

**Western Cape Government  
Provincial Treasury**

**PROVINCIAL ECONOMIC  
REVIEW & OUTLOOK  
2012**

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# Foreword

The 2012 Provincial Economic Review and Outlook (PERO) is written in a trying economic environment, with the recovery period following the global economic crisis in the latter part of 2008 having been shortlived. The economic situation remains fluid with great uncertainty regarding the prospects for South Africa's major trading partners.

South African economic growth has slipped, mainly because of slower growth in household consumption expenditure, and despite higher fixed investment spending. The risks posed by the global economy have and will further detrimentally influence the South African and Western Cape economic outlook.

The 2012 PERO expands on the analysis of the export potential and performance of the Western Cape economy as previously presented in the 2011 version, providing a breakdown and analysis of exports and imports by sector, highlighting supply side constraints (such as skill shortages) on export growth, the direction of trade (origin of imports and export markets), and a review of export market potential by region.

The implications for trade and investment in respect of South Africa's membership of BRICS (Brazil, Russia, India, China and South Africa), an association of leading emerging economies, and on relationships with other emerging markets are also considered in the 2012 PERO.

Labour market reaction to the recent recession was a sharp loss of jobs, after which employment by and large stagnated. However, recent data suggest a slow recovery in employment and a stabilisation of unemployment. The perennial and deep-seated challenges of youth unemployment together with the shortage of skills in the labour force acting as a constraint on growth and job creation, are again both covered in some detail.

The 2012 PERO further provides a review of socio economic conditions and an analysis of education outcomes in the Province. The socio-economic review could serve as a departure point in determining appropriate development policy and associated priorities in responding to the highlighted socio-economic challenges.

Generally, the favourable socio-economic conditions in the Western Cape stem from wide-spread good service delivery and the relatively strong economic base that have both contributed to less poverty and inequality than in other provinces.

The 2012 PERO largely concurs with the strategic direction of the Province as encapsulated in particularly Provincial Strategic Objective 1: Creating opportunities for growth and jobs. With the added dimension of identifying a range of the socio-economic challenges that government needs to respond to, the PERO is well placed in providing a backdrop to the next Western Cape Medium Term Budget Policy Statement wherein fiscal policy for the next three financial years is to be articulated.

A handwritten signature in black ink, appearing to read 'AW', is positioned above the name and title of the signatory.

**Alan Winde**

**Minister of Finance, Economic Development and Tourism**

27 September 2012

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## Abbreviations

AEs	Advanced Economies
ASEAN	Association of South East Asian Nations
BCI	Business Confidence Index
BEA	Bureau of Economic Analysis
BER	Bureau for Economic Research
BLNS	Botswana, Lesotho, Namibia, Swaziland
BPO	Business Process Outsourcing
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China, South Africa
CBD	Central Business District
CCTC	Cape Clothing and Textile Cluster
CDE	Centre for Democracy Enterprise
CHEC	Cape Higher Education Consortium
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CSP	Community, Social and Personal
CTFC	Cape Town Fashion Council
DBE	Department of Basic Education
DEDAT	Department of Economic Development and Tourism
DHET	Department of Higher Education and Training
EDP	Economic Development Partnership
EMs	Emerging Markets
EU	European Union
FAO	Food and Agriculture Organisation
FET	Further Education and Training
FIFA	Federation Internationale de Footbal Association
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GPI	Gender Parity Index
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome
ICT	Information and Communication Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
IPAPs	Industrial Policy Action Plans

LFPR	Labour Force Participation Rate
LTRO	Longer-term refinancing operations
MENA	Middle East and North Africa
MERO	Municipal Economic Review and Outlook
MPF	Monetary Policy Committee
NDP	National Development Plan
NGP	New Growth Path
NICs	Newly Industrialised Countries
NIPF	National Industrial Policy Framework
NSNP	National School Nutrition Programme
OSV	Offshore Support Vessels
PAYE	Pay As You Earn
PERO	Provincial Economic Review and Outlook
PMI	Purchasing Managers Index
QLFS	Quarterly Labour Force Survey
RMB/BER	Rand Merchant Bank/Bureau for Economic Research
SADC	Southern African Development Community
SALDRU	Southern Africa Labour and Development Research Unit
SAOGA	South African Oil and Gas Alliance
SARB	South African Reserve Bank
SSA	Sub-Saharan Africa
StatsSA	Statistics South Africa
TIMSS	Trends in International Mathematics and Science Study
TNPA	The National Ports Authority
UAE	United Arab Emirates
UIF	Unemployment Insurance Fund
UK	United Kingdom
WC	Western Cape
WCED	Western Cape Education Department
WCG	Western Cape Government

# 1

## Introduction and Executive Summary

### 1.1 Background

The annual Western Cape *Provincial Economic Review and Outlook* (PERO) provides the backdrop to the annual Western Cape Medium Term Budget Policy Statement. It thus represents a potential link with the intention/plans of the Western Cape Government (WCG) to facilitate an environment conducive to growing the economy and sharing the benefits of growth among a wide spectrum of citizens. Rising unemployment, particularly among young people, and uncertainty within the global economy are amongst the biggest risks to the Province's goal of inclusive economic growth and integrated development. Therefore, it is necessary to obtain a better understanding of the trends, patterns and developments within the Western Cape (WC) economic sectors, and specifically of how these are linked to the labour market's performance in the WC economy.

The principal challenge facing the Province is to alleviate poverty, improve welfare and grow the economy whilst creating jobs through appropriate policy initiatives. To decide on the requisite policy actions, the provincial government requires an improved understanding of the real economy, in particular of industry activity, their prospects and the constraints they face. Therefore, the 2012 PERO has been set the task of delving deeper into certain aspects of the WC economy, including:

- An analysis of trends in WC growth, sector performance and of the drivers and constraints within sectors, both in terms of domestic and export production;
- Mindful of the importance of export production as a source of employment-creating growth, a review of the export potential and achievements of export producers as well as the destination of WC exports;
- The consideration of initiatives to address the paucity of supply-side micro level data;

- A focus on non-traditional tradable manufacturing sectors of the economy which are susceptible to provincial government intervention; and
- The impact of socio-economic variables on the welfare of society.

In reviewing recent developments in the WC economy and the outlook for future growth and development, two elements need to be considered. The first concerns the global economic environment, which is crucial to the region with its open economy, especially as an exporter of goods and services. The second element is the policy initiatives that exist at the provincial and national level, as well as institutional developments related to policy interventions.

### **1.1.1 Global economic development**

In recent years the PERO, in its preparation, has been forced to cope with rapidly changing economic conditions and uncertainty in the world economy. The 2009 PERO was researched and written at a time of the worst recession experienced in the major countries of the industrialised world since the Great Depression, a recession which also left its footprint in the South African and WC economies. At the time of writing the 2010 PERO South Africa and her major trading partners were recuperating and experiencing real growth, and although the economic environment was more favourable this turned out to be relatively short lived since the 2011 PERO was again written and submitted during tumultuous times in the world economy. One of the big problems experienced in researching and writing substantial parts of the 2011 PERO had been the virtual continuous change in economic circumstances, expectations and prospects globally.

Unfortunately the situation has not changed; the current situation in the world economy is fluid with significant uncertainty in South Africa's major trading partners. Within the European Union (EU) the euro area is experiencing difficulties in escaping the economic and fiscal difficulties of the southern member states. Outside the area, a large economy and major trading partner of South Africa and the WC specifically, the United Kingdom, has not been successful in avoiding a double dip recession. While the EU area is faltering economically, the USA is also not experiencing a vibrant recovery, and even large emerging market economies like China and India have been registering lower growth than before.

The global slowdown in demand caused by the euro area crisis and faltering growth in the USA has a negative impact on the manufacturing sector in the world's largest economies, with activity reported to have sunk to its lowest level since 2009. This state of affairs has been captured in the JP Morgan global manufacturing PMI, an index which incorporates information from purchasing managers. The index has recently registered its second consecutive monthly decline in activity overall, which is the first back-to-back negative reading since the middle of 2009. Manufacturing indices for

individual countries are reported to reveal a similar message (*Financial Times*, 2012). The direct and indirect contribution of manufacturing to the world's large economies is large and consequently a setback in manufacturing will have knock-on effects in an economy as a whole, including lower demand for imported goods, which acts as the source of contagion for the South African and export-oriented WC economy.

### **1.1.2 Policy and institutional initiatives**

The WC economy forms an integral part of the national economy and consequently is exposed to national policy initiatives. It therefore stands to reason that initiatives undertaken at the provincial level must logically fit into a framework determined by national policies; provincial policies cannot contradict national policies.

Considering the topics covered in the chapters of the PERO, a large number of national policies are relevant, for example, those concerning the labour market, education, infrastructure development, health, and social services. Where directly applicable some of these national initiatives will be drawn into the analysis presented in this document. At this point, however, it is appropriate to draw attention to overarching policy initiatives aimed at broad social and economic development. In the 2010 PERO attention was drawn to the National Industrial Policy Framework (NIPF) and the associated Industrial Policy Action Plans (IPAPs) and in the 2011 PERO the New Growth Path (NGP), introduced in November 2010, and its relevance to the development of the Province were briefly discussed (PGWC, Provincial Treasury, 2011: 73-4).

An important contribution to the national discourse on economic development has been the release of the National Planning Commission's (NPC) *Diagnostic Report* in June 2011. The Diagnostic Report elicited a wide and frank response and assessment, which led to the draft National Development Plan released in November 2011, eventually culminating in the *National Development Plan 2030* (NDP) published in August 2012 (National Planning Commission, 2012).

The NDP is a wide-ranging and ambitious initiative aimed at achieving economic wellbeing for all within the context of the developmental state. The premise of the NDP is that "South Africa needs an economy that is more inclusive, more dynamic and in which the fruits of growth are shared equitably" (National Planning Commission, 2012: 28). The Plan addresses a large number of social, political and economic challenges and issues and in essence proposes a long-term strategy to increase employment and invest in human capital through education and training. Too few South Africans are employed, namely 41 per cent of the working age population, which is well below the average of similar countries. Of special concern is the problem that unemployment is disproportionately experienced by youth. It is envisaged that economic growth be accelerated and that the growth be inclusive. Noteworthy from the point of view taken in the 2012 PERO is the importance

attached to increasing exports and the development of a more efficient and competitive infrastructure in fostering faster growth. Also relevant to the PERO's discussion of education in Chapter 5, is the finding by the NPC that literacy and numeracy scores, especially among black learners, are low by African and global standards.

In terms of objectives the economic development policy of the WCG is in line with the NDP. The approach of the Province to policy can be summarised as consisting of three major tenets: first, economic growth is the foundation of all successful development; second, growth is primarily driven by the private sector in a market environment; and third, the role of government is to create an enabling environment with private sector driven support for growth sectors (WCG, Strategic Objective 11: Increasing opportunities for growth and development in rural areas). In creating the framework for active agriculture-oriented rural development, Strategic Objective 11 defines the foundation of an enabling environment created by government as "a clean, efficient state sector that 1) delivers on its infrastructure and service delivery mandate in partnership with the private sector and 2) provides for a growth enhancing regulatory environment" (WCG, Strategic Objective 11).

The adoption by the WCG of its Strategic Objective 1: Creating opportunities for growth and jobs in August 2010, seen in conjunction with the earlier adoption of Strategic Objective 11 on rural development, is in line with the NPC's vision for South Africa and the role that job creation can play in achieving inclusive growth and improving the wellbeing of society. A dual strategy forms the basis of Strategic Objective 1. According to the Department of Economic Development and Tourism's (DEDAT) Strategic Directive, the WCG has the task and responsibility of creating an environment conducive to economic growth, as well as maximising efforts to enhance job creation.

As far as institutional and policy development is concerned a major development in 2012 has been the launching of the *Economic Development Partnership* (EDP). The EDP is not a government agency but a cross-sector partnership, incorporated as a non-profit company, aimed at collaboration amongst diverse organisations to address the problems of persistent poverty, inequality and unemployment. The guiding principle is to lead, coordinate and drive the WC economic delivery system to higher levels of inclusive growth. In improving the effectiveness of the delivery system the focus will fall on:

- Economic and market intelligence as a basis for creating opportunities for evidence-led strategies and planning;
- The development of a shared economic vision and strategy, a common agenda and joint action plans;
- Fostering an improved business and investment climate;

- Coordinating a strategy for WC firms to perform well in contested markets and building a strong economic and business brand through an integrated platform; and
- Continuously monitoring the performance of the economic delivery system.

The Board of the EDP has been appointed, with its membership chosen on the basis of their respective leadership qualities and not as representatives of specific constituencies or organisations.

The goal of inclusive job-creating growth has been incorporated in *Future Cape 2040*, a strategy development process aimed at scoping a shared long term economic vision and plan with WC leaders from all sectors seeking buy-in towards achieving common goals with measurable objectives. The *Future Cape 2040* vision emphasises the need for resilient and inclusive growth and the imperative to reach agreement on how to respond to the scourge of structural unemployment. The vision also emphasises the requirement to adapt to the scarcity of resources and to the environmental challenges of achieving sustainable growth in a way that will enhance competitiveness.

The *Future Cape 2040* process and the City of Cape Town's *City Development Strategy* have been incorporated in *One Cape 2040*, which is now referred to as an articulated vision called *Towards 2040 – Unlocking our Potential*. The relevant document is a statement of direction for the regional economy and does not pretend to be an overall development plan with detailed recommendations. The vision for 2040 is to have a "highly-skilled, innovation-driven, resource-efficient, connected, high opportunity and collaborative society" facing the challenge of creating "a resilient, inclusive and competitive WC with high rates of employment, growing incomes, greater equality and an improved quality of life for all our citizens and residents that addresses the crisis of joblessness, overcomes our legacy of skills and asset deficits and responds to environmental risk" (*Towards 2040 – Unlocking Our Potential*, 2012).

As the title indicates, *Towards 2040* spans a period of 28 years. This period has been divided into four phases of 7 years each. The emphasis of the vision is embodied in a strong emphasis on investment in human capital, hence the first phase has the priority of fixing the school system to allow every child that enters a public school the benefit of a basic education of good quality.

## **1.2 Report outline**

The special theme of the 2012 PERO is the export orientation of the WC economy. The region's market is too small to allow growth strategies focused on demand in the region only, hence the production for export of goods and services to other regions in the national economy and abroad.

Chapter 2 reviews the global, national and WC economic performance and outlook, as well as the relationships between the three spheres of economic activity. Attention is given to the impact of global and national developments and outlook on the regional economy, the effect of the performance of economies which have the most influence on the regional economy and the risks and opportunities presented to the region as a result of changing economic circumstances in these economies. The risks involved are specifically related to the impact on trade with the region.

Chapter 3 takes the insights developed in Chapter 2 one step further by focusing on developments at sector level. Attention is given to industry-level activity underlying the broad sector changes in respect of job creation, economic growth potential and cross-sector linkages. A new feature of the 2012 PERO is the consideration of economic development at municipal level. In this regard the PERO links up with the first *Municipal Economic Review and Outlook* (MERO) that has recently been completed.

In line with the theme of export-oriented growth, the 2012 report expands the analysis of the export potential and performance of the WC economy presented in the 2011 PERO. In the review of sector developments, consideration is given to a breakdown and analysis of exports and imports by sector and to supply side constraints (such as skill shortages) on export growth, the direction of trade (origin of imports and export markets), and a review of export market potential by region. Attention is given to the implication for trade and investment of South Africa's membership of BRICS (Brazil, Russia, India, China and South Africa), an association of leading emerging economies, and on relationships with other emerging markets.

Chapter 4 provides an overview of the provincial labour market (employment, unemployment, labour force, and discouraged work seekers). In the 2012 PERO, the work of earlier reports is updated and attention is given to logically integrating the analysis of the labour market into the report as a whole. In view of the challenge in growing job creation, the analysis of this chapter is very important.

Close causal links exist between economic growth and development on the one hand and the 'quality of life' as measured by a number of social-economic indicators on the other hand. Chapter 5 presents a brief update of a set of preselected socio-economic variables. A more substantive investigation is undertaken into the underlying causes of socio-economic challenges experienced within education with the aim of developing appropriate policy responses. A different topic will be addressed in each subsequent PERO. It is anticipated that health will feature as specialised topic in the 2013 PERO.

### 1.3 Executive summary

Chapter 2 outlines the global, national and provincial economic development performance and outlook. The moderation in global economic growth registered during 2011 and the first quarter of 2012 was reversed in the second quarter due to strong performance in the mining sector. The slowdown in the growth momentum is expected to persist for the duration of the year with overall global growth for 2012 likely to be lower than that recorded during 2011. This is the case for both advanced and emerging markets and other developing economies. However, the persistent sovereign debt crises in the euro area and the threat of a more pronounced slowdown in the US and China continue to cloud the outlook.

In line with the global economy, South African economy is likely to produce lower growth in 2012 than what was the case in 2011, mainly because of slower growth in household consumption expenditure and despite higher fixed investment spending.

The outlook for the WC is relatively more positive. WC growth is expected to remain above national growth for both 2011 and 2012. However, the pace of growth in 2012 is forecast to ease, in line with the global and national outlook. Overall, economic growth in the WC is forecast to average 3.9 per cent between 2012 and 2017. This will be supported by growth in finance, real estate and business services, manufacturing and retail and wholesale trade, catering and accommodation sectors. However, from a trade perspective, the WC remains more exposed to slower growing Europe than the rest of the country. This makes the WC economy more vulnerable if the euro area recession is much deeper or longer than forecast.

The focus on the WC economy in Chapter 2 is relatively brief and serves as an introduction to Chapter 3, which addresses provincial economic development in more detail. The WCG endeavours to raise the wellbeing of the people living in the province and in this regard relies on higher job-creating growth to raise welfare. In order to design policy initiatives to this end, including budget allocations, a disaggregated view on the region's economy and its strengths is required. Chapter 3 seeks to provide such a view and the policy challenges that have to be faced in the addressing the problems of unemployment starkly highlighted in Chapter 4 and the social-economic challenges identified in Chapter 5.

Disaggregating the WC economic performance reveals the differences among the various sub-sectors and districts. The services orientation of the WC economy is well-known. This sector, which accounts for close to three quarters of Regional Gross Domestic Product (GDPR), grew the most rapid over the 2000s and, in terms of employment, more than compensated for the steep job losses in the agricultural, manufacturing and construction sectors. The sector did not contract during the 2008/09 recession and recovered in line

with the manufacturing sector in 2010/11, which bounced back from a steep contraction in 2008/09.

Unfortunately, the skills intensity of the demand for labour does not match the semi- and unskilled nature of the labour supply. The relatively slower growth of the tradable goods sectors, which typically absorb semi- and unskilled labour, consequently adds to unemployment. This mismatch underlies the phenomenon of "jobless growth". From last year little has changed regarding this structural imbalance in the regional economy.

WC economic activity is geographically concentrated, with 87 per cent of services GDP generated in the Cape Metro and Cape Winelands districts and 85 per cent of manufacturing GDP. However, there is evidence of pockets of strength outside the City CBD in both the manufacturing and services sectors where growth and employment creation are more robust (e.g. Eden, Overberg and the Cape Winelands).

As far as the economic outlook is concerned, the prospects for agriculture are promising. Manufacturing is expected to perform better compared to its trend growth rate in the 2000s and services should continue to lead the rest. Financial services, however, may face more pressure. The projected leading growth sectors are communications, business services, catering & accommodation and, on the manufacturing side, the automotive sector. Food & beverages and clothing & textiles are expected to put in stronger growth performances. Finally, exiting prospects are unfolding in the oil & gas sector, BPO and ICT sectors and the tourism outlook continues to bolster the WC economic prospects.

Faster job-creating growth in the WC will depend on the ability to expand export production. From a policy perspective the question is whether the provincial government has the policy capacity to encourage export-oriented growth. It is argued in Chapter 3 that on the supply side of the export growth equation the provincial government has the capacity to influence export production. The point is made that this policy initiative should be aimed at the diversification of both the product mix of exports and the destination of exports.

