	0.6
49 Printed books, newspapers, pictures etc.	15.1	8.2	0.4	12.3	-1.0	0.1	3.3	3.3
50 Silk	25.4	126.4	0.0	21.2	37.7	0.0	0.1	0.6
51 Wool, animal hair, horsehair yarn and fabric thereof	-19.3	-21.0	0.0	9.6	18.8	0.4	0.0	0.0
52 Cotton	-2.3	84.0	0.1	2.6	7.3	0.0	0.3	2.0
53 Vegetable textile fibres nes, paper yarn, woven fabric	49.7	40.3	0.0	30.3	27.9	0.0	7.2	7.3
54 Manmade filaments	-15.2	32.6	0.0	-1.5	7.5	0.0	0.6	1.0
55 Manmade staple fibres	11.3	65.6	0.1	3.7	19.5	0.0	0.7	1.9
56 Wadding, felt, nonwovens, yarns, twine, cordage, etc.	10.0	53.5	0.1	14.6	8.6	0.1	0.5	1.5
57 Carpets and other textile floor coverings	15.2	38.6	0.0	7.5	4.9	0.0	0.2	0.4
58 Special woven or tufted fabric, lace, tapestry etc.	5.5	45.3	0.0	0.8	3.8	0.0	0.4	1.2
59 Impregnated, coated or laminated textile fabric	7.9	16.7	0.0	11.4	10.3	0.0	1.3	1.1
60 Knitted or crocheted fabric	6.8	36.1	0.1	12.8	12.6	0.0	1.8	2.7
61 Articles of apparel, accessories, knit or crochet	9.6	72.0	0.9	8.5	14.7	0.3	0.9	3.4
62 Articles of apparel, accessories, not knit or crochet	11.5	75.3	0.8	8.8	13.2	0.2	0.9	3.5
63 Other made textile articles, sets, worn clothing etc.	15.8	33.8	0.4	17.5	11.6	0.2	1.4	2.0
64 Footwear, gaiters and the like, parts thereof	21.7	160.6	0.6	22.5	13.1	0.2	0.1	2.9
65 Headgear and parts thereof	20.4	83.2	0.0	14.8	17.2	0.0	0.4	1.8
66 Umbrellas, walking-sticks, seat-sticks, whips, etc.	0.0	15.4	0.0	3.8	11.7	0.0	4.1	3.3
67 Bird skin, feathers, artificial flowers, human hair	29.4	47.0	0.1	24.9	28.7	0.0	3.6	4.4

Commodity (HS Code)	Western Cape			South Africa			Revealed comparative trade advantage 2010	Revealed comparative trade advantage 2014
	Average annual growth 2000 - 2014 (%)	Average annual growth 2010 - 2014 (%)	Share of total WC exports 2014 (%)	Average annual growth 2000 - 2014 (%)	Average annual growth 2010 - 2014 (%)	Share of total SA exports 2014 (%)		
68 Stone, plaster, cement, asbestos, mica, etc. articles	6.7	46.4	0.1	7.3	16.0	0.2	0.4	0.7
69 Ceramic products	17.9	31.5	0.1	17.6	11.1	0.2	0.5	0.7
70 Glass and glassware	10.7	30.1	0.1	11.3	5.6	0.2	0.3	0.5
71 Pearls, precious stones, metals, coins, etc.	13.0	27.7	2.1	6.2	1.0	15.8	0.1	0.1
72 Iron and steel	12.7	21.4	5.0	10.4	6.3	7.8	0.5	0.6
73 Articles of iron or steel	19.1	28.4	0.8	13.8	8.2	1.6	0.4	0.5
74 Copper and articles thereof	14.3	5.6	0.8	10.8	3.0	0.6	1.8	1.4
75 Nickel and articles thereof	6.6	18.3	0.0	14.4	11.7	0.5	0.0	0.0
76 Aluminium and articles thereof	11.6	19.0	0.3	8.8	8.6	2.1	0.2	0.2
78 Lead and articles thereof	32.5	31.9	0.0	27.6	16.6	0.0	0.4	0.5
79 Zinc and articles thereof	8.9	9.7	0.0	-1.7	-25.2	0.0	0.1	0.4
80 Tin and articles thereof	-0.3	3.3	0.0	-6.9	11.4	0.0	1.6	0.8
81 Other base metals, cermets, articles thereof	1.7	228.9	0.3	8.9	18.0	0.2	0.0	1.8
82 Tools, implements, cutlery, etc. of base metal	12.1	42.1	0.1	9.4	5.7	0.2	0.2	0.5
83 Miscellaneous articles of base metal	21.3	53.5	0.2	15.7	11.5	0.1	0.4	1.1
84 Nuclear reactors, boilers, machinery, etc.	16.3	17.5	6.0	13.2	11.5	6.7	1.0	0.9
85 Electrical, electronic equipment	15.4	6.5	2.2	12.6	15.5	2.4	1.8	0.9
86 Railway, tramway locomotives, rolling stock, equipment	-7.7	-13.5	0.1	9.0	23.8	0.3	2.0	0.3
87 Vehicles other than railway, tramway	16.0	-10.6	1.2	15.9	13.1	9.8	0.5	0.1
88 Aircraft, spacecraft, and parts thereof	2.3	27.4	0.0	2.3	10.5	0.3	0.1	0.1
89 Ships, boats and other floating structures	10.3	22.3	1.2	9.4	17.5	0.1	9.8	8.1
90 Optical, photo, technical, medical, etc. apparatus	16.3	21.0	0.8	14.8	17.1	0.7	1.5	1.2
91 Clocks and watches and parts thereof	23.1	107.3	0.0	17.2	35.6	0.0	0.4	1.4
92 Musical instruments, parts and accessories	16.7	77.8	0.0	N/A	N/A	0.0	0.3	1.2
93 Arms and ammunition, parts and accessories thereof	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
94 Furniture, lighting, signs, prefabricated buildings	8.5	36.2	0.8	4.9	-1.8	0.6	0.5	1.3
95 Toys, games, sports requisites	17.1	59.8	0.1	14.0	17.4	0.1	0.9	2.1
96 Miscellaneous manufactured articles	23.8	61.3	0.2	24.2	36.0	0.2	1.1	1.5
97 Works of art, collectors pieces and antiques	9.5	35.7	0.1	n/a	21.6	0.1	1.7	1.9
98 Special classifications provisions	n/a	16.4	0.0	n/a	13.0	0.0	0.3	0.2
99 Commodities not elsewhere specified	n/a	45.6	1.6	n/a	32.5	0.4	4.4	4.5
Total: All commodities	13.6	20.3	100.0	11.6	10.1	100.0	1.0	

Source: Quantec Research

Annexure D

Revealed comparative trade advantage of sectors in the Western Cape economy

Sector	Western Cape		South Africa		Revealed comparative trade advantage 2014
	Share (%)	Yoy (%)	Share (%)	Yoy (%)	
	2014	2010 - 2014	2014	2010 - 2014	
Agriculture, forestry and fishing	17.2	1.8	3.5	0.1	4.8
Mining	1.9	-7.9	21.4	-2.0	0.1
Food, beverages and tobacco	21.1	6.9	5.8	9.2	3.6
Textiles, clothing and leather goods	0.9	-0.2	0.8	4.6	1.1
Wood and paper; publishing and printing	0.7	1.4	2.5	5.2	0.3
Petroleum products, chemicals, rubber and plastic	17.9	8.8	12.1	9.1	1.5
Other non-metal mineral products	0.3	6.6	0.6	9.1	0.4
Metals, metal products, machinery and equipment	9.3	9.0	21.3	6.5	0.4
Electrical machinery and apparatus	0.3	3.2	0.9	5.9	0.4
Radio, TV, instruments, watches and clocks	1.0	-11.4	1.0	0.5	1.1
Transport equipment	2.3	5.1	10.0	7.9	0.2
Furniture; other manufacturing	2.0	1.4	3.2	0.8	0.6
Electricity	0.0	0.0	0.3	7.3	0.0
Construction	0.0	8.0	0.0	6.6	1.5
Wholesale and retail trade	3.8	-1.2	3.1	-0.6	1.2
Catering and accommodation	3.0	4.8	1.5	4.7	2.0
Transport	3.6	2.9	3.8	3.6	1.0
Communication	4.6	6.9	1.8	7.8	2.5
Finance and insurance	2.8	4.8	1.5	2.7	1.8
Business services	5.7	7.6	3.2	9.0	1.8
Community, social and personal services	1.6	12.3	1.5	17.1	1.0
Total	100.0	3.6	100.0	3.9	

Source: Quantec Research

Annexure E

Western Cape exports by region, 2013

Rank	Region	Value 2012 (R bn)	Value 2013 (R bn)	% growth 2012 - 2013
1	European Union	21.35	25.43	19.11
2	SADC	8.85	11.79	33.24
3	Eastern Asia	4.97	7.18	44.58
4	NAFTA	4.46	4.84	8.54
5	South-eastern Asia	6.48	4.83	-25.48
6	Western Asia	4.38	4.72	7.81
7	Western Africa	2.63	3.54	34.66
8	Eastern Africa Rest	1.76	2.73	55.26
9	Not allocated	3.07	2.53	-17.54
10	Eastern Europe	1.41	1.79	27.1
11	South-central Asia	1.55	1.41	-9.42
12	Australia and New Zealand	1.24	1.38	10.89
13	South America	0.88	0.88	-0.23
14	Middle Africa Rest	0.6	0.64	5.74
15	Western Europe Rest	0.23	0.35	50.15
16	Northern Africa	0.31	0.26	-15.29
17	Caribbean	0.09	0.25	170.28
18	Northern Europe	0.16	0.22	41.04
19	Southern Europe	0.03	0.05	59.76
20	Melanesia	0.02	0.02	-8.26
21	Central America	0.02	0.02	-3.78
22	Polynesia	0.02	0.02	5.53
23	Micronesia	0	0	-24.81
24	Northern America	0	0	-34.66
Total Exports		64.63	74.87	16.1

Source: Wesgro (2014)

Annexure F

Top 10 Exports and Imports in the Western Cape, 2013

Rank	Top 10 exports	Value 2013 (R bn)	% growth 2012 - 2013	% share SA exports, 2013	Rank	Top 10 imports	Value 2013 (R bn)	% growth 2012 - 2013	% share SA imports, 2013
1	Oils petroleum, bituminous, distillates, except crude	8.39	-5.32	59	1	Petroleum oils, oils from bituminous minerals, crude	66.39	-16.76	46.75
2	Grape wines (including fortified), alcoholic grape must	7.8	33.26	98.27	2	Oils petroleum, bituminous, distillates, except crude	33.36	9.42	53.76
3	Citrus fruit, fresh or dried	6.58	22.7	70.54	3	Diodes, transistors, semi-conductors, etc	3.69	1948.99	70.15
4	Apples, pears and quinces, fresh	5.59	53.52	94.34	4	Liqueur, spirits and undenatured ethyl alcohol <80%	2.83	38.63	75.2
5	Grapes, fresh or dried	4.02	22.27	80.76	5	Prepared or preserved fish, fish eggs, caviar	1.67	9.6	91.38
6	Hot-rolled products, iron/steel, width >600 mm, not clad	3.11	7.47	79	6	Medicaments, therapeutic, prophylactic use, in dosage	1.67	73.87	9.53
7	Liquid, gas centrifuges, filtering, purifying machines	2.01	-6.23	10.75	7	Footwear nes, with outer sole, upper rubber or plastic	1.35	-0.98	39.65
8	Maize (corn)	1.83	44801.31	29.51	8	Footwear with uppers of textile materials	1.27	9.51	39.01
9	Fruit, nut, edible plant parts nes, prepared/preserved	1.6	16.9	90.25	9	Electric generating sets and rotary converters	1.07	3550.16	16.41
10	Liqueur, spirits and undenatured ethyl alcohol <80%	1.28	66.28	90.34	10	Machines nes having individual functions	1.03	-3.16	20.69
Total Exports		74.87	16.06	9.49	Total Imports		186.57	3.99	19.21

Source: Wesgro (2014)

4

Labour market dynamics

Key findings

- The Western Cape's population is estimated to be 6.2 million in 2015 and accounts for 11.3 per cent of the national population. The provincial working-age population between the ages of 15 and 64 years is approximated at 4.3 million.
- Working-age individuals in the Western Cape are more likely to participate in the labour force than their peers nationally. The narrow labour force participation rate in the Province is 67.3 per cent compared with 57.7 per cent for South Africa. This difference is particularly marked amongst 15 to 24 year olds, but may come at a cost to education.
- Provincially, employment is estimated at almost 2.3 million in 2015. Slightly less than half of the employed are Coloured, one-third are African and 18 per cent are White. Employment growth over the five-years to the second quarter of 2015 was most rapid for Africans, those aged 35 to 44 years, and those with at least a matric certificate.
- The majority (82.5 per cent) of employment in the provincial economy is located within the formal sector, while 10.5 per cent is in the informal sector. In terms of industry, the largest source of formal sector employment is in the services sector: community, social and personal (including government) services; wholesale and retail trade; and financial and business services.
- Formal sector workers in the Western Cape are more likely to have permanent employment than their counterparts nationally. They are also more likely to have benefits such as paid annual, sick and maternity leave, and less likely to work less than 40 hours per week or more than 50 hours per week.
- In the Western Cape in 2015, 21.7 per cent of those in the narrow labour force are unable to find employment. The unemployment rate in the Province has grown, with strong growth observed for women (6.0 per cent per annum), and 25 to 34 year olds (5.6 per cent per annum).

4.1 Introduction

The labour market is the arena in which the supply of labour and the demand for labour interact. Labour is supplied to the market by individuals who would like to work. Just as these individuals vary in their particular characteristics, so too does the labour they supply. Labour is demanded by firms who require staff in order to produce the goods and services they would like to sell. Depending on production technologies and cost structures, the mix of labour demanded will vary across a range of characteristics.

While the labour market brings together labour supply and demand, nothing guarantees that the mix of labour supplied by the working-age population will match the mix of labour demanded by employers. In fact, it is not particularly accurate to think of a single labour market. Instead, there are a myriad of labour markets for various types of labour in specific locations and many of these may not be able to match supply and demand. Thus it is possible for skills shortages to exist alongside mass unemployment, as is the case in South Africa.

One of the challenges for policymaking in this area is to improve the balance between supply and demand across these various labour markets. This may require growing the supply of skills, through a range of interventions from education and training policy to policies related to improving access to childcare for women. It may require impacting on demand by encouraging an economic structure that is more intensive in its use of those types of labour that are in relative abundance. It may even require equipping workers to be more flexible and promoting a culture of lifelong learning amongst workers and employers, allowing workers to access a broader range of these disaggregated labour markets. This latter type of intervention is particularly pertinent in the current economic context of globalisation and rapid changes in technology, production structures and trade patterns.

This chapter provides an overview of the Western Cape labour market for the five-year period between the second quarter of 2010 and the second quarter of 2015. This period begins with the low point in the post-recession labour market, and covers the subsequent gradual labour market recovery.

Labour market definitions

Working-age population: All individuals aged between 15 and 65 years, irrespective of 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.

Dependency ratio: The size of the dependent population (children and the elderly) relative to the size of the working-age population.

Employment-to-population ratio: The size of the employed population relative to the size of the working-age population.

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

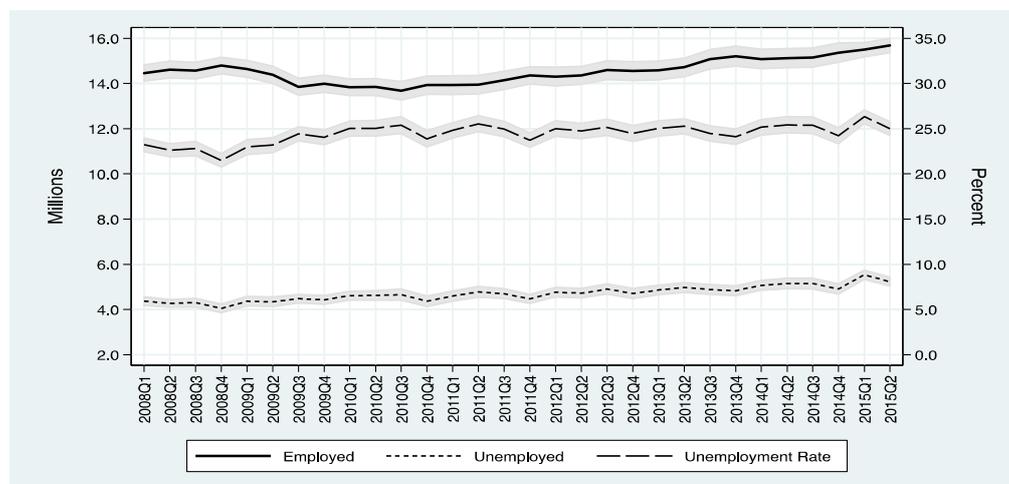
Formal sector: The formal sector covers all employment not included in the informal sector, but excludes domestic workers.

Source: Statistics South Africa (2014)

4.2 Overview of the labour market

While output and consumption recovered relatively soon after the global crisis of 2008, the same cannot be said about the South African labour market. The economy shed 1.1 million jobs in the two years after the local recession hit in the fourth quarter of 2008, more than 90 per cent of which occurred during the first year. It took the economy nearly five years to regain the lost jobs and reach pre-recession employment levels. This slow growth in employment belies the fact that year-on-year employment growth has been positive for the past 18 quarters, although in many instances the gains were not statistically significant. Nevertheless, at almost 15.7 million in the second quarter of 2015, just over two million net new jobs have been added to the economy since the low point in the third quarter of 2010.

Despite this growth in employment, unemployment has continued to grow. The number of people unemployed according to the narrow definition increased from just over 4 million people in the fourth quarter of 2008 to 5.2 million people in the second quarter of 2015. Having jumped from 21.5 per cent to 24.0 per cent in the first year post-recession, the narrow unemployment rate has remained between 24 per cent and 26 per cent for 21 of the past 24 quarters. The most recent estimate (for the second quarter of 2015) of the national narrow unemployment rate is 25.0 per cent.

Figure 4.1 National employment and narrow unemployment trends since 2008Q1


Source: Various QLFS surveys, Statistics South Africa (various years), Own calculations

In terms of its effect on the narrow unemployment rate, the impact of the recession appears to be somewhat muted, with much of the increase observed in the immediate aftermath of the recession. However, the true magnitude of the labour market impact of the recession is evident in expanded unemployment, which includes the non-searching unemployed. The number of unemployed individuals not actively seeking work increased by 45.1 per cent (536 000) from the end of 2008 to the end of 2009, with the expanded unemployment rate increasing from 26.2 per cent to 30.6 per cent over the period and reaching 32.0 per cent in the fourth quarter of 2010.

Table 4.1 Overview of the Western Cape labour market, 2015Q2

	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	4 293	100.0	2 263	100.0	627	100.0	2 890	100.0	67.3	21.7
By Race										
African	1 480	34.5	759	33.5	291	46.4	1 050	36.3	71.0	27.7
Coloured	2 131	49.6	1 091	48.2	299	47.7	1 390	48.1	65.2	21.5
White	654	15.2	397	17.6	34	5.5	432	14.9	66.0	7.9
By Gender										
Male	2 088	48.6	1 241	54.8	301	48.1	1 542	53.4	73.9	19.5
Female	2 206	51.4	1 023	45.2	326	51.9	1 348	46.6	61.1	24.1
By Age										
15 to 24 years	1 033	24.1	229	10.1	180	28.7	409	14.1	39.6	44.0
25 to 34 years	1 072	25.0	667	29.5	235	37.5	903	31.2	84.2	26.1
35 to 44 years	1 004	23.4	722	31.9	132	21.1	854	29.5	85.1	15.5
45 to 54 years	702	16.4	446	19.7	63	10.1	509	17.6	72.5	12.4
55 to 65 years	482	11.2	200	8.8	17	2.6	217	7.5	44.9	7.6
By Education										
Primary	559	13.0	234	10.3	68	10.9	303	10.5	54.2	22.6
Some secondary	1 781	41.5	750	33.1	334	53.3	1 084	37.5	60.9	30.8
Grade 12	1 305	30.4	775	34.3	185	29.5	960	33.2	73.6	19.3
Diploma/Certificate	328	7.6	258	11.4	19	3.1	277	9.6	84.5	6.9
Degree	266	6.2	216	9.5	16	2.6	232	8.0	87.3	7.1

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: Statistics South Africa (2015d), Own calculations

Table 4.2 indicates that employment in the Western Cape increased by 222 000 people (from 2.0 million to 2.3 million) over the last five years. This implies an average annual rate of growth of 2.1 per cent, which is slightly slower than the national rate of growth (2.5 per cent per annum). Employment growth in the Province was marginally lower than growth in the working-age population, while nationally employment growth was more rapid. All other things equal, this suggests that there would be upward pressure on the unemployment rate in the Province, but downward pressure on the national unemployment rate.

Table 4.2 Labour market aggregates, 2010 and 2015

	2010Q2	2015Q2	Change	
	Thousands	Thousands	Thousands	Per cent
Western Cape				
Working-age population	3 852	4 293	442	2.2 p.a.
Employment	2 041	2 263	222	2.1 p.a. †
Narrow unemployment	553	627	74	2.5 p.a.
Narrow labour force	2 594	2 890	296	2.2 p.a. †
Expanded unemployment	615	678	62	2.0 p.a.
Expanded labour force	2 656	2 941	285	2.1 p.a. †
Non-searching unemployed	62	51	(12)	-4.0 p.a.
Narrow unemployment rate	21.3%	21.7%		
South Africa				
Working-age population	33 090	36 224	3 134	1.8 p.a.
Employment	13 844	15 685	1 841	2.5 p.a. *
Narrow unemployment	4 622	5 231	609	2.5 p.a. *
Narrow labour force	18 467	20 917	2 450	2.5 p.a. *
Expanded unemployment	6 582	7 666	1 084	3.1 p.a. *
Expanded labour force	20 427	23 352	2 925	2.7 p.a. *
Non-searching unemployed	1 960	2 435	475	4.4 p.a. *
Narrow unemployment rate	25.0%	25.0%		

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: *Statistics South Africa (2010, 2015d)*, Own calculations

Working-age individuals in the Western Cape are more likely to be employed than is the case in South Africa. The employment-to-population ratio, which compares the number of employed individuals to the size of the working-age population, is 52.7 per cent in the Western Cape in 2015. This means that more than half the working-age population is employed. Nationally, though, the employment-to-population ratio is 43.3 per cent. In 2015, the ratio for the Western Cape is unchanged compared to five years previously, but the national ratio has shown an upward trend from 41.8 per cent in the second quarter of 2010.

