

Press release

The current state and short-term prospects for the Western Cape economy

*Summary of the report prepared for the Western Cape Department of Economic Development & Tourism
by the Bureau for Economic Research, University of Stellenbosch*

Global economic output plunged during 2008Q4 and the first quarter of 2009, as the world slipped into synchronized recession. Although signs of stabilization have since emerged, consensus seems to be that the world economy is in for a subdued return to growth with output remaining below potential over the short- to medium term. The SA economy felt the full brunt of the global recession during 2009Q1 and is forecasted to contract by 2% this year, with fairly muted growth of 2.7% projected for 2010. In view of the national economic outlook and the expected world economic conditions, the regional economic growth picture for 2009 is quite bleak.

The latest real GDP (Gross Domestic Product Regional) growth statistics, as released by Stats SA, indicated that economic growth in the Western Cape (WC) remained high and stable at 5.8% during 2007 (SA GDP growth averaged 5.1% in 2007 and the regional economy also expanded at a rate of 5.8% in both 2005 and 2006). According to current estimates by Quantec Research, growth came in at around 4% during 2008; i.e. again slightly higher than the national GDP growth rate – with the services and construction sectors boosting growth.

Table 1: Gross Domestic Product data

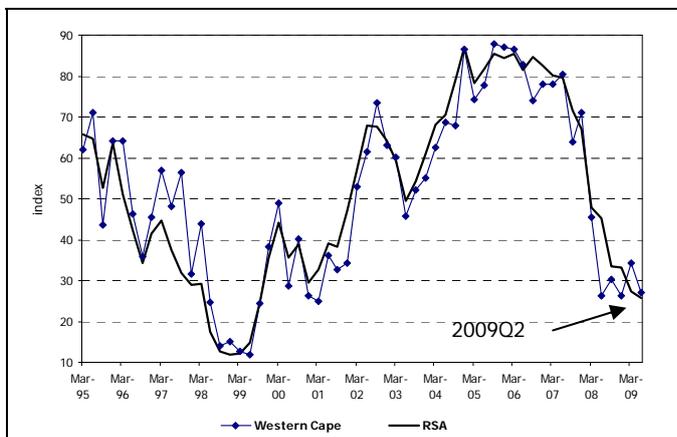
Industry <i>Based on GDP figures at basic prices (constant 2000 Rand)</i>	<i>Contribution percentage (based on 2007)</i>		2007 Growth figures <i>year-on-year % change</i>		2008 Growth figures <i>year-on-year % change</i>	
	SA	WC	SA	WC	SA	WC*
Agriculture, forestry and fishing	2.5	4.0	2.9	3.1	18.8	12.4
Mining and quarrying	6.1	0.2	0.0	-0.3	-6.5	2.9
Manufacturing	17.8	17.6	4.5	4.7	1.2	0.9
Electricity, gas and water	2.3	1.6	3.0	2.8	-1.2	-2.0
Construction	3.7	5.0	17.1	17.2	13.9	14.9
Wholesale & retail trade; catering and accommodation	15.5	16.8	5.2	5.3	0.5	0.7
Transport, storage and communication	10.9	11.0	5.6	5.9	4.0	4.1
Finance, insurance, real estate and business services	21.6	30.1	6.8	6.6	5.0	5.6
Personal services and other	5.9	4.6	4.0	3.8	4.1	4.0
General government services	13.7	9.1	3.7	3.7	3.9	3.1
All industries at basic prices	100	100	5.1	5.8	3.2	4.1

**estimates by Quantec Research*

Source: Stats SA; Quantec Research

Regional business confidence remained low; currently 27% of the BER's regional respondents are satisfied with business conditions – compared to 26% nationally.

Figure 1: Western Cape business confidence index



Source: Bureau for Economic Research

However, the contraction in economic activity which is on the cards for 2009 is likely to be somewhat less pronounced in the Western Cape than at national level. Mining activity is limited in the province (and has been one of the key sectors driving the economic deterioration at national level) and agricultural activity – which makes up a larger share of the provincial value added – appears to be relatively lively.

Furthermore, the regional manufacturing sector seems to be performing less dismally than the national average since producers of consumer goods (a less cyclical industry) make up the largest share of production activity. The BER Manufacturing Survey not only revealed consistently higher business confidence amongst Western Cape manufacturers (from 2008H2) when compared to the overall index, but also indicated that a net majority of only 2% of respondents in the province reported declines in production volumes during 2009Q2 – compared to 62% nationally. Hence, the contraction in regional production has been significantly less pronounced than in the rest of South Africa during the first half of 2009, and this is expected to continue for the rest of the year (with indicators of expected business conditions in 12 months' time rising notably).

Finally, the outlook for the Western Cape economy's dominant services, trade and tourism industries hinge on the national as well as global economic situation. Hence, significant weakness can be expected this year – but these regional industries should not underperform their national counterparts by any large margin.

In support of the above argument, the latest Labour Force Surveys (released by Stats SA in May and July 2009) indicated that the region was one of few provinces which did not register contractions in total employment during the first and second quarters of this year. Rather, year-on-year growth rates of 3.3% and 0.4% were reported respectively, with relatively healthy employment growth data for the trade, construction, and services sectors. In the past, Western Cape employment figures disappointed; albeit that real growth in output was consistently higher than the national average.

The outlook beyond 2009 remains uncertain given the global economic situation, but regional GDP should accelerate in 2010 – in line with the national trend. However, notable risks surround this projected recovery as uncertainty remains about both the global economic and SA outlook. Whereas previously the global uncertainty was based on how severe the recession would be and when it would end, it has been replaced by doubts about the strength of the recovery. Here the risk goes both ways – if the recovery does not materialize as expected, perceived riskier assets (including the rand) could experience a sharp sell-off with negative domestic inflation repercussions. Such a scenario will also increase the downside risks to SA GDP growth in 2010. (Though, a weaker rand would support agricultural and manufacturing exporters as well as the tourism industry – all important sectors in the Western Cape.) However, an upside risk would be a stronger than expected global revival on the back of unprecedented policy support.

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