Regarding the WC's direction of trade, analysis shows that the region has strong and stable trading relations with especially the European Union (EU), both regarding exports and imports. Despite some key shifts, the EU remains the favourite export destination (absorbing close to 40 per cent of the regional exports) and is the principal source of imports for most industries. However, on the export side, the growth to the EU has been below par. In fact, the growth of exports to all the WC's traditional trading partners (including SADC) over the 2000s has been below par.

Considering the change in composition of export destinations between 2001 and 2011, there is clear evidence that *non-traditional* export destinations are gaining market share. Export growth has been stronger to regions such as the NICs (Newly Industrialised Countries), the BRICs/'other Asia' (mainly China and India), the ASEAN bloc (Association of South East Asian Nations), MENA (Middle East and North Africa), non-SADC (Southern African Development Community) Sub-Saharan African countries, CIS (Commonwealth of Independent States) and Latin America. In many instances growth is occurring from a low base. However, it is noteworthy that the regions mentioned account for 31.2 per cent of the WC's export destinations in 2011 (up from 14.8 per cent in 2001). This development is of a bilateral nature as the import share of these regions (excluding MENA) increased from 18.6 per cent in 2001 to 36.7 per cent in 2011.

Nevertheless, when put into a national context the shift to emerging economies has been less pronounced simply because the WC does not produce bulk commodity exports on the scale that they are produced in South Africa's mining provinces for export to countries such as China. In all, it may be concluded that WC producers, with the assistance of the provincial and local authorities, can do more to diversify export relations in order to capture a larger share of the fast-growing import demand from emerging economies.

While economic growth has recovered since the recession of late 2008, as pointed out in Chapters 2 and 3, Chapter 4 shows that the labour market has not recovered. The immediate labour market reaction to the recession was a rapid loss of jobs, after which employment stagnated. Recent data suggest a slow recovery in employment and a stabilisation of unemployment. Nationally, job losses translated into an immediate and rapid increase in non-searching unemployment, while provincially the reaction was almost exclusively felt in narrow unemployment.

Employment in the WC in the first quarter of 2012 is virtually unchanged compared to first quarter 2008, but narrow unemployment has increased rapidly. Little progress has been made in South Africa towards addressing historical patterns of labour market disadvantage over the past four years, a fact that is reflected in the provincial labour market. Relative to their shares of both the provincial working age population and the labour force, Africans remain under-represented in total and formal sector employment, and over-represented in unemployment. Their rate of unemployment is also considerably higher than the provincial average. Whites are found to be over-represented in formal sector employment and under-represented in unemployment.

The data confirms the continued challenges facing young people within the national and provincial labour markets. For 15 to 24 year olds, their share of provincial unemployment is twice their share of the provincial labour force. At the same time, the unemployment rate for this age cohort is more than twice

that of the Province. Age-related challenges within the labour market are intertwined with those related to education. Unemployment rates in the WC for educational categories up to and including grade 12 are statistically indistinguishable from the provincial average, while the likelihood of unemployment is significantly lower for those with post-secondary qualifications.

Formal employment, which describes the nature of the employment relationship rather than the employment sector, has grown at the expense of informal employment in the WC. In aggregate, a larger proportion of employment in the Province compared to South Africa is formal employment, with informal employment correspondingly less common.

The dominant trend over the past four years, however, has been the rapid increase in unemployment. This has occurred both in the WC and in South Africa. The difference between the two, however, has been the fact that in the WC the growth has occurred amongst the searching unemployed, while nationally the growth has been amongst the non-searching unemployed.

Generally favourable socio-economic conditions in the WC, reviewed in Chapter 5, stem from good service delivery and the relatively strong economic base that has reduced poverty and inequality to lower levels than in other provinces. Yet social pathologies also abound. New data confirm that inter-personal violence (affecting women and children especially), violent crime, housebreaking and other crimes far exceed national levels, while alcohol and substance abuse, family break-up and neglect of children are also common. In the year 2008/09, more than one in eight households (180 000 households) were victims of housebreaking, and more than 200 000 people fell victim to assault, mugging, armed robbery, gang attacks, rape or hijacking. Such factors prevent the stable socio-economic conditions required for economic growth to thrive.

The 10.5 years of education completed by 25 year olds is almost two years higher than for 55 year olds, showing rising levels of schooling. Yet Gauteng's labour force has somewhat higher educational attainment, as that province attracts more educated migrants. Alarming high drop-out from school in the WC between grades 10 and 12 affects boys more than girls, leading to extremely high ratios of girls to boys in higher secondary grades.

Educational quality, though best in the country, still lags far behind developed countries and grade 8 mathematics performance is weaker even than in Egypt and Tunisia. Most primary school children do not reach national performance norms in the Annual National Assessment and two-thirds of schools fail to reach these norms on average. Such weak education quality constrains long term economic growth prospects.

WC life expectancy is still quite low and infant mortality much higher than in other middle-income countries. Contributory factors include a mixture of

diseases of affluence and of poverty, HIV/AIDS and deaths from injuries (homicides and traffic accidents). TB is extremely wide-spread. The 2 500 homicides annually particularly affect male youths and young men.

School data show more in-migration to the WC than official estimates indicate. The 25 000 annual transfers to WC schools from other provinces constitute about 2.8 per cent of learners and are concentrated in grades 1, 6 and 8.

There has been limited housing progress since 2001. Without even considering over-crowding, data point to a housing shortage of about 200 000 units, with more recent estimates putting this figure at over 500 000 units. Nevertheless, informal housing is less common in Cape Town than in other cities and five out of six households enjoy all four main municipal services of water, sanitation, electricity and refuse removal.



# 2

## Economic performance and outlook

### Key findings:

- After expanding by 5.3 per cent in 2010, global economic growth slowed to 3.9 per cent in 2011. This moderation in growth continued into the first quarter of 2012 despite increased optimism regarding the global outlook as a result of more positive US data and some respite in concerns regarding sovereign and financial stress in Europe. There are signs that the growth moderation of 2011 and the first quarter of 2012 was reversed in the second quarter due to stronger performance in the mining sector.
- The outlook for the global economy for 2012 as a whole remains rather pessimistic with the IMF expecting global growth to ease further, from the slowdown registered in 2011. Growth is expected to rebound slightly in 2013. This trend is expected for both advanced and emerging as well as developing economies, albeit the level of growth in emerging and developing economies is expected to be higher.
- The risks to the outlook are firmly tilted towards the downside. The most immediate of these is the sovereign debt crisis in Europe and concerns regarding European leaders' ability to act in a timely and appropriate manner to resolve the crisis. Further risks stem from a slowing Chinese economy and, importantly, geopolitical tensions in the Middle East which threaten to push oil prices significantly higher. Looking to 2013, excessive fiscal tightening in the US could see economic growth in the world's biggest economy stall unless political consensus on extending some temporary tax cuts and reversing automatic spending cuts are reached.
- SA GDP increased by 3.2 per cent quarter-on-quarter (seasonally adjusted annualised rate) during the second quarter of 2012, an improvement on the rate recorded during the first quarter of 2012. A large portion of the growth came from the primary sector (mining in particular) with growth in the rest of the economy showing signs of weakness.

- Growth in real household consumption expenditure slowed during the first quarter of 2012, a continuation of the trend which already started in the second half of 2011. This moderation in consumer spending is consistent with less robust real disposable income and the weaker employment environment, and will likely continue for the remainder of 2012.
- In contrast, the growth in real fixed investment accelerated to 5.8 per cent year-on-year during the first quarter of 2012, up from 5.3 per cent during the second half of 2011. Most of the growth during the first quarter of 2012 came from the public sector (public corporations and general government) while investment from the private sector slowed. Despite the improved performance over the past few quarters, overall fixed investment remains below the peak reached in the fourth quarter of 2008.
- The outlook for the SA economy mimics that of the global economy, with slower growth expected in 2012, mainly on the back of moderating household consumption expenditure growth. Economic growth is forecast to accelerate in 2013. In addition to the global risks which will influence the SA economic outlook, issues such as domestic policy uncertainty also poses a downside risk to the outlook.
- Economic activity in the Western Cape rose by 3 per cent during 2010, following the 1.2 per cent contraction registered during 2009. Most of this growth came from the tertiary sector, which represents a bigger portion of Western Cape economic activity than is the case for the rest of South Africa.
- Growth in 2011 is estimated to have accelerated to 3.3 per cent, higher than the national growth rate of 3 per cent at basic prices.
- Western Cape economic growth is forecast to slow to 2.9 per cent in 2012, before rebounding to 3.6 per cent in 2013. Thereafter, regional economic growth is expected to remain relatively stable at just above 4 per cent, with overall growth expected to average 3.9 per cent between 2012 and 2017.
- The economic outlook for the Western Cape will be affected by global and national developments. However, the risk posed by a slowdown in the euro area will weigh more negatively on the Western Cape economy than the rest of South Africa. This is mainly as a result of the Western Cape's greater reliance on the euro area as an export destination.

## 2.1 Introduction

The ebb and flow of global economic sentiment played out dramatically in the first half of 2012 when sharp gains in risky assets during the first quarter of 2012 were followed by significant sell-offs during the second quarter.

In hindsight, the euphoria at the start of the year did not have a solid foundation. To a large degree the optimism was fuelled by the European Central Bank providing cheap loans to euro area banks that, although it helped to prevent a renewed credit crunch, did nothing to address the underlying problems of the excessive public debt of the euro area periphery countries, overleveraged banks and a lack of competitiveness. Financial markets were also caught off guard by the political fallout in many euro area countries against austerity measures, most notably in Greece and France. The added Spanish banking woes provided more than enough reason for renewed caution during the first quarter of 2012.

Not surprisingly, SA business sentiment was also negatively impacted by the global concerns. Specific domestic issues, including softer consumer demand and heightened political uncertainty leading up to the ANC's policy conference in June in all likelihood compounded the anxiety.

After falling to 41 index points during the second quarter of 2012, the RMB/BER Business Confidence Index recovered somewhat to a still weak 47 during the third quarter of 2012. Other forward-looking indicators for the SA economy, including the SA Reserve Bank's (SARB) leading indicator and the Kagiso PMI, indicate that robust growth acceleration from the 3.2 per cent quarter-on-quarter (annualised) growth rate during the second quarter of 2012 is unlikely.

The weaker global economic environment has had a negative impact on the open Western Cape economy. The contraction in regional economic activity registered during 2009, in line with the recession in the rest of the world and South Africa, is evidence of this. However, the Western Cape economy has, despite the contraction in 2009, been able to grow at a higher pace than the national economy as a result of a faster growing tertiary sector. The latter features more prominently in the Western Cape's economic structure than the primary and secondary sectors, which are more exposed to global economic influences.

This chapter focuses on the performance and key developments within the international, South African and Western Cape economies during 2011 and the first half of 2012. This is followed by a consideration of the economic outlook for these economies and possible risks to the outlook.

## **2.2 Developments in the global economy**

### **2.2.1 Global economic performance**

The global economy expanded at a rate of 3.9 per cent during 2011, notably lower than the 5.3 per cent recorded in 2010. This moderation in global economic growth continued during the first quarter of 2012. According to the International Monetary Fund (IMF), the global economy grew by 3.6 per cent quarter-on-quarter<sup>1</sup> during the first quarter of 2012, slightly better than expected. The first quarter of 2012 also saw renewed optimism regarding the outlook for global growth on the back of positive data from the United States (US) economy, as well as some respite in concerns regarding financial and sovereign stress in Europe. The latter was driven by temporary factors which included cheap loans offered to euro area banks as part of the European Central Bank's longer-term refinancing operations (LTROs). However, the increased optimism of the first quarter was short-lived and economic sentiment declined dramatically during the second quarter of 2012. Not only did fears about the European debt crisis re-emerge as the political dimensions also came to the fore, but indications were that a number of other important economic regions were also experiencing a slowdown in growth.

#### **Performance of advanced economies**

The pace of economic growth in advanced economies halved to 1.6 per cent during 2011, from 3.2 per cent during 2010. Growth in the US slowed from 3 per cent during 2010 to 1.7 per cent in 2011, while the United Kingdom (UK) recorded modest growth of only 0.7 per cent in 2011, down from 2.1 per cent in 2010.

The sharpest slowdown in economic activity was in Japan, where economic activity contracted by 0.7 per cent in 2011, after growing by 4.4 per cent during 2010. The March 2011 tsunami/nuclear disaster as well as the supply chain impact of the September 2011 Thai floods weighed on Japanese economic growth.

Given that euro area economic growth was already subdued during 2010, the moderation in the zone's growth was much less pronounced. Economic activity in the region rose by 1.5 per cent in 2011, only slightly lower than the 1.9 per cent recorded during 2010. Of the main euro member states Italy grew at the slowest pace, with economic activity rising by only 0.4 per cent during 2011 (down from 1.8 per cent during 2010). This was followed by Spain, which recorded economic growth of 0.7 per cent during 2011. However, in the Spanish case this was an improvement on the 0.1 per cent contraction

<sup>1</sup> All quarter-on-quarter figures are annualised unless otherwise stated.

recorded during 2010. The larger economies of Germany and France grew by 3.1 and 1.7 per cent, respectively in 2011, largely unchanged from 2010.

The euro area remains the region under most stress. After contracting by 1.3 per cent quarter-on-quarter during the fourth quarter of 2011, economic activity in the euro area remained unchanged (0 per cent growth) during the first quarter of 2012. Growth of 2.1 per cent quarter-on-quarter in Germany helped support the zone during the first quarter of 2012. However, others such as Italy (-3.2 per cent quarter-on-quarter) and Spain (-0.3 per cent) are now firmly in recession.

Conditions deteriorated further during the second quarter of 2012 when the European debt crisis manifested in political dissent. The Dutch government collapsed and subsequent elections in France and particularly Greece forced out incumbents that agreed to the harsh austerity measures tied to IMF/European Union (EU) bailout funds. Concerns were raised that Greece may renege on the terms of its bailout and be forced to leave the euro area, prompting severe contagion to other periphery countries such as Portugal and even Spain and Italy. The negative feedback loop between sovereign debt and difficulties in the banking sector was also emphasised when Spain was forced to bail out the banking conglomerate Bankia, which exacerbated the country's already high public debt levels. Ultimately, Spain requested funds worth €100 billion from the EU in order to shore up the banking sector. Financial markets started to discount the possibility that the next step would be a sovereign bailout for Spain, which significantly diminished the EU's rescue funds.

Activity indicators such as the all-industry Purchasing Managers' Index (PMI) for the euro area also suggested that after zero growth was achieved in the first quarter, the economy was likely to have contracted during the second quarter of 2012.

A similar pattern emerged in the US during the first half of 2012. Market sentiment turned positive following encouraging signs at the start of the year suggesting that the US recovery might be gaining traction. These signs included US non-farm payroll data, which showed reasonably robust employment growth, and US consumer confidence which increased to a multi-level peak in May. However, the growth momentum in the US economy softened during the second quarter. According to the Bureau of Economic Analysis (BEA), preliminary estimates for US GDP growth for the second quarter of 2012 shows that the pace of economic activity slowed to 1.5 per cent quarter-on-quarter, from 2 per cent quarter-on-quarter during the first quarter of 2012. This was led by a slowdown in personal consumption spending, the major source of economic activity in the US, from 2.4 per cent quarter-on-quarter during the first quarter of 2012 to 1.5 per cent during the second quarter.

Japan also had a strong start in 2012 with Gross Domestic Product (GDP) growth accelerating to 4.7 per cent quarter-on-quarter, after having stagnated during the fourth quarter of 2011. Consumer spending, in particular, posted robust growth. The UK economy remained in recession, and declined throughout the first half of 2012, contracting by 1.3 per cent and 2.8 per cent quarter-on-quarter during the first and second quarters of 2012, respectively.

### **Performance of developing economies**

Growth in emerging and developing markets eased to 6.2 per cent during 2011, down from 7.5 per cent in 2010. Developing Asia recorded the most pronounced slowdown, after having recorded the fastest growth in 2010. Economic activity in Developing Asia slowed to 7.8 per cent in 2011, down from 9.7 per cent in 2010. The biggest economies within this grouping, China and India, saw economic growth moderate from 10.4 per cent and 10.8 per cent in 2010 to 9.2 per cent and 7.1 per cent respectively, in 2011. Latin America and the Caribbean also saw economic activity slow significantly from 6.2 per cent in 2010 to 4.5 per cent in 2011. Most of this slowdown was as a result of the Brazilian economy, which, after growing at 7.5 per cent in 2010, managed growth of only 2.7 per cent in 2011. Growth in Sub-Saharan Africa remained largely unchanged at 5.2 per cent in 2011, marginally down from 5.3 per cent in 2010. At the same time, economic growth in Eastern Europe accelerated from 4.5 per cent in 2010 to 5.3 per cent in 2011.

Economic growth in China moderated further during the first half of 2012. Growth slowed to 7.6 per cent year-on-year during the second quarter of 2012, after already having slowed to 8.1 per cent year-on-year during the first quarter of 2012. The weaker Chinese performance can be attributed to a tightening of monetary policy, a slowdown in export growth and conscious measures to stem the pace of fixed investment.

In India, economic growth was stifled by government policy paralysis which has dampened private sector fixed investment, while high consumer debt levels limited the ability of Brazil to look towards domestic demand to compensate for a weaker export environment for its commodities.

Although GDP growth in emerging and developing markets remains at a significantly higher level than is the case for advanced economies, the country grouping has not been immune to the demand weakness in the developed world.

### **2.2.2 Medium-term economic outlook**

The outlook for the global economy (Table 2.1) remains rather pessimistic with the IMF, in their July forecast, expecting the global growth momentum to ease still further from the slowdown in 2011. Global economic growth is predicted to slow to 3.5 per cent in 2012, before recovering marginally to 3.9 per cent during 2013. Between the April and July forecasts the IMF downwardly

adjusted their outlook for global growth, in line with the more pessimistic developments during the second quarter of 2012. Growth in 2012 is expected to be 0.1 of a percentage point lower and 0.2 of a percentage point slower in 2013 than anticipated in April.

**Table 2.1 World economic outlook 2012 - 2013**

	2010	2011	Forecast		Difference from April 2012 forecast	
			2012	2013	2012	2013
<b>World Output</b>	<b>5.3</b>	<b>3.9</b>	<b>3.5</b>	<b>3.9</b>	<b>-0.1</b>	<b>-0.2</b>
<b>Advanced Economies</b>	<b>3.2</b>	<b>1.6</b>	<b>1.4</b>	<b>1.9</b>	<b>-</b>	<b>-0.2</b>
United States	3.0	1.7	2.0	2.3	-0.1	-0.1
Euro Area	1.9	1.5	-0.3	0.7	-	-0.2
Germany	3.6	3.1	1.0	1.4	0.4	-0.1
France	1.7	1.7	0.3	0.8	-0.1	-0.2
Italy	1.8	0.4	-1.9	-0.3	-	-
Spain	-0.1	0.7	-1.5	-0.6	-0.4	-0.7
Japan	4.4	-0.7	2.4	1.5	0.4	-0.2
United Kingdom	2.1	0.7	0.2	1.4	-0.6	-0.6
Canada	3.2	2.4	2.1	2.2	0.1	-
Other Advanced Economies	5.8	3.2	2.4	3.4	-0.2	-0.1
<b>Emerging and Developing Economies</b>	<b>7.5</b>	<b>6.2</b>	<b>5.6</b>	<b>5.9</b>	<b>-0.1</b>	<b>-0.2</b>
Sub-Saharan Africa	5.3	5.2	5.4	5.3	-0.1	-
Middle East and North Africa	5.0	3.5	5.5	3.7	1.3	-
Central and Eastern Europe	4.5	5.3	1.9	2.8	-	-0.1
Developing Asia	9.7	7.8	7.1	7.5	-0.3	-0.4
China	10.4	9.2	8.0	8.5	-0.2	-0.3
India	10.8	7.1	6.1	6.5	-0.7	-0.7
Latin America and the Caribbean	6.2	4.5	3.4	4.2	-0.3	-0.1
Brazil	7.5	2.7	2.5	4.6	-0.6	0.5
Mexico	5.6	3.9	3.9	3.6	0.3	-
<b>Consumer Prices</b>						
Advanced Economies	1.5	2.7	2.0	1.6	0.1	-0.1
Emerging and Developing Economies	6.1	7.2	6.3	5.6	-	-

Source: IMF, *World Economic Outlook: July 2012*

### Outlook for advanced economies

The moderation in the economic growth of the advanced economies in 2011 is expected to continue into 2012. The IMF expects economic activity in these economies to increase by 1.4 per cent in 2012, down from 1.6 per cent in 2011, before improving to 1.9 per cent in 2013. The economic outlook for advanced economies for 2012 is unchanged from the forecast in April. However, the 2013 estimate is 0.2 of a percentage point lower compared to the April forecast.