The provincial narrow unemployment rate (21.7 per cent) remains lower than the national rate (25.0 per cent) as at the end of the second quarter of 2015. Although the provincial labour market appears to have performed slightly better than the national labour market - employment growth, slower growth in expanded unemployment, few discouraged workseekers - not all of these changes are statistically significant.

Confidence intervals

The data used in this chapter are 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.

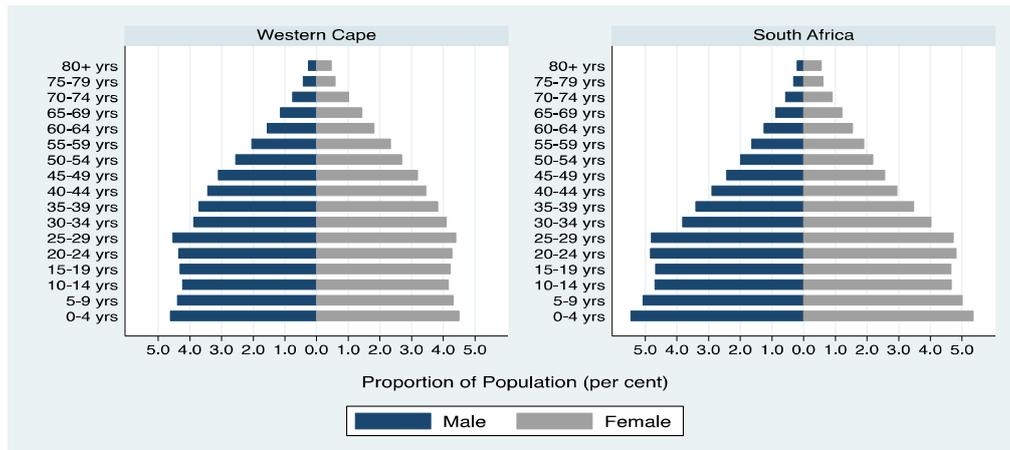
Confidence intervals are calculated to address this uncertainty. A confidence interval indicates the range within which we are, say, 95 per cent sure that the true value of a certain estimate lies. This range is therefore a valuable marker and should be given as much attention as the point estimate.

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 6.2 million, or 11.3 per cent of the national population, according to the mid-year population estimates (Statistics South Africa 2015b). 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 that affect the relative sizes of different age cohorts.

Current population estimates indicate that the Western Cape's population is slightly older than the national population. This is illustrated in Figure 4.2 by the fact that the Western Cape's population pyramid has a relatively narrow base when compared with the national population pyramid. Working-age cohorts between the ages of 15 and 64 years account for 67.7 per cent of the provincial population, just over three percentage points higher than the national figure of 64.5 per cent. The Province also has a slightly larger elderly population than is the case nationally, with individuals aged 65 years or more accounting for 6.1 per cent of the Western Cape population, compared with 5.2 per cent nationally.

Figure 4.2 Age structure of the population, 2015

Source: Statistics South Africa (2015b)

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. The extent of dependence can be measured using the dependency ratio, defined as the ratio of the population within dependent cohorts (those under 15 years and those aged 65 years or more) to the working-age population. The dependency ratio for the Province is estimated at 47.6 in 2015, compared with 55.0 nationally. These ratios imply that there are 47.6 dependents for every 100 working-age individuals in the Western Cape in 2015, 13.5 per cent less than the 55.0 dependents per 100 working-age individuals nationally.

Dependency ratios are imperfect measures in that they assume all working-age individuals are not dependent. However, this is not true since large numbers of individuals of working age are either outside the labour force or are unemployed. The Western Cape's relatively high employment-to-population ratio implies that the gap in dependency between the Province and the country as a whole is actually greater than indicated by the dependency ratio.

Nationally and provincially, dependency rates are falling. This gives rise to a period known as the demographic dividend. 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).

Part of the reason for the growing provincial population is migration, specifically net in-migration from other provinces. Statistics South Africa (2015b) estimates that the Western Cape received 143 000 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 351 000 in-migrants - particularly from

Gauteng (108 000), the Eastern Cape (80 000) and outside South Africa (84 000) - while 194 000 individuals are expected to leave the Province, primarily for Gauteng (73 000) and the Eastern Cape (60 000).

4.4 The Western Cape labour force

4.4.1 Composition of the 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 the labour force, also referred to as the economically active population. This section focuses on the narrow labour force, which includes the employed and the searching (narrow) unemployed, but excludes the non-searching unemployed (discouraged workseekers).¹

The provincial labour force numbered almost 2.9 million in the second quarter of 2015, up by approximately 300 000 since the second quarter of 2010 (see Table 4.3). Coloureds account for 48.1 per cent of the narrow labour force, followed by Africans (36.3 per cent) and Whites (14.9 per cent). Africans account for the full increase in the size of the provincial labour force between 2010 and 2015, their numbers increasing by 294 000, while there was negligible change over the period in the number of Coloureds and Whites within the labour force.

Table 4.3 Composition of the Western Cape narrow labour force, 2010 and 2015

	2010Q2		2015Q2		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
Narrow Labour Force	2 594	100.0	2 890	100.0	296	2.2 p.a. †
By Race						
African	756	29.2	1 050	36.3	294	6.8 p.a. *
Coloured	1 389	53.5	1 390	48.1	1	0.0 p.a.
White	430	16.6	432	14.9	2	0.1 p.a.
By Gender						
Male	1 433	55.2	1 542	53.4	110	1.5 p.a.
Female	1 161	44.8	1 348	46.6	187	3.0 p.a. *
By Age						
15 to 24 years	441	17.0	409	14.1	-32	-1.5 p.a.
25 to 34 years	799	30.8	903	31.2	104	2.5 p.a.
35 to 44 years	712	27.5	854	29.5	141	3.7 p.a. *
45 to 54 years	471	18.2	509	17.6	38	1.6 p.a.
55 to 65 years	170	6.6	217	7.5	46	4.9 p.a.

¹ A full set of labour market definitions can be found in section 4.1.

	2010Q2		2015Q2		Change	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)	Number ('000s)	Rate (Per cent)
By Educational Attainment						
Primary	360	13.9	303	10.5	-58	-3.4 p.a.
Some secondary	956	36.9	1 084	37.5	128	2.5 p.a.
Grade 12	783	30.2	960	33.2	177	4.2 p.a. *
Diploma/Certificate	249	9.6	277	9.6	28	2.1 p.a.
Degree	192	7.4	232	8.0	40	3.9 p.a.

Notes: 1. An asterisk (*) denotes a statistically significant change between 2010 and 2015 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 due to small sample size.

Source: *Statistics South Africa (2010, 2015d), Own calculations*

Men outnumber women within the labour force by almost 200 000 in 2015 and account for 53.4 per cent of the Province's labour force. However, the gap in the shares of men and women within the labour force has narrowed somewhat, from 10.4 percentage points in 2010 to 6.8 percentage points in 2015. This has occurred as growth of the female labour force was twice as rapid as that of the male labour force (3.0 per cent per annum compared with 1.5 per cent). Women therefore account for almost two-thirds of the expansion of the labour force over the five-year period.

In the second quarter of 2015, three-fifths (60.7 per cent) of the labour force is aged between 25 and 44 years, while 14.1 per cent is under 25 years. The absolute size of the latter cohort is only marginally changed from five years ago. The cohorts between 15 and 24 years and between 45 and 54 years accounts for 14.1 per cent and 17.6 per cent of the labour force. As the labour force continues to age, labour force growth has been most rapid amongst 55 to 65 year olds (4.9 per cent per annum) and for those aged 35 to 44 years (3.7 per cent per annum), although it is only in the case of the latter cohort that growth has been statistically significant.

Nearly half (48.0 per cent) of the labour force in 2015 have not completed secondary education. A further third (33.2 per cent) have completed grade 12, while 8.0 per cent have degrees. The five-year period has seen a continuation of the gradual shift towards a more educated labour force: the number of individuals with primary education has declined in absolute terms (although not statistically significantly), while the most rapid rates of growth are observed for those with matric certificates (4.2 per cent per annum, close to twice the rate of expansion of the provincial labour force) and for those with degrees (3.9 per cent per annum). The latter change, though, is not statistically significant.

The decline in the provincial labour force with only primary education, in both absolute and relative terms, may relate to processes of mechanisation and skills upgrading that impact disproportionately on less educated members of the labour force. It is also at least partly related to the age distribution of individuals within this group. Considering only individuals aged 25 years or

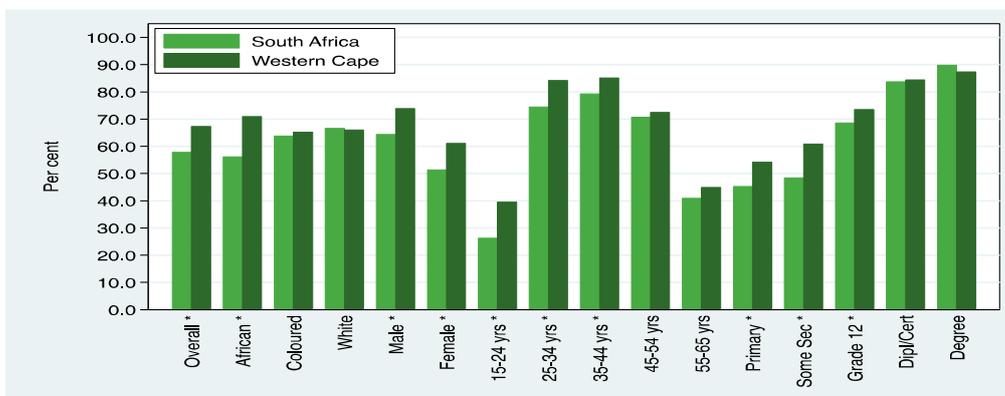
more, the median age for labour force participants with primary education is 44 years, compared with 38 years for those with incomplete secondary education, 37 years for those with matric certificates and 40 years for those with diplomas or certificates. The median age for those with degrees is 39 years.

The data reconfirm the extent to which the labour force structure changed in terms of educational attainment. As older, less-educated individuals gradually exit the labour force, younger individuals with generally higher educational attainment enter it, leading to strong shifts in the relative sizes of the various educational categories. Thus, matriculants accounted for almost three-fifths (59.8 per cent) of the net growth in the labour force, with 13.5 per cent accounted for by tertiary graduates, which is substantially higher than their share of the labour force. This compositional shift represents an improvement in the skills available to the provincial economy.

4.4.2 Labour force participation

The share of the labour force within the working-age population is known as the labour force participation rate (LFPR). In the second quarter of 2015, the provincial narrow labour force participation (67.3 per cent) was 9.6 percentage points higher than national participation (57.7 per cent) (see Figure 4.3). Differences in narrow labour force participation rates are related to various factors including working-age individuals' views of labour market conditions and the likelihood of finding employment, and access to the labour market. In remote areas where it is difficult for workseekers to actively seek employment, the narrow LFPR (which requires active job search by the unemployed) is likely to be relatively low. Thus, urbanisation rates, the degree of 'connectedness' and the extent to which the spatial concentration of economic activity coincides with that of the population can affect the likelihood of participation.

Figure 4.3 Labour force participation rates, 2015Q2



Note: An asterisk (*) denotes a statistically significant difference between the national and provincial estimates at a 95 per cent level of confidence. Exact estimates can be found in Annexure G1.

Source: Statistics South Africa (2015d), Own calculations

The observed gap in labour force participation between the Province and the country is echoed across most of the demographic categories analysed. At 71.0 per cent, labour force participation amongst Africans in the Province is 14.9 percentage points higher than nationally. Similarly, large statistically significant gaps are evident for men (9.5 percentage points) and women (9.8 percentage points); for 15 to 24 year olds (13.4 percentage points) and 25 to 34 year olds (9.7 percentage points); and for those with primary and incomplete secondary education (8.9 percentage points and 12.4 percentage points). This relatively high participation rate amongst the youngest cohort has potentially unfavourable consequences as it may indicate that young people in the Province are more likely to opt out of education than is the case nationally. Although such a decision has negative long-term consequences in terms of future earning potential, it is a rational decision in response to current pressing needs for income in the context of poverty. Nevertheless, the participation rate for this age group is substantially lower than all other cohorts except 55 to 65 year olds. Participation amongst the oldest cohort is lower at 44.9 per cent in the Western Cape and 40.9 per cent nationally, the result of individuals beginning to exit the labour force as they approach retirement age.

There is a clear positive relationship between level of education and labour force participation. Nationally, participation rates rise from 45.3 per cent for those with primary education, to 68.6 per cent for those with matric certificates, to 89.8 per cent for those with degrees. The gradient is slightly less steep in the Western Cape, rising from 54.2 per cent for those with primary education to 87.3 per cent for those with degrees.

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 sustainably escape poverty. Unfortunately, employment is relatively scarce in South Africa. Even though the Western Cape's employment-to-population ratio (52.7) is substantially higher than the national average (43.3), it remains significantly lower than the ratios for adults aged 15 and older observed in upper middle income countries such as Thailand (71.4 in 2012), China (68.6 in 2013) and Brazil (61.2 in 2013) (World Bank, 2015). Countries with similar employment-to-population ratios to the Western Cape are Romania (51.1 in 2013) and Jamaica (54.1 in 2012).

Over the past five years, South African employment has expanded at a moderate pace, averaging 2.5 per cent per annum (see Table 4.4). Estimates of employment in the Western Cape suggest a slightly slower, but statistically significant, rate of growth of 2.1 per cent per annum. The majority of the Province's jobs are held by Coloureds (48.2 per cent). The remainder are split between Africans and Whites at a ratio of roughly 2 to 1 (33.5 per cent and

17.6 per cent). Relative to the labour force, Africans are underrepresented and Whites overrepresented within employment. As shown in Table 4.4, this under- and over-representation translate into higher and lower than average rates of unemployment.

Table 4.4 Demographic characteristics of employment, 2010 and 2015

	2010Q2		2015Q2		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
Western Cape						
Total Employment	2 041	100.0	2 263	100.0	222	2.1 p.a. †
By Race						
African	523	25.6	759	33.5	236	7.7 p.a.*
Coloured	1 103	54.1	1 091	48.2	(12)	-0.2 p.a.
White	397	19.5	397	17.6	0	0.0 p.a.
By Gender						
Male	1 123	55.0	1 241	54.8	118	2.0 p.a.
Female	918	45.0	1 023	45.2	104	2.2 p.a.
By Age						
15 to 24 years	244	11.9	229	10.1	(15)	-1.3 p.a.
25 to 34 years	620	30.4	667	29.5	48	1.5 p.a.
35 to 44 years	612	30.0	722	31.9	110	3.3 p.a. †
45 to 54 years	408	20.0	446	19.7	37	1.8 p.a.
55 to 65 years	157	7.7	200	8.8	43	5.0 p.a.
By Education						
Primary	274	13.4	234	10.3	(39)	-3.1 p.a.
Some secondary	686	33.6	750	33.1	64	1.8 p.a.
Grade 12	634	31.1	775	34.3	141	4.1 p.a.*
Diploma/Certificate	223	10.9	258	11.4	35	3.0 p.a.
Degree	179	8.7	216	9.5	37	3.9 p.a.
South Africa						
Total Employment	13 844	100.0	15 685	100.0	1 841	2.5 p.a.*
By Race						
African	9 714	70.2	11 643	74.2	1 930	3.7 p.a.*
Coloured	1 533	11.1	1 614	10.3	81	1.0 p.a.
White	2 095	15.1	1 939	12.4	(156)	-1.5 p.a.
By Gender						
Male	7 860	56.8	8 815	56.2	955	2.3 p.a.*
Female	5 985	43.2	6 871	43.8	886	2.8 p.a.*
By Age						
15 to 24 years	1 294	9.3	1 350	8.6	56	0.9 p.a.
25 to 34 years	4 474	32.3	4 936	31.5	462	2.0 p.a.*
35 to 44 years	4 133	29.9	4 874	31.1	741	3.4 p.a.*
45 to 54 years	2 786	20.1	3 115	19.9	329	2.3 p.a.*
55 to 65 years	1 157	8.4	1 410	9.0	253	4.0 p.a.*
By Education						
Primary	2 320	16.8	2 237	14.3	(83)	-0.7 p.a.
Some secondary	4 442	32.1	5 129	32.7	687	2.9 p.a.*
Grade 12	4 091	29.6	4 893	31.2	802	3.6 p.a.*
Diploma/Certificate	1 735	12.5	1 953	12.5	218	2.4 p.a.*
Degree	1 040	7.5	1 277	8.1	238	4.2 p.a.*

Notes: 1. An asterisk (*) denotes a statistically significant change between 2010 and 2015 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: Statistics South Africa (2010, 2015d), Own calculations

Men outnumber women within provincial employment by 9.6 percentage points in the second quarter of 2015. This gap is somewhat narrower than that observed nationally (12.4 per cent), and is virtually unchanged since the second quarter of 2010 despite rapid growth in the female labour force. Female employment has grown marginally relative to total employment over the last five years, and at a faster rate nationally than provincially. The female share of provincial employment inched upwards from 45.0 per cent in 2010 to 45.2 per cent in 2015, and from 43.2 per cent to 43.8 nationally.

The largest cohorts within employment, both nationally and provincially, are the two cohorts between the ages of 25 and 44 years. In the Western Cape, 31.9 per cent of employment is accounted for by 35 to 44 year olds, while 29.5 per cent is accounted for by 25 to 34 year olds. This is in line with findings presented above for the labour force. The most rapid rates of employment growth for the five-year period are observed for 55 to 65 year olds (5.0 per cent per annum, although this is not statistically significant) and for 35 to 44 year olds (3.3 per cent per annum). Employment within the 15 to 24 year old cohort is only marginally changed in absolute terms from 2010 levels, but in relative terms this cohort has seen its share of employment decline by 1.8 percentage points. The large share of employment and rapid pace of employment growth means that 35 to 44 year olds accounted for 49.5 per cent of employment growth in the Western Cape between 2010 and 2015, while only accounting for 30.0 per cent of employment in 2010.

The pattern of educational attainment amongst the employed in the Western Cape is similar to that observed nationally. The largest proportion of the employed population in 2015 has either incomplete secondary education (33.1 per cent provincially) or a matric certificate (34.3 per cent). Perhaps the most significant change in national employment in terms of education over the five-year period to the second quarter of 2015 is the 4.2 per cent per annum increase amongst those with degrees. Provincially, increased employment amongst those with matric qualifications (4.1 per cent per annum) has been rapid and is statistically significant. This rate of growth has seen matriculants increase their share of employment in the Province by 3.2 percentage points to 34.3 per cent in 2015.

Employment of those with only primary education continues to fall. In the Western Cape, amongst those with no more than primary education in 2015, 32.0 per cent are employed in agriculture, 20.6 per cent in private households and 14.1 per cent in construction. It is evident that employment growth has been strongly skills-biased with continued weakness in the demand for workseekers without any secondary education. This underscores the importance of investment in human capital for the achievement of inclusive growth. Without improving the quantity and quality of secondary schools output, the foundation for broad-based productivity growth and poverty reduction will be weak.

Sectorally, total employment can be disaggregated into the formal sector, the informal sector, the seasonally volatile agricultural sector and private households (domestic workers). The formal sector is dominant in South Africa and even more so in the Western Cape (see Table 4.5). In the second quarter of 2015, this sector accounts for 82.5 per cent of employment in the Western Cape and 74.0 per cent nationally. The vast majority of formal sector jobs are located in the non-agricultural sector (88.8 per cent in the Western Cape). While national employment growth since the second quarter of 2010 has been most rapid in formal agriculture (6.0 per cent per annum), it has been underpinned by expansion in the formal non-agricultural sector, which added 1.2 million jobs during the past five years at a rate of 2.4 per cent per annum. Put differently, the formal non-agricultural sector accounted for two-thirds of net employment growth between 2010 and 2015, followed by the informal non-agricultural sector with 19.8 per cent of net employment growth. This is broadly the pattern observed in the Western Cape too, although changes are not found to be statistically significant.

Table 4.5 Sector decomposition of total employment, 2010 and 2015

	2010Q2		2015Q2		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
Western Cape						
Total Employment	2 041	100.0	2 263	100.0	222	2.1 p.a. †
Agriculture	165	8.1	215	9.5	51	5.5 p.a.
Formal agriculture	155	7.6	210	9.3	54	6.2 p.a.
Informal agriculture	9	0.5	6	0.2	-4	-9.9 p.a.
Non-Agriculture	1 753	85.9	1 890	83.5	137	1.5 p.a.
Formal non-agriculture	1 515	74.2	1 657	73.2	142	1.8 p.a.
Informal non-agriculture	238	11.7	233	10.3	-5	-0.5 p.a.
Private households	124	6.1	159	7.0	35	5.1 p.a.
South Africa						
Total Employment	13 844	100.0	15 685	100.0	1 841	2.5 p.a. *
Agriculture	656	4.7	870	5.5	215	5.8 p.a. *
Formal agriculture	567	4.1	758	4.8	191	6.0 p.a. *
Informal agriculture	89	0.6	112	0.7	23	4.8 p.a.
Non-Agriculture	11 935	86.2	13 520	86.2	1 586	2.5 p.a. *
Formal non-agriculture	9 631	69.6	10 853	69.2	1 222	2.4 p.a. *
Informal non-agriculture	2 303	16.6	2 667	17.0	364	3.0 p.a. *
Private households	1 254	9.1	1 295	8.3	40	0.6 p.a.