Economic activity in the euro area is expected to contract by 0.3 per cent during 2012, before recovering to 0.7 per cent in 2013. The moderation in economic growth is predicted to become more broad-based amongst euro member countries with growth in Germany and France, who have been able to sustain reasonable growth rates through 2010 and 2011, also expected to weaken significantly. According to the IMF, growth in Germany is expected to ease to 1 per cent during 2012, and to pick up to 1.4 per cent in 2013. In

France, the forecast is for growth of 0.3 per cent and 0.8 per cent in 2012 and 2013, respectively (this is 0.1 and 0.2 of a percentage point lower than forecast in April). However, the outlook for countries within the southern part of Europe continues to weigh more negatively on the overall euro area forecast, most notably that of Italy and Spain. The Italian economy is expected to register a marked contraction of 1.9 per cent in 2012 and is expected to continue contracting in 2013, albeit at a much slower pace of 0.3 per cent. Spanish economic activity is predicted to fall by 1.5 per cent and 0.6 per cent (0.4 percentage points and 0.7 of a percentage point lower than forecast in April) in 2012 and 2013 respectively. On a more positive note, the steps announced at the EU summit (the 19<sup>th</sup> since the start of the crisis in 2010) in June<sup>2</sup>, were favourably received by markets on the final trading day of June. However, there is still a long, and potentially crisis-laden, way to go before there is any real confidence about a lasting solution to the EU debt problem as the threat of a Greek or other exit from the euro area, albeit diminished, remains.

The US economy is faced with both external and domestic risks. While the fallout from the euro area recession, which influences US export and asset price performance, probably poses the most immediate risk to the US, leading into 2013 the country's own fiscal situation may be the most significant threat. Under current law, the US is faced with a large fiscal consolidation of 4 to 5 per cent of GDP during 2013. Both the IMF and Congressional Budget Office estimate that if all of the currently planned spending cuts/tax increases were to be implemented at the start of next year, the US economy will be back in recession during at least the first half of 2013. However, this is not the baseline assumption, with most forecasters expecting US politicians to settle on a fiscal package which extends some of the stimulus measures and raises the debt ceiling sufficiently. Hence, overall growth in the US is expected to remain stable over the medium term; the IMF predicts GDP growth of 2 per cent in 2012 and 2.3 per cent in 2013. Both of these estimates are 0.1 of a percentage point lower than the rate forecast in April.

Growth in Japan is expected to rebound to 2.4 per cent in 2012, partly as a result of robust growth during the first quarter, but also because of the base effects of the contraction in 2011. Growth in 2013 is expected to ease to 1.5 per cent during 2013.

Marked revisions were made to the economic outlook for the UK as data continues to surprise on the downside. The IMF lowered their April forecast for the UK by 0.6 of a percentage point for both 2012 and 2013. Growth of only 0.2 per cent is now forecast for 2012, with growth expected to recover to 1.4 per cent in 2013.

<sup>2</sup> This included an assertion that EU rescue funds could be used to directly recapitalise banks instead of the prior insistence that all funds had to go through governments with the accompanying austerity measures.

## Outlook for developing countries

The outlook for emerging and developing market economies has deteriorated in line with that of advanced economies. Growth is forecast to slow to 5.6 per cent in 2012, following the growth moderation experienced in 2011. Economic activity is expected to accelerate in 2013, with growth of 5.9 per cent forecast. The economic outlook for emerging and developing economies has been downwardly adjusted between April and July of this year; the April forecast for 2012 and 2013 was 0.1 and 0.2 of a percentage point lower, respectively.

Growth in China is expected to ease to 8 per cent in 2012, and to accelerate thereafter to projected growth of 8.5 per cent in 2013. Similarly, growth in India is expected to slow further to 6.1 per cent in 2012 before accelerating to 6.5 per cent in 2013. The current forecast for India is 0.7 of a percentage point lower for both 2012 and 2013. This reflects the strain the Indian economy has experienced as a result of negative developments (both internationally and nationally) so far in 2012.

Unlike in most parts of the world, economic growth in Sub-Saharan Africa is projected to accelerate marginally in 2012, having remained relatively stable in 2010 and 2011. Overall, the IMF expects Sub-Saharan Africa to reach a growth of 5.4 per cent in 2012 followed by slightly lower growth of 5.3 per cent in 2013. This is primarily due to the fact that the region (except South Africa) is more insulated against external economic developments, especially those in Europe.

Economic growth in Central and Eastern Europe is expected to moderate significantly during 2012. The main reason for the slowdown is the region's strong economic ties to the euro area, which is forecast to contract during 2012. The IMF expects growth in Central and Eastern Europe to rise by only 1.9 per cent during 2012 and to accelerate to 2.8 per cent in 2013.

Growth in Latin America and the Caribbean is forecast to slow to 3.4 per cent in 2012, before rebounding to 4.2 per cent in 2013. The outlook for Brazil, the largest economy in the region, has been downwardly revised. The IMF now expects growth to slow to 2.5 per cent in 2012 (0.6 of a percentage point lower than forecast in April) before accelerating to 4.6 per cent in 2013.

### 2.2.3 World inflation outlook

Having risen by 1.5 per cent in 2010, inflation in advanced economies accelerated to 2.7 per cent in 2011. Inflation in emerging and developing markets followed the same trend, accelerating from 6.1 per cent in 2010 to 7.2 per cent in 2011. The main driver of global inflation in 2011 was the sharp rise in the international oil price, with Brent crude oil having increased by 40.6 per cent during the year.

According to the IMF, global inflation is expected to ease during the forecast period because of weaker demand and lower commodity prices. The numerous risks to global growth over the next 18 months should keep overall commodity prices in check. However, the recent drought in the US has reignited concerns about food supply issues and the resultant price effects (i.e. high food prices), especially given that the US is the world's largest grain exporter.

Despite the heightened food inflation risk, global inflation is expected to moderate over the medium term. According to the IMF, inflation in advanced economies is projected to slow to 2 per cent in 2012 and 1.6 per cent in 2013. The outlook is similar for emerging and developing market economies. The IMF predicts that consumer prices in emerging and developing markets will rise by 6.3 per cent in 2012 and 5.6 per cent in 2013.

#### **2.2.4 Risks to the global outlook**

There are a number of risks to the global economic outlook, all weighing heavily on growth prospects.

- The main risk to the global outlook stems from Europe and the timely manner in which they address the current sovereign debt crises. Additional delays or insufficient action from European leaders may further exacerbate the crises. Although the decisions announced at the EU summit at the end of June are a step in the right direction, there is still a long way to go before anyone can be confident about a lasting solution to the EU debt problem. The threat of a Greek or other exit from the euro area, albeit diminished, remains.
- In the US, excessive fiscal tightening may see economic growth stall if political consensus on extending some temporary tax cuts and reversing automatic spending cuts is not reached. Also, any delay or political standoff on the raising of the US debt ceiling, similar to what occurred in August 2011, could increase the risk of financial disruptions and a decline in consumer and business confidence.
- Personal consumption expenditure in the US remains under pressure and although employment growth continues, unemployment remains high.
- Continued drought in the US could see higher inflation over the forecast period, despite overall commodity prices remaining contained on the back of lower demand.
- The slowdown in advanced economies can have a more serious effect on emerging and developing markets, especially those that rely on advanced economies for export demand and in some cases international aid.

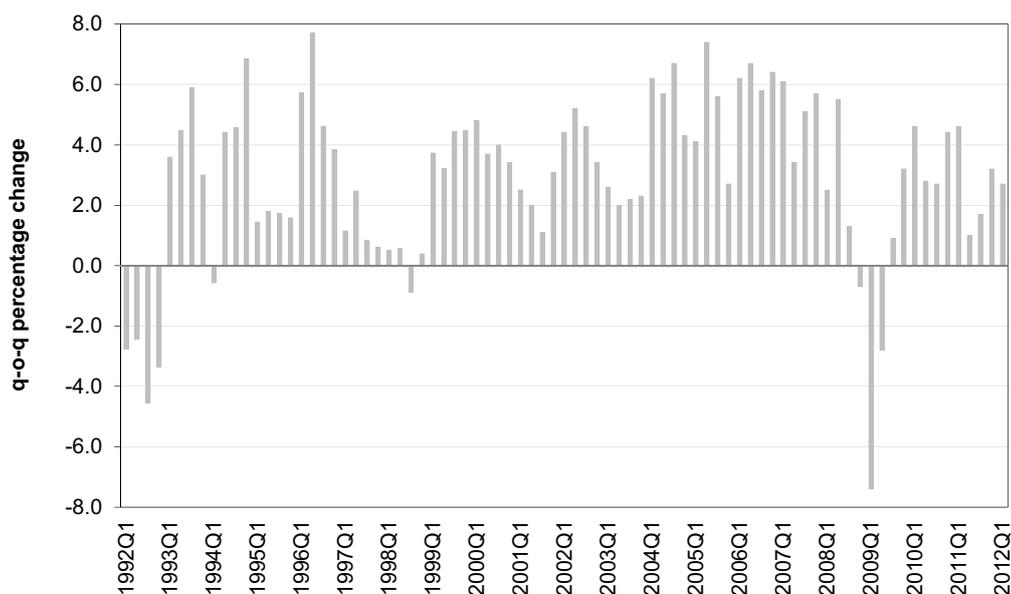
- Slower growth in China poses another big risk to the global economic outlook, especially if the slowdown is more acute than expected.
- A significant geo-political risk could be posed by an armed response to the perceived development of Iran's nuclear capability. Severe destabilisation in the Middle East could result with a serious impact on international oil trade and the price of oil.
- An upside risk to the global economic forecast is that European leaders may reach agreement on a more lasting solution to the debt crisis. However, given the fragmented political landscape, the probability of such a scenario is rather low.

## 2.3 South African economic development

### 2.3.1 Performance of the South African economy

The growth in the South African GDP, quarter-on-quarter, is shown in Figure 2.1, which clearly reveals the cyclical pattern of the growth process. The GDP growth rate in the SA economy accelerated during the second quarter of 2012, in line with market expectations. StatsSA reported that GDP growth measured 3.2 per cent quarter-on-quarter, up from the 2.7 per cent recorded during the first quarter of 2012 (See Table 2.2). Compared with the second quarter of 2011, the economy expanded by 2.7 per cent year-on-year, which represented a meaningful acceleration from the 2.1 per cent year-on-year recorded during the first quarter of 2012. Overall, the economy grew by 2.4 per cent year-on-year in the first half of 2012.

**Figure 2.1 South African economic growth, quarter-on-quarter, 1992 - 2012**



Source: StatsSA

However, the improved second quarter growth performance was exclusively the result of a widely expected rebound in the primary sector, most notably mining and quarrying. Value added in the primary sector surged by 23 per cent quarter-on-quarter after contracting by 11.2 per cent in the first three months of the year. Although the value added in the agricultural sector improved, the 31.2 per cent quarter-on-quarter jump in mining value added was by far the largest contributor, not only to primary sector output, but also overall GDP. Indeed, the mining sector added 1.5 percentage points to the 3.2 per cent GDP growth rate. In fact, if the mining sector was excluded from overall GDP, growth moderated sharply to only 1.9 per cent quarter-on-quarter (the weakest since the second quarter of 2011) from 3.9 per cent during the first quarter of 2012. The mining recovery was mainly as a result of output recovering in the key platinum sector following an extended strike. Renewed unrest in the platinum sector over the last number of weeks suggests that the second quarter mining recovery is set to be short-lived, i.e. mining could again be a constraint to growth during the third quarter of 2012.

**Table 2.2 Sector breakdown of GDP growth**

	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2
Agriculture, forestry & fishing	-9.5	-6.9	-5.0	3.4	5.8
Mining & quarrying	-4.5	-17.8	0.7	-16.8	31.2
Manufacturing	-8.8	-0.7	4.2	7.7	-1.0
Electricity, gas and water	1.0	-2.6	1.2	-0.1	-4.2
Construction	0.8	1.8	1.9	3.8	4.3
Wholesale, retail, motor trade and accommodation	5.2	6.1	5.2	3.0	2.8
Transport, storage and communication	4.3	2.3	2.9	2.5	2.3
Finance, real estate and business services	2.7	4.5	2.3	4.1	2.3
Community, social & personal services	5.1	4.2	4.4	2.3	1.9
General government services	2.8	2.5	3.0	1.7	2.1
<b>GDP at market prices</b>	1.0	1.7	3.2	2.7	3.2

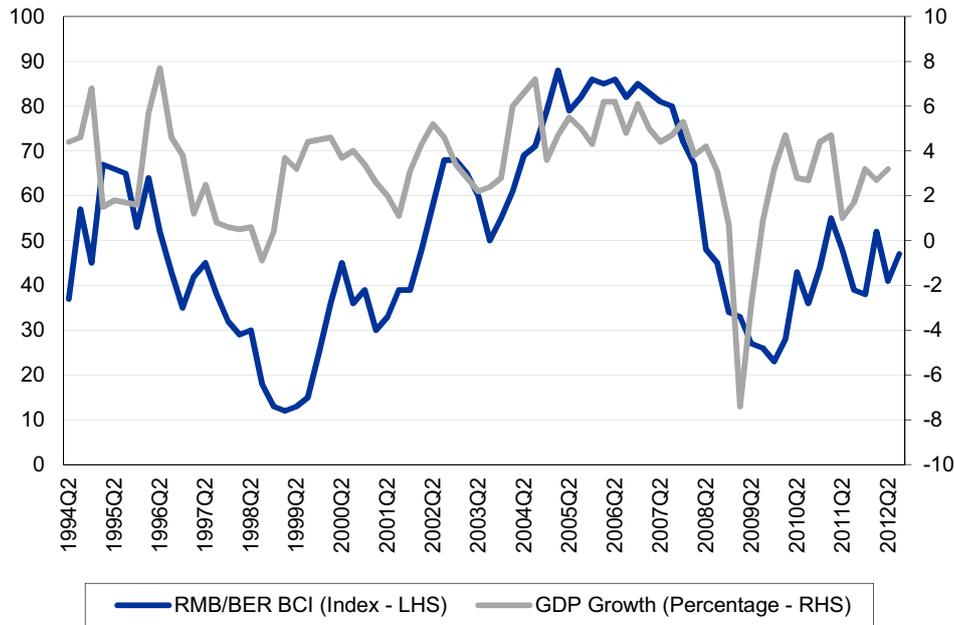
Source: StatsSA

Tertiary sector value added, responsible for almost 62 per cent of GDP during the second quarter of 2012, slowed to growth of 2.3 per cent quarter-on-quarter from 3 per cent at the start of the year as growth in the finance sector eased sharply to just above 2 per cent from more than 4 per cent. Growth in the trade sector, which is most closely tied to consumer demand, eased for the second consecutive quarter to below 3 per cent quarter-on-quarter.

Growth in the secondary sector weakened markedly to record a contraction of 0.5 per cent, after robust growth of 6.4 per cent during the first quarter of 2012. Following a strong start to the year, manufacturing value added posted a small decline during the second quarter of 2012 shaving about 0.2 of a percentage point off GDP growth.

Leading indicators suggest that conditions remained relatively weak during the third quarter of 2012. The RMB/BER Business Confidence Index (BCI) rose by six points from 41 in the second quarter to 47 in the third quarter of 2012 (Figure 2.2). However, this only partially neutralises the big fall in the second quarter when confidence dropped by 11 points (from 52 in the first quarter).

**Figure 2.2 RMB/BER Business Confidence Index**



Source: StatsSA/BER

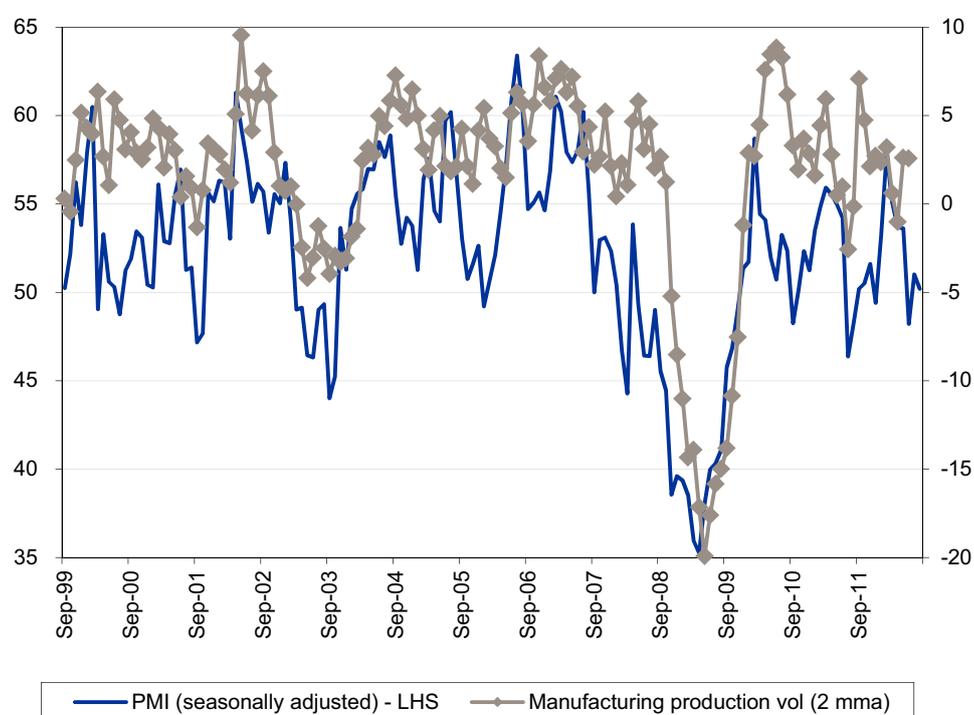
The data available at the time of writing also points towards slowing economic activity. According to Statistics South Africa (StatsSA) retail sales for June grew by 8.3 per cent year-on-year, up from a revised 7.1 per cent in May. Despite the relatively robust growth in retail sales during June, overall growth in retail sales for the second quarter of 2012 slowed to 5.4 per cent, down from 5.9 per cent during the first quarter. The biggest contributor to growth during the second quarter was retailers in textiles, clothing, footwear and leather goods (+2 percentage points), followed by general dealers (+1.4 percentage points). Other contributors include the all other retailers category (+0.8 of a percentage point) and retailers of hardware, paint and glass (+0.6 of a percentage point). Retailers of food, beverage and tobacco in specialised stores continue to underperform, weighing negatively on growth during the second quarter of 2012.

Data from the Manufacturing sector, which during the first quarter of 2012 contributed most to the rise in economic activity, showed that manufacturing production increased by only 0.8 per cent year-on-year in June, down from 4.2 per cent in May. For the second quarter as a whole, seasonally adjusted manufacturing production declined by 0.2 per cent compared to the first quarter of 2012. During this period, five of the ten manufacturing divisions recorded negative growth with the biggest contraction being recorded in the

basic iron and steel, non-ferrous metal products, metal products and machinery division (-6.3 per cent). Some sectors, such as the motor vehicles, parts and accessories and other transport equipment offered some support to the manufacturing industry during the period.

The Kagiso Purchasing Managers Index (PMI) (Figure 2.3) remained slightly above the neutral 50 index point mark during August shedding 0.8 index points to 50.2, from 51 index points during July. However, the average PMI for the first two months of the third quarter is 50.6, down from average readings of 55.4 and 51.8 during the first and second quarter of 2012, respectively. This indicates that, as was the case in the second quarter of 2012, the manufacturing sector could again be a drag on overall GDP growth during the third quarter of 2012.