Notes: 1. An asterisk (*) denotes a statistically significant change between 2010 and 2015 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: *Statistics South Africa (2010, 2015d), Own calculations*

South Africa's informal sector is small (17.7 per cent of total employment) compared with economies at a similar level of development. The International Labour Organisation's (ILO) 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 10.5 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 (74.0 per cent nationally and 82.5 per cent in the Western Cape) means that the structure of formal sector employment is broadly similar to that of total employment. The Western Cape, though, is significantly different from the country in terms of the racial breakdown of formal sector employment due to its unique population structure (along with the Northern Cape) (see Table 4.6). While Coloureds account for just 11.7 per cent of formal sector employment nationally in the second quarter of 2015, they account for 49.5 per cent of formal sector employment in the Western Cape. Conversely, Africans' share of provincial formal sector employment is less than half their national share (30.5 per cent compared with 69.1 per cent). Whites account for 19.3 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, 2015Q2

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
Total Formal Sector Employment	11 611	100.0	1 867	100.0
By Race				
African	8 018	69.1	569	30.5 *
Coloured	1 361	11.7	925	49.5 *
White	1 797	15.5	361	19.3 *
By Gender				
Male	6 792	58.5	1 061	56.9
Female	4 820	41.5	805	43.1
By Age				
15 to 24 years	1 033	8.9	204	11.0 *
25 to 34 years	3 734	32.2	567	30.4
35 to 44 years	3 619	31.2	589	31.5
45 to 54 years	2 239	19.3	353	18.9
55 to 65 years	987	8.5	154	8.3
By Education				
Primary	1 155	9.9	159	8.5
Some secondary	3 269	28.2	590	31.6 †
Grade 12	4 036	34.8	663	35.5
Diploma/Certificate	1 807	15.6	238	12.8 *
Degree	1 232	10.6	199	10.6

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: Statistics South Africa (2015d), Own calculations

The margin (13.8 percentage points in 2015) by which men outnumber women within formal sector employment in the Western Cape is larger than that observed for total employment or for the labour force. This pattern suggests an important disadvantage for women by implying a relatively larger share of women within informal sector employment. Nevertheless, this gap in formal sector employment shares is somewhat narrower than is the case nationally (17.0 percentage points).

In terms of age, the two cohorts between 25 and 44 years account for the majority (61.9 per cent) of formal sector employment in the Western Cape, while a further 18.9 per cent are aged 45 to 54 years.

Educationally, formal sector workers in the Province do not display major differences when compared to formal sector workers nationally. There are, however, two statistically significant differences in the educational composition of formal sector employment in 2015. First, the Western Cape has relatively more workers with incomplete secondary education (31.6 per cent compared to 28.2 per cent nationally). Second, the Province has relatively few workers with diplomas or certificates (12.8 per cent compared with 15.6 per cent nationally). In 2015, 10.6 per cent of the Province's formal sector workers have degrees, while 35.5 per cent have matric certificates. The data therefore suggest that formal sector employment in the Western Cape may be slightly less skills intensive than is the case nationally.

This characteristic is arguably related, at least in part, to the relative importance of the agriculture, forestry and fishing sector in the Province and its ability to absorb relatively unskilled labour. The sector accounts for 11.2 per cent of formal employment in the Province, compared with 6.5 per cent nationally (see Table 4.7). Nationally and provincially, is the tertiary sector that accounts for the lion's share of formal sector employment: 64.9 per cent in the Western Cape and 67.3 per cent in South Africa. This is followed by the secondary sector and the primary sector (23.7 per cent and 11.4 per cent of provincial formal sector employment in 2015).

Table 4.7 Industrial composition of formal sector employment, 2015Q2

	South Africa		Western Cape	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)
Total Formal Sector Employment	11 611	100.0	1 867	100.0
Agriculture, forestry and fishing	758	6.5	210	11.2 *
Mining and quarrying	441	3.8	3	0.2 *
Primary Sector	1 199	10.3	213	11.4
Manufacturing	1 524	13.1	251	13.5
Utilities	128	1.1	15	0.8
Construction	948	8.2	176	9.4
Secondary Sector	2 599	22.4	442	23.7
Wholesale and retail trade	2 055	17.7	382	20.5 †
Transport, storage and communication	665	5.7	97	5.2
Financial and business services	1 954	16.8	321	17.2
Community, social and personal services	3 136	27.0	411	22.0 *
Tertiary Sector	7 810	67.3	1 211	64.9

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 2015 estimates that 488 000 formal sector workers are employed in mining and quarrying (Statistics South Africa, 2015c). If we use this figure, mining for South Africa would make up 4.1 per cent of total employment.

Source: *Statistics South Africa (2015d), Own calculations*

In the second quarter of 2015, the three largest employment industries in the provincial economy are community, social and personal (CSP) services² which includes government (22.0 per cent of formal sector employment), wholesale and retail trade (20.5 per cent) and financial and business services (17.2 per cent). Together, these three industries account for 59.7 per cent of formal sector employment in the Western Cape in 2015. Their share is similar nationally (61.5 per cent), although CSP services is a substantially larger employer within the national formal sector (5.0 percentage points larger than the provincial share).

Globally, there is a longstanding trend towards greater employment of more highly skilled workers and South Africa has not been exempt from this (Bhorat et al. 2013). At the same time, however, South Africa has an abundance of less skilled labour and it is this mismatch that makes it possible to have labour shortages in an economy that suffers mass unemployment.

In this regard, the Western Cape is no different. In 2015, 17.4 per cent of those employed in the formal sector are high skilled workers (managers and professionals), while 24.0 per cent are low skilled (see Table 4.8). The remaining 58.6 per cent are employed in skilled occupations. Broadly speaking, the

² Detailed occupational and industrial classifications used by Statistics South Africa in compiling the QLFS data can be found on Statistics South Africa’s website at: http://www.statssa.gov.za/?page_id=377.

occupational structure of formal employment in the Province does not differ substantively from that of the country. The only statistically significant difference is observed for operators and assemblers, which account for 7.3 per cent of formal sector employment in the Province but 9.8 per cent nationally.

Table 4.8 Occupation structure of formal sector employment, 2015Q2

	South Africa		Western Cape	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)
Total Formal Employment	11 611	100.0	1 867	100.0
Managers	1 129	9.7	210	11.3
Professionals	730	6.3	114	6.1
High Skilled	1 859	16.0	325	17.4
Technicians	1 340	11.5	194	10.4
Clerical	1 552	13.4	271	14.5
Service and sales	1 842	15.9	288	15.5
Skilled agriculture	77	0.7	13	0.7
Crafts and related trades workers	1 296	11.2	191	10.3
Operators and assemblers	1 134	9.8	135	7.3 *
Skilled	7 241	62.4	1 094	58.6 †
Elementary	2 511	21.6	448	24.0
Low Skilled	2 511	21.6	448	24.0

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.

Source: *Statistics South Africa (2015d), Own calculations*

The largest occupational categories within formal sector employment in the Province are elementary occupations (24 per cent), service and sales workers (15.5 per cent) and clerical occupations (14.5 per cent). A further three categories account for more than 10 per cent of formal sector employment: managers (11.3 per cent), technicians (10.4 per cent) and crafts occupations (10.3 per cent). The large share (24.0 per cent) of elementary occupations within provincial employment is partly associated with the size of the provincial agriculture, forestry and fishing sector: 11.2 per cent of formal sector employment in the Province is in agriculture and, of this, 81.2 per cent is accounted for by elementary occupations. Consequently, 38.0 per cent of all formal sector employment in elementary occupations is located in agriculture, forestry and fishing.

Table 4.9 turns to the characteristics of formal sector employment. In particular, the table presents data relating to the nature of contracts, types of benefits and hours of work associated with formal sector employment in the second quarter of 2015. Generally, the formal sector workers in the Western Cape enjoy more secure forms of employment and more benefits than is the case nationally.

Table 4.9 Characteristics of formal sector employment, 2015Q2

	South Africa	Western Cape
Contract duration		
Limited duration	14.4	14.8
Permanent nature	65.4	69.9 *
Unspecified duration	14.2	9.4 *
Contract type		
Written contract	85.3	86.8
Benefits		
Medical aid	34.5	32.1
UIF contributions	64.4	76.9 *
Pension contributions	53.0	55.2
Paid leave	68.9	77.1 *
Paid sick leave	72.9	76.6 †
Paid maternity leave (women only)	64.4	70.2 *
Usual hours of work per week		
1 – 19	2.2	1.5 †
20 – 39	7.3	5.5 *
40 – 44	44.6	46.8
45 – 49	27.5	32.7 *
50+	18.4	13.5 *
Other		
Trade union membership	31.7	26.0 *

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: *Statistics South Africa (2014c), Own calculations*

The majority of formal sector workers have permanent employment contracts in 2015: 65.4 per cent nationally and 69.9 per cent in the Western Cape. No difference between the Province and the country in the proportion of workers with contracts of limited duration (between 14 and 15 per cent) means that contracts of unspecified duration are roughly one-third less common in the Western Cape (9.4 per cent) than in South Africa (14.2 per cent). Nevertheless, the prevalence of written contracts is high both provincially (86.8 per cent) and nationally (85.3 per cent).

Across a range of benefits, formal sector workers in the Western Cape enjoy a relatively favourable position. Access rates to paid annual, sick and maternity leave are higher in the Province than in the country: 76.6 per cent of formal sector workers in the Province report having access to paid sick leave, 77.1 per cent have access to paid (annual) leave and 70.2 per cent of women have access to paid maternity leave. These access rates are between three and eight percentage points higher in the Western Cape than is the case nationally. More than three-quarters (76.9 per cent) of formal sector workers in the Province are covered by unemployment insurance, compared to less than two-thirds (64.4 per cent) nationally.

Most formal sector workers report usually working between 40 and 49 hours per week. In the Western Cape, this is true for 79.5 per cent of formal sector workers. A relatively high proportion of workers in the Province work 45 to 49 hours per week (32.7 per cent compared to 27.5 per cent nationally), although this is equalised by a smaller proportion working 50 hours or more per week (13.5 per cent compared to 18.4 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 (79.5 per cent compared with 72.1 per cent). This pattern means that part-time employment (defined here as anything less than 40 hours per week) is relatively uncommon in the formal sector in South Africa (9.5 per cent) and even more so in the Province (7.0 per cent). It is not clear to what extent this lack of availability of part-time work may be a constraint on participation in the labour force particularly for women who may need to balance the demands of caring for families and the desire or need to work.

Finally, unionisation of formal sector workers is relatively low in the Western Cape, at 26.0 per cent in 2015. This compares to 31.7 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.

4.5.3 Informal sector employment

As noted, South Africa is an outlier in terms of the small size of its informal sector when compared with other middle income countries. This is despite high unemployment levels. In many countries, where the formal sector is unable to generate sufficient employment for those who wish to work, the informal sector absorbs the unemployed, thereby lowering the rate of unemployment. This process has been stunted in South Africa with the result that many households lack access to any source of labour market income, almost certainly condemning them to poverty. South Africa's small informal sector is a particularly pressing problem in terms of achieving inclusive growth, as these households are isolated from the benefits of economic growth, wage increases and workplace training.

The provincial informal sector comprises just under 240 000 individuals, which is 8.6 per cent of the national total (Table 4.10). In line with provincial demographics, the racial profile of the Western Cape's informal sector differs significantly from that of the country: 43.2 per cent are African, 39.9 per cent are Coloured and 15.1 per cent are White. In contrast, Africans account for almost nine out of ten informal sector workers nationally (87.7 per cent). For Africans, their share of informal sector employment in the Western Cape is substantially larger than their share of formal sector employment (30.5 per cent), while the opposite is true of Coloureds (49.5 per cent). This highlights the relative disadvantage faced by Africans in the provincial labour market. The

same pattern is observed nationally, where Africans account for 69.1 per cent of formal sector employment.

Table 4.10 Demographics of informal sector employment, 2015Q2

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
Total Informal Sector Employment	2 779	100.0	238	100.0
By Race				
African	2 437	87.7	103	43.2 *
Coloured	152	5.5	95	39.9 *
White	137	1.9	36	15.1 *
By Gender				
Male	1 731	62.3	142	59.4
Female	1 048	37.7	97	40.6
By Age				
15 to 24 years	256	9.2	18	7.4
25 to 34 years	927	33.4	73	30.8
35 to 44 years	840	30.2	78	32.9
45 to 54 years	523	18.8	48	20.2
55 to 65 years	233	8.4	21	8.7
By Education				
Primary	616	22.2	27	11.4 *
Some secondary	1 246	44.8	86	36.2 *
Grade 12	689	24.8	85	35.5 *
Diploma/Certificate	136	4.9	17	7.1
Degree	45	1.6	16	6.9 *

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

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: *Statistics South Africa (2015d), Own calculations*

Informal sector workers in South Africa are more likely to be male than are those in the formal sector. Nearly three-fifths (59.4 per cent) of informal sector workers in the Province are male. The majority of informal sector workers in South Africa are between the ages of 25 and 44 years: 63.6 per cent nationally and 63.7 per cent in the Western Cape. In the Western Cape, 15 to 24 year olds account for a smaller proportion of informal sector employment (7.4 per cent) than formal sector employment (11.0 per cent).

Educationally, informal sector workers lag behind their counterparts in the formal sector. In 2015, more than two-thirds (67.0 per cent) of informal sector workers nationally have either primary or only some secondary education, compared with 47.0 per cent of formal sector workers. In the Western Cape informal sector workers are slightly better educated than their counterparts nationally, and lag behind those in the formal sector by a relatively small margin. Fewer than half (47.6 per cent) of the Province's informal sector workers have primary or incomplete secondary education in 2015, only 4.2 percentage points more than those employed in the Province's formal sector.

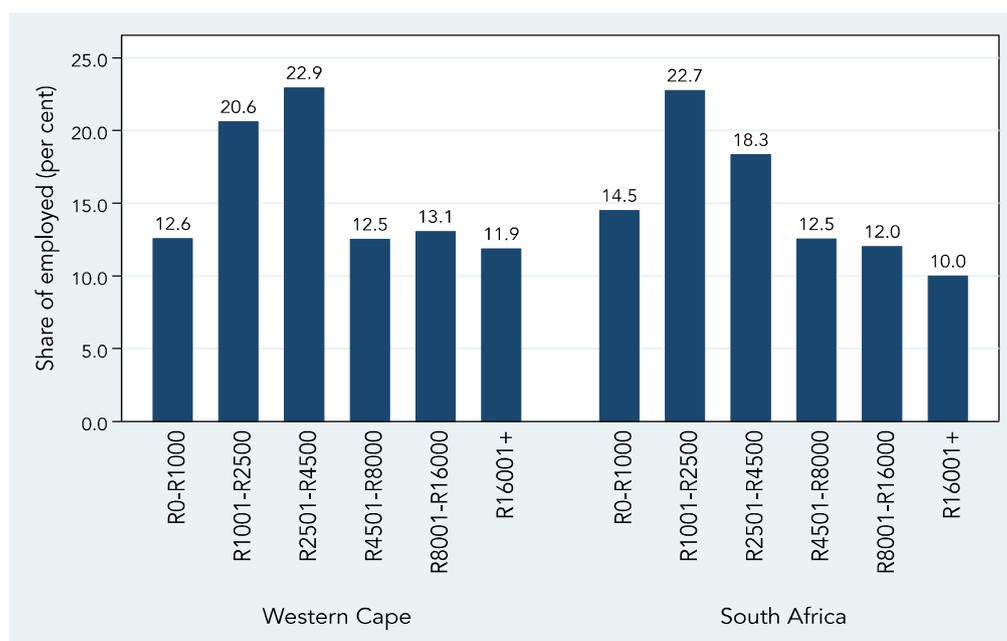
4.5.4 Wages

Jobs differ across a range of characteristics, as has been described above. A critically important characteristic of employment is remuneration, since this provides individuals and households with command over resources and, potentially, the ability to escape poverty. Further, the question of remuneration levels feeds into discussions regarding the desirability of particular forms of job creation and pro-employment policies.

Detailed South African wage data are relatively scarce. The data used in this section is from the Labour Market Dynamics Survey (LMDS) of 2014. The LMDS is a compilation of the four Quarterly Labour Force Surveys conducted within the calendar year. Although Statistics South Africa collects wage data in the QLFs, it is only released as part of the annual LMDS data.

Figure 4.4 illustrates the distribution of the employed - including the formal and informal sectors as well as those employed in private households - across six broad wage bands in 2014. The key difference in the two distributions is the relatively large proportion of those earning between R2 501 and R4 500 per month in the Western Cape (22.9 per cent) compared with South Africa (18.3 per cent). Roughly one-third (33.2 per cent) of the employed in the Western Cape earn R2 500 per month or less, four percentage points lower than the national proportion. Above R4 500 per month, the national and provincial distributions are very similar, with 25.0 per cent earning over R8 000 per month in the Western Cape compared to 22.0 per cent nationally. As a result, the median wage in the Western Cape was R3 500 per month in 2014, compared with R3 120 per month nationally.

Figure 4.4 Distribution of the employed across monthly wage bands, 2014



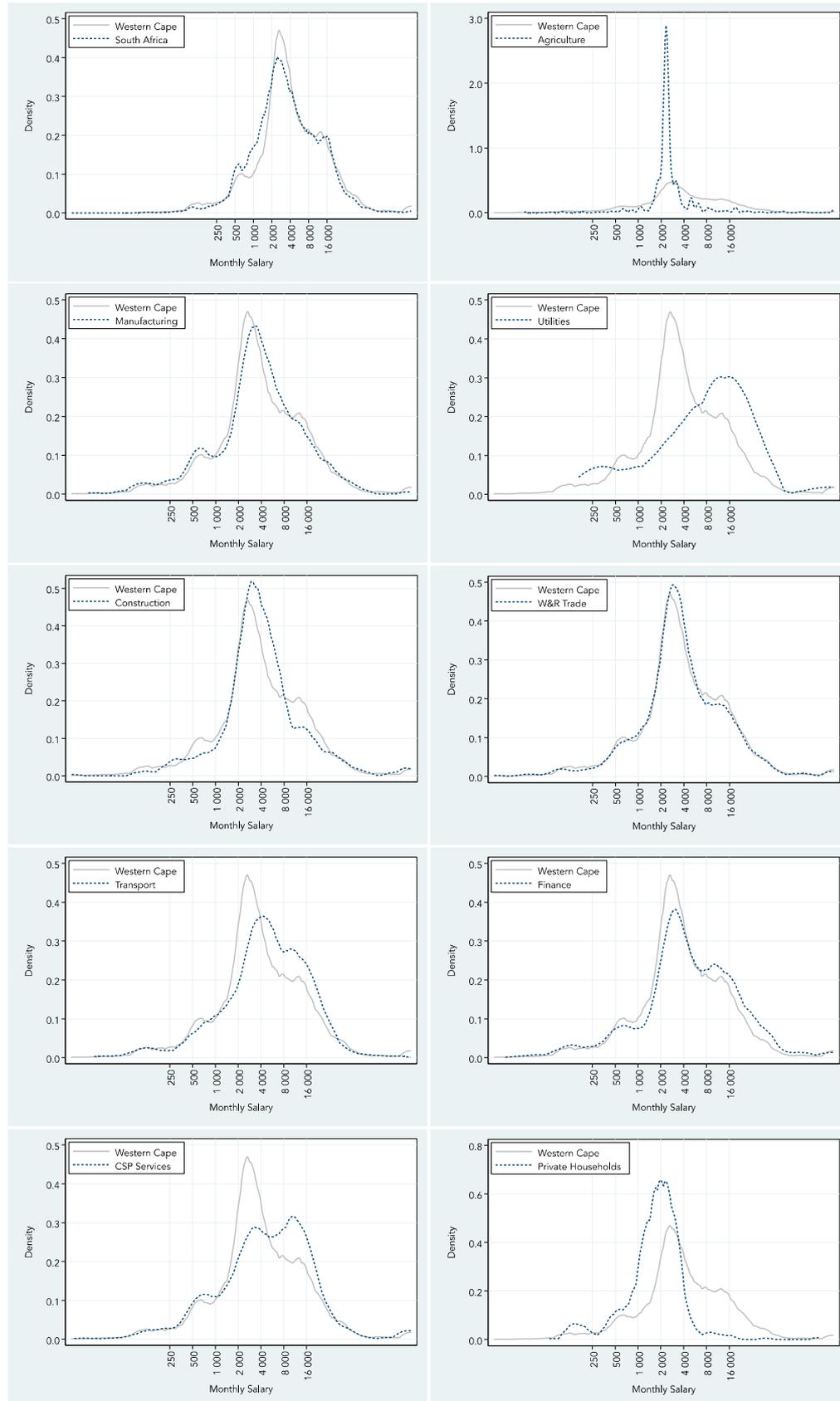
Source: Statistics South Africa (2015a), Own calculations

The distribution of wages is important for understanding the current and potential links between employment, and both poverty and inequality. Policy makers, when designing job creation interventions, should also be cognisant of the types of jobs likely to be created in targeted sectors and the wages typically associated with these jobs. For example, from the perspective of the Western Cape's high-potential economic sectors identified by Project Khulisa (tourism, agri-processing, oil and gas, business process outsourcing, film, and renewables), a pertinent issue regarding the jobs created is remuneration levels. While these sectors do not fit neatly into the Standard Industrial Classification (SIC) used in the QLFS data, wage distributions derived for SIC sectors remain instructive.

Figure 4.5 presents industry-specific wage distributions for the Western Cape for 2014. These distributions are kernel density distributions, indicating the concentration of employment at particular points in the wage distribution. The top left panel of the figure compares the overall distribution for the Western Cape to that of South Africa. The wage distributions for South Africa and the Western Cape are quite similar. The key difference, though, is the greater density observed for the Western Cape between R2 000 and R4 000 per month relative to the country, and the lower density observed between R500 and R2 000 per month. This confirms the findings presented in Figure 4.5: compared with South Africa, the Western Cape has relatively few employed individuals earning low wages and relatively more earning in the range of R2 000 to R4 000 per month. To aid comparison, the Western Cape distribution is presented in each of the remaining panels.