**Figure 2.3 Kagiso Purchasing Managers Index, 1999 - 2011**



Source: BER

Data from the building and construction sector show improved performance over the past few months. According to Stats SA, the value of building plans passed and completed is starting to show a positive trend. In fact, most of the data confirm that the sector has indeed reached the lower turning point and is on the path to recovery. The results for the FNB/BER Civil confidence index point to a further acceleration in activity in the second quarter of 2012. The index rose from 34 to 38 index points during the quarter, its highest level since the end of 2009. However, despite the rise in confidence, the majority of survey respondents remain dissatisfied with prevailing business conditions.

The limited data available suggest that the underlying weakness in the economy is likely to persist into the third quarter of 2012. In addition, the mining sector – which was responsible for a large portion of growth during the second quarter of 2012 – will in all likelihood contribute negatively to GDP growth in the third quarter given recent labour unrest.

### 2.3.2 Outlook for the South African economy

As described earlier, the outlook for South African GDP growth has deteriorated on a number of fronts over the last three months. The BER forecasts GDP growth of 2.5 per cent for 2012, down from 2.9 per cent projected in April. The growth forecast for 2013 has been reduced by 0.3 of a percentage point to 3.3 per cent.

Table 2.3 summarises the BER forecast as published in July 2012. The sections that follow provide some background on the specific drivers of GDP.

**Table 2.3 Forecast for selected SA variables (2012 - 2013)**

	2011e	2012f	2013f
<b>Final Consumption Expenditure, Households</b>	<b>5.0</b>	<b>3.3</b>	<b>3.9</b>
Durable goods	15.7	9.1	5.7
Semi-durable goods	7.0	4.4	5.4
Non-durable goods	2.9	2.4	3.0
Services	3.8	2.3	3.7
<b>Gross Fixed Capital Formation</b>	<b>4.4</b>	<b>4.9</b>	<b>5.1</b>
Private residential	-4.3	2.6	3.9
Private excluding residential	6.4	3.9	5.0
Government	0.8	5.5	5.1
Public Corporations	4.2	7.8	5.9
<b>Exports of Goods and Services</b>	<b>5.9</b>	<b>3.0</b>	<b>4.7</b>
Non-gold exports	6.3	3.6	5.0
<b>Interest Rates (fourth quarter averages)</b>			
3 month BA rate	5.5	5.1	5.21
10-year Government Bond	7.74	7.45	7.99
Prime overdraft rate	9.0	8.5	8.5
<b>Inflation (annual average %)</b>			
Producer prices	8.4	5.7	4.9
Consumer prices	5.0	5.6	5.6
Nominal wage rate	7.4	7.6	8.2
<b>Exchange Rates (fourth quarter averages)</b>			
R/US dollar	8.09	8.03	7.65
R/Euro	10.91	10.16	9.83
R/Pound sterling	12.72	12.64	12.01
Yen/R	10.47	9.79	9.11
<b>Gross Domestic Expenditure</b>	<b>4.3</b>	<b>3.9</b>	<b>4.4</b>
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>2.5</b>	<b>3.3</b>
<b>Current Account Balance (R billion, seas. adj.)</b>	<b>-98.79</b>	<b>-152.42</b>	<b>-160.31</b>
(as % of GDP)	-3.32	-4.76	-4.54

Source: BER; July 2011

## Final household consumption expenditure

The growth in real household consumption expenditure continued to slow at the start of 2012. The moderation already started in the second half of 2011. After growing by 5.4 per cent year-on-year in the first six months of 2011, consumer spending growth tapered off to a still robust 4.6 per cent (significantly above GDP growth of 2.8 per cent) in the second half. Although the momentum eased further to 3.7 per cent in the first three months of 2012, growth in consumer spending continued to exceed overall GDP growth of 2.1 per cent year-on-year during the first quarter.

Measured on a quarter-on-quarter basis, growth in consumer spending declined from 4.6 per cent during the fourth quarter of 2011 to 3.1 per cent during the first quarter of 2012. The softer spending tone in recent quarters is consistent with less robust real disposable income growth. Table 2.4 highlights that the combination of higher consumer inflation, softer wage growth<sup>3</sup> and a weaker employment environment resulted in a slowdown in the rate of real disposable income growth. Amongst other factors, the sustained low level (historically speaking) of the prime lending rate and the strong rise in unsecured credit growth ensured that growth in consumer spending remained positive.

**Table 2.4 Drivers of disposable income**

Yoy % change	2011Q1	2012Q1
CPI inflation	3.8	6.1
Nominal wages	7.5	6.5
Formal employment	2.5	1.1
<b>Real disposable income</b>	<b>5.6</b>	<b>3.9</b>

Source: SARB/BER; July 2011

Sales of durable goods (including new vehicle purchases) experienced the most significant slowdown. The quarter-on-quarter growth rate eased sharply to 8.2 per cent during the first quarter of 2012, down from 16.6 per cent during the fourth quarter of 2011. The June 2012 *Quarterly Bulletin* of the South African Reserve Bank (SARB) reported that the moderation in durable goods sales was broad based, but that it was more pronounced for the furniture and household appliances sub-categories, while new vehicle sales also eased. The Ernst & Young/BER retail survey for the second quarter of 2012 indicated that durable sales volume growth is set to moderate further during the second quarter of 2012. Indeed, whereas during the first quarter of 2012 a net majority of 18 per cent of the BER's respondents in the durable retail sector reported

<sup>3</sup> This is confirmed by the Andrew Levy Wage Settlement Survey, which showed a moderation in wage settlements to 7.3 per cent year-on-year in the first quarter of 2012 from 7.7 per cent during 2011.

that their sales volumes were down compared to the same quarter in 2011, the number increased to almost a third during the second quarter.

With the exception of recreational and entertainment goods sales that remained strong, outlays on semi-durable goods also moderated notably during the first quarter of 2012 to 2.9 per cent quarter-on-quarter versus the more than 7 per cent growth recorded during the fourth quarter of 2011. As with durable goods, the BER's retail survey for the second quarter of 2012 hinted that the moderation in sales growth extended through the second quarter as the net majority of respondents reporting increased sales volumes compared with 2011 fell sharply to 27 from 74 in the first quarter. Indications are that higher clothing prices are having a negative impact on volumes.

Sales of non-durable goods went against the trend at the start of the year, increasing by 3.5 per cent quarter-on-quarter compared with 2.2 per cent during the fourth quarter of 2011. However, the annual growth rate moderated to 2.5 per cent year-on-year, down from 2.8 per cent during the fourth quarter of 2011. In the Reserve Bank Quarterly Bulletin it was mentioned that most non-durable categories, including food and petroleum products, performed well during the first quarter of 2012. Increased outlays on petroleum products go hand-in-hand with the continued strong growth in new vehicle sales, but the rise in food outlays is surprising in light of the sharp food price gains at the start of the year, as well as weaker employment growth. The recent food and petrol price moderation bodes well for non-durable sales volume growth, but the more subdued employment outlook (compared with three months ago) should constrain non-durable goods sales.

Spending on services moderated to 1.6 per cent quarter-on-quarter during the first quarter of 2012, from almost 3 per cent during the fourth quarter of 2011. According to the SARB, part of the slowdown can be explained by reduced air travel amid higher prices that were influenced by the fast rising oil price at the start of the year.

Table 2.5 sets out the outlook for the consumer spending categories. In all, the growth in total real household consumption expenditure is expected to slow from 5 per cent during 2011 to 3.3 per cent in 2012, before accelerating back to 3.9 per cent during 2013. The forecast for both 2012 and 2013 has been downwardly revised from the BER's April forecast. The combination of softer volume growth and easing inflation in the second half of 2012 means that retailer turnover growth should also slow in 2012 when compared to 2011.

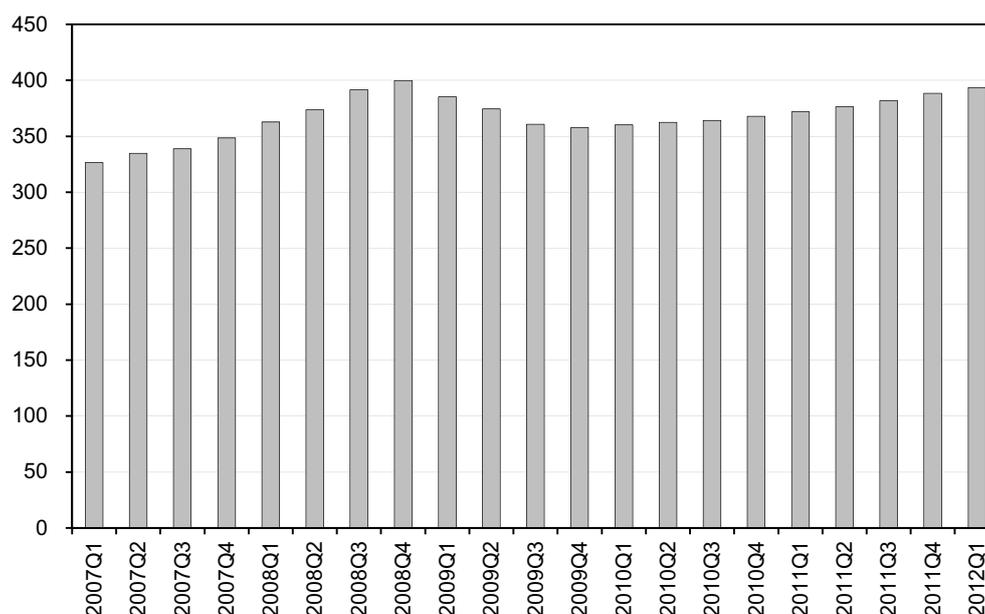
**Table 2.5 Real consumer spending, year-on-year percentage change**

Description	2009	2010	2011e	2012f	2013f
Non-durable goods	-1.0	1.3	2.9	2.4	3.0
Semi-durable goods	-1.9	2.0	7.0	4.4	5.4
Durable goods	-12.6	18.1	15.7	9.1	5.7
Services	0.5	3.4	3.8	2.3	3.7
Total	-1.6	3.7	5.0	3.3	3.9

Source: SARB/BER; July 2011 (e = estimate; f = forecast)

### Gross fixed capital formation

Unlike consumer spending, the annual growth rate for real fixed investment accelerated through the first quarter of 2012. After picking up to 5.3 per cent year-on-year in the second half of 2011 from 3.6 per cent in the first, fixed investment growth rose to 5.8 per cent year-on-year during the first quarter of 2012.

**Figure 2.4 Fixed investment, 2007 – 2012: R' billions**

Source: SARB

Despite the rising trend, Figure 2.4 indicates that the level of overall fixed investment outlays in the first quarter of 2012 remained below the peak reached in the fourth quarter of 2008. The overall number masks diverging trends in the key fixed investment components. After a dip in the first half of 2010, public corporation (mainly Eskom and Transnet) fixed investment reverted back to a strong upward trend. During the first quarter of 2012, investment by state owned enterprises increased by a robust 13.1 per cent quarter-on-quarter, which helped to push the year-on-year rate up strongly to 9.4 per cent from 7.2 per cent in the last six months of 2011. Besides the construction investment in Eskom's new power stations, the SARB mentions

that a number of smaller electricity projects also contributed to strong investment growth. In the case of Transnet, capital spending on the new multi-product pipeline between Durban and Gauteng as well as the expansion of its locomotive fleet boosted the figures.

Government fixed investment continues to be the worst performer of the major categories. Despite a strong start to 2012, the real level of government capital outlays remains more than 11 per cent below the 2008 peak. However, the last two quarters have witnessed much improved fixed investment spending. After increasing by 7.8 per cent quarter-on-quarter during the fourth quarter of 2011, government capital outlays accelerated to 9.3 per cent. As a result, capital spending accelerated to 5.5 per cent year-on-year during the first quarter of 2012 from only 2.1 per cent in the second half of 2011. The final phase of the Gautrain construction, along with provincial and local government outlays on water, schools, hospitals and other health facilities supported investment growth. This situation can however continue only if government is successful in honouring its pledge to shift spending away from current expenditure (salaries and wages of public employees) to greater fixed investment. Public sector unions and government again agreed on a higher than budgeted wage increase of 7 per cent for this year. On a more positive note, the agreement stipulates constrained growth for 2013 - 2015, with increases based on the average projected CPI plus 1 per cent.

During the first quarter of 2012, the growth in private sector fixed investment moderated further to 4.7 per cent year-on-year as the growth rate eased sharply to 1.8 per cent from 6.2 per cent in the fourth quarter of 2011. A number of uncertainties, including concern about global growth, commodity prices, strike activity and energy supplies, prompted a decline in mining sector fixed investment during the first quarter. Although it does not seem likely that nationalisation will become government policy, the lack of clarity on the matter may also explain the reluctance of the mining sector to embark on accelerated fixed investment. According to the SARB the manufacturing and trade sectors delayed a number of capital projects.

The outlook for fixed investment is slightly more positive than is the case for consumer spending. Fixed investment outlays are expected to rise by 4.9 per cent in 2012, with a further acceleration to 5.1 per cent in 2013. Investment by the private sector is expected to ease during 2012 with most of the growth forecast to come from the public sector, the opposite trend, of rising private investment, and slowing public sector investment, is expected for 2013.

### **2.3.3 Balance of payments and rand exchange rate outlook**

The rand exchange rate has moved in line with global sentiment. During the first quarter of 2012, when markets were reinvigorated by rising risk appetite, the rand strengthened and averaged R7.76/\$. When sentiment deteriorated and risk aversion returned during the second quarter, the rand depreciated to average R8.12/\$, reversing all of the gains of the first quarter.

Over the short term most of the drivers of the softer currency are likely to remain in place. As outlined in the overview of the global economy, commodity prices should remain subdued – or at best only recover modestly – in the short term especially as the situation in Europe is unlikely to show material improvement soon. In this scenario, safe haven assets, including the US dollar, should be in favour at the expense of riskier emerging market assets. This does not necessarily mean that the rand will lose further ground, but rather that the currency should trade above R8/\$ for most of 2012.

Considering global economic uncertainties it could be argued that the rand has actually performed well against other countries. An important reason being that the rand benefitted from the significant amounts of money that have been flowing into the bond market. Of the approximately R6.5 billion worth of foreign portfolio inflows attracted by South Africa in the year to date to 3 August, about R6.6 billion has gone into South African government bonds. This compares to overall net portfolio inflows of roughly R4.3 billion during the corresponding period in 2011. Despite some concerns about South African fiscal policy going forward, foreign investors continue to see value in South African government bonds. The decision by US bank Citigroup to include a number of local bonds in its global bond index from October may have boosted sentiment.

While the Rand may continue to experience short-term pressure, it is expected to strengthen in the next 12 to 18 months. The forecast is based on the assumption that the world economy should be in an improved position in the second half of 2013 (in line with the IMF global growth forecast), especially if the EU starts to make progress on some of its major issues. In such an environment, global risk aversion should come down, which amongst other factors may see higher commodity prices and a somewhat weaker US Dollar versus the Euro. In sum, the Rand is expected to average R8.03/\$ in the fourth quarter of 2012 before strengthening to an average of R7.65/\$ in the fourth quarter of 2013. However, recent domestic and international factors influencing the rand has increased the risk that the currency will be weaker, at least until the end of the year.

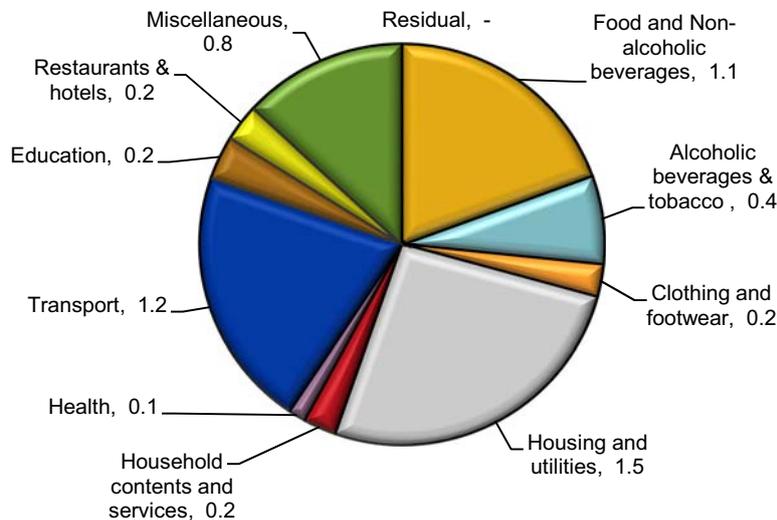
Domestic current account dynamics, especially the ability to attract large foreign capital inflows as financing, also remain a risk to the forecast for a stronger currency. However, implicit in the view of reduced global risk aversion during 2013 is that South Africa will be able to finance a projected current account shortfall measuring 4.5 per cent of GDP (4.8 per cent in 2012). The current account deficit measured at 3.3 per cent of GDP during 2011. The main driver of the widening deficit on the current account of the balance of payments is the expected deterioration in South Africa's export performance. After growing by 5.9 per cent in 2011, export volume growth is forecast to slow to 3.8 per cent and 4.7 per cent during 2012 and 2013, respectively.

### 2.3.4 Inflation and interest rate outlook

After dropping by 0.4 of a percentage point to 5.7 per cent year-on-year in May, CPI inflation moderated further during June. Consumer prices increased by a modest rate of 0.2 per cent month-on-month. This resulted in the year-on-year figure falling to 5.5 per cent in June. With markets expecting an increase of 5.6 per cent year-on-year, the June figure marks the fifth consecutive month in which consumer price inflation has surprised on the downside. The slowdown in headline CPI was mainly driven by a moderation in goods prices, which slowed from 6.5 per cent in January to 5.2 per cent in June. Food inflation in particular has been falling sharply from a peak of 11.6 per cent in December to just 6 per cent in June. Transport inflation also fell sharply following the 55c/litre decrease in the petrol price. However, on an annual basis, core inflation ticked up by 0.2 of a percentage point to reach 4.6 per cent year-on-year (0.7 per cent month-on-month) in June.

From a quarterly perspective, overall inflation during the second quarter of 2012 slowed to 5.7 per cent year-on-year from 6.1 per cent during the first quarter. The biggest contributors to inflation during the second quarter were housing and utilities (+1.5 percentage points), transport (+1.2 percentage points), food and non-alcoholic beverages (+1.1 percentage points) and other miscellaneous goods (+0.8 of a percentage point).

**Figure 2.5 Contributors to inflation, 2012Q2 (per cent)**



Source: StatsSA

Overall, the BER expects inflation to increase from 5 per cent in 2011 to 5.6 per cent in 2012. Inflation is expected to remain unchanged at 5.6 per cent in 2013.

Upside risks to the outlook continue to emanate mainly from food and fuel prices. While food price inflation has been moderating since the end of 2011, the recent spike in international grain prices could result in food inflation accelerating towards the end of 2012 and into 2013. However, administered prices are also set to remain a key inflation driver. Besides surging electricity bills, administered prices include municipal tariffs such as water, refuse removal and property taxes. The City of Cape Town, for example, recently announced that these costs would increase by 15 per cent, 7 per cent and 8 per cent respectively from 1 July 2012. Even if petrol is excluded from administered costs, inflation in this category has been (on average) 4.4 percentage points above headline CPI since January 2010.

The Monetary Policy Committee (MPC) of the SARB reduced the repo rate by 50 basis points to 5 per cent at their July meeting. The move implies a multi-decade low prime interest rate of 8.5 per cent.

The MPC perceived the global and domestic GDP growth outlook to have deteriorated notably and the improvement in the SARB's inflation forecast provided it with some freedom to act to alleviate some of the pressures faced by the economy. It could be argued that the MPC has tried to pre-empt the spillovers to South Africa of more trouble in the global economy.

The BER expects the repo rate to remain unchanged through 2013. However, a continued deterioration in global and domestic growth prospects, especially if accompanied by a renewed oil price decline and thus even more benign global inflation, may well result in further monetary policy easing.

### **2.3.5 Risks to the outlook**

External factors remain the greatest threat to the short-term South African economic outlook. These include a further deterioration in the EU debt crisis, a US fiscal cliff which sees a sharp fiscal contraction and a recession in the world's largest economy, geo-political tensions surrounding Iran and the potential for a faster than expected easing in Chinese growth (so-called hard landing).