The figure reveals some important differences in the wage distributions across industries within the Province. This is expected given the different market conditions, productivity and skills requirements observed in each industry. In agriculture, forestry and fishing, there is an extremely high concentration of employment at just over R2 000 per month with the result that the industry-specific density estimate dwarfs that of the Province. Above that wage level there is very little employment. If one assumes that the existing wage distribution is a guide to the likely wages applicable to new jobs, the implication is that employment growth in the sector will be concentrated just above R2 000, with very little prospect for new jobs above R4 000 per month. Similarly, employment in private households is more highly concentrated at low wage levels compared with the Province, with proportionally few workers in this industry earning more than R4 000 per month. The median wage in the Province in agriculture, forestry and fishing was R2 383 in 2014, while that in private households was R1 950.

Figure 4.5 Industry-specific wage distributions, 2014



Source: Statistics South Africa (2015a), Own calculations

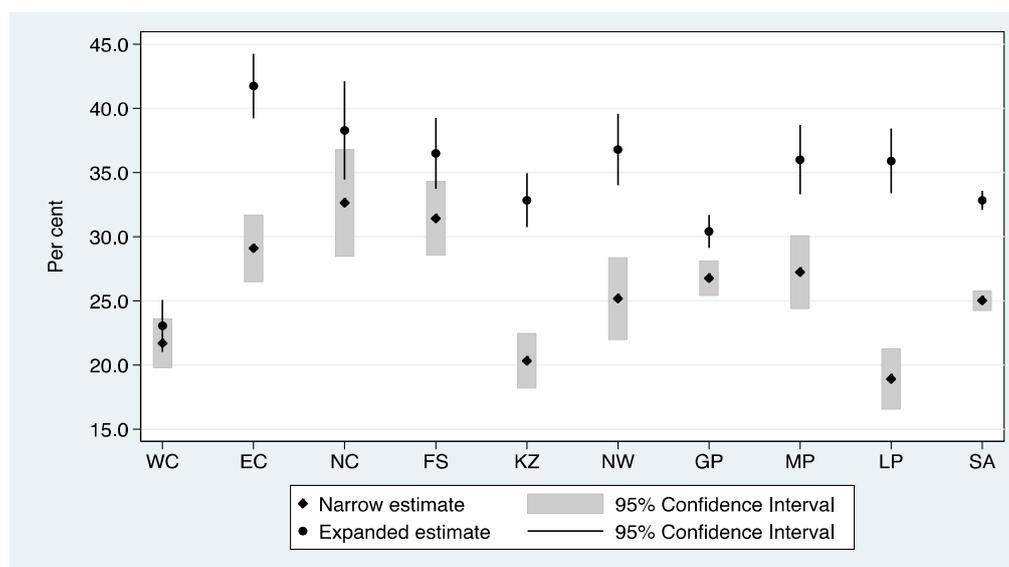
The manufacturing wage distribution is very similar to the provincial distribution, although there is a relatively greater concentration at wages between R4 000 and R8 000 than is observed for the Western Cape. The median wage in this industry was R3 683 per month. This is accompanied by a relatively smaller concentration of employment at wages between R2 000 and R4 000. In transport, the wage distribution is shifted slightly towards the right, indicating a relatively higher concentration of workers at higher wage levels from R4 000 per month upwards. This rightward shift is also evident in financial and business services, particularly for wages above R8 000 per month, and for CSP services above R5 000 per month. Median wages in each of these sectors were relatively high in 2014: R4 500 in transport, R4 333 in financial and business services, and R5 000 in CSP services.

Assuming that the current wage distribution is representative of likely wages in newly-created jobs, employment growth in the tertiary sector broadly - with the exception of private households and wholesale and retail trade - seems likely to generate a relatively large number of higher paying jobs. Even growth in construction employment may yield improvements in the overall wage distribution given its relatively high concentration of employment between R2 000 and R8 000. Broadly speaking then, it would seem that the Project Khulisa sectors may have a beneficial impact on the distribution of wages in the Province, although ideally one would be able to derive specific wage distributions for each of these 6 sectors from household survey data.

4.6 Unemployment in the Western Cape

Unemployment in South Africa is measured in two ways: the narrow definition of unemployment and the broad definition. Individuals of working age who are willing and able to work, and who have actively sought work during the reference period are unemployed according to the narrow definition. The broad definition, in contrast, drops the requirement of active job search and includes amongst the unemployed the non-searching unemployed.

Figure 4.6 compares the unemployment rates in each province to the national average. In the second quarter of 2015, the narrow unemployment rate for South Africa is estimated at 25.0 per cent. Including discouraged workseekers, this proportion rises to 32.8 per cent. In the Western Cape, the narrow unemployment rate is 21.7 per cent, and the expanded rate 23.0 per cent. At 1.3 percentage points, this gap between the narrow and expanded unemployment rates is smaller for the Western Cape than for any other province due to the very small number of discouraged workseekers in the Province. The Western Cape is one of only three provinces with narrow unemployment rates below the national average, the other two being KwaZulu-Natal (20.3 per cent) and Limpopo (18.9 per cent). It is also the only province with an expanded unemployment rate below 30.0 per cent.

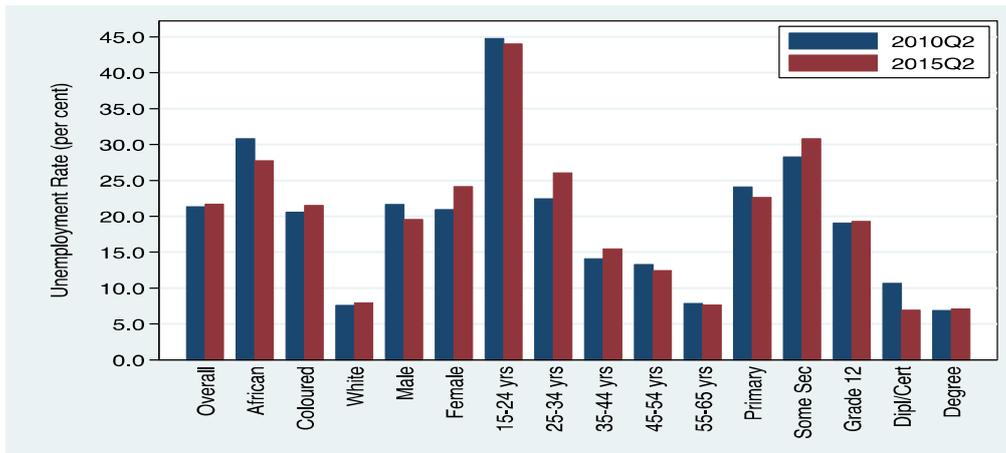
Figure 4.6 Provincial and national unemployment rates, 2015

Note: Detailed estimates can be found in Annexure G.

Source: Statistics South Africa (2015d), Own calculations

In a context of high unemployment, inter-provincial comparisons of narrow unemployment rates are not straightforward. This is due to the dynamics linked to the decision - although not always voluntary - to not actively seek employment. High levels of unemployment may mean that individuals give up actively seeking employment as they feel they are unlikely to find work, an effect that may vary according to local perceptions of the labour market. Similarly, individuals may be prevented from actively seeking employment by constraints linked to geography. Where individuals are located in poorly connected rural areas, far from sources of employment, searching costs may represent barriers to actively seeking employment. These are some of the factors that explain the difference between the Western Cape and the rest of the country in terms of the relative importance of the non-searching unemployed - and therefore the narrow and expanded unemployment rates - within provincial labour markets.

Between the second quarters of 2010 and 2015, changes in narrow unemployment rates were not statistically significant within the Western Cape across any of the demographic characteristics analysed (see Figure 4.7). The average narrow unemployment rate for the Province in the second quarter of 2015 was 21.7 per cent, only marginally higher than five years earlier (21.3 per cent).

Figure 4.7 Western Cape narrow unemployment rates, 2010 and 2015

Note: Detailed estimates can be found in Annexure G.

Source: Statistics South Africa (2010, 2015d), Own calculations

The key message emanating from Figure 4.7 relates to the persistence of the historical patterns of labour market disadvantage that characterise both the provincial and national labour markets. First, there is a clear racial gradient in unemployment rates in the Western Cape: highest for Africans (27.7 per cent), followed by Coloureds (21.5 per cent), and lowest for Whites (7.9 per cent). Importantly, these provincial unemployment rates are not statistically different from those observed nationally. Second, women remain relatively disadvantaged within the labour market, with an unemployment rate of 24.1 per cent compared with 19.5 per cent for men. Third, there is a negative relationship between age and the rate of unemployment. The provincial unemployment rate for 15 to 24 year olds is 44.0 per cent, falling to 26.1 per cent for 25 to 34 year olds, and further to 7.6 per cent for 55 to 65 year olds. Youth unemployment remains one of the key challenges facing South African policymakers, not least because of the long-term consequences for future employability. Fourth, unemployment is lower for individuals with higher levels of education. The unemployment rate for those with post-secondary education in the Province is around 7.0 per cent, compared with 19.3 per cent for matriculants and 30.8 per cent for those with incomplete secondary education.

In 2015, approximately 627 000 individuals within the Western Cape were unemployed according to the narrow definition of unemployment (see Table 4.11). Overall, the change in the level of unemployment was not statistically significant and this is true for most of the demographic characteristics listed in the table. The number of unemployed individuals increased for two groups: women and young adults. First, the number of unemployed women in the Province increased rapidly, from 243 000 in 2010 to 326 000 in 2015. This is equivalent to an average annual growth rate of 6.0 per cent, driven by the combination of a rapidly growing female labour force and a slower (and below average) rate of employment growth for women. Women, therefore, accounted for the full increase in unemployment in the

Province. A deeper investigation into this rise in unemployment reveals that the groups that contribute most to narrow labour force growth and narrow unemployment growth over the period are African women, women aged 25 to 34 years, and women with incomplete secondary education (see Annexure G4).

Table 4.11 Demographic composition of unemployment, 2010 and 2015

	2010Q2		2015Q2		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
Western Cape						
Total Unemployment	553	100.0	627	100.0	74	2.5 p.a.
By Race						
African	233	42.1	291	46.4	58	4.6 p.a.
Coloured	286	51.6	299	47.7	14	0.9 p.a.
White	33	5.9	34	5.5	2	1.0 p.a.
By Gender						
Male	310	56.0	301	48.1	(8)	-0.6 p.a.
Female	243	44.0	326	51.9	82	6.0 p.a.*
By Age						
15 to 24 year olds	197	35.7	180	28.7	(18)	-1.8 p.a.
25 to 34 year olds	179	32.4	235	37.5	56	5.6 p.a. †
35 to 44 year olds	100	18.1	132	21.1	32	5.7 p.a.
45 to 54 year olds	63	11.3	63	10.1	1	0.2 p.a.
55 to 65 year olds	13	2.4	17	2.6	3	4.3 p.a.
By Education						
Primary	87	15.7	68	10.9	(18)	-4.6 p.a.
Some secondary	270	48.9	334	53.3	64	4.3 p.a.
Grade 12	149	27.0	185	29.5	36	4.4 p.a.
Diploma/Certificate	27	4.8	19	3.1	(7)	-6.3 p.a.
Degree	13	2.4	16	2.6	3	4.5 p.a.
South Africa						
Total Unemployment	4 622	100.0	5 231	100.0	609	2.5 p.a.*
By Race						
African	3 977	86.0	4 489	85.8	512	2.5 p.a.*
Coloured	447	9.7	522	10.0	75	3.1 p.a.
White	144	3.1	145	2.8	0	0.1 p.a.
By Gender						
Male	2 374	51.4	2 651	50.7	277	2.2 p.a.*
Female	2 248	48.6	2 580	49.3	331	2.8 p.a.*
By Age						
15 to 24 year olds	1 395	30.2	1 346	25.7	(49)	-0.7 p.a.
25 to 34 year olds	1 830	39.6	2 109	40.3	279	2.9 p.a.*
35 to 44 year olds	876	18.9	1 144	21.9	268	5.5 p.a.*
45 to 54 year olds	418	9.0	512	9.8	94	4.1 p.a.*
55 to 65 year olds	104	2.3	121	2.3	17	3.0 p.a.
By Education						
Primary	649	14.0	641	12.2	(8)	-0.3 p.a.
Some secondary	2 061	44.6	2 456	46.9	394	3.6 p.a.*
Grade 12	1 565	33.9	1 679	32.1	114	1.4 p.a.
Diploma/Certificate	251	5.4	346	6.6	95	6.7 p.a.*
Degree	54	1.2	79	1.5	26	8.1 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: Statistics South Africa (2010, 2015d), Own calculations

Second, unemployment has grown significantly amongst 25 to 34 year olds at a rate of 5.6 per cent per annum. This group accounted for 75.7 per cent of total unemployment growth in the Province. These two trends are also observed nationally, although statistically significant growth in unemployment is found to have occurred over a wider range of characteristics.

The unemployed in the Western Cape are almost equally split between Africans (46.4 per cent) and Coloureds (47.7 per cent), with Whites accounting for the remaining 5.5 per cent. Unemployed women slightly outnumber unemployed men, reversing the pattern observed in 2010 where men outnumbered women by a ratio of just over five to four. Youth aged 15 to 34 years account for nearly two-thirds (66.2 per cent) of the unemployed in the Western Cape, compared to 39.6 per cent of the employed. Again, this confirms the vulnerability of young people within the labour market and the need for interventions targeting them.

In terms of educational attainment, the majority of the Province's unemployed have incomplete secondary education (53.3 per cent). This proportion is more than 20 percentage points higher than this group's share of provincial employment. This suggests two types of potential interventions. First, for those currently in the education system the focus should be on encouraging young people to complete secondary education, thus improving their future employment prospects and the skills profile of the provincial labour force. Second, there is a need to design appropriate programmes and pathways to education that address the disadvantage faced by those with incomplete secondary education who have already exited the education system. Given implicit requirements for mid-range skills within the Province's identified high-potential economic sectors, this should be seen as an important opportunity for vocational education institutions. Policy related to these high-potential sectors should also explicitly recognise and focus on the unemployed with incomplete (and complete) secondary education as a key source of labour.

4.7 Two cross-cutting issues: Geography and Youth

The preceding sections have covered some of the key characteristics of and challenges relevant to the Western Cape labour market. This section focuses on two cross-cutting issues - the role of geography, and the status of the youth - that deserve some additional attention.

4.7.1 Geography

Economies operate within very specific spatial contexts and these contexts - urban concentrations, geographical features, transport links, physical infrastructure and so on - typically 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. At each level of geography, policymaking has particular challenges. For example, national policymaking must balance the needs and capabilities of often widely different regions, while policymaking at the local level may more often experience capacity and resource limitations as binding constraints.

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. Recent changes now also mean that it is no longer possible to distinguish formal and informal urban areas in these datasets. 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, almost two-thirds (64.0 per cent) of the provincial population is located within the City of Cape Town the second quarter of 2015, while 30.4 per cent are located in other urban areas within the Province and 5.6 per cent are located in rural areas (see Table 4.12).

Table 4.12 Intra-provincial Labour Market Aggregates (share of total), 2015Q2

	City of Cape Town	Rest of Western Cape	
	(Per cent)	Urban (Per cent)	Rural (Per cent)
Total population	64.0 [61.495; 66.558]	30.4 [27.981; 32.846]	5.6 [4.256; 6.864]
Working-age population	64.0 [61.327; 66.671]	29.9 [27.340; 32.482]	6.1 [4.657; 7.524]
Employed	63.2 [60.216; 66.184]	28.3 [25.646; 31.050]	8.5 [6.325; 10.579]
Narrow unemployed	66.3 [60.920; 71.777]	31.7 [26.300; 37.172]	1.9 [0.771; 3.060]
Narrow labour force	63.9 [61.133; 66.633]	29.1 [26.510; 31.656]	7.0 [5.343; 8.725]
Expanded unemployed	63.1 [57.442; 68.819]	33.7 [28.067; 39.297]	3.2 [0.588; 5.787]
Expanded labour force	63.2 [60.445; 65.923]	29.6 [27.003; 32.151]	7.2 [5.560; 8.918]
Non-searching unemployed	23.2 [6.830; 39.668]	57.8 [31.805; 83.794]	19.0 [-5.901; 43.803]
NEETs (15 - 34 years)	61.6 [56.512; 66.668]	33.7 [28.517; 38.816]	4.7 [2.913; 6.574]

Notes: 1. Shares may not sum to 100 due to rounding.

2. Figures in parentheses are the 95 per cent confidence intervals.

Source: Statistics South Africa (2015d), Own calculations

Across most of the various aggregates presented in Table 4.12, shares are relatively stable for each of the four geographical categories: just under two-thirds for the City of Cape Town; around 30.0 per cent for urban areas in the rest of the Province; and around five per cent for Western Cape rural areas. However, the data suggest that each region or area type faces particular challenges.

Narrow unemployment is relatively concentrated within the City of Cape Town (66.3 per cent of the total). This is not unexpected given the City's significant attraction to workseekers from within and from outside the Western Cape. Thus, although the City of Cape Town must be able to provide for the needs of a large number of unemployed individuals (and potentially their households), this does mean that employers located in the City of Cape Town have access to a relatively large pool of labour.

For urban areas in the rest of the Western Cape, the key challenge is discouraged workseekers (the non-searching unemployed). Although these urban areas account for 29.9 per cent of the provincial working-age population, they are home to nearly twice that proportion (57.8 per cent) of the Province's non-searching unemployed. Consequently, these areas account for a slightly higher proportion of expanded unemployment than their share of the working-age population or employment might suggest. They are also home to a relatively large proportion (33.7 per cent) of NEETs - young people who are not in employment, education or training. While the non-searching unemployed are a small group within the provincial labour force, the greater challenge seems to be providing NEETs with access to educational and training opportunities in settings where economies of scale are hard to achieve.

Rural areas of the Western Cape account for a disproportionately high share of employment, and a disproportionately low share of narrow unemployment. These areas are, though, also home to 19.0 per cent of the non-searching unemployed, more than three times their share of the Province's working-age population. This relatively favourable picture is certainly at least partly related to the out-migration of jobseekers from rural to urban areas, lowering their share of unemployment and disguising the relative lack of employment opportunities.

The importance of local-level (small area) data on labour market conditions for policymaking at both provincial and local levels cannot be overemphasised. Overlaying such data with other relevant economic and social sector data can provide extremely powerful insights and evidence that can help guide policy decisions. However, ensuring that such analysis is possible requires strong coordination across the various spheres of government and amongst agencies and institutions collecting relevant data.

4.7.2 Youth

Youth - aged 15 to 34 years - represent a key constituency within the labour market in South Africa. This is for two specific reasons. First, since the South African population is relatively young, this group accounts for a large share of the population. Nearly 20 million South Africans are aged 15 to 34 years (36.3 per cent of the population), with 2.1 million resident in the Western Cape. Second, young people typically have at least another 30 to 50 years of being within the working-age population; they are the future experienced workers who will be mentoring and guiding new generations of workers, and underpinning the country's future tax base.

Table 4.13 presents key labour market aggregates for youth in the Western Cape for the second quarters of 2010 and 2015. While the size of the youth cohort has grown by 1.5 per cent per annum over the five-year period to 2.1 million, there has been little in terms of employment growth. Youth employment in 2015 is estimated to have reached 896 000, statistically unchanged from five years previously.

Table 4.13 Western Cape Youth Labour Market Aggregates, (15 - 34 years) 2010 and 2015

	2010Q2	2015Q2	Change	
	Thousands	Thousands	Thousands	Per cent
Working-age population	1 955	2 105	150	1.5 p.a.
Employment	863	896	33	0.7 p.a.
Narrow unemployment	377	415	38	2.0 p.a.
Narrow labour force	1 240	1 311	71	1.1 p.a.
Expanded unemployment	413	449	36	1.7 p.a.
Expanded labour force	1 276	1 345	69	1.1 p.a.
Non-searching unemployed	36	34	-2	-1.3 p.a.
<i>Rates/Ratios</i>				
Narrow labour force participation	63.4	62.3	-1.1 percentage points	
Expanded labour force participation	65.3	63.9	-1.4 percentage points	
Employment-to-population ratio	44.2	42.6	-1.6 percentage points	
Narrow unemployment	35.9	35.5	-0.4 percentage points	
Expanded unemployment	44.0	44.4	0.4 percentage points	

Source: Statistics South Africa (2010, 2015d), Own calculations

What is clear from the data is that young people are significantly disadvantaged in the labour market. Labour force participation rates for youth in the Province in 2015 are 62.3 per cent for the narrow labour force and 63.9 per cent for the expanded labour force, each roughly ten percentage points lower than the participation rates for non-youth. The employment-to-population ratio for youth is 42.6 per cent, roughly two-thirds the level for non-youth (62.5 per cent). Finally, youth unemployment rates are more than twice those for non-youth. In the second quarter of 2015, the narrow unemployment rate was 35.5 per cent, compared with 15.9 per cent for non-youth. A similar pattern is observed for expanded unemployment.

Young people have higher levels of educational attainment than older cohorts. Amongst those in the Province's narrow labour force, youth are half as likely as non-youth to have only primary education (6.4 per cent compared to 13.8 per cent) and are more likely to have either incomplete or complete secondary education. Together, 78.5 per cent of the youth labour force fall within these latter two educational categories, compared with 64.2 per cent of the non-youth labour force. It is only in terms of diplomas, certificates and degrees where the youth labour force lags. Given that the youth cohort includes a large number of individuals who are actively furthering their education, it is likely that this youth advantage in educational attainment is underestimated. Attainment is, therefore, not a viable explanation for the labour market disadvantage observed.

Neither is geography. Youth labour force members do not seem more or less likely than their non-youth counterparts to be located in either one of the three area types discernible in the QLFS.

This leaves two immediate possibilities. The first is educational quality, or at least perceptions of educational quality. If employers have doubts about the quality of education of younger cohorts they are more likely to favour employing older jobseekers. This may occur irrespective of whether employers' perceptions of quality are accurate or not. A second possibility is the value of work experience to potential employers. Thus, despite younger jobseekers having higher levels of education, employers may favour older jobseekers because they have more experience. Both of these factors are likely at play in South Africa and in the Western Cape, and both represent policymaking challenges.