On the local front, continued divisions in the ruling party perhaps creates the most important risk as it leads to uncertainty and crucially a lack of service delivery (including government infrastructure spending). An important risk factor that has arisen recently is the uncertainty resulting from labour unrest in the platinum mine industry and specifically the violence and the multiple deaths at the Marikane mine in the North West province. This is likely to have a negative impact on investor confidence in general but in the mining industry in particular.

A domestic issue that has been off the radar screen to some extent is Eskom's electricity provision. The power utility is already providing incentives to some of its large industrial users to cut back electricity consumption, which arguably helps to explain the lackluster performance of the mining and manufacturing sectors, albeit that the latest (May) output numbers from both sectors were more optimistic. Further production cutbacks due to power shortages will clearly have a detrimental growth impact. On the electricity price front, indications are that Eskom will continue to ask for double-digit price hikes in the next number of years, which will impact on both inflation and demand.

The most obvious upside risk to the global and SA economy would be if European leaders can agree to a lasting solution to the periphery debt crisis. Unfortunately, the experience since the crisis erupted in early 2010 does not instill much confidence in the likelihood that the different parties will come to an agreement in the foreseeable future. We therefore attach only a low probability to an upside risk coming from the EU.

## **2.4 Development in the Western Cape economy**

### **2.4.1 Western Cape economic performance**

After contracting by 1.2 per cent year-on-year during 2009, economic activity in the Western Cape picked up to register growth of 3 per cent year-on-year during 2010 (at basic prices<sup>4</sup>). This is slightly higher than the growth of 2.9 per cent year-on-year recorded by the national economy during 2010.

The main driver of the recovery in economic growth in the region during 2010 (Table 2.6) was the finance, real estate and business services sector which contributed 1.1 percentage points to overall growth, expanding by 3.6 per cent year-on-year. This was followed by the manufacturing sector which contributed 0.7 of a percentage point to regional GDP (GDPR) during 2010, registering growth of 5 per cent (after contracting by 8.6 per cent in 2009). The other significant contributor to GDPR during 2010 was the retail and wholesale trade, catering and accommodation sector, which with growth of 3.3 per cent in 2010, added 0.6 of a percentage point to overall growth. The agricultural, forestry and fishing sector continued to weigh on growth during 2010, contracting by 1.8 per cent on top of the 1.2 per cent contraction recorded in 2009.

<sup>4</sup> All GDP figures in this section are quoted at basic prices.

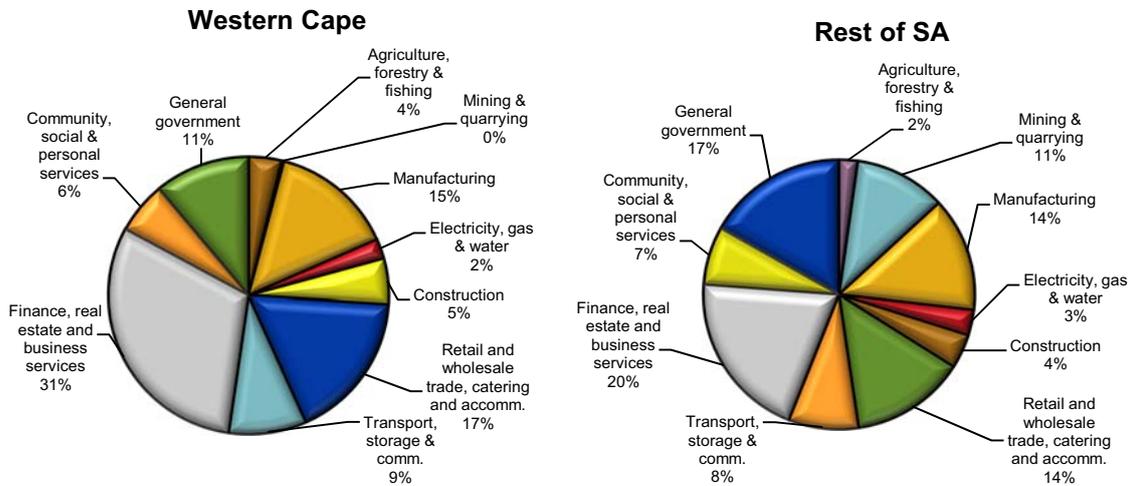
**Table 2.6 Western Cape economic growth (2006 - 2011)**

Description	2006	2007	2008	2009	2010	2011e	5-year average growth (2006 – 2010)
Agriculture, forestry & fishing	-5.7	1.6	17.7	-1.2	-1.8	-2.2	2.1
Mining & quarrying	-5.5	0.7	-7.0	-8.0	3.4	-2.8	-3.3
Manufacturing	6.2	5.2	2.1	-8.6	5.0	2.2	2.0
Electricity, gas & water	2.0	2.3	-3.8	0.7	1.2	1.0	0.5
Construction	10.7	15.1	7.2	3.7	0.7	1.5	7.5
Retail and wholesale trade, catering and accommodation	5.2	5.4	0.3	-1.5	3.3	4.5	2.5
Transport, storage & communication	4.2	7.0	2.9	1.2	1.9	3.2	3.4
Finance, real estate and business services	9.4	8.2	7.5	0.2	3.6	4.6	5.8
Community, social & personal services	4.3	5.4	4.1	-1.3	0.6	2.9	2.6
General government	2.6	3.8	4.4	3.8	3.2	3.0	3.6
<b>GDPR at basic prices</b>	<b>5.9</b>	<b>6.4</b>	<b>4.6</b>	<b>-1.2</b>	<b>3.0</b>	<b>3.3</b>	<b>3.7</b>

Source: StatsSA/Quantec (e = estimate)

Although mining and quarrying as well as the general government sectors posted relatively high growth rates in 2010, their contribution to regional growth remains relatively small compared to the rest of South Africa. In particular, the mining sector contributes less than 1 per cent to Western Cape economic activity, compared to 11 per cent for the rest of South Africa (Figure 2.6). The contribution of general government services to economic activity in the rest of South Africa is also higher than is the case in the Western Cape. The sector represents approximately 11 per cent of economic activity in the Western Cape compared to 17 per cent for the rest of South Africa. However, the finance, real estate and business services sector, which contributes almost a third (31 per cent) to overall output in the Province, contributes just over 20 per cent to economic activity in the rest of South Africa. The retail and wholesale trade, catering and accommodation sector also contributes more meaningfully to the Western Cape economy, constituting 17 per cent of total economic activity compared to its 14 per cent contribution to economic activity in the rest of South Africa.

**Figure 2.6 Structure of the Western Cape economy and the Rest of SA, 2010 (basic prices)**



Source: StatsSA

The structure of the Western Cape economy, being more tertiary sector orientated than the rest of South Africa, has resulted in the Western Cape being able to experience higher economic growth than the national economy. Nationally, economic activity of the tertiary sector has performed relatively better than the primary and secondary sectors in recent years, with tertiary value added having grown at an average of 4.1 per cent between 2006 and 2011. This is significantly higher than the average growth recorded in the secondary (2.6 per cent) and primary (-0.3 per cent) sectors over the same period.

It is estimated that the Western Cape continued to grow at a faster pace than the national economy during 2011. According to Quantec/BER estimates, growth in the Western Cape economy picked up to 3.3 per cent during 2011, if compared to 3.1 per cent for the national economy. It is expected that growth in the finance, real estate and business services and retail and wholesale trade, catering and accommodation sectors, which accelerated to 4.6 and 4.5 per cent respectively, in 2011, had supported growth in the Western Cape. Manufacturing growth is expected to have eased to 2.2 per cent in 2011 following the rebound in 2010. The contraction in the agricultural sector is expected to have continued, with economic activity expected to have fallen by 2.2 per cent during 2011.

### 2.4.2 Outlook for the Western Cape economy

It is expected that growth in the Western Cape will follow a similar trend to that forecast for the national economy, i.e. a slight moderation in growth in 2012 followed by a mild acceleration in growth during 2013 through to 2017 (Table 2.7). Quantec/BER forecast that growth in the Western Cape GDP (at basic prices) will ease to 2.9 per cent in 2012, down from the 3.3 per cent expected for 2011. Growth is forecast to rise to 3.6 per cent during 2013.

Thereafter, regional economic growth is expected to remain relatively stable at just above 4 per cent, with overall annual growth expected to average 3.9 per cent between 2012 and 2017. South African GDP growth is forecast to average 3.6 per cent over the same period.

**Table 2.7 Economic outlook for the Western Cape (%) real growth in GDPR, 2012 – 2017**

Description	2012f	2013f	2014f	2015f	2016f	2017f	6-year average growth
Agriculture, forestry & fishing	-0.5	2.4	3.2	3.3	2.7	2.9	2.3
Mining & quarrying	-2.7	1.6	1.5	1.6	1.6	1.8	0.9
Manufacturing	2.4	2.4	3.1	3.4	3.5	3.6	3.0
Electricity, gas & water	1.0	2.3	2.3	2.0	2.3	2.5	2.1
Construction	2.8	4.7	5.0	5.2	5.5	5.5	4.8
Retail and wholesale trade, catering and accommodation	3.8	2.8	3.2	3.4	3.8	4.0	3.5
Transport, storage & communication	3.1	5.8	5.1	5.5	5.6	5.4	5.1
Finance, real estate and business services	3.4	4.4	5.4	5.3	5.4	5.2	4.8
Community, social & personal services	2.3	2.7	2.8	2.9	2.7	2.6	2.7
General government	2.6	2.3	2.4	2.6	2.4	2.5	2.5
<b>GDPR at basic prices</b>	<b>2.9</b>	<b>3.6</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>	<b>3.9</b>

Source: BER/Quantec (f = forecast)

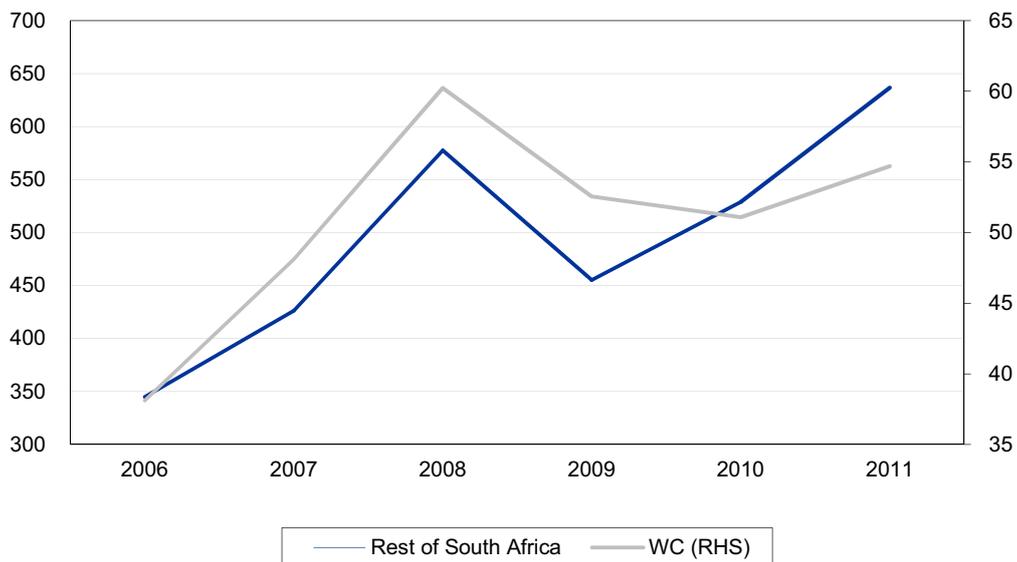
Growth in the Western Cape is likely to be supported by the finance, real estate and business services sector (4.8 per cent growth on average), which, although not the fastest growing sector over the period, remains the biggest contributor. Other sectors expected to contribute notably to GDPR growth are the retail and wholesale trade, catering and accommodation (3.5 per cent), manufacturing (3 per cent) and the transport, storage and communication sectors (5.1 per cent).

Because of the region's exposure to export performance as a source of growth the outlook for the Western Cape, compared to the rest of South Africa, is more vulnerable to global economic developments over the short term. In 2011, approximately 40 per cent of Western Cape exports went to Europe in comparison with only 25 per cent from the rest of South Africa. This places pressure on the Western Cape's export performance in light of the recessionary conditions that will prevail in the EU during 2012 and the significant downside risks to the 2013 outlook that exist. Furthermore, Western Cape exports to Asia, only accounted for 23 per cent of Western Cape exports in 2011, compared to 36 per cent from the rest of South Africa (Chapter 3 explains this in more depth). This again highlights the risk that exports from the Western Cape could record slower growth than that of the

rest of the country, given that growth in Asia is expected to be relatively higher than in the rest of the world. It should be noted that the direction of trade and the position of the Western Cape in this regard is discussed at length in Chapter 3.

The slow growth in the EU and the structure of the Western Cape economy has already caused Western Cape exports to grow at a slower pace compared to the rest of the country. Figure 2.7 shows that the value of exports fell sharply in the Western Cape and the rest of South Africa as a result of the global recession during 2009, after having reached a peak in 2008. However, whereas the value of exports from the rest of South Africa has since benefitted from the higher demand from emerging and developing countries as well as strong growth in commodity prices, Western Cape exports remain well below (approximately 9 per cent) the 2008 peak.

**Figure 2.7 Western Cape goods exports: R' billions**



Source: Quantec

## 2.5 Conclusion

The moderation in global economic growth registered during 2011 and the first quarter of 2012 is likely to have continued into the second quarter. The slowdown in the growth momentum is expected to persist for the duration of the year with overall global growth for 2011 likely to be lower than that recorded during 2012. This is the case for both advanced and emerging and developing economies. However, the persisting sovereign debt crises in the euro area and the threat of a more pronounced slowdown in the US and China continue to cloud the outlook.

Like the global economy, South African economic growth is likely to have slowed down during the second quarter of 2012, extending the weaker growth recorded in the first quarter of 2012. Overall, 2012 is likely to produce lower growth than was the case in 2011, as determined by slower growth in household consumption expenditure, despite higher fixed investment spending.

The outlook for the Western Cape is relatively more positive. Growth in the Province is expected to remain above that recorded nationally for both 2012 and 2013. However, the pace of economic growth in 2012 is forecast to ease in line with the global and national outlook. Overall, economic growth in the Western Cape is forecast to average 3.9 per cent between 2012 – 2017, supported by growth in the finance, real estate and business services, manufacturing and retail and wholesale trade, catering and accommodation sectors. The Western Cape does, however, remain more exposed from a trade perspective, to slower growing Europe than the rest of the country, making the Western Cape economy more vulnerable if the euro area recession is much deeper or longer than forecast.

Chapter 2 has provided a macro overview of recent economic development and the outlook for the next 5 years. The focus on the Western Cape economy has been relatively brief and only serves as an introduction to Chapter 3, which addresses provincial economic development in more detail. The Western Cape Government endeavours to raise the well-being of the people living in the province and in this regard relies on higher job-creating growth. In order to design policy initiatives to this end, including budget allocations, a disaggregated view on the region's economy and its strengths is required. Chapter 3 seeks to provide such a view and the policy challenges that have to be faced in addressing the problems of unemployment so starkly highlighted in Chapter 4 and the social-economic challenges identified in Chapter 5.

# 3

## Development of the Western Cape economic sectors

### Key findings:

- The services sector, which accounts for close to three quarters of Regional Gross Domestic Product (GDPR), experienced the most rapid growth during the 2000s and, in terms of employment, more than compensated for the steep job losses in the agricultural, manufacturing and construction sectors. The sector did not contract during the 2008/09 recession.
- The skills intensity of the demand for labour does not match the semi- and unskilled nature of the labour supply. This and the subdued growth of the tradable goods sectors, which typically provide semi- and unskilled job opportunities, add to unemployment, thus contributing to the phenomenon of “jobless growth”.
- Western Cape economic activity is geographically concentrated, with 87 per cent of services GDPR, 85 per cent of manufacturing and 60 per cent of agricultural output generated in the Cape Metro and Cape Winelands districts. There is evidence of pockets of strength outside the City Central Business District (CBD) in both the manufacturing and services sectors where growth and employment creation are more robust.
- The outlook for agriculture is positive in the context of a growing global food shortage and wide-spread poverty and underdevelopment in Africa.
- The manufacturing sector is projected to grow at 3 per cent per annum, which is higher than its trend growth rate over the 2000s but well below the growth in the previous business cycle upswing.
- On a sub-sector level, the radio, TV & professional equipment, automotive, metals & machinery and food & beverage sectors are projected to grow above the average (3.5 to 4.3 per cent). Clothing, textiles & leather goods, furniture and petro-chemicals are projected to grow around 3 per cent and the electrical machinery, non-metal minerals and wood & paper products sectors are expected to lag the rest, with real value added growth of around 1.5 to 2 per cent.

- The services sector is projected to lead the growth charge, with real GDP annual growth of 4.1 per cent. Employment growth is projected at 2.1 per cent. Given the deep technological changes in the communications industry, this sector is again projected to be the fastest growing sub-sector in the province (with real value added growth forecast at 8.5 per cent per annum). Other services sub-sectors expected to continue doing well are business services (5.2 per cent), catering & accommodation (4.4 per cent) and the finance & insurance sector (4.2 per cent). The projected growth of finance & insurance is below that achieved over the 2000s, which is to be expected in a global environment of financial deleveraging and in the local context of the National Credit Act putting a damper on credit utilisation.
- The outlook in some cross-cutting sectors, prioritised by the Western Cape Government (WCG), is encouraging and an important part of the Western Cape economic growth dynamic. Exciting opportunities are opening up in the oil & gas sector and the growth achievements and initiatives in the Business Process outsourcing (BPO) and Information and Communication Technology (ICT) sectors are commendable. Furthermore, the positive outlook for the tourism industry remains encouraging.
- An expansion of export production remains an important growth engine for the Western Cape economy, which can be encouraged by the WCG through policy measures aimed at strengthening the supply side of export growth.
- The world's developing and emerging market economies are outperforming the advanced economies from an economic growth perspective. The difference in growth performance has been accentuated in the aftermath of the global financial crisis. Seventy per cent of global economic growth is expected to come from emerging markets over the next few years and the Western Cape should be ready to face this challenge and utilise the associated opportunities.
- The Western Cape has strong and stable trading relations with especially the European Union (EU), both regarding exports and imports. Despite some key shifts, the EU remains the favourite export destination (absorbing close to 40 per cent of the regional exports) and source market for imports (one fifth) across most industries.
- The growth of exports to the EU and other traditional trading partners, including the Southern African Development Community (SADC), over the 2000s has been below par.
- Non-traditional export destinations are gaining market share. Export growth has been stronger to regions such as the Newly Industrialised countries (NICs), the Brazil, Russia, India, China (BRIC), 'other Asia' (mainly China and India), the Associational Southeast Asian Nations (ASEAN) bloc, Middle East and North Africa (MENA), non-SADC Sub-Saharan African countries, Commonwealth of Independent States (CIS) and Latin America.

In many instances growth is occurring from a low base, but the regions listed here account for 31.2 per cent of the Western Cape's export destinations in 2011, which is about double the share in 2001. This development is of a bilateral nature since the import share of these regions (excluding MENA) increased from 18.6 per cent in 2001 to 36.7 per cent in 2011.

- Seen within a national context, the shift to emerging economies has been less pronounced because the Western Cape does not produce bulk commodity exports on the scale that they are produced in South Africa's mining provinces and exported to countries such as China.
- The Western Cape's share of exports to the EU has remained relatively stable; 63 per cent of the province's exports to the region comprised agro-processing exports in 2011, an area in which the Western Cape has a clear comparative advantage. Agricultural exports to the EU also appear to have been doing well during the global recession. While this comparative advantage suggests that the EU will remain a key market, there is evidence that even in this sector that the search for new markets is on.
- It is concluded that Western Cape producers, with the assistance of the provincial and local authorities, can do more to diversify both the product composition and the destination of exports. The Western Cape's real export growth rate over the 2000s (4.2 per cent per annum) is unsatisfactory, particularly in view of the export growth of South Africa's peer developing and emerging economies (8.3 per cent per annum).

### **3.1 Introduction**

Chapter 2, in its review of global, national and provincial economic development, highlighted the challenge to improve the Western Cape (WC) growth performance in an uncertain global economic environment. Against this background Chapter 3 examines in greater detail the development and growth of the different sectors of the WC and the forces that drive sector growth as an equitable outcome.

In the 2011 Provincial Economic Review and Outlook (PERO) special attention was given to export oriented development. This theme is taken further in the 2012 PERO, which delves deeper into the dynamics of export production, including supply constraints, and the markets that are prominent and can be developed further. The Brazil, Russia, India, China, South Africa (BRICS) entity features in this regard. Institutional arrangements in the Province to expand export capacity and investment are also briefly reviewed.

A novel feature of the 2012 PERO is the consideration given to the regional distribution of economic activity within the province, thus linking development at the sub-regional level to overall provincial economic growth and development. Economic activity does not take place in a spatial vacuum but locates at a specific geographic point, and the economic performance of the whole in the end represents the sum of what happens in the regions. In recognition of this the WCG has decided to expand its annual economic review and outlook by supplementing the PERO with a Municipal Economic Review and Outlook (MERO). Relevant elements and conclusions of the first MERO report are included in the chapter, highlighting differences in the economic performance of the municipal areas, of which the Cape Metro is the dominating one, and comparing these to the economic growth of the Province.

## **3.2 Sector development**

### **3.2.1 Geographic perspective on broad sector growth**

In the 2011 PERO a number of observations were made regarding the economic structure of the Western Cape and the sector growth performance. It is worthwhile to recall some of the more salient observations:

- The Western Cape economy is a fully services oriented regional economy, with the finance, insurance, real estate & business services, retail, wholesale, catering & accommodation and transport & communication sectors dominating economic activity. These three broad sectors accounted for close to 60 per cent of value-added and close to 45 per cent of total employment in the Province in 2011.
- The commodity boom driven by high growth in large developing economies like China, India, Brazil and Russia creates a developmental challenge for the Western Cape. The region does not benefit directly to the same extent from the commodity demand in these developing countries as the mining provinces do. Furthermore, (portfolio) capital inflows associated with the commodity boom causes currency overvaluation which, in turn, constrains the Western Cape's (and wider) manufacturing exports.
- A structural imbalance exists in the Western Cape economy: whereas real valued-added expanded by 45 per cent from 2001 to 2010, total employment only expanded by 16 per cent. Labour shedding tended to occur in the tradable goods sectors such as agriculture and manufacturing while the job growth that did occur in the services industries is insufficient to counter this, resulting in disappointing overall employment growth. While the 2008/09 recession had a major adverse impact on employment, the trend of so-called "jobless growth" precedes the recession.

- Linked to the former point, is the structural mismatch in the labour market: the fast-growing and labour-absorbing services sectors are skill intensive, whilst the supply of unemployed labour is predominantly semi- and unskilled. The agriculture and manufacturing sectors, which tend to absorb proportionately more semi- and unskilled labour, add to unemployment. The 2011 PERO found it imperative that local producers, assisted by the local and provincial authorities, seek export markets as the principal means to grow and absorb more labour. This is a formidable challenge in the context of a demanding exchange rate and having to develop new markets in the faster growing regions of the world. However, this merely defines the scope of the challenge, which has to be overcome.

In this section of the report, some of these themes are revisited; however, a novelty of the current analysis is to investigate the geographical patterns of economic growth in the Western Cape Province.

### Geographical overview

Table 3.1 summarises the regional GDP (GDPR) and employment trends during the 2000s for the Cape Metro and the other five districts of the WC.

**Table 3.1 Western Cape real GDPR & Employment trends by District, 2000 - 2010**

District	GDPR (% share)	Employment (number)	GDPR yoy %	Expansion yoy %	Recession yoy %
	2010	2010 vs 2000	2000 - 2010	2000 - 2007	2008 - 2010
Cape Metro	73.6	75 951	4.1	5.0	1.7
Cape Winelands	11.4	-33 384	3.9	4.6	1.9
Eden	7.3	10 765	5.1	6.1	2.6
West Coast	4.2	-27 701	3.1	3.7	1.4
Overberg	2.9	-9 403	5.0	5.6	3.2
Central Karoo	0.6	-1 762	3.9	4.3	2.9
<b>Western Cape</b>	<b>100.0</b>	<b>14 466</b>	<b>4.1</b>	<b>5.0</b>	<b>1.8</b>

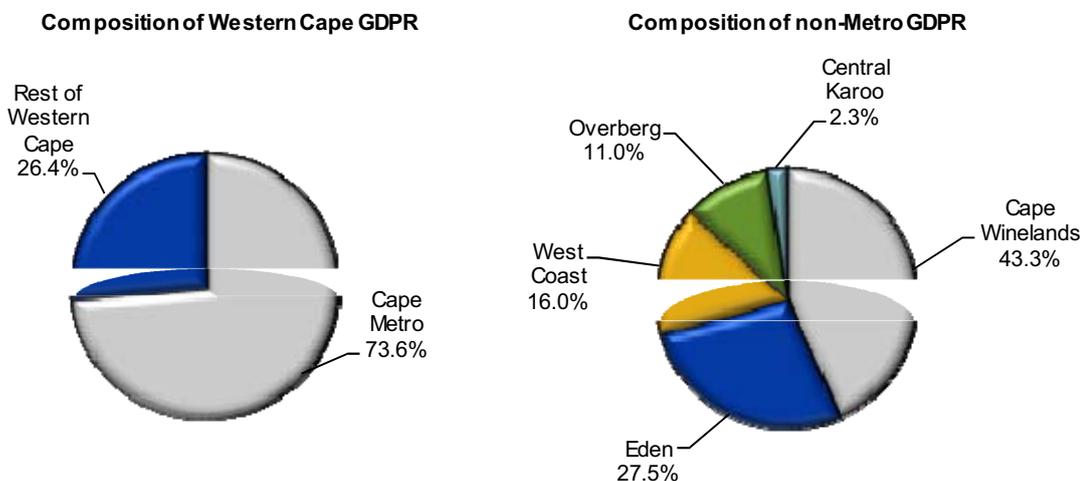
Source: Quantec Research/CER

The leftmost data column of Table 3.1 and Figure 3.1 provide a snapshot of the geographical composition of Western Cape GDPR in 2010. Almost three quarters of the provincial GDPR is generated in the Cape Metro. If the next largest district, namely the Cape Winelands (11.4 per cent), is added, no less than 85 per cent of GDPR originates in the these two districts, suggesting that Western Cape economic activity is spatially concentrated.

The five non-metro districts contribute 26.4 per cent of GDPR, the largest district being Cape Winelands (43.3 per cent of non-metro GDPR), followed by Eden (27.5 per cent), West Coast (16 per cent), Overberg (11 per cent) and Central Karoo (2.3 per cent). The Central Karoo and Overberg districts contribute only 0.6 per cent and 2.9 per cent respectively to aggregate Western Cape GDPR. To put this in perspective, the Central Karoo's GDPR

was valued at R2 billion in 2010 compared to that of the Cape Metro being valued at R250 billion.

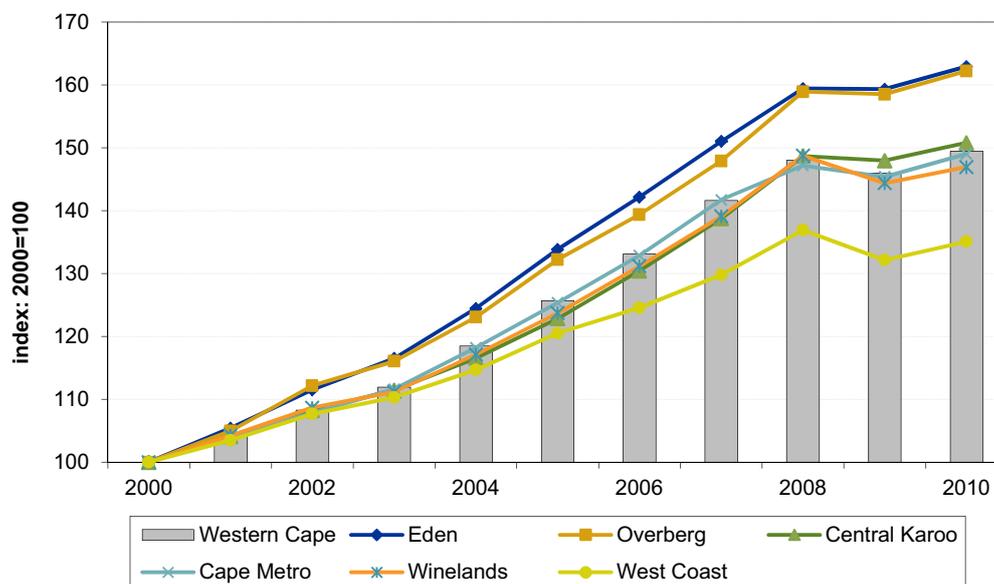
**Figure 3.1 Geographical composition of Western Cape GDP, 2010**



Source: Quantec Research

Given the size of the Cape Metro GDP, it is the likely driver of the overall Western Cape real GDP growth rate, which was measured at 4.1 per cent per annum over the period 2000 to 2010. This eleven year period contains both an expansion phase (2000 - 2007) of the business cycle and a recession (2008/09), as well as more or less one calendar year of economic recovery. In order to illustrate the impact of the global recession, the time horizon was partitioned (Table 3.1), showing the average real GDP growth rate during the years of economic expansion and the years of economic recession (i.e. the latter period including the first year of recovery). Whereas the Western Cape economy expanded by 5 per cent per annum during the years of economic expansion, this declined to 1.8 per cent per annum over the period 2008 to 2010.

Figure 3.2 and Table 3.1 shows that there were significant regional disparities in the real economic growth performances. The fastest growing district was Eden (5.1 per cent per annum, 2000 - 2010) and the slowest growing district was the West Coast (3.1 per cent per annum, 2000 - 2010). Indexing the level of real GDP to 100 in the year 2000 (Figure 3.2), it can be seen that this growth differential is substantial; the Eden and Overberg districts expanded by more than 60 per cent over the 2000s compared to the West Coast expansion of only 35 per cent. The West Coast also experienced a comparatively larger recessionary impact, with real GDP contracting by no less than 3.5 per cent in 2009.

**Figure 3.2 Western Cape real GDP growth across districts, indexed 2000=100**

Source: Quantec Research

The Cape Winelands and the Central Karoo districts and the Cape Metro all grew in line with the average growth rate, i.e. around 4 per cent per annum during 2000 - 2010, and expanded by around 50 per cent. During the years of economic expansion, the Eden district registered a real GDP growth rate in excess of 6 per cent per annum; this district also seemed to have experienced a relatively milder recession impact (along with the Overberg district).

Regarding employment creation during 2000 - 2010 (Table 3.1), only the Cape Metro (75 950) and the Eden district (10 765) managed to create new jobs on balance. In all the other districts the level of total employment (formal and informal employment) contracted. Overall, net job growth in the Metro and Eden districts compensated for the job losses elsewhere, adding 14 500 jobs in the Province. This translates to an annual growth rate of 0.1 per cent, which really suggests the provincial workforce remained stable. The employment trends are analysed in more detail below.

### Sector overview

Table 3.2 shows the real GDP growth and employment trends in the Western Cape by broad sector over the period 2000 to 2010. The leftmost column shows the sector distribution of the Western Cape GDP in 2010. The services orientation of the regional economy is immediately apparent, with the finance, insurance, real estate & business services and retail, wholesale, catering & accommodation sectors accounting for close to half of the GDP. The relative share of manufacturing has shrunk from 21 per cent in 2000 to 17.3 per cent in 2010. Other sizeable sectors include transport, storage & accommodation (10.1 per cent), the general government (10.1 per cent),

community, social & personal services (5.2 per cent), construction (4.5 per cent) and agriculture, forestry & fishing (4 per cent).

While the Western Cape has a substantial manufacturing base, the services orientation of the economy stands out in Table 3.2. The regional economy has developed from its agricultural beginnings, with a strong complement of food and beverage producers, to higher value-added manufacturing activity and the whole range of services activities. The contemporary regional economy is characterised by a strong agro-processing sector, evident across most geographical districts Figure 3.1 as well as a strong service sector (Figure 3.2).

**Table 3.2 Western Cape GDP & Employment trends by sector, 2000 - 2011**

Sector	GDPR	Employment	GDPR	Expansion	Recession	Recovery
	(% share)	(number) <sup>1</sup>	yoy %	yoy %	yoy %	yoy %
	2010	2010 vs 2000	2000 -2010	2000 - 2007	2008 - 2009	2010 - 2011
Agriculture, forestry & fishing	4.0	-176 775	2.2	1.1	8.2	-2.0
Mining & quarrying	0.2	1 267	-1.4	-0.5	-7.5	0.3
Manufacturing	17.3	-63 590	2.6	3.8	-3.3	3.6
Electricity, gas & water	1.4	1 008	2.9	4.3	-1.6	1.1
Construction	4.5	-15 726	7.7	9.1	5.5	1.1
Wholesale and retail trade, catering & accommodation	14.9	70 112	4.3	5.6	-0.6	3.9
Transport, storage and communication	10.1	2 165	5.3	6.6	2.0	2.6
Finance, insurance, real estate & business services	32.5	79 729	6.1	7.0	3.9	4.1
Community, social & personal services	5.2	44 203	3.1	3.8	1.4	1.8
General government	10.1	56 537	2.2	1.6	4.1	3.1
<b>Total</b>	<b>100.0</b>	<b>-1 069</b>	<b>4.2</b>	<b>5.0</b>	<b>1.7</b>	<b>3.2</b>

Source: Quantec Research

The Cape Winelands district (with agro-processing accounting for close to 30 per cent of the district GDP), the West Coast (26.4 per cent) and the Overberg (19.2 per cent) host large agro-processing sectors; even Eden (11 per cent) and the Central Karoo (13.5 per cent) have relatively large agro-processing sectors when compared to the national average (5.6 per cent)<sup>2</sup>.

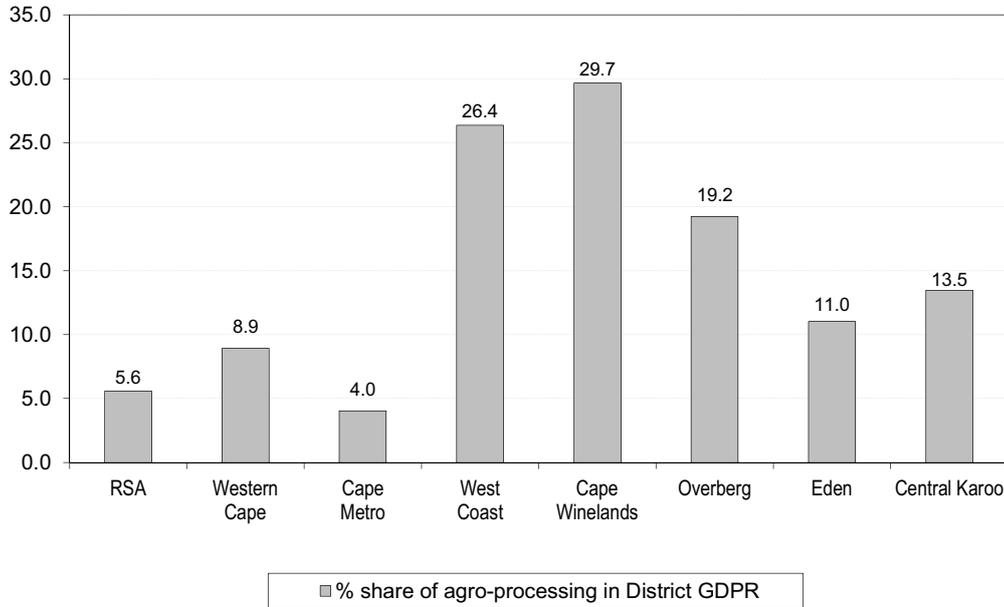
The regional economy has evolved from predominantly orientated toward agriculture and food and beverage processing to service activities which now

<sup>1</sup> The (aggregate) employment numbers do not agree with those in Table 3.1 as the data was revised between 2011 (on which the geographical analysis in the MERO study was based) and 2012 (on which the current PERO analysis is based). However, there is broad agreement between the two datasets and the differences do not detract from the conclusions reached.

<sup>2</sup> Agro-processing is defined to include agriculture, forestry & fishing as well as food, beverage and tobacco manufacturing activity, i.e. in its broadest sense.

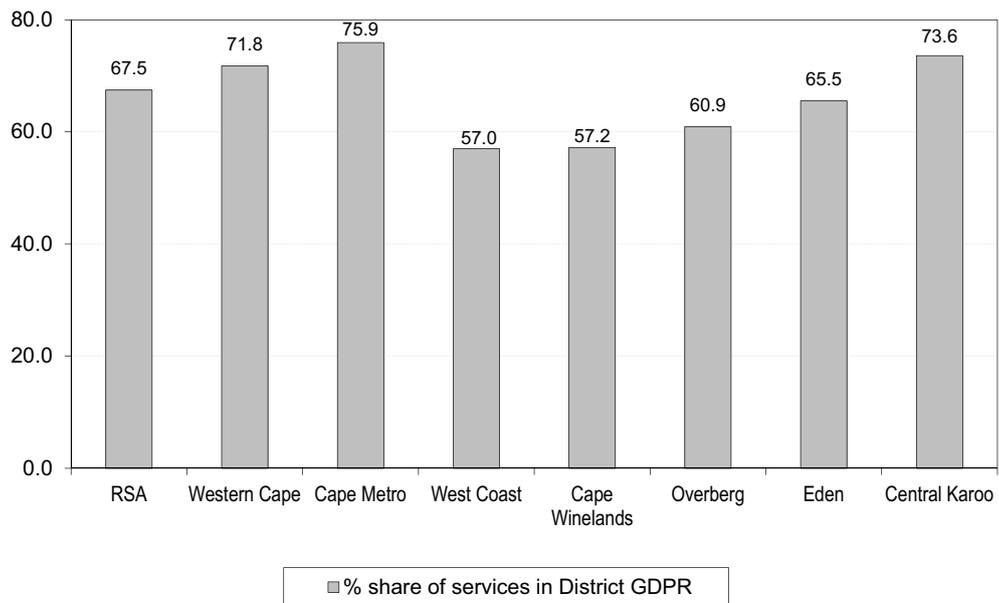
dominate in all the districts (Figure 3.4). The share of services in GDP ranges from 76 per cent in the Cape Metro to 57 per cent in the West Coast district. The contribution of services to the Western Cape GDP (71.8 per cent) exceeds that for the country as a whole (67.5 per cent).