4.8 Conclusion

Change in the labour market over the past five years has been relatively subdued, both nationally and provincially. In the Western Cape, employment growth managed to keep pace with growth in the working-age population, but was slightly slower than employment growth nationally. The provincial working-age population expanded at a more rapid pace than what was observed nationally, partly related to migration of jobseekers into the Province. These trends combined to put upward pressure on the provincial unemployment rate. The Province remains unique in its relative lack of discouraged workseekers.

Working-age individuals within the Western Cape are more likely to participate in the labour market than are their counterparts nationally. This pattern is observed across a wide variety of demographic characteristics, but is particularly strong amongst Africans, 15 to 24 year olds, and those with some secondary education.

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. Within formal sector employment, the agriculture, forestry and fishing and wholesale and retail trade industries are relatively larger in the Province than nationally, while the CSP services sector is smaller in the Province.

Data from 2014 reveal that the distribution of wages in the Province is shifted slightly to the right of the national distribution (i.e. towards slightly higher wages). In particular, Western Cape workers are relatively more concentrated between R2 500 and R4 500 per month, with relatively fewer workers below R2 500. Employment growth strategies should consider the wage levels likely to be associated with future employment growth. Industry-specific wage distributions in the Province suggest that employment growth in the tertiary sector broadly - with the exception of private households and wholesale and retail trade - is likely to generate a relatively large number of higher paying jobs.

A more inclusive growth path in the South African context requires a focus on growing employment in a way that promotes a more labour intensive production structure and makes more intensive use of less skilled workers. This is a challenge for the provincial economy too. The strengthening of investments in human capital formation (in education and training, and health) remains a key ingredient for enhancing the future ability of the labour force to compete in a globalised economy. Here, care must be taken to ensure that those who have exited the education system early and are currently marginalised in the labour market are able to access viable and effective pathways to accumulating skills.

One of the key lessons learnt from South Africa's experience in the global recession relates to the need to grow the economy and employment in a way that is sustainable and more resilient. This is brought into particular focus by the high levels of economic uncertainty currently experienced, and remains a central prerequisite for all members of society to share equitably the benefits of economic growth.

Annexure G

Detailed estimates

Annexure G1 Narrow labour force participation rates, 2015Q2

	South Africa		Western Cape	
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>
Overall	57.7	[57.058; 58.428]	67.3	[65.657; 68.986] *
By Race				
African	56.1	[55.294; 56.864]	71.0	[68.103; 73.826] *
Coloured	63.8	[62.146; 65.516]	65.2	[63.174; 67.288]
Asian	57.4	[53.793; 61.049]	65.5	[44.182; 86.751]
White	66.6	[64.411; 68.865]	66.0	[60.909; 71.035]
By Gender				
Male	64.3	[63.504; 65.194]	73.9	[71.704; 76.036] *
Female	51.3	[50.519; 52.176]	61.1	[58.983; 63.265] *
By Age Group				
15 to 24 years	26.2	[25.233; 27.176]	39.6	[36.329; 42.792] *
25 to 34 years	74.4	[73.367; 75.487]	84.2	[81.841; 86.503] *
35 to 44 years	79.2	[78.260; 80.202]	85.1	[82.808; 87.301] *
45 to 54 years	70.7	[69.467; 71.847]	72.5	[69.326; 75.642]
55 to 65 years	40.9	[39.389; 42.458]	44.9	[40.554; 49.241]
By Educational Attainment				
Primary	45.3	[43.941; 46.598]	54.2	[49.918; 58.387] *
Some secondary	48.4	[47.490; 49.378]	60.9	[58.272; 63.448] *
Grade 12	68.6	[67.455; 69.670]	73.6	[70.940; 76.188] *
Diploma/Certificate	83.7	[82.242; 85.247]	84.5	[79.752; 89.177]
Degree	89.8	[88.085; 91.559]	87.3	[82.329; 92.274]

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

Source: *Statistics South Africa (2015d), Own calculations*

Annexure G2 Median age of narrow labour force members, 2015Q2

	First quartile	Median (Second quartile)	Third quartile
Primary	36	44	52
Some secondary	30	38	45
Secondary	31	37	44
Diploma/Certificate	33	40	48
Degree	32	39	50
TOTAL	31	38	46

Note: Only individuals aged 25 years and older are included. Quartiles divide the distribution of ages into four equal groups. The median age is that age at which half of the individuals in a group are younger than that age and half are older. The first (third) quartile is that age at which one-quarter (three-quarters) of individuals in a group are younger than that age.

Source: *Statistics South Africa (2015d), Own calculations*

Annexure G3 Distribution of Western Cape employment across industries by educational attainment, 2015Q2

<i>Per cent</i>	Primary	Some Secondary	Secondary	Diploma/ Certificate	Degree	Total
Agriculture, forestry and fishing	32.0	14.3	3.5	0.6	2.1	9.5
Mining and quarrying	0.0	0.0	0.3	0.0	0.3	0.1
Manufacturing	7.3	13.6	15.1	6.8	9.6	12.2
Utilities	0.0	0.4	1.0	1.3	1.0	0.7
Construction	14.1	12.3	7.2	5.8	2.6	9.2
Wholesale and retail trade	11.3	19.8	26.4	21.9	9.8	20.7
Transport, storage and communication	2.5	5.7	5.7	5.7	3.8	5.2
Financial and business services	2.7	11.5	17.0	22.2	28.9	15.3
Community, social and personal services	9.5	12.7	20.3	34.7	41.6	20.2
Private households	20.6	9.9	3.5	1.0	0.4	7.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Note: Includes both formal and informal sector workers in the Western Cape.

Source: Statistics South Africa (2015d), Own calculations

Annexure G4 Provincial unemployment rates, 2015Q2

	Narrow Unemployment Rate		Expanded Unemployment Rate		Ratio of Expanded to Narrow Unemployment Rate
	<i>Estimate (Per cent)</i>	<i>95% Confidence Interval</i>	<i>Estimate (Per cent)</i>	<i>95% Confidence Interval</i>	
Western Cape	21.7	[19.794; 23.591]	23.0	[21.004; 25.075]	1.06
Eastern Cape	29.1	[26.494; 31.683]	41.7	[39.228; 44.256]	1.44
Northern Cape	32.6	[28.483; 36.780]	38.3	[34.449; 42.106]	1.17
Free State	31.4	[28.540; 34.290]	36.5	[33.725; 39.257]	1.16
KwaZulu-Natal	20.3	[18.204; 22.443]	32.8	[30.731; 34.934]	1.62
North West	25.2	[21.979; 28.351]	36.8	[34.015; 39.559]	1.46
Gauteng	26.8	[25.427; 28.094]	30.4	[29.122; 31.689]	1.14
Mpumalanga	27.2	[24.386; 30.062]	36.0	[33.314; 38.689]	1.32
Limpopo	18.9	[16.558; 21.250]	35.9	[33.383; 38.411]	1.90
South Africa	25.0	[24.254; 25.765]	32.8	[32.077; 33.581]	1.31

Source: Statistics South Africa (2015d), Own calculations

Annexure G5 Narrow unemployment rates, 2010 and 2015

	2010Q2		2015Q2	
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>
Western Cape	21.3	[19.663; 22.975]	21.7	[19.788; 23.597]
By Race				
African	30.8	[27.374; 34.210]	27.7	[24.475; 30.968]
Coloured	20.6	[18.287; 22.831]	21.5	[18.647; 24.377]
Asian	10.3	[0.515; 20.104]	14.0	[-0.711; 28.800]
White	7.6	[4.964; 10.218]	7.9	[5.101; 10.769]
By Gender				
Male	21.6	[19.589; 23.670]	19.5	[17.304; 21.787]
Female	20.9	[18.557; 23.315]	24.1	[21.350; 26.946]
By Age Group				
15 to 24 years	44.7	[40.376; 49.115]	44.0	[38.378; 49.636]
25 to 34 years	22.4	[19.685; 25.209]	26.1	[22.635; 29.483]
35 to 44 years	14.1	[11.504; 16.652]	15.5	[12.877; 18.069]
45 to 54 years	13.3	[10.782; 15.809]	12.4	[9.363; 15.531]
55 to 65 years	7.9	[4.640; 11.062]	7.6	[4.240; 11.039]
By Educational Attainment				
Primary	24.1	[20.205; 27.945]	22.6	[17.668; 27.601]
Some secondary	28.3	[25.464; 31.082]	30.8	[27.483; 34.120]
Secondary	19.1	[16.413; 21.741]	19.3	[16.572; 21.980]
Diploma/Certificate	10.6	[7.386; 13.891]	6.9	[3.547; 10.304]
Degree	6.9	[1.789; 11.983]	7.1	[3.651; 10.507]
South Africa	25.0	[24.171; 25.890]	25.0	[24.254; 25.765]
By Race				
African	29.1	[28.011; 30.089]	27.8	[26.942; 28.713]
Coloured	22.6	[20.426; 24.711]	24.4	[22.107; 26.747]
Asian	9.7	[6.381; 12.980]	13.4	[9.646; 17.063]
White	6.4	[5.271; 7.618]	6.9	[5.664; 8.230]
By Gender				
Male	23.2	[22.206; 24.188]	23.1	[22.220; 24.027]
Female	27.3	[26.184; 28.434]	27.3	[26.299; 28.295]
By Age Group				
15 to 24 years	51.9	[49.864; 53.910]	49.9	[47.844; 52.000]
25 to 34 years	29.0	[27.701; 30.344]	29.9	[28.755; 31.110]
35 to 44 years	17.5	[16.275; 18.693]	19.0	[17.918; 20.108]
45 to 54 years	13.0	[11.813; 14.253]	14.1	[12.967; 15.244]
55 to 65 years	8.3	[6.813; 9.694]	7.9	[6.644; 9.116]
By Educational Attainment				
Primary	21.8	[20.237; 23.462]	22.3	[20.592; 23.929]
Some secondary	31.7	[30.322; 33.076]	32.4	[31.169; 33.585]
Secondary	27.7	[26.317; 29.030]	25.5	[24.376; 26.719] †
Diploma/Certificate	12.6	[11.145; 14.087]	15.0	[13.485; 16.597]
Degree	4.9	[3.443; 6.406]	5.9	[4.624; 7.081]

Note: An asterisk (*) denotes a statistically significant change between 2010 and 2015 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: Statistics South Africa (2010, 2015d), Own calculations

Annexure G6 Narrow Labour Force Trends for Females, 2010 to 2015

	Change in Labour Force (per cent per annum)	Change in Employment (per cent per annum)	Change in Unemployment (per cent per annum)	Share of Change		
				Labour Force (per cent)	Employment (per cent)	Unemployment (per cent)
Total	3.0 *	2.2	6.0 *	100.0	100.0	100.0
African	7.9 *	8.6 *	6.5	79.9	103.4	50.2
Coloured	1.2	-0.2	6.4	20.3	-3.8	50.8
Asian	-5.6	-2.9	-13.6	-0.9	-0.6	-1.2
White	0.1	0.1	0.2	0.6	1.0	0.2
15 to 24 years	-1.2	-4.9	3.2	-6.4	-25.2	17.5
25 to 34 years	5.1 *	3.7	8.8 *	53.7	52.1	55.7
35 to 44 years	3.2	2.6	6.7	29.5	36.5	20.6
45 to 54 years	1.5	1.5	2.2	8.7	12.9	3.3
55 to 65 years	6.8	6.4	18.6	14.5	23.7	3.0
Primary	-3.7	-4.6	-0.8	-12.9	-22.1	-1.3
Some secondary	5.0 *	2.0	11.9 *	58.6	28.5	96.6
Grade 12	2.7	3.1	1.6	30.6	47.9	8.6
Diploma/Certificate	1.2	2.1	-8.6	4.6	13.1	-6.1
Degree	6.7	6.9	4.7	17.2	29.3	1.7

Note: An asterisk (*) denotes a statistically significant change between 2010 and 2015 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: Statistics South Africa (2010, 2015d), Own calculations

5

Socio-economic developments in the Western Cape

Key findings

- At 6.2 million people, the Western Cape population accounts for 11.3 per cent of the national population. The declining fertility rate coupled with increasing net in-migration implies that future population growth in the Province would likely be as a result of net in-migration.
- Per capita GDP has improved between 2001 and 2013 due to higher economic growth relative to population growth. Poverty has decreased in the Province between 2006 and 2011. The Gini coefficient and Human Development Index have also improved across districts.
- Learner enrolment in the Province increased by 7.3 per cent between 2003 and 2014, mainly due to increased Grade 1 enrolment, improvement in retention between Grades 10 and 12 and in-migration.
- Learner Systemic Tests conducted in 2014 reflect improved mathematics pass rates for Grades 6 and 9, while Language pass rates improved for Grades 3 and 6.
- Life expectancy, as well as infant, child and maternal mortality continue to improve. The leading natural cause of death amongst men is tuberculosis and diabetes mellitus amongst women.
- The Western Cape has the highest percentage of households with access to running water, sanitation and weekly refuse removal compared with other provinces.
- Increasing levels of crime and substance abuse continue to impact negatively on socio-economic conditions and the economy.

5.1 Introduction

Chapter 5 expands the analysis of earlier chapters by focusing more closely on the consequences of economic growth and development. This is revealed by socio-economic indicators in health, education, public services (including transport), housing, household income, and social stability (including the prevalence of crime). Inclusive growth will be characterised by improvements in the social welfare of society as reflected in improving socio-economic indicators.

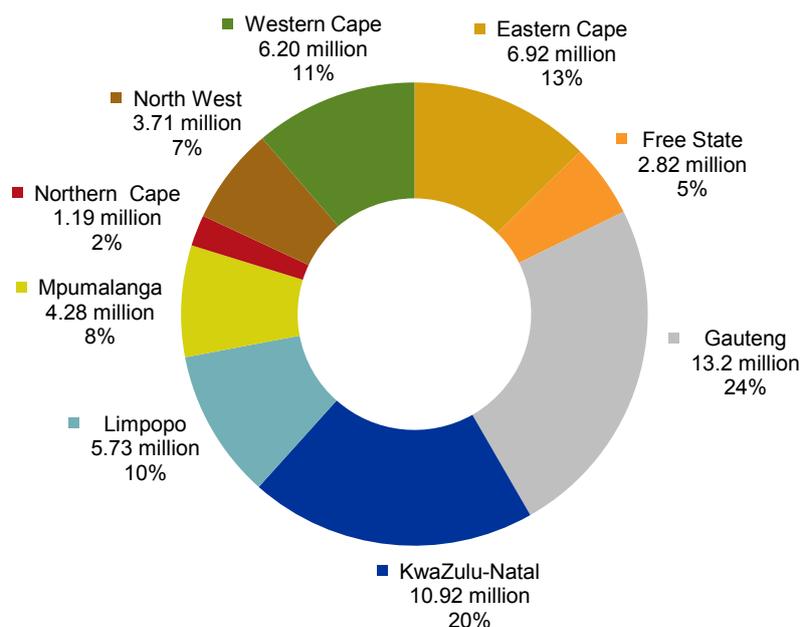
The discussion of the socio-economic indicators is preceded by a brief account of population dynamics.

Due note has to be taken of the complexity of causality: the growth process must as final outcome cause an improvement in social welfare (the quality of life, as revealed by these indicators) but causality also runs in the opposite direction with socio-economic improvements benefitting economic growth. Provincial government policies directly aimed at these improvements become agents of economic growth by creating conditions favourable to economic development.

5.2 Population dynamics

The 2015 mid-year Population Estimates puts the South African population at 54.96 million people, of which 6.2 million (11.3 per cent) reside in the Western Cape.

Figure 5.1 Western Cape population as a share of the national population, 2015



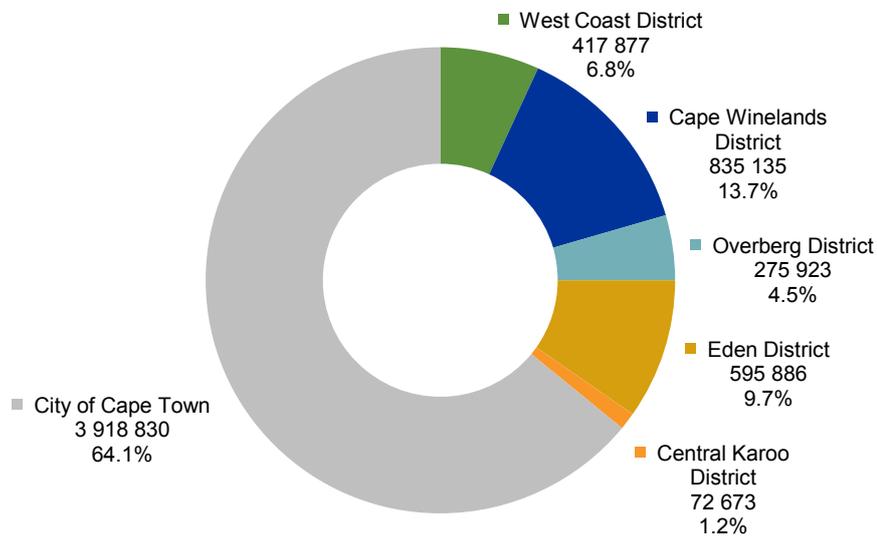
Source: Statistics South Africa (2015a)

Key determinants of the population growth rate are fertility and migration patterns. The total fertility rate has been declining over the last several years in all provinces. The Western Cape has seen a marked decline in the total fertility rate: down from 2.36 (between 2001 and 2006) to an estimated 2.19 (between 2011 and 2016). Gauteng has the lowest estimated fertility rate (2.08) and Eastern Cape has the highest (3.0).

The low level of fertility in the Province implies that future population growth would likely be as a result of net in-migration. According to the mid-year population estimates, in-migration into the Western Cape of 350 569 people is expected between 2011 and 2016, of which 84 204 people are from outside South Africa. The majority of estimated domestic in-migrants are from Gauteng (108 387) and the Eastern Cape (79 992). Out-migration over the same period is estimated at 193 605, with the majority of people migrating to Gauteng (73 057) and the Eastern Cape (59 727). The Western Cape is expected to experience net in-migration of 156 964 people between 2011 and 2016.

According to the most recent estimates the majority of the Western Cape population is located in the City of Cape Town. The population share of the Province's districts remained relatively stable. The Cape Winelands District is home to the second largest population in the Province, followed by the Eden District. The Central Karoo District remains the least populated district.

Figure 5.2 District population as a share of the Western Cape population, 2014



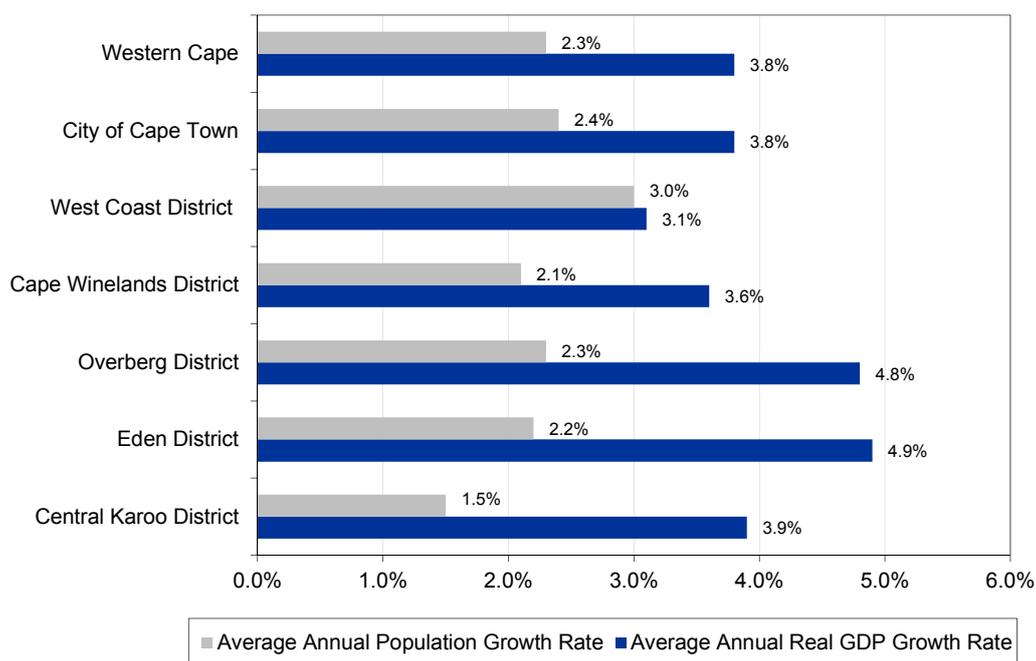
Source: Statistics South Africa (2014a)

5.3 Income dynamics and human development

5.3.1 Per capita economic growth

The Western Cape population grew by an annual average of 2.3 per cent for the period 2001 to 2013. During the same period, the economy grew at an average of 3.8 per cent per annum. Figure 5.3 depicts the average annual population and average annual real Regional Gross Domestic Product (GDPR) growth rates for this period.