**Figure 3.3 Western Cape: Share of agro-processing industry in GDP across districts, 2010**



Source: Quantec Research; own calculations

**Figure 3.4 Western Cape: Share of services in GDP across districts, 2010**



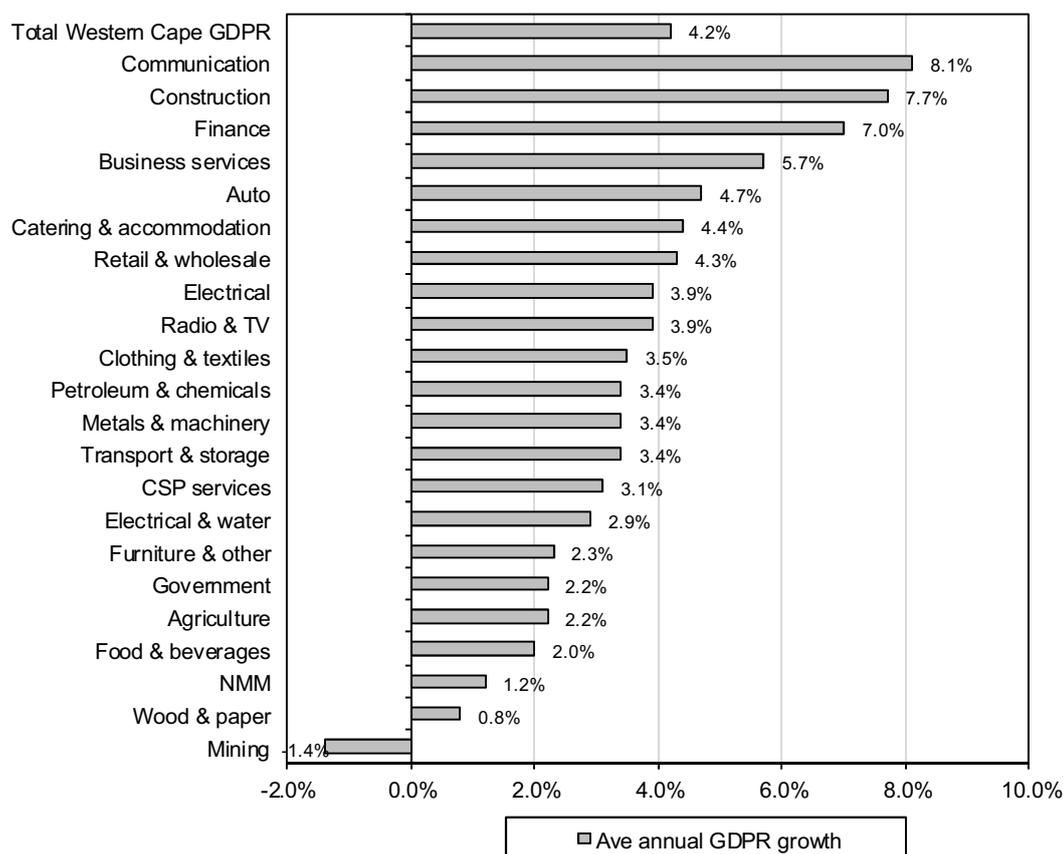
Source: Quantec Research

Considering the GDP growth and employment trends over the 2000s (Table 3.2), the following observations are in order:

- The fastest growing sector was construction, expanding by close to 8 per cent per annum. This robust growth happened at a time of a historical residential and non-residential building boom, a determined effort to install the required infrastructure in hosting the 2010 FIFA World Cup, an ambitious public sector capital spending drive (including the expansion of the Cape Town International Airport and the harbour) and a strong private fixed investment drive linked to robust domestic economic growth conditions, particularly during 2004 - 2007.
- The second fastest growing broad sector was finance, insurance, real estate & business services, which expanded at an average annual rate of 6.1 per cent over the corresponding period. The finance & insurance sector grew at 7 per cent per annum and the business services sector at 5.7 per cent. The business cycle expansion was characterised by financial deepening and keen private sector credit utilisation. The business services sector also benefited from a flourishing private security industry, business process outsource (BPO) activities, e.g. the advent of call centres.
- The fastest growing sub-sector was communication, part of the broader transport, storage & communication sector. The broad sector grew by 5.3 per cent per annum; however, communication grew by no less than 8.1 per cent per annum (transport & storage grew by only 3.4 per cent per annum). The incremental liberalisation of the telecommunications market, new product developments in the communication industry and mobile telephony are all factors driving growth in the communications industry. The robust growth in the communications industry is evident in all the Western Cape districts.
- The wholesale, retail, catering & accommodation sector expanded at a rate of 4.3 per cent per annum, i.e. slightly faster than the average real GDP growth of the wider provincial economy. While not directly quantifiable, the growth of the tourism sector provides key support for the growth in the retail sector. Furthermore, given the fact that many large retail chains have their headquarters in the Western Cape, the sector benefits from retail activity in the rest of the country.
- The manufacturing sector grew at a much slower pace, averaging 2.6 per cent per annum over the 2000s. Real value-added growth ranged from 0.8 per cent per annum in the wood products industry to 4 per cent in the electrical machinery, radio, TV & professional equipment sub-sectors and 4.7 per cent in the automotive (components) industry. The manufacturing sector was hard hit by the recession, having contracted by 3.3 per cent in 2008 and 2009. Over the preceding years of economic expansion, i.e. 2000 to 2007, real value added growth approached 4 per cent per annum. In PERO 2011 the unsatisfactory growth of the manufacturing

sector was noted; apart from the impact of the recession, the sub-par growth performance can be linked to an unsatisfactory export performance.

**Figure 3.5 Western Cape economy: Growth in real value added growth by sector, 2000 – 2010**



Source: Quantec Research

In summary: whilst real GDP growth averaged 4.2 per cent over the period 2000 to 2010 the recession and its aftermath had a big impact on the Western Cape economy's growth performance (Table 3.2). Real GDP growth declined from 5 per cent per annum during the years of economic expansion to 1.7 per cent per annum in 2008/09, i.e. the years of economic recession, with real growth recovering to only 3.2 per cent per annum in 2010/11. In the previous chapter the reasons for the pedestrian growth tempo in the wake of the global recession is explained. The slow recovery of exports and fixed investment spending is conspicuous. The weak recovery growth of the construction sector (1.1 per cent per annum versus 9 per cent during the years of economic expansion) reflects the poor demand conditions in this sector in the wake of a historical property boom, the building activity tied to the hosting of the 2010 FIFA World Cup and a sluggish revival of overall private fixed investment activity.

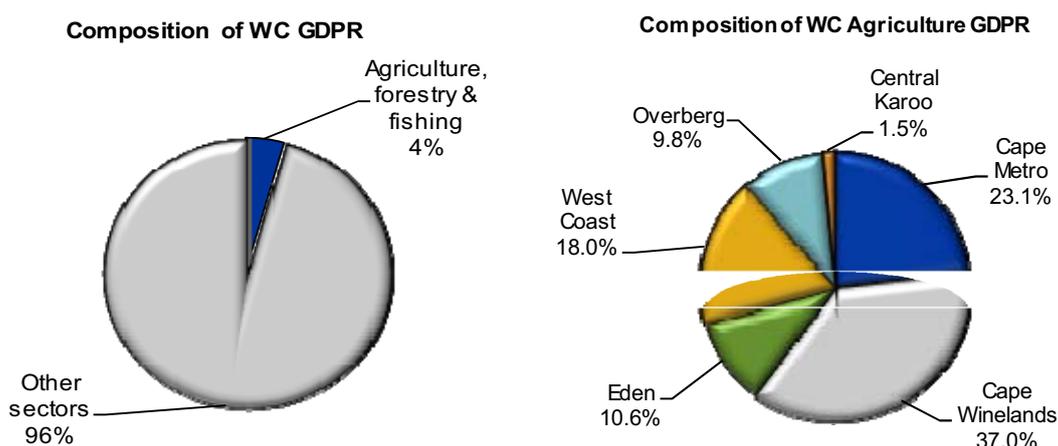
### 3.2.2 Agriculture, forestry & fishing

#### Overview

The agriculture, forestry & fishing sector is an important component of the economy in the Western Cape, not only for its direct contribution, but also because of its important forward and backward inter-industry linkages. Directly, the sector contributed 4 per cent to Western Cape GDP in 2010 (or R13.8 billion) and employed 6.5 per cent of the regional workforce. When the inter-industry linkages are considered, the agro-industry can contribute as much as 10 - 12 per cent of Western Cape GDP.<sup>3</sup>

The key point about agriculture in the Western Cape is the fact that while the Province accounts for 14.2 per cent of national GDP (2010), the Western Cape agricultural sector accounts for 23.2 per cent of national agricultural GDP. The Western Cape, therefore, has a revealed *comparative advantage* in agricultural economic activity. Figure 3.6 shows the relative size of the agriculture, forestry & fishing sector in the Western Cape as well as the GDP breakdown of the sector by district municipality. The Cape Winelands is the dominant agricultural sub-region (accounting for 37 per cent of agriculture value added in the Western Cape), with the Cape Metro (surprisingly) in the second place (23 per cent). Fishing is included in the latter share. Following in the third place is the West Coast (also hosting a significant fishing industry) (18 per cent) and after that Eden (11 per cent), Overberg (10 per cent) and Central Karoo (1.5 per cent). Although agricultural activity is concentrated in the Cape Winelands and Cape Metro districts, it represents an important part of the other district economies as well.

**Figure 3.6 Western Cape Agricultural sector: District Municipal breakdown of GDP, 2005 – 2010**



Source: Quantec Research

<sup>3</sup> The Western Cape agricultural sector output (value added plus intermediate inputs) measured 10 per cent of Western Cape GDP in 2008 (DEDAT, June 2011: 43 - 44).

The Western Cape agricultural sector consists of four broad commodity groupings:

- Horticultural products contribute 51 per cent of agricultural output, with fruit and wine being the mainstay of production. The key producing areas are the Cape Winelands, Cape Metro, West Coast and Overberg. Agricultural centres include Stellenbosch, Paarl, Franschoek, Ceres, Worcester, Clanwilliam and Piketberg.
- Animals & animal products contribute 42 per cent, consisting of, in sequence of size contribution, poultry, cattle, sheep, ostriches and pigs. The key producing areas are Paarl & Worcester, Goodwood, Malmesbury, Swellendam and Oudtshoorn.
- Field crops contribute 7 per cent with wheat as the dominating commodity, followed by maize and barley maize. Two thirds of field crops are produced in the Malmesbury, Moorreesburg, Piketberg regions (West Coast) and Caledon and Bredasdorp (Overberg).
- Other products, mainly fishing and forestry, contribute 1 per cent. Forestry is limited and mainly state-owned. Aquaculture is a new and blossoming industry found in and around Hermanus (Overstrand).

The Western Cape agricultural sector exports more than 30 per cent of its annual production. The wine industry contributes nearly 50 per cent of these exports, having increased its share from a mere 5.2 per cent in 1992. Processed and unprocessed fruit also contribute a substantial proportion. In 2008 Western Cape agricultural exports accounted for 45 per cent of national agricultural exports (R27 800 million). Western Cape agricultural exports have grown strongly over the past decade; in real terms the annual compound rate of growth since 1995 has been 15.5 per cent (DEDAT, June 2011: 41). The agricultural sector, including processed food and beverages, accounted for more than half of the cumulative real growth in aggregate Western Cape exports during 2000 - 2010 and is therefore by far the dominant export industry in the Province.

### **New agricultural potential**

The role of agriculture in South Africa in general and the Western Cape in particular is gaining new significance in the 21<sup>st</sup> century because of the global food shortage. The pivotal role that agriculture plays, and still needs to play, in the African context of wide-spread poverty and under-development adds to this significance.

The Food and Agricultural Organisation of the United Nations (FAO) calculates that globally the demand for grains (wheat, rice and coarse grains) exceeded production by an average 15 million tons per annum over the period 2000 – 2008. The same body estimates that the world population will grow by over a third between 2009 and 2050, with nearly all this growth

occurring in the developing countries of the world, notably Sub-Saharan Africa where the population is projected to more than double. Global food production needs to increase by 70 per cent by the year 2050 in order to meet the demand generated by this rapid population growth (DEDAT, June 2011: 42).

Combined with the impact of higher crude oil prices (increasing food production costs) and the growth of the bio-fuels industry over the 2000s, the global food shortage has caused a trend break in international food prices (DEDAT, June 2011: 42). Whilst on the one hand, this disproportionately impacts on food-importing countries and poor communities it also presents an opportunity for producers and the authorities in developing countries in particular to respond.

In view of this background, two economic development imperatives come to the fore:

- As development takes place and living standards in the populous developing countries of the world improve (not only in the BRIC economies, but also the so-called N11 and others), trade opportunities open up for South African agricultural producers. In a world where our traditional trading partner economies are faced with mounting public debt and ageing populations, this opportunity gains more significance and urgency. In fact, the process of export market diversification amongst South African exporters is well underway, as will be noted below.
- Furthermore, the development of agriculture can play a key role in the reduction of poverty, also in the Western Cape districts with large rural populations. This challenge lies at the heart of Strategic Objective 11 of the WCG, as noted in Chapter 1. This needs to happen side-by-side with the development of manufacturing and services industries that are, *inter alia*, linked to the agricultural sectors. This has been a familiar development pattern in many Western Cape regions.

South Africa in general and the Western Cape in particular do not have access to surplus arable land and is faced with a critical water shortage. However, the country is self-sufficient in virtually all major agricultural products and possesses a relatively good infrastructure, which positions it (and the region) to exploit the growth opportunities presented by the global food shortage.

### **Agriculture growth performance over the 2000s – a geographical perspective**

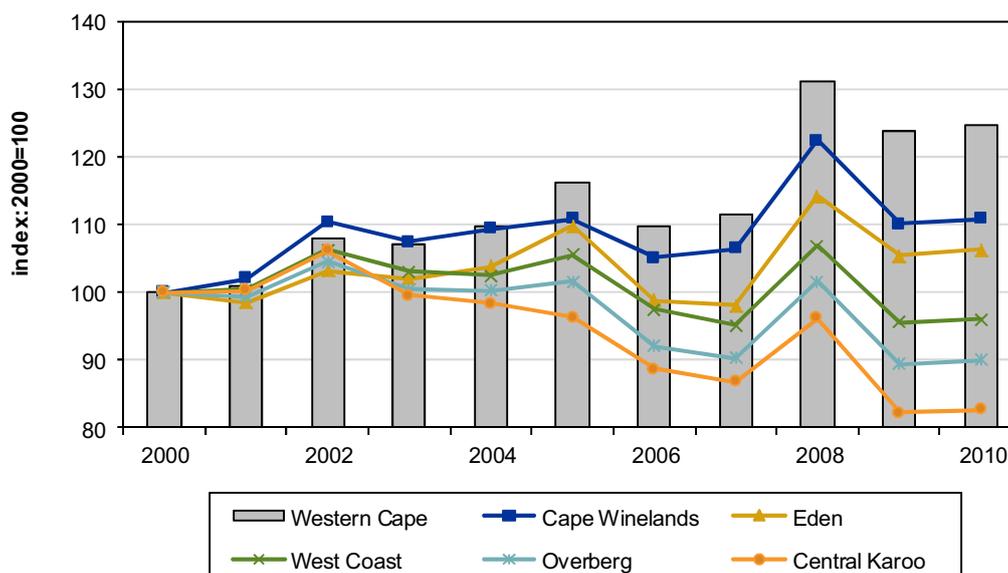
Western Cape agriculture, forestry & fishing GDP expanded at an average real rate of 2.2 per cent during 2000 - 2010. Given the Western Cape's average GDP growth rate of 4.2 per cent, this implies that the share of agriculture, forestry & fishing in the Western Cape GDP is declining. This is a general phenomenon that characterises the process of economic development and it reflects the faster growth of secondary and tertiary economic activities. In absolute terms the sector is growing. Furthermore, the region succeeded in increasing its share of national agriculture, forestry & fishing GDP, from 22 per cent in 2000 to 23.2 per cent in 2010.

Unfortunately, the growth in the sector occurred alongside the retrenchment of farm workers. The number of formally and informally employed workers declined by more than half from 296 800 in 1999 to 120 000 in 2010 at an annual rate of retrenchment of 7.8 per cent.<sup>4</sup> This phenomenon is detected across the Western Cape district municipalities (and in the rest of the country as well), except in the Cape Metro where the agricultural labour force remained stable. The decline in employment in the non-Metro areas is linked to mechanisation in the industry.

Although the movement towards more capital-intensive farming is a world-wide phenomenon, the implementation of Strategic Objective 11: Increasing opportunities for growth and development in rural areas in the Western Cape could be facilitated if consideration is given to the reasons for mechanisation and to ways and means of how the rate can be reduced. Simultaneously, cognisance has to be taken of the labour intensive nature of the production of fresh fruit such as table grapes in particular, apples, pears and peaches. The quality demanded by consumers, especially in export markets, does not, for example, allow mechanised harvesting. In view of these considerations the export-oriented growth in fresh fruit production is likely to benefit job creation in agriculture.

The growth of the Western Cape agriculture by region paints a somewhat distorted picture. Available data suggest that Cape Metro agricultural activity expanded strongly, with real value added growing at double digit rates over the 2000s whilst that in the non-Metro areas either stagnated or contracted (Figure 3.7). The sideways trend in the non-Metro agricultural sector conceals the huge export development which occurred in the wine-making industry and in key fruit-producing areas over the 2000s. This aspect needs further research.

<sup>4</sup> The rate of retrenchment in the rest of South Africa's agricultural sector amounted to 6.6 per cent (Quantec Research database) over the corresponding period.

**Figure 3.7 Western Cape non-Metro agriculture, forestry & fishing real GDP trends across districts, 2000 – 2010**

Source: Quantec Research

Although the data may be questioned, an analysis of the geographical growth patterns (the MERO 2012 reports) shows that there are some municipal regions which have experienced comparatively better growth performances, e.g. Witzenberg (Winelands); Saldanha Bay (West Coast); Mossel Bay, Knysna and Bitou (Eden); Cape Agulhas (Overberg) and the Central Karoo DMA (Central Karoo). It is noteworthy that the *coastal municipalities* feature in this list and appear to put in stronger growth performances.

Areas where agricultural activity contracted sharply include Matzikama, Cederberg and Berg River (West Coast), Hessequa (Eden), Swellendam and Overstrand (Overberg), and Beaufort West, Prince Albert and Laingsburg (Central Karoo). In some of these regions, the decline in agriculture is compensated for by positive growth in secondary and tertiary economic activities (such as in Swellendam and Overstrand). However, in most, the decline spells poverty and unemployment for large parts of the local populations and may be the cause of general economic hardship in these municipal regions.

In summary: agricultural production has gained new significance in the 21<sup>st</sup> century, but the growth and employment performance of the Western Cape agricultural sector has been less than robust. Strong growth in the Cape Metro agricultural sector merely succeeded in maintaining its workforce in the sector. In the Cape Winelands, West Coast and Eden (i.e. the largest regional agricultural producing districts) stable agricultural sectors continued to shed labour on a large scale. The export success in the table grape and wine industry (and other agricultural products) could not prevent the retrenchment of farm workers in general. The worker retrenchments in the sector compound the broader developmental challenges that the Province

face and should place renewed emphasis on Strategic Objective 11. It is imperative that as producers successfully capture new agricultural markets the conditions will be favourable to employ more labour.

### 3.2.3 Manufacturing

#### Overview

Table 3.3 shows that Western Cape manufacturing sector expanded by a modest 2.6 per cent per annum during 2000 – 2010. During the years of economic expansion, growth approached the 4 per cent level but contracted by 3.3 per cent per annum (2008 - 2009) during the recession. Manufacturing activity bounced back in 2010 - 2011 to 3.6 per cent growth. A relatively strong recovery in the large food & beverages sector is notable, as well as the bounce backs in the struggling non-metal minerals and wood & paper sectors (Table 3.3).

**Table 3.3 Western Cape Manufacturing: Real GDP & employment trends, 2000 to 2011**

Sub-sector	GDPR	Employment	GDPR	Expansion	Recession	Recovery
	(% share)	(number)	yoy %	yoy %	yoy %	yoy %
	2010	2010 vs 2000	2000 - 2010	2000 - 2007	2008 - 2009	2010 - 2011
Food, beverages & tobacco	28.1	-14 302	2.0	2.8	-4.4	6.2
Clothing, textiles & leather products	6.8	-23 456	3.5	2.8	4.2	1.2
Wood & paper	9.7	-2 141	0.8	1.1	-4.3	6.3
Petroleum products & chemicals	20.2	-2 538	3.4	5.1	-2.8	0.6
Non-metal minerals	3.5	-5 159	1.2	3.1	-11.6	11.2
Metals & machinery	13.4	-3 034	3.4	5.3	-3.9	4.5
Electrical machinery	2.0	-1 549	3.9	4.4	2.0	1.5
Radio, TV & professional equipment	1.4	-1 208	3.9	4.8	-0.1	4.6
Transport equipment	5.8	-3 540	4.7	7.7	-4.4	0.6
Furniture & other industries	9.2	-6 663	2.3	3.5	-1.6	0.5
<b>Total</b>	<b>100.0</b>	<b>-63 590</b>	<b>2.6</b>	<b>3.8</b>	<b>-3.3</b>	<b>3.6</b>

Source: Quantec Research; own calculations

### **Clothing & textile sector: encouraging developments**

The Western Cape textiles, clothing and leather goods data for 2011 reveal that the regional industry is slowly recovering from the precipitous decline in economic activity observed in 2009. Whilst the recovery from 2009 to 2010 was substantial, the evidence for 2010 to 2011 reveals a more nuanced level of improvement, with economic activity declining, but employment increasing marginally. However, part of the decline in economic activity relates to factor price movements, which have reduced significantly over the last two years. Cotton prices have, for example, reduced very significantly within the value chain, as have polymer based synthetic fibres and yarns.