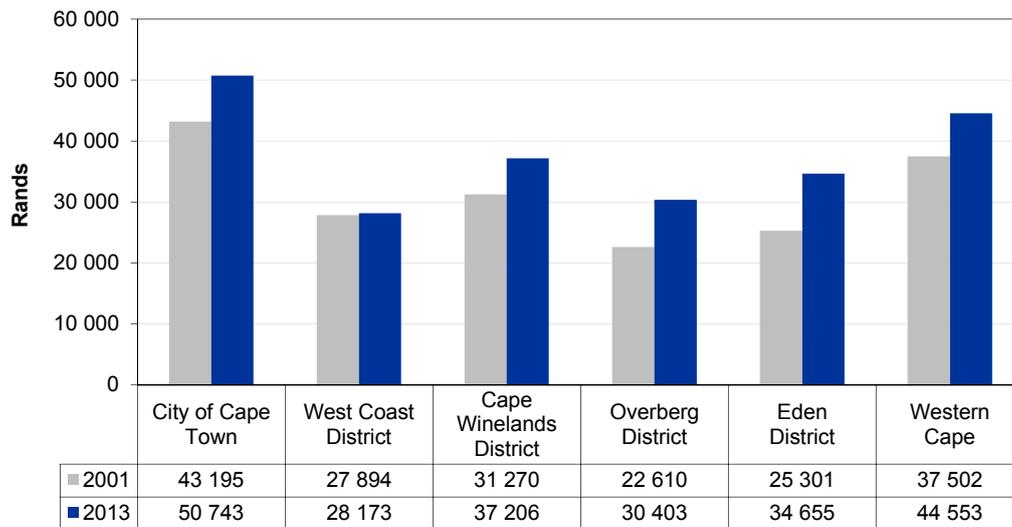
Figure 5.3 Western Cape population and real GDPR growth rates per district, 2001 - 2013



Source: Quantec Research, Western Cape Department of Social Development (2014), Own calculations

The population growth rates in the City of Cape Town and all districts were lower than their GDPR growth rates.

At a provincial level the faster pace of economic growth relative to population growth resulted in an increase in GDPR per capita from R37 502 in 2001 to R44 553 in 2013. Figure 5.4 illustrates a noticeable increase in GDPR per capita across all districts and the City of Cape Town, with the exception of the West Coast District, where it hardly changed at all.

Figure 5.4 GDP per capita by district, 2001 - 2013

Source: Quantec Research, Western Cape Department of Social Development (2014), Own calculations

The Eden District experienced the largest increase in GDP per capita (R9 354), which is mainly ascribed to the high real GDP growth rate (4.9 per cent). Other districts with a notable increase include Overberg District (R7 793), Cape Winelands District (R5 937) and Central Karoo District (R5 311). Notably, the City of Cape Town recorded only the third highest increase in per capita income (R7 548).

Per capita income is not a complete measure of human well-being as it only considers changes in average income and not the distribution of total income. As such, it cannot reflect whether growth was inclusive.

5.3.2 Poverty and inequality

Poverty is commonly measured either in terms of money (or income) to buy goods and services or using a multi-dimensional approach, which draws on variables such as ownership of assets, access to basic services, employment, education and health.

According to Statistics South Africa (2014b), poverty in South Africa, measured in terms of income, has declined between 2006 and 2011. The study uses an inflation-adjusted per capita poverty line of R431 per month for 2006 and R620 for 2011. In 2011, 45.5 per cent of the national population lived below the poverty line, down from 57.2 per cent in 2006. This improvement was driven by a combination of factors ranging from a growing social safety net, income growth, above inflation wage increases, decelerating inflationary pressure and an expansion of credit.

The decline in poverty is noted across all provinces. The proportion of the Western Cape population living in poverty in 2006 (36.9 per cent) and 2011 (24.7 per cent), is low relative to other provinces. Gauteng has the lowest population proportion living below the poverty line in 2006 and 2011. The Eastern Cape has the highest proportion of the provincial population living below the poverty line. A similar pattern in respect of the depth and severity of poverty is also observed in the Statistics South Africa study.

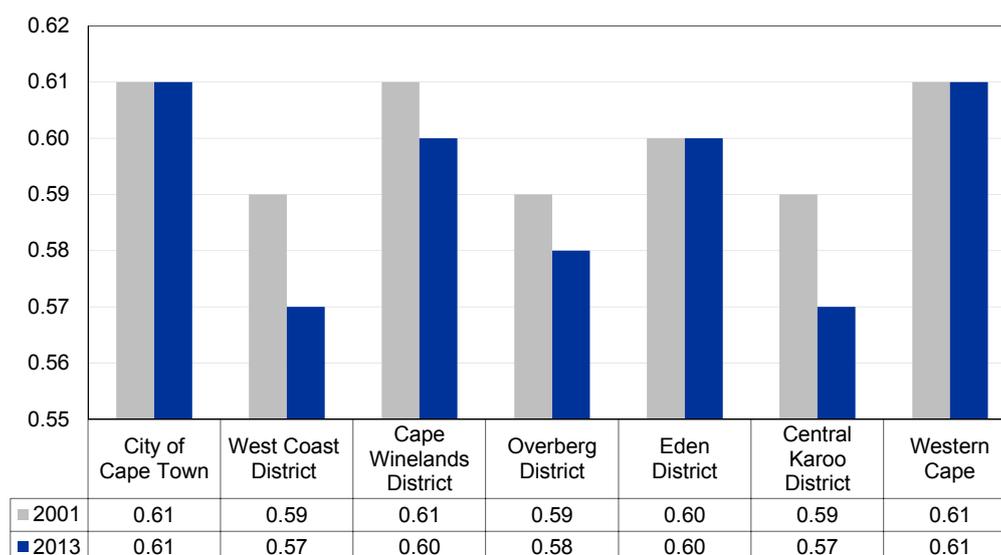
Table 5.1 Percentage of population living in poverty, 2006, 2009 and 2011

Province	2006	2009	2011
Western Cape	36.9	35.4	24.7
Eastern Cape	69.5	70.6	60.8
Northern Cape	63.8	63.0	46.8
Free State	53.2	61.9	41.2
KwaZulu-Natal	69.1	65.0	56.6
North West	60.2	61.4	50.5
Gauteng	32.4	33.0	22.9
Mpumalanga	66.3	67.1	52.1
Limpopo	74.4	78.9	63.8
South Africa	57.2	56.8	45.5

Source: Statistics South Africa (2014b)

While the above reveals the proportion of the population living in poverty, the Gini coefficient measures income distribution across the population. The Gini coefficient measures income inequality, varying from 0 (complete equality) to 1 (complete inequality).

Figure 5.5 Gini coefficients by district, 2001 and 2013



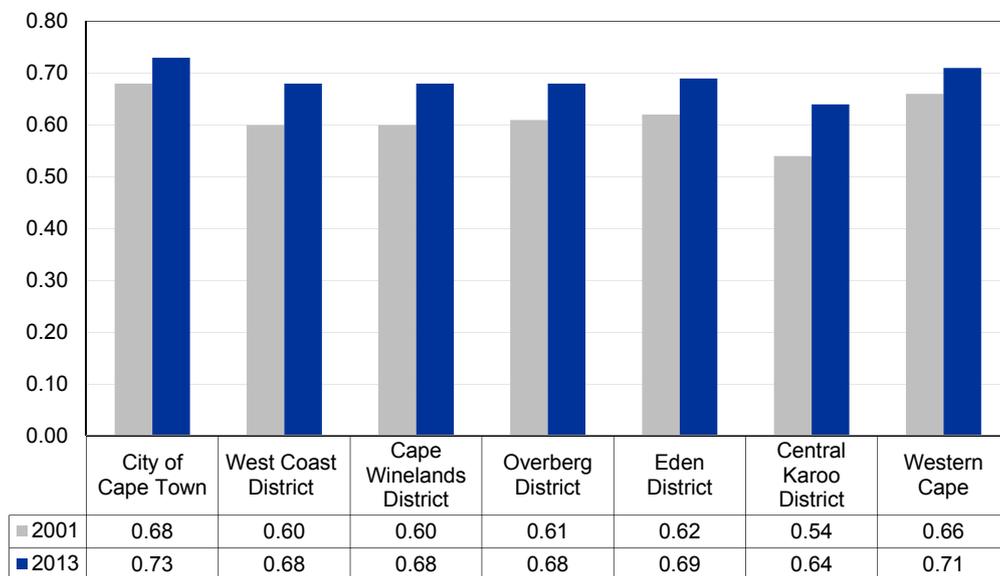
Source: Western Cape Department of Economic Development and Tourism, IHS Global Insight (2015)

The Western Cape Gini coefficient has remained the same between 2001 to and 2013 at 0.61 (Figure 5.5). The West Coast District, Central Karoo District, Cape Winelands District and Overberg District and saw an improvement in the Gini coefficient over the period. While improvements in the Gini coefficient have been observed across several districts, high levels of inequality persist.

5.3.3 Measuring human development

The Human Development Index¹ (HDI) emphasises people and their capabilities when assessing the development of a country. The HDI measures the ability of the average person to have a long and healthy life, to obtain knowledge and to have a decent standard of living. This is quantified by utilising measures such as life expectancy, literacy and income.

Figure 5.6 Human Development Index by district, 2001 and 2013



Source: Western Cape Department of Economic Development and Tourism; IHS Global Insight (2015)

The provincial HDI increased between 2001 and 2013, indicating improved socio-economic conditions. The HDI increased in all districts and the City of Cape Town. The Central Karoo District experienced the greatest improvement (0.1 increase).

¹ The Human Development Index has a range from 0 to 1, with 1 indicating a high level of development.

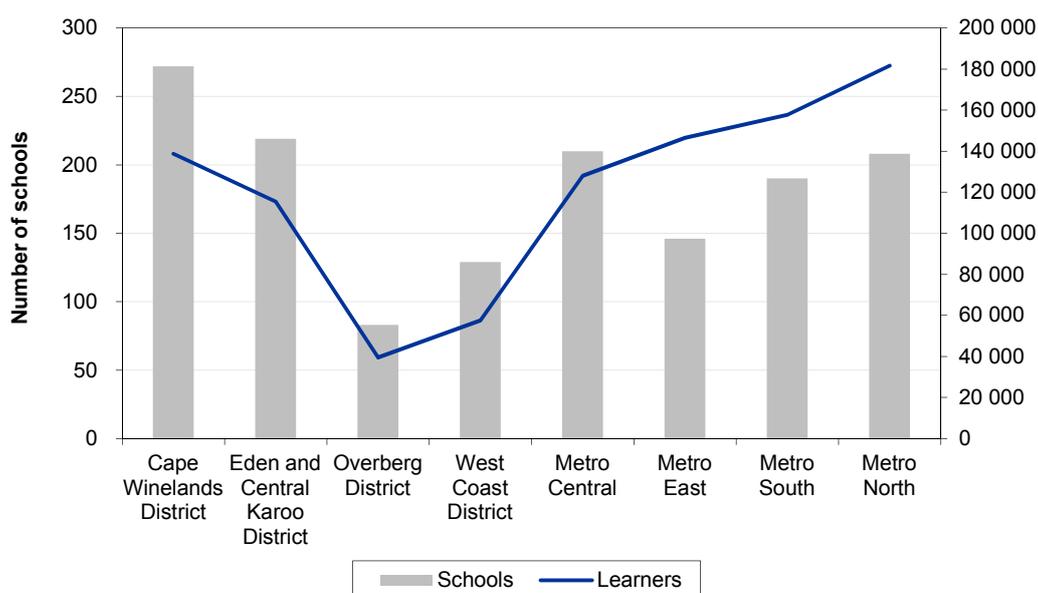
5.4 Education

The level and quality of educational attainment and the acquisition of skills which are relevant to an economy's needs, remain high priorities on the development agenda globally. Investment in human capital directly determines labour market outcomes (described in Chapter 4). The correlation between educational attainment and economic development is undisputed. Therefore, generally low levels of educational attainment and a skills mismatch may impede the achievement of the desired economic development. Moreover, the national and provincial economies are unable to absorb all new entrants into the labour market. Due to these structural challenges and the relationship between education and the overall well-being of an individual, education plays a critical role in economic and social transformation.

5.4.1 Learner enrolment trends

The pace of population growth in the Western Cape impacts significantly on the delivery of education in the Province. The increase in enrolment in recent years has led to significant accommodation and staffing pressures. The Western Cape Education Department experienced an increase in overall learner enrolment of 65 386 learners (7.3 per cent) between 2003 and 2014, with an increase of 16 395 enrolments (1.7 per cent) between 2013 and 2014 alone. In 2015, learner numbers increased by approximately 20 000 and a similar rate of increase is expected to continue. This is largely due to the significant increase in enrolment in Grade 1, the impact of improved retention between Grades 10 and 12, and the extent of in-migration into the Province.

Figure 5.7 Number of learners enrolled and public ordinary schools, 2014



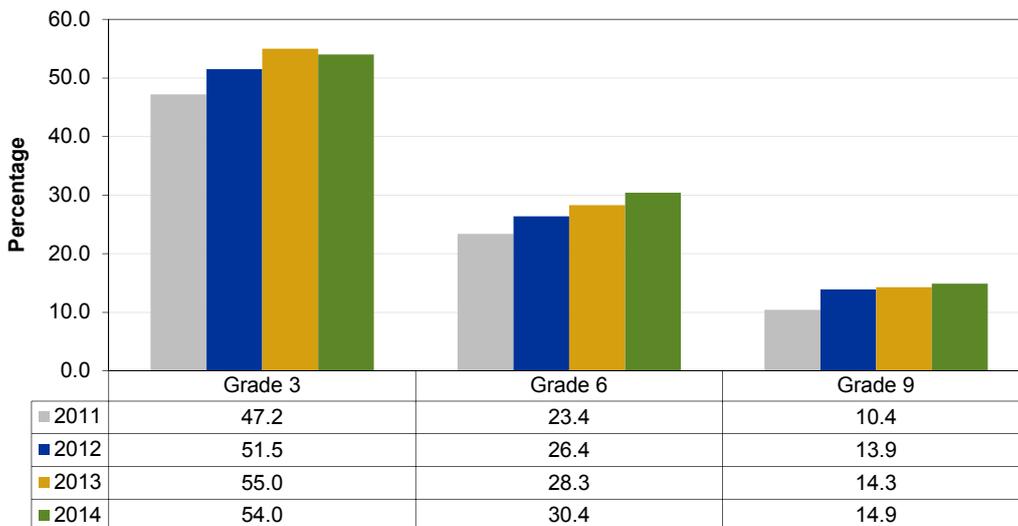
Source: Western Cape Education Department (2015)

When disaggregating at schooling level, 64.3 per cent (out of a total of 953 474 learners) that are enrolled at public ordinary schools are at a primary level.

5.4.2 Education quality

Foundation level literacy and numeracy yield high returns to individuals and the broader economy². Systemic testing of Grades 3, 6 and 9 learners to determine the standard of Mathematics and Language was conducted in the Western Cape over the past 13 years. The Mathematics test scores between 2011 and 2014 improved steadily across all grades, with Grade 3 learners accounting for the highest average compared with the other two cohorts. In 2014, 85 623 learners wrote the Grade 3 systemic test, of which 54.0 per cent (46 236) passed. For the Grades 6 and 9 systemic tests 72 214 and 71 345 learners wrote the tests, of which 30.4 per cent (21 953) and 14.9 per cent (10 630) passed, respectively. The low pass rates in the higher grades, Grade 9 in particular, are of concern given the skill sets required for a growing economy in the current global context.

Figure 5.8 Systemic test Mathematics pass rates for Grades 3, 6 and 9 for public ordinary schools, 2011 - 2014

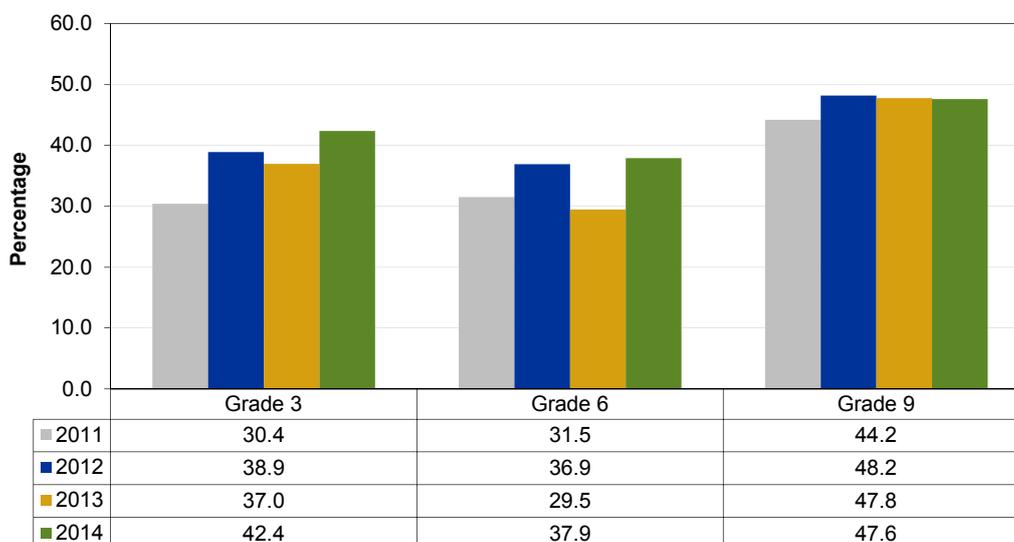


Source: Western Cape Education Department (2015)

Similarly, the language pass rates show modest improvement between 2011 and 2014. The Grade 9 average pass rate remained consistently higher than that of Grades 3 and 6 over the years analysed. A total of 85 610 learners wrote the Grade 3 systemic test of which 42.4 per cent (36 299) passed. A total of 72 198 wrote the Grade 6 and 71 266 wrote the Grade 9 tests in 2014, of which 37.9 per cent (27 363) and 47.6 per cent (33 923) passed.

² International Labour Office. 2010. A skilled workforce for strong, sustainable and balanced growth.

Figure 5.9 Systemic test Language pass rates for Grades 3, 6 and 9 for public ordinary schools, 2011 - 2014



Source: Western Cape Education Department (2015)

Learner travel patterns and modes of transport

Transport has become an integral part of the daily lives of citizens. Transport needs are influenced by the urban landscape as citizens make choices about economic and social services in relation to places of residence, education and work.

These choices can contribute to the wellbeing of learners by improving their access to places of learning. Decreasing the time taken to reach educational facilities may improve learner productivity during schooling hours which may, in turn, contribute towards better educational outcomes.

The 2013 National Household Travel Survey estimated that 1.6 million learners attended educational institutions within the Western Cape, with 70.3 per cent residing in the metro area, followed by 25.7 per cent in urban areas and 3.9 per cent in rural areas.

More than half of learners (50.5 per cent) walked to their educational institution, while the rest went as passengers: 25.3 per cent in cars or trucks, 10.7 per cent in taxis, 6.2 per cent in buses and 4.5 per cent in trains.

Approximately 75 per cent of learners left their place of residence between 07:00 and 07:59. The majority of learners (96.3 per cent) walked up to 15 minutes to their educational facility after using transport while only 3.7 per cent walked for more than 30 minutes.

Source: Statistics South Africa, National Health Transport Survey Provincial Report, Western Cape Profile, June 2014

5.4.3 National Senior Certificate Results

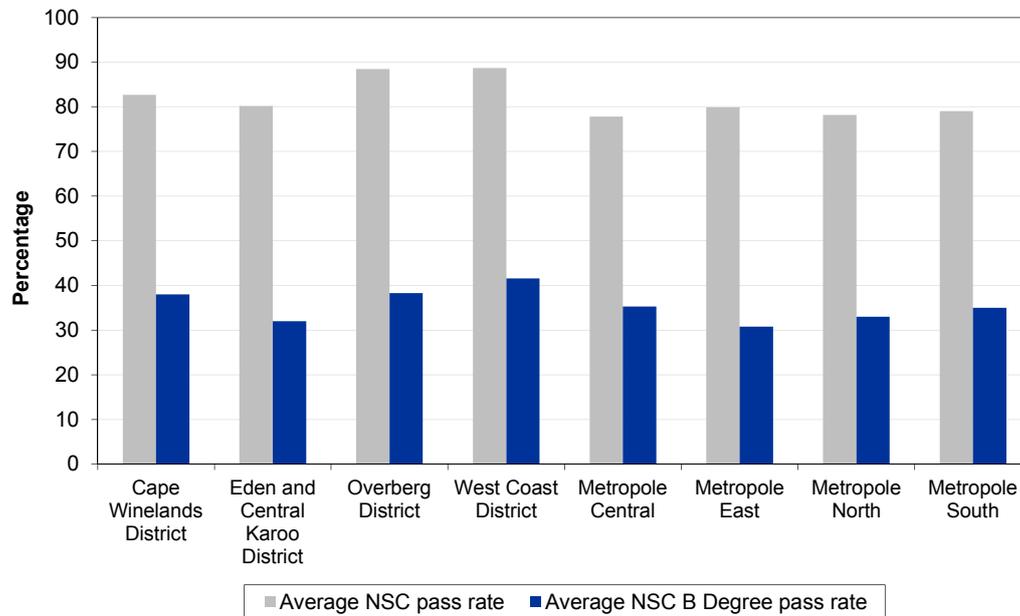
The NSC results for the Western Cape between 2009 and 2014 are shown in Table 5.2. In 2014, 82.2 per cent of Grade 12 learners passed the NSC examination of which 38.8 per cent achieved a pass (allowing them to enter a Bachelor's Degree study programme). Notably, the number of learners passing the NSC with access to a Bachelor's Degree improved substantially between 2009 and 2014.

Table 5.2 National Senior Certificate results, Western Cape, 2009 - 2014

Year	Wrote	Passed	% Passed	Access to Bachelor's Degree	% Access to Bachelor's 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
2014	47 709	39 237	82.2	18 524	38.8	31

Source: Western Cape Education Department (2015)

Figure 5.10 depicts the average 2014 matric pass rates by district³. The West Coast and Overberg Districts recorded the highest average pass rate (88.5 per cent).

Figure 5.10 Average Matric pass and B Degree pass rates by district, 2014

Source: Western Cape Education Department (2015)

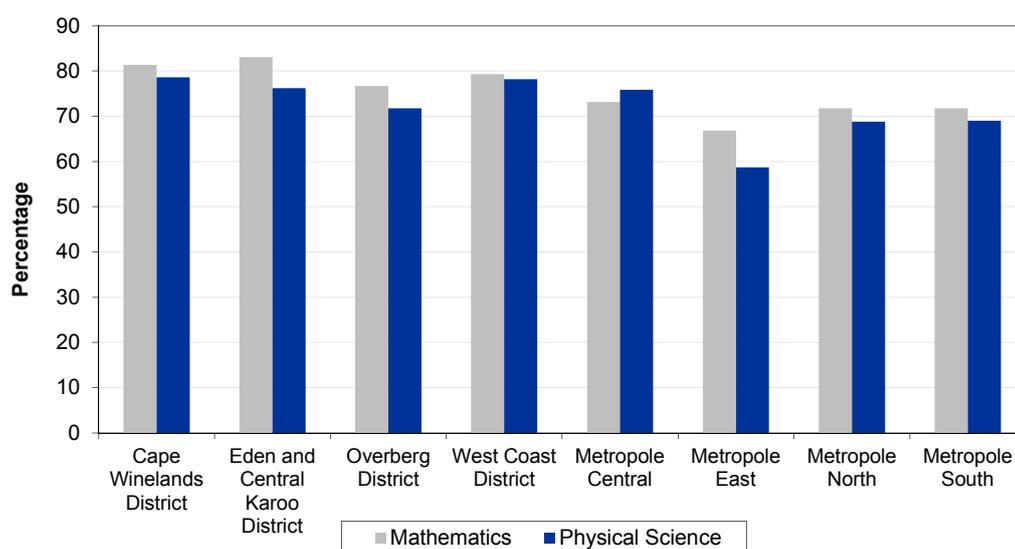
Similarly, the West Coast, Overberg and Cape Winelands Districts had the highest percentage with a Bachelor's Degree pass (ranging between 38 per cent and 42 per cent). The Metropole East, Eden and Central Karoo District had Bachelor's Degree pass rates of less than 32 per cent. Surprisingly, the three remaining Metro districts recorded the lowest overall matric pass rates (averaging 78.6 per cent).

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

The low enrolment for Mathematics and Physical Science education is at the centre of the skills mismatch challenge in South Africa as many growth sectors are geared towards fields requiring these subjects. In the 2014 NSC examinations only 32.0 per cent wrote Mathematics and 23.3 per cent Physical Science.

Figure 5.11 outlines the percentage of learners who wrote Mathematics and Physical Science and have passed. In 2014, 73.9 per cent of pupils who wrote Mathematics passed. The Eden and Central Karoo District and the Cape Winelands District recorded the highest percentage passes (83.1 and 81.4 per cent), while Metro East recorded the lowest pass rate (66.8 per cent).

Figure 5.11 Mathematics and Physical Science pass rates by district, 2014



Source: Western Cape Education Department (2015)

Of the learners who sat for the Physical Science examination, 70.7 per cent passed. Just over 78 per cent of learners in the West Coast District and Cape Winelands District passed the Physical Science exam, while in the Metropole areas an average of 65 per cent passed.

5.5 Health

The correlation between population health, productivity and economic growth is well established⁴. Furthermore, a positive relationship exists between education, income, and an individual's health status. These components also form part of measuring the HDI of a region and provide a snapshot of a population's well-being. Life expectancy, infant, child and maternal mortality are recognised proxies for the relative health status of a population.

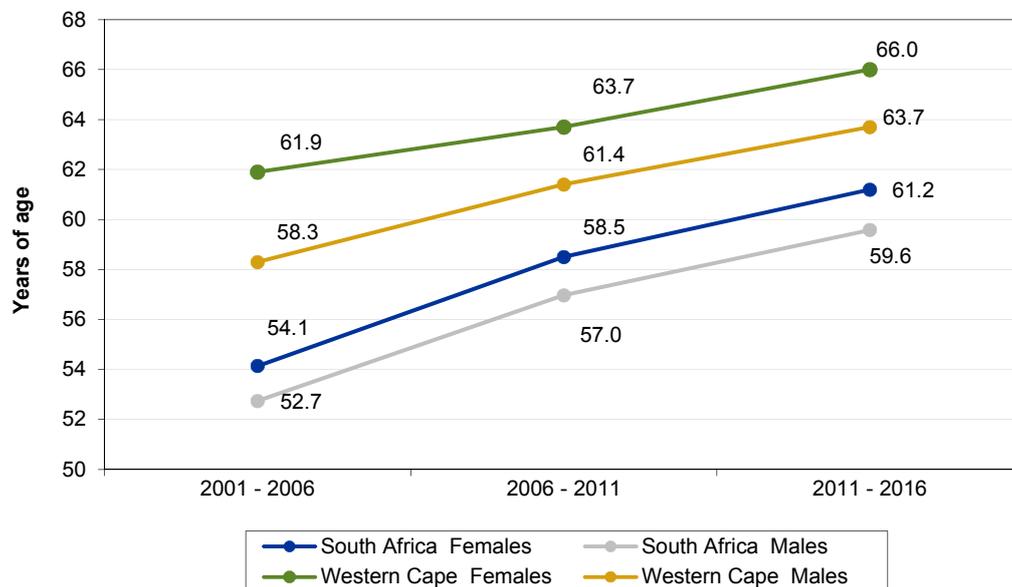
⁴ Bloom and Canning, 2008

In the Western Cape the quadruple burden of disease⁵ continues to impact heavily on the Province's health status and demand for public health services. It is therefore essential to examine the components of the quadruple burden of disease.

5.5.1 Life expectancy

Life expectancy is positively correlated with socio-economic indicators such as population growth, fertility rate, school enrolment and health status. Life expectancy in the Western Cape has been consistently higher than the national average for both males and females since 2001, as can be seen in Figure 5.12.

Figure 5.12 Average life expectancy for males and females in South Africa and Western Cape, 2001 - 2006, 2006 - 2011 and 2011 - 2016

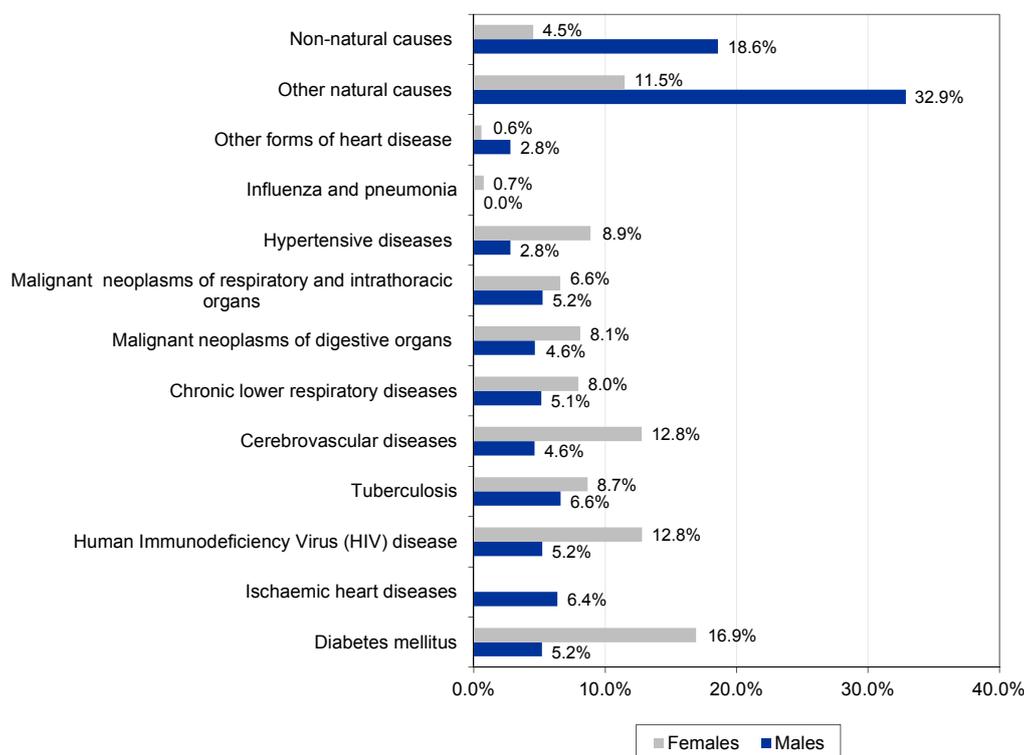


Source: Statistics South Africa (2015a), Own calculations

5.5.2 Mortality

In 2013, the five leading natural causes of death in the Western Cape were diabetes mellitus (6.9 per cent), ischaemic heart disease (6.0 per cent), HIV (6.0 per cent), tuberculosis (5.7 per cent) and cerebrovascular disease (5.6 per cent).

⁵ The quadruple burden of disease is defined as 1) communicable diseases such as tuberculosis, pneumonia and diarrhea; 2) non communicable diseases such as heart disease, diabetes, and strokes; 3) deaths due to HIV/AIDS; and 4) deaths due to injuries or traffic accidents.

Figure 5.13 Causes of death in the Western Cape by gender, 2013⁶

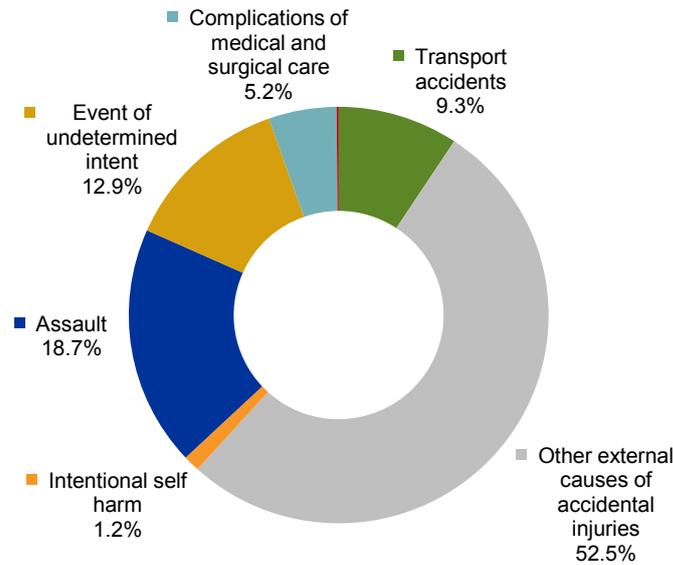
Source: Statistics South Africa (2014), Own calculations

The leading natural cause of death amongst men was tuberculosis (6.6 per cent) and amongst women, diabetes mellitus (16.9 per cent). HIV was the fourth leading cause of death for men (5.2 per cent) and the second leading cause of death for women (12.8 per cent). Interestingly, the leading cause of death for both men and women within the age group 15 to 44 years old was HIV.

Diabetes mellitus was the leading cause of death within the City of Cape Town, while HIV was the leading cause in the Cape Winelands District. The leading cause of death in both Eden and Overberg Districts was cerebrovascular disease, while chronic lower respiratory disease and tuberculosis were the leading causes of death in the Central Karoo and West Coast Districts, respectively.

The Western Cape had the highest proportion of deaths due to non-natural causes (12.8 per cent) when compared with other provinces. The most common causes of non-natural deaths in the Province were other external causes of accidental injury (see Figure 5.14). The Western Cape was the only province where the second most common non-natural cause of death was assault (18.7 per cent).

⁶ Malignant neoplasms of digestive organs include oesophageal, gastric small intestinal, anal and colorectal cancers. These affect the digestive system. Malignant neoplasms of respiratory and intrathoracic organs refer to cancers of the respiratory system.

Figure 5.14 Non-natural causes of death for the Western Cape, 2013⁷

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

5.5.3 Infant, child and maternal mortality

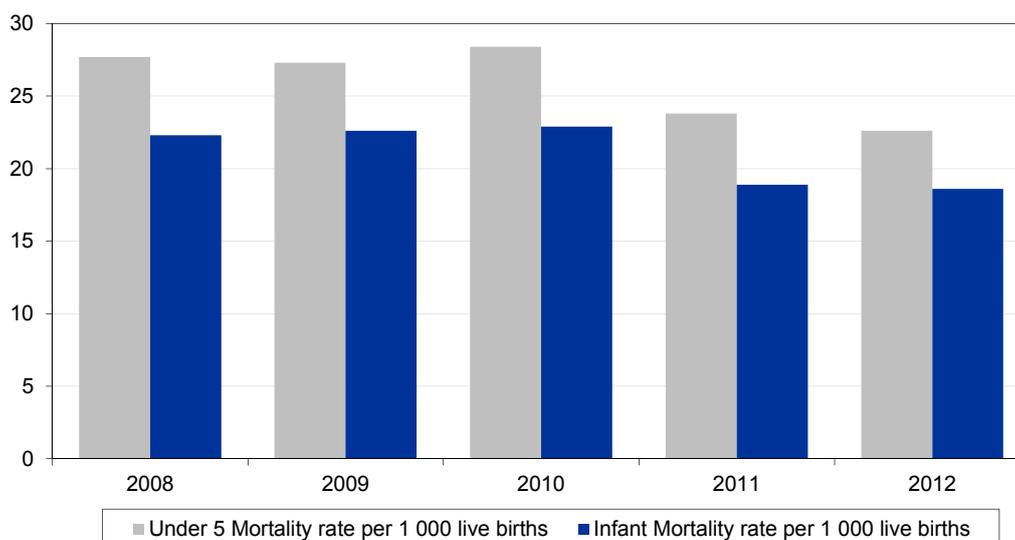
The infant mortality rate (IMR - measured as deaths per 1 000 live births) for South Africa in 2014 is estimated at 34.4 per 1 000 live births⁸. In the Western Cape, the IMR was 18.6 per 1 000 live births in 2012, having declined from 22.8 in 2008. The under-5 mortality rate (U5MR) declined to 22.6 per 1 000 live births by 2012, down from 27.7 in 2008⁹ (see Figure 5.15).

The IMR for children less than 1 year within government health facilities in the Western Cape was 9.4 in 2012/13. The highest IMR was in Eden District and the City of Cape Town (10.5). This was followed by the Central Karoo District (9.9), Cape Winelands District (7.4), West Coast District (4.8), and Overberg District (4.1). In 2013/14 the IMR for children less than 1 year within government health facilities further declined to 9.2. The decline in infant mortality is positively correlated with improved immunisation coverage for under 1 year olds in the Western Cape. Immunisation coverage increased to 90.9 per cent in 2014/15 from 84.9 per cent in 2013/14.

⁷ Other external causes of accidental injury include, amongst others, accidental drowning and submersion, exposure to fire, smoke and flames, contact with venomous animals and plants, exposure to inanimate mechanical forces and accidental poisoning by and exposure to noxious substances.

⁸ Statistics South Africa (2015a)

⁹ Western Cape Department of Health (2015b)

Figure 5.15 Infant and under-5 child mortality rate, Western Cape, 2008 - 2012

Source: Groenewald, Evans, Morden, et al (2015)

Similar to the IMR, the Central Karoo District had a very high U5MR of 41.0 per 1 000 live births followed by the Overberg District (38.4) whilst the City of Cape Town had the lowest rate at 21.6. The leading cause of death in children under 5 years in 2011 was prematurely born neonates. This was followed by pneumonia, diarrhoea and injuries.

The institutional maternal mortality rate (iMMR) in the Western Cape was 75.99 per 100 000 live births in the period 2011 to 2013. This is significantly lower than the national average of 158.29¹⁰ for the same period and lower than the 84.87 maternal deaths per 100 000 live births for the period 2008 to 2010. Leading causes of maternal deaths in the Western Cape for the period 2011 to 2013 were non-pregnancy related infections (23.79 per cent), medical and surgical disorders (13.85 per cent) and hypertension (12.78 per cent).

5.5.4 HIV/AIDS and TB

HIV/AIDS and tuberculosis (TB) had a negative impact on the regional development trajectory. Life expectancy amongst males and females would be 65.2 years and 72.7 years, in the absence of AIDS. However, South Africa made positive strides in addressing the HIV/AIDS pandemic. South Africa's HIV prevalence for 2014 was 11.1 per cent, an increase from 10.9 per cent in 2013¹¹. This increase is attributed to more HIV positive people living longer due to life saving anti-retroviral treatment (ART).

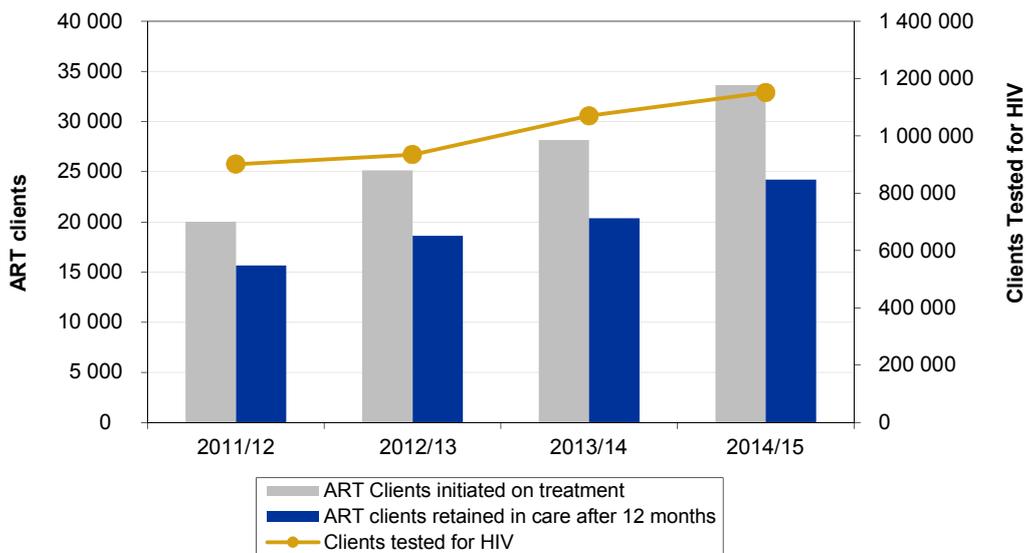
¹⁰ Department of Health (2015)

¹¹ Statistics South Africa (2014a)

A positive correlation was found with respect to risk taking behaviour and HIV/AIDS amongst youth¹². South Africa's youth prevalence rate for HIV was 5.6 per cent in 2014. The HIV prevalence among the reproductive age population (15 to 49 years) in the Western Cape increased from 5.3 per cent in 2008 to 7.8 per cent in 2012¹³. The prevalence of HIV in surveyed pregnant women under the age of 20 years decreased from 11.6 per cent in 2011 to 10.4 per cent in 2012, but increased to 12.5 per cent in 2014.

The increase in ART initiations contributed to the increase in the prevalence in some age groups. This is because ART allows people to live longer than the average life expectancy of 10 years for males and 11 years for females. The prevention of mother-to-child-transmission (PMTCT) rate is continually decreasing in the Western Cape and remains the lowest in South Africa: 1.9 per cent compared with a national estimate of 2.2 per cent in 2013/14. The PMTCT rate improved further to 1.4 per cent in 2014/15. The number of people tested for HIV, initiated on ART and retained in care after 12 months continues to follow an upward trend as shown in Figure 5.16.

Figure 5.16 Total clients for HIV, ART initiated and retained in care after 12 months in the public health facilities, 2011/12 - 2014/15



Source: Western Cape Department of Health (2015a)

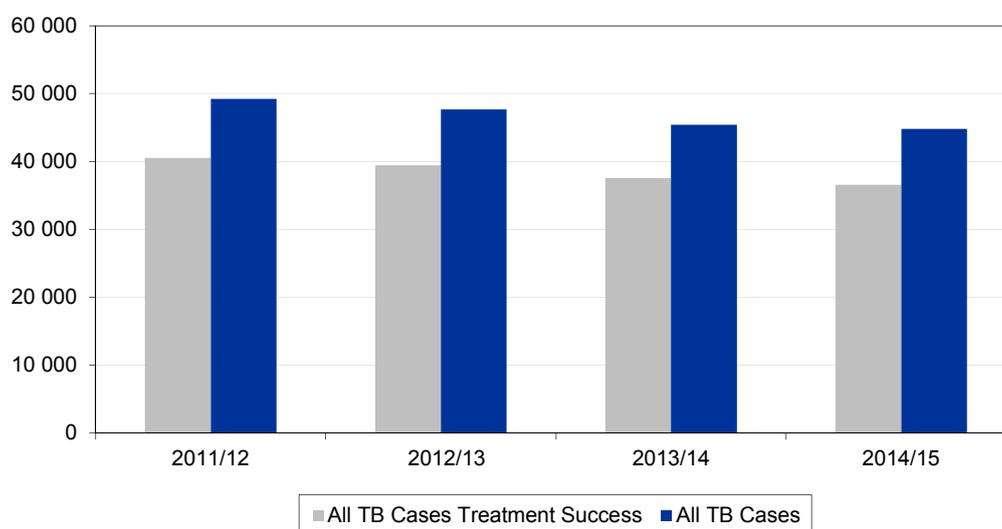
The Western Cape has one of the highest TB infection rates in South Africa (703 cases per 100 000 people), although the number of TB cases decreased over time. The incidence of multi-drug resistant (MDR) and extreme drug resistant (XDR) TB continues to increase. Despite efforts for earlier diagnosis, there remains a large gap between the number of patients diagnosed with MDR TB and those who start treatment. In 2012/13, the TB (new pulmonary) cure rate for Western Cape was 81.7 per cent, the highest being City of Cape

¹² UNDOC and MRC (2012)

¹³ Shisana, O, Rehle, T, Simbayi LC, Zuma, K, Jooste, S, Zungu N, Labadarios, D, Onoya, D et al.

Town (84.2 per cent) and the Overberg District the lowest (55.3 per cent). The City of Cape Town has 25 000 people living with TB of which two-thirds are HIV positive. Figure 5.17 shows that 36 561 TB cases were successfully treated in the Western Cape in 2014/15. This is a decrease from the 37 560 cured in 2013/14, though the cases of TB decreased over time.

Figure 5.17 Total TB cases and successfully treated cases in the Western Cape public health facilities, 2011/12 - 2014/15



Source: Western Cape Department of Health (2015a)

5.6 Housing and municipal services

Empirical evidence suggests a negative correlation between poverty and health outcomes. Besides income, poverty is often also characterised by inappropriate housing structures, varying access to running water and sanitation and an unhygienic environment due to sporadic refuse removal.

The Western Cape, like other provinces, faces a considerable housing backlog. The demand for housing in the Western Cape is exacerbated by substantive net in-migration. The demand for housing is measured in many ways. The most widely used measure for planning purposes is the 'registered demand': registered applicants on the Western Cape Housing Demand Database. While all the districts experience a housing backlog, the spread of registered demand is uneven. The City of Cape Town holds 56 per cent of this registered demand.

Housing backlog estimates were provided by each municipality captured in the Western Cape Housing Demand Database and the City of Cape Town's housing database. These figures are subject to continuous update due to the changing nature of the backlog. Updating and cleaning the database is the main contributor to the declining backlog rather than accelerated provision of housing. At the start of September 2015, a total of 496 726 households were registered on the Western Cape Housing Demand Database.

One of the major objectives of the General Household Survey (GHS) is to collect information from households regarding their access to a range of basic services and their general living conditions (Statistics South Africa, 2015b). According to the GHS, the Western Cape recorded the second largest increase (10.7 per cent) in the percentage of households that received subsidised dwellings between 2002 and 2014.

In terms of basic services provision, the Western Cape remains above the national average. As can be seen in Table 5.3, the Western Cape has the highest percentage of households with access to running water, sanitation and weekly refuse removal.

Table 5.3 Percentage of households with access to four main municipal services and with all four services by province, 2014

Province	Access to mains electricity	Access to piped water	Access to sanitation	Refuse removal once a week
Western Cape	87.6	98.9	94.6	89.2
Eastern Cape	83.5	78.5	78.1	35.4
Northern Cape	90.3	95.8	83.7	68.2
Free State	92.1	95.3	83.8	77.7
KwaZulu-Natal	82.3	86.5	75.7	54.7
North West	87.6	87.2	66.7	57.1
Gauteng	83.8	96.4	90.9	89.1
Mpumalanga	89.8	87.1	64.3	37.4
Limpopo	92.1	79.6	54.0	20.7
South Africa	86.0	90.0	79.5	63.8

Source: General Household Survey (2014)

The GHS revealed an initial increase in the percentage of Western Cape households with access to mains electricity from 88.5 per cent in 2002 to 90.5 per cent in 2012, before declining to 87.6 per cent in 2014. This decline can most likely be attributed to in-migration and the creation of informal dwellings.

The GHS also reports a high proportion (98.9 per cent) of Western Cape households with water access and use (piped or tap) in their dwellings, off-site or on-site. The Province also recorded the lowest percentage of households that reported interruptions with water services (3.0 per cent) and the highest satisfaction with water delivery services (87.7 per cent).

In the Western Cape 94.6 per cent of households had access to adequate 'RDP standard' sanitation, i.e. flush toilets connected to a public sewerage system, a septic tank or a pit toilet with a ventilation pipe. According to Census 2011 data the proportion of households with access to sanitation and piped water improved noticeably between 2001 and 2011. In 2011, 90.2 per cent of Western Cape households reported having access to flush toilets. Piped water was accessible to 88.8 per cent of individual households. A further 9.6 per cent have access to shared water taps (of varying distance but less than 500 metre).

The GHS also measured the operational standard of municipal water supply services by the extent to which households that received water from a municipality had reported interruptions in the water supply. The Western Cape recorded the lowest percentage of households that experienced water supply interruptions. Only 3.0 per cent of households experienced an interrupted water supply that lasted more than 2 days at a time, or more than 15 days in total for the 12 months preceding the Survey. Western Cape and Gauteng households were most satisfied with the perceived quality of drinking water.

5.7 Social ills

The exposure to crime impacts on socio-economic conditions and transcends socio-economic status affecting all levels of income, education, and occupation. Crime can also be linked to the high level of substance abuse in the Province. Both these social ills remain important issues of consideration for policymakers.

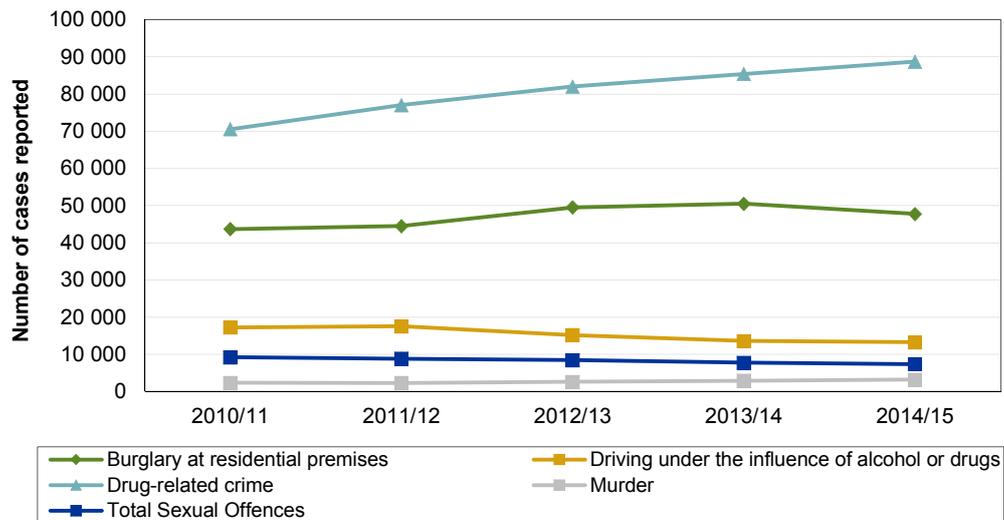
According to a study conducted by Statistics South Africa (2015c), households in the Province were of the view that crime has increased in their area of residence. Statistics for certain crime categories in the Province support this perception.

5.7.1 Crime

According to the same Statistics South Africa study, violent crime is increasing in South Africa and contributes towards an increasing climate of fear. The 2014 Victim Survey¹⁴ reported that more than half (51.7 per cent) of households in the Western Cape indicated that violent crime increased in contrast with the national figure of 41.3 per cent.

An analysis of the most recent South African Police Service (SAPS) data reveals an increase in murder and drug-related crime in the Western Cape between 2010/11 and 2014/15. Reported cases of driving under the influence of alcohol or drugs and sexual offences have however declined. It must be noted that sexual offences are heavily under-reported and has been estimated to be seven-fold the reported number.

¹⁴ Statistics South Africa (2014e)

Figure 5.18 Western Cape Crime Statistics per category, 2010/11 - 2013/14

Source: South African Police Service (2015)

Drug-related crime increased from 70 588 in 2010/11 to 88 731 in 2014/15 (an average annual growth rate of 5.9 per cent). Reported burglaries at residential properties increased from 43 685 in 2010/11 to 50 503 in 2013/14, before decreasing to 47 783 in 2014/15 (an average annual growth rate of 2.3 per cent). The number of reported cases of driving under the influence of alcohol or drugs declined by 6.4 per cent, from 17 229 cases in 2010/11 to 13 224 cases in 2014/15. The number of reported murders increased alarmingly by an average annual growth rate of 8.4 per cent between 2010/11 and 2014/15 (2 308 to 3 186).

The most recent district level data (SAPS, 2014) shows a varied trend across districts in respect of murder.

Table 5.4 Western Cape murder rate by district, 2010/11 - 2013/14

Murder rate	2010/11	2011/12	2012/13	2013/14	Annual Average Growth Rate
City of Cape Town	1 606	1 653	1 935	2 252	11.9%
West Coast District	117	114	128	114	-0.9%
Cape Winelands District	279	249	248	276	-0.4%
Central Karoo District	29	31	21	37	8.5%
Eden District	199	160	156	133	-12.6%
Overberg District	81	93	92	97	6.2%
Western Cape	2 311	2 300	2 580	2 909	8.0%

Source: South African Police Service (2014)

The City of Cape Town recorded the largest annual average growth rate in reported murders (11.9 per cent), followed by the Overberg District (6.2 per cent) and Central Karoo District (8.5 per cent). The Eden District experienced a decline of 12.6 per cent in its murder rate.

5.7.2 Substance abuse

Substance abuse transcends socio-economic status as it affects all levels of income, education, age and occupation. Its impact continues to weigh heavily on society. According to the Department of Social Development (DSD), drug-related crime in the Western Cape increased by 181 per cent between 2004 and 2014. The study highlighted the negative impact of endemic social issues such as violent crime, substance abuse and gangsterism on young people in the Province.

During 2014/15, 3 700 substance abusers received treatment at DSD centres¹⁵ and via outpatient services in the Province. The most recent South African Community Epidemiology Network on Drug Use (SACENDU) report notes that methamphetamine (35 per cent) and cannabis (23 per cent) are the primary drugs of abuse amongst patients admitted to treatment centres in the Western Cape. Amongst persons under 20 years old, cannabis is the primary drug of use (46 per cent), followed by methamphetamine (24 per cent) and heroin (12 per cent). Cocaine and mandrax remain the least used drugs of choice in the Western Cape (2 per cent and 5 per cent, respectively). Poly-substance¹⁶ (more than one substance) abuse remains relatively high in the Western Cape (44 per cent).

Substance abuse (drug and alcohol abuse) is a major contributor to crime in the Province. According to the Policing Needs and Priorities (PNP) Report (2013/14), substance abuse accounted for more than a third of the causes of crime in the Western Cape in 2012/13. The Western Cape accounted for 47 per cent of national drug related crime in 2010/11 and 40 per cent in 2012/13. The Western Cape 2014/15 PNP Report identified drug-related crime as one of three priority crimes in the Province. This Report also identified substance abuse as the main cause of crime, the need for money the main motivating factor and inadequate police visibility an opportunity for crime.

The 2014 Victim Survey shows that an overwhelming majority (85 per cent) of sampled households in the Western Cape singled out drugs related needs as the reason for crime. This is higher than the national rate of 75 per cent. This perception is supported by Figure 5.18 and Table 5.4, both of which depict an increase in drug-related crime.

¹⁵ Government funded and Western Cape Department of Social Development treatment facilities only.

¹⁶ Poly-substance abuse is the use of three or more groups of addictive substances over a period of 12 months.

Table 5.5 Drug-related crime by district, 2010/11 - 2013/14

Drug-related crime	2010/11	2011/12	2012/13	2013/14	Annual Average Growth Rate
City of Cape Town	47 268	53 041	56 676	57 494	6.7%
West Coast District	4 419	4 443	4 890	5247	5.9%
Cape Winelands District	7 597	8 564	9 303	10 166	10.2%
Central Karoo District	1 076	916	872	959	-3.8%
Eden District	7 014	6 888	7 166	7 866	3.9%
Overberg District	3 214	3 217	3 155	3 731	5.1%
Western Cape	70 588	77 069	82 062	85 463	6.6%

Source: South African Police Service (2014)

The Cape Winelands District had the largest annual average growth rate (10.2 per cent) in drug-related crime over the period (2010/11 to 2013/14), followed by the City of Cape Town (6.7 per cent) and the West Coast District (5.9 per cent). In contrast, drug-related crime in the Central Karoo District declined by 3.8 per cent.

There was a decline in the number and growth rate of apprehensions for driving under the influence of drugs or alcohol across all districts within the Province, as can be seen in Table 5.6.

Table 5.6 Driving under the influence by district, 2010/11 - 2013/14

Driving under influence	2010/11	2011/12	2012/13	2013/14	Annual Average Growth Rate
City of Cape Town	11 544	12 569	11 005	9 819	-5.3%
West Coast District	777	626	479	494	-14.0%
Cape Winelands District	1 459	1 189	1 013	998	-11.9%
Central Karoo District	256	178	155	133	-19.6%
Eden District	2 387	2 217	1 923	1 579	-12.9%
Overberg District	821	755	592	565	-11.7%
Western Cape	17 244	17 534	15 167	13 588	-7.6%

Source: South African Police Service (2014)

This reduction, coupled with the decline in road accident fatalities over the last several years, may be attributed to initiatives across the Province targeted at reducing road accident fatalities.

5.8 Conclusion

This chapter showed improvements in socio-economic conditions in the Western Cape: access to education, basic services, improved life expectancy, education quality, and infant, child and maternal mortality. It also highlighted the challenges that remain, such as high levels of crime, substance abuse, and persistent inequality. The unique spatial characteristics across Districts were also explored in this chapter.

Economic growth is an essential but not sufficient condition for improved standards of living. It is also necessary that the economic growth potential of a region be harnessed concomitantly with a healthy, resilient, aptly skilled and educated population. Policy decisions and implementation must take cognisance of this dynamic interaction, as well as contextualise it spatially. Through appropriate policy interventions the objectives of inclusive growth, especially the sharing of the benefits of economic development, can be achieved.

Appendix

Western Cape statistics

Indicator	GDP at basic prices –		
	Total R million	GDP – Agriculture R million	GDP – Mining R million
2008	368 376	14 980	850
2009	363 271	14 792	857
2010	372 787	14 524	885
2011	386 497	14 679	909
2012	397 191	14 878	921
2013	406 409	15 011	947
Annual average growth	2.0	0.1	2.2

Indicator	GDP - Manufacturing	GDP - Electricity	GDP - Construction
	R million	R million	R million
2008	57 507	7 297	13 966
2009	52 345	7 332	14 524
2010	55 383	7 443	14 644
2011	56 918	7 585	14 733
2012	57 824	7 598	15 090
2013	58 193	7 554	15 540
Annual average growth	0.4	0.7	2.2

Indicator	GDP – Wholesale and retail trade	GDP – Transport, storage and communication	GDP – Finance, real estate and business services
	R million	R million	R million
2008	52 163	34 447	97 539
2009	51 425	34 529	97 608
2010	53 608	35 030	98 687
2011	55 850	36 134	103 177
2012	57 824	36 947	106 464
2013	59 258	37 571	109 966
Annual average growth	2.6	1.8	2.4

Indicator	GDP – Community and social services	GDP – General government
	R million	R million
2008	23 592	32 802
2009	23 318	33 914
2010	23 371	34 997
2011	23 905	36 937
2012	24 483	38 367
2013	24 938	40 000
Annual average growth	1.1	4.1

Indicator	Building plans passed: Province - Western Cape: All buildings	Building plans passed: Province - Western Cape: Residential buildings	Building plans passed: Province - Western Cape: Non-residential buildings
	R'000	R'000	R'000
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
2014	23 708 177	9 746 898	7 219 887
5-yr annual average growth	14.3	14.7	28.8

Indicator	Building plans passed: Province - Western Cape: Additions and alterations	Building completed: Province - Western Cape: All buildings	Building completed: Province - Western Cape: Residential buildings
	R'000	R'000	R'000
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
2014	6 741 392	11 507 035	5 850 311
5-yr annual average growth	6.8	0.2	1.4

Indicator	Building completed: Province - Western Cape: Non-residential buildings	Building completed: Province - Western Cape: Additions and alterations
	R'000	R'000
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
2014	2 571 872	3 084 852
5-yr annual average growth	0.2	0.1

Indicator	Electricity consumption	Air traffic (Arrivals)	Air traffic (Departures)
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
2014	23 043	4 600 345	4 633 586
5-yr annual average growth	0.4	2.2	2.3

Indicator	Crop estimates (Wheat)	Vehicle sales
2008	860 000	38 131
2009	675 000	26 987
2010	530 000	37 604
2011	710 000	45 597
2012	897 600	51 362
2013	928 000	52 052
2014	899 000	49 594
5-yr annual average growth	7.8	14.0

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Glossary

Agri-processing	Refers to the subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector. Agri-processing industry thus means transforming products originating from agriculture, forestry and fisheries.
Agri-processing parks	Agri-processing parks are those units which add value to agriculture products/residues, both food and non-food, by processing into products which are marketable or usable or edible or by improving storability or by providing the link from farm to the market or part thereof.
Balance of Payments	The Balance of Payments shows a country's transactions with the rest of the world. It notes inflows and outflows of money and categorises them into different sections.
Bond yields	The amount of return an investor will realise on a bond. Though several types of bond yields can be calculated, nominal yield is the most common. This is calculated by dividing amount of interest paid by the face value. Current yield is calculated by dividing the amount of interest it pays by current market price of the bond.
Burden of disease	Refers to the nature and drivers of the causes of mortality and morbidity.
Business Confidence Index	A survey completed by senior executives in the trade, manufacturing and building sector during the last month of every quarter.
Comparative trade advantages	The relevant sector's export share of total provincial (regional) exports is expressed as a ratio of the same sector's share of South African exports to calculate a revealed comparative trade advantage ratio.

Consumer Price Index (CPI)	The main measure of inflation, charting the price movements of a basket of consumer goods and services.
Current Account (of the balance of payments)	The difference between the total exports and total imports, also taking into account service payments and receipts, interest, dividends and transfers. The current account can be in deficit or surplus.
Currency Trade Weighted Index	A measurement of the foreign exchange value of a local currency compared against certain foreign currencies. Trade-weighted currency give importance - or weight - to currencies most widely used in international trade, over comparing the value of the local currencies to all foreign currencies. Since the currencies are weighted differently, changes in each currency will have a unique effect on the trade-weighted local currency and corresponding indexes.
Dependency ratio	The size of the dependent population (children and the elderly) relative to the size of the working-age population.
Discouraged 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.
Employed	All working-age individuals who did any work for at least one hour during the reference week. Individuals who had a job or a business but were temporarily absent during the reference week are also considered employed.
Employment-to-population ratio	The size of the employed population relative to the size of the working-age population.

Fixed investment	Fixed investment is investment in physical assets such as machinery, land, buildings, installations, vehicles, or technology.
Formal sector	The formal sector covers all employment not included in the informal sector, but excludes domestic workers.
Gas-to-liquid (GTL) refinery	Gas-to-liquid (GTL) is a refinery process to convert natural gas or other gaseous hydrocarbons into longer-chain hydrocarbons such as gasoline or diesel fuel. Methane-rich gases are converted into liquid synthetic fuels either via direct conversion - using non-catalytic processes that convert methane to methanol in one step - or via syngas as an intermediate.
Gini coefficient	The Gini coefficient is a measure of statistical dispersion to represent income distribution. The coefficient varies between 0, representing complete equality, and 1, representing complete inequality.
Gross domestic product (GDP)	A measure of the total national output, income and expenditure in the economy. GDP per head is the simplest overall measure of welfare, although it does not take account of the distribution of income, nor of goods and services produced outside the market economy.
Human Development Index (HDI)	The HDI attempts to quantify the extent of human development of a community and is based on measures of life expectancy, literacy and income. It is seen as a measure of people's ability to live a long and healthy life, to communicate, to participate in community life and to have sufficient resources to obtain a decent living. The HDI can assume a maximum level of 1, indicating a high level of human development, and a minimum value of 0.
Industrial Development Zone (IDZ)	Designated sites linked to an integrated to an international air or sea port, supported by incentives to encourage investment in export-oriented manufacturing and job creation.

Infant mortality	The probability of a child born in a specific year dying before reaching the age of one, expressed per 1 000 live births.
Inflation	An increase in the general level of prices.
Informal sector	The informal sector is comprised of (i) employees working in establishments that employ fewer than five employees and who do not deduct income tax from their wages; and (ii) employers, own account workers and individuals who help unpaid in household businesses that are not registered for either income tax or value-added tax.
Intermediate inputs or intermediate consumption	Refer to all goods and services bought by the producer to combine with the 'primary inputs' to produce the final output.
Institutional Maternal Mortality	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 in government facilities.
Labour - skills mix	The term 'skill mix' can refer to the mix of posts in the establishment; the mix of employees in a post; the combination of skills available at a specific time; or the combinations of activities that comprise each role, (rather than the combination of different job titles). Mix can be examined within occupational groups, or across different groups.
Labour force	All individuals within the working-age population who are employed or unemployed (i.e. the labour force consists of all who are willing and able to work).
Labour force participation rate	The proportion of the working-age population who are members of the labour force (i.e. who are either employed or unemployed).
Labour productivity	A ratio measured by the output per worker ratio (total output/total formal employment).
Medium-term Strategic Framework	Defines the strategic objectives and targets of National Government over a five year period, coinciding with the electoral term.

MICE (Meetings, Incentives, Conferencing and Events)	Reflects a niche market which attracts domestic, local and international tourists.
National Development Plan	A long term vision and plan for South Africa. It serves as a blueprint for the work that is still required in order to achieve the desired results in terms of socio-economic development and the growth of this country by 2030.
Operation Phakisa	Operation Phakisa extends beyond the oil and gas industry, and includes three other areas: marine transport and manufacturing, aquaculture, marine protection services and ocean governance. Operation Phakisa even aims to benefit the coastal tourism sector.
Poverty gap	This provides the mean distance of the population from the poverty line and is often expressed as a percentage of the poverty line. It is also used as a measure of the depth of poverty.
Poverty line	Line drawn at a particular level of income or consumption; households/individuals whose incomes fall below a given level of the poverty line or whose consumption level is valued at less than the value of the poverty line are classified as poor.
Poverty severity	This takes into account not only the distance separating the population from the poverty line (the poverty gap), but also the inequality among the poor. That is, a higher weight is placed on those households/individuals who are further away from the poverty line.
Prevention of mother-to-child-transmission (PMTCT)	The prevention of the transmission of HIV from an HIV-positive mother to her child during pregnancy, labour, delivery or breastfeeding.
Primary inputs	Constitute the factors of production (like land, labour, capital and entrepreneurship), the remuneration of which is reflected in the value added, and are internal rather than upstream activity. In explicit terms, primary inputs plus intermediate inputs equals the final output.

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

Specialised Food Park	<p>A market where products are specifically targeted and processed.</p> <p>An example is the Halal Park which will be a fully Halal zone and will be a cluster of manufacturing and service firms in the Halal industry.</p>
Total fertility rate	<p>The number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.</p>
Unemployed	<p>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.</p>
Unemployment rate	<p>The proportion of the labour force that is unemployed.</p>
Under 5 mortality	<p>The probability of a child born in a specific year dying before reaching the age of five, expressed per 1 000 live births.</p>
Unskilled labour	<p>A segment of the work force associated with a low skill level or a limited economic value for the work performed. Unskilled labour is generally characterised by low education levels and low wages.</p>
Value chain	<p>Value chains reflect links as bundles of activities aimed at designing, producing, marketing, delivering or supporting the final product or service. Value chains are supported by secondary activities throughout the process, such as procurement, human resource management, and infrastructure and technological development.</p>
Working-age population	<p>All individuals aged between 15 and 65 years, irrespective of whether or not they are economically active.</p>