An important development in relation to the stabilisation of the regional textiles, clothing and leather goods industry since 2009 has been the introduction of a Production Incentive (PI) by national government that permits textiles, clothing and leather goods firms to upgrade their production and product capabilities using government funding equivalent to a portion of their demonstrated manufacturing value added. Over R1 000 million has been committed to the national industry through the PI, with a substantial portion of this allocated to the Western Cape (just over R250 million of the R617 million disbursed thus far). In addition, the various public-private partnerships facilitated by the Western Cape Provincial Government in the industry [Cape Clothing and Textile Cluster (CCTC) for medium sized and larger clothing and textile manufacturers, Clotex for small and micro enterprises, and the Cape Town Fashion Council (CTFC) for designers and design houses] have secured significant funding from the national government's Clothing and Textiles Competitiveness Improvement Programme, resulting in their rolling out of support programmes that should substantially bolster the competitiveness of the regional industry over the course of the next few years. Many of these initiatives are being aligned with quick response and fast fashion retailing practices that are emerging in South Africa, after having successfully demonstrated their superiority over traditional retailing models in the Northern Hemisphere over the course of the last few years. Quick response and fast fashion retailing practices require the local production of merchandise as product supply is time-dependent, with product delivery needing to occur multiple times over the course of a selling season, with the amount supplied determined by actual sales levels, as opposed to forecast models.

Based on the recovery since 2009, the major efforts being put into resuscitating the textiles, clothing and leather goods industries at both a national and regional government level, and the emergence of new retailing practices (quick response and fast fashion) in South Africa that benefit local manufacturers over imports, the regional industry's future looks substantially healthier than it did a couple of years ago.

The metals & machinery and radio, TV & professional equipment sectors also recovered to growth of 4.5 and 4.6 per cent, respectively during 2010 - 2011. Sub-sectors which have continued to struggle during the economic recovery include petro-chemicals, automotive components and furniture & other industries, and, to a lesser extent, electrical machinery. The clothing & textile sector also recorded modest growth during 2010/11. This sector tended to buck the recessionary trend during 2008/09 and its turnaround is evident (see Clothing & textile sector: encouraging developments above).

The employment trend accompanying manufacturing growth remains a serious concern. Table 3.3 shows the adverse employment trends during the 2000s across all sub-sectors; no less than 63 590 jobs were lost in the manufacturing sector during 2000 – 2010 at an annual rate of 2.2 per cent. No less than 60 per cent of these job losses occurred during the recession and the first two years of economic recovery. The rate of retrenchment in the Western Cape manufacturing sector exceeded that in the rest of the country; whereas the Western Cape manufacturing workforce shrunk by 25 per cent between 2000 and 2010, shrinkage in the rest of South Africa came to 10 per cent (MERO, 2012). The retrenchments in the food & beverages and clothing

& textile sectors have been particularly fierce. However, as noted there is evidence that the adverse employment trend in the clothing & textile sector is stabilising or reversing. Furthermore, it is heartening that in some districts (e.g. Eden and Overberg) and municipal regions, the employment trend in manufacturing is not as negative. This is discussed in the next section.

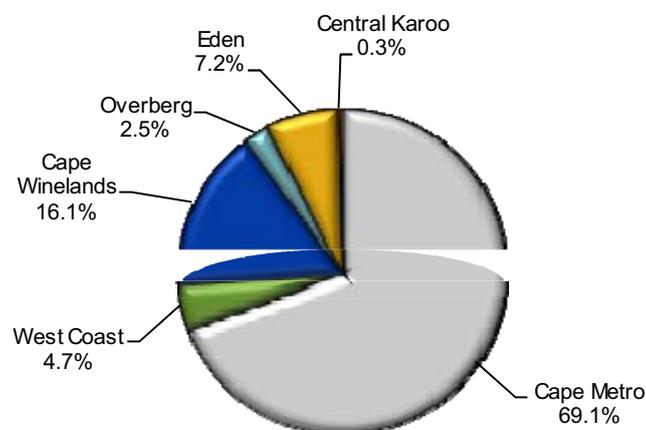
### Geographical perspective

As noted earlier, economic activity in the Western Cape is geographically concentrated. This is true for manufacturing, services sectors and, to a lesser extent, for agriculture. In Figure 3.8 it is shown that close to 70 per cent of manufacturing value added in the Western Cape is produced in the Cape Metropolitan area. Adding Cape Winelands manufacturing brings the combined share of the two districts to 85 per cent. In agriculture these two districts produce 60 per cent of real GDP and in services it is 87 per cent.

Cape Metro manufacturing grew in line with the provincial average. The Cape Winelands district, however, under-performed by expanding at 2.1 per cent per annum during 2000 - 2010. Close to two thirds of the Winelands manufacturing sector consists of food, beverages & tobacco manufacturing, which is a mature industry and expanded by only 1.5 per cent per annum over the 2000s.

A district in which the manufacturing sector really under-performed is the West Coast, with real value added expanding by a mere 0.8 per cent per annum over the period 2000 to 2010. A large part of this under-performance is explained by an exceptionally adverse recession impact, with manufacturing real GDP in the district contracting by no less than 15.6 per cent in 2009. While the recession impact has been comparatively worse in the West Coast, Table 3.4 also shows that this regional sector also expanded the slowest during the years of economic expansion, i.e. 2000 to 2007.

**Figure 3.8 Geographical composition of Western Cape manufacturing GDP, 2005 – 2010**



Source: Quantec Research

Manufacturing growth was most rapid in the Central Karoo, Overberg and Eden. However, the close to double digit growth of Central Karoo manufacturing is misleading since it is very small, accounting for only 0.3 per cent of Western Cape manufacturing. Likewise, the 6.7 per cent annual growth of Overberg manufacturing occurred in a sector that contributes only 2.5 per cent to provincial manufacturing. Nonetheless, for the districts concerned, the industrial growth, even from a small base, is important in compensating for agriculture that appears to be under pressure. It is a welcome development that net employment growth occurred both in Overberg and Central Karoo manufacturing (Table 3.4).

The above-average manufacturing growth of the Eden district (4.3 per cent per annum, 2000 to 2010) is more significant since the regional sector contributes 7.3 per cent to provincial manufacturing. The food & beverage processing sectors and petro-chemicals account for more than half of district manufacturing and both these sectors expanded robustly during the 2000s. Unfortunately, this growth could not stem the adverse employment trend in the district's manufacturing sector.

**Table 3.4 Western Cape manufacturing: Real GDP & employment trends by district, 2000 – 2010**

District	GDPR	Employment	GDPR	Expansion	Recession
	(% share)	opportunities lost or gained (number) <sup>5</sup>	yoy %	yoy %	yoy %
	2010	2000 - 2010	2000 - 2010	2000 - 2007	2008 - 2010
Cape Metro	69.4	-64 325	2.4	3.5	-0.8
West Coast	4.4	-5 891	0.8	2.6	-4.1
Cape Winelands	15.8	-3 807	2.1	3.4	-1.5
Overberg	2.7	1 328	6.7	8.3	2.4
Eden	7.3	-3 239	4.3	6.0	-0.3
Central Karoo	0.4	425	9.7	11.2	5.6
<b>Total</b>	<b>100.0</b>	<b>-75 509</b>	<b>2.5</b>	<b>3.8</b>	<b>-1.0</b>

Source: Quantec Research/CER

Table 3.4 shows that 85 per cent of all employment opportunities lost in manufacturing between 2010 and 2000 occurred in the Cape Metro. Jobs were shed across all sub-sectors, but particularly severe in the clothing & textile, food & beverages and metals & machinery sectors. While the employment losses in the Cape Metro have been serious, two observations derived from the MERO are relevant:

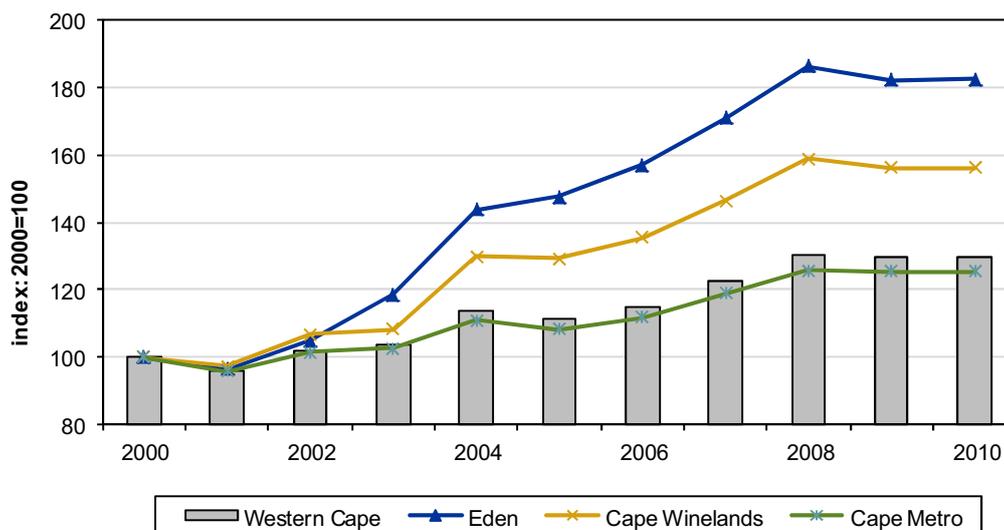
- In the Metro some municipal regions were identified where the growth in manufacturing GDPR is more robust and the employment trend less

<sup>5</sup> See footnote 1 regarding the 2011 and 2012 labour datasets, which is also applicable in respect of Table 3.3 and Table 3.4.

adverse than in the CBD (i.e. the City of Cape Town). The identified sub-regions were Blue Downs, Brackenfell, Durbanville, Mitchells Plain and Khayelitsha. Combined, these sub-regional manufacturing sectors account for more than 30 per cent of the Cape Metro manufacturing GDP and expanded by 3.4 per cent per annum compared to 1.7 per cent growth achieved in the City of Cape Town. The rate of labour retrenchments was also lower at 2.1 per cent per annum compared to 3.9 per cent in the City.

- Outside the Metro pockets of manufacturing strength were identified. Non-Metro manufacturing (accounting for 30 per cent of the provincial manufacturing GDP) expanded by 2.7 per cent per annum during 2000 - 2010 compared to 2.4 per cent growth in the Metro manufacturing sector. The rate of retrenchments in the non-Metro districts also came to 1.4 per cent per annum over the corresponding period compared to 3.1 per cent in the Metro. An example of such an industry which is faring relatively better outside the Metro is the clothing & textile sector in the Winelands and Eden districts (Figure 3.9).

**Figure 3.9 Western Cape clothing & textile sector growth across district municipalities, 2000 – 2010**



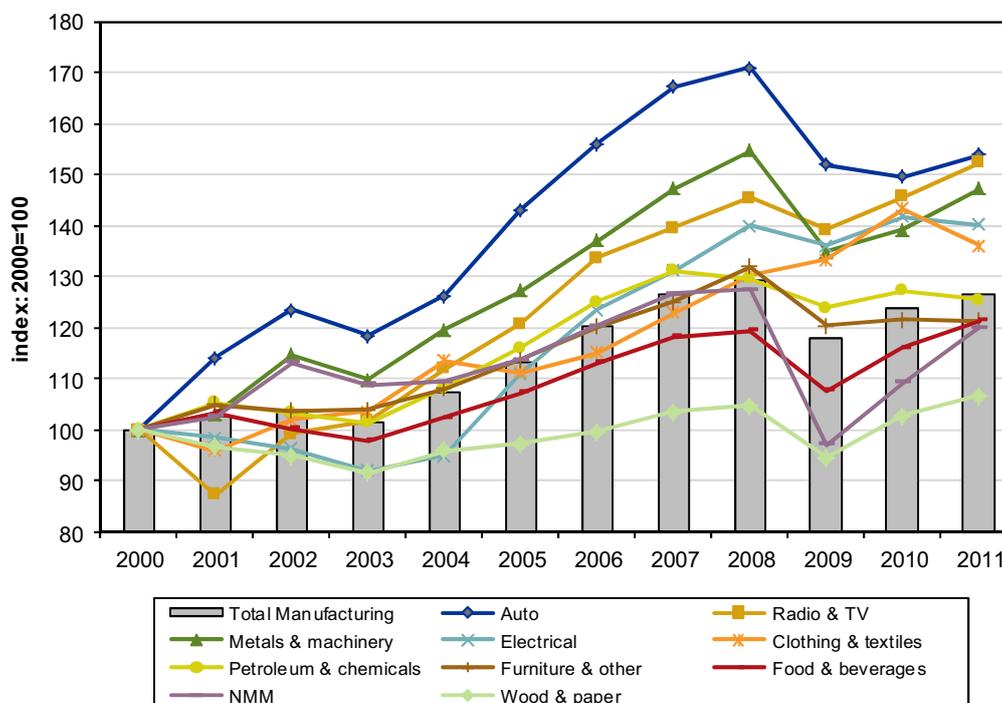
Source: Quantec Research

In summary: Western Cape manufacturing is geographically concentrated in the Cape Metro and Cape Winelands districts. The growth in manufacturing has been relatively pedestrian during 2000 - 2010, with heavy manufacturing job losses also occurring. While the recession was to blame for a large part of the job losses, the preceding trend in manufacturing employment had also been negative. Job losses were particularly heavy in the Cape Metro area. The MERO study found pockets of manufacturing strength in some municipal sub-regions within the Metro and in the non-Metro districts where the growth was stronger and job losses less serious.

### Sub-sector review and outlook

The headline growth and employment trends in manufacturing by sub-sector were provided in Table 3.3 and briefly discussed above. Figure 3.10 depicts the growth trends by sub-sector over the period 2000 - 2011 by indexing the levels of real GDP to 100 in the base year, 2000. This chart reveals the relative growth performances of the ten major manufacturing sub-groups, as well as the substantial impact that the recession has had. Between 2000 and 2008 Western Cape manufacturing expanded by close to 30 per cent, but then shrunk by 8.6 per cent in 2009, only to recover by 7.2 per cent in 2010/11. The sector has therefore by the end of 2011 not recovered to its level achieved during 2008. The sub-sector growth performances were varied, ranging from 6.7 per cent in the wood & paper sector (over the full 2000 - 2011 period) to 54 per cent in the fastest growing automotive components sector. The radio, TV & professional equipment, electrical machinery and metals & machinery sectors also grew relatively strongly, as well as clothing & textiles. The auto sector and metals & machinery were hard hit by the recession, but the clothing & textile sector moved against the recessionary trend, while the radio, TV & professional equipment and electrical machinery sectors suffered only a mild impact. The petro-chemical sector grew in line with the overall manufacturing sector, whilst the furniture, food & beverages, non-metal minerals and wood & paper sectors expanded by less than average, also suffering relatively serious recessionary impacts (Figure 3.10).

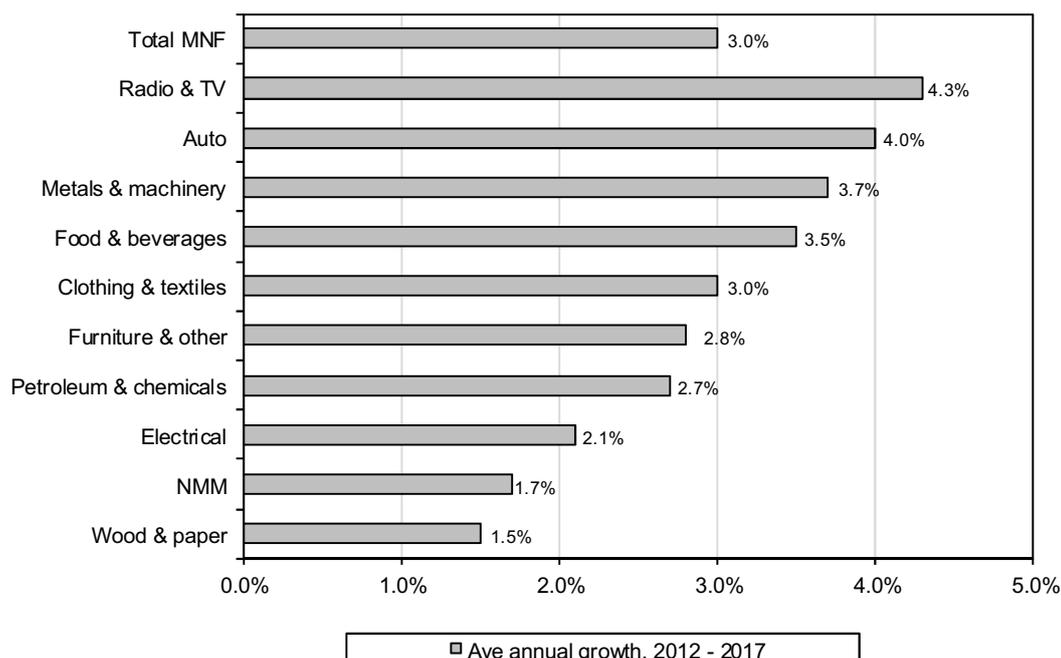
**Figure 3.10 Western Cape manufacturing: Real GDP trends by sub-sector, 2000 – 2011**



Source: Quantec Research

The recovery of manufacturing during 2010/11 has been encouraging for the outlook of the sector. The recorded growth (3.6 per cent) of manufacturing exceeded that for all economic activity in the WC (3.2 per cent per annum). The recovery growth in the large food, beverages & tobacco sub-sector in particular is noteworthy as is the recovery in some of the other sub-sectors such as metals & machinery, radio, TV & professional equipment, non-metal minerals and wood & paper.

**Figure 3.11 Western Cape manufacturing outlook, 2012 – 2017**



Source: Quantec Research/BER

Figure 3.11 shows the projected annual growth rates by sub-sector over the forecast period 2012 - 2017. Overall, annual manufacturing real growth is projected to be 3 per cent, which is slightly faster than the trend growth rate over the 2000s. Whilst this will be an improvement, it cannot be seen as a robust performance as the sector is likely to continue losing relative ground. The Province is projected to grow by an annual average of 3.9 per cent over the corresponding period. During the previous business cycle expansion phase the manufacturing sector grew by 3.8 per cent (2000 - 2007). In Chapter 2, it was explained why macro-economic conditions are likely to dictate slower growth during the current expansion.

Sub-sectors projected to grow above average include the radio, TV & professional equipment sector (4.3 per cent per annum, 2012 - 2017), the automotive sector (4 per cent), metals & machinery (3.7 per cent) and food & beverages (3.5 per cent). Sub-sectors projected to grow close to the average, i.e. 3 per cent per annum, include clothing & textiles, furniture & other industries and petro-chemicals. Sub-sectors projected to grow well

below average include electrical machinery (2.1 per cent), non-metal minerals (1.7 per cent) and wood & paper (1.5 per cent).

### 3.2.4 Services

The agro-processing and manufacturing base of the provincial economy is crucially important, but the region's services sector, ranging from retail & wholesale activity through to the general government, remains the mainstay of the provincial economy. This broad sector (Table 3.5) accounts for 73 per cent of value added in the province. It grew fastest over the 2000s (averaging 4.7 per cent during 2000 - 2010) and created more than 250 000 jobs at a rate of 2.2 per cent per annum.

The business services sector (ranging from the renting of transport equipment, machinery and household goods, to computer related activities, research and development and other business services such as legal, bookkeeping & auditing services, tax consulting, market research and business consulting) is the largest sub-sector, accounting for 30 per cent of all services. Next in size is retail & wholesale (18.6 per cent), followed by finance & insurance (14.4 per cent), and government (13.9 per cent). Adding social & personal services (7.1 per cent) these sectors together added more than 260 000 jobs to the workforce during the 2000s. The only services sub-sectors that shed jobs over the period 2000 to 2010 were catering & accommodation, communication and finance & insurance (Table 3.5).

**Table 3.5 Western Cape Services sector: Real GDP & Employment trends, 2000 to 2011**

Sub-sector	GDP	Employment	GDP	Expansion	Recession	Recovery
	(% share)	(number)	yoy %	yoy %	yoy %	yoy %
	2010	2010 vs 2000	2000 - 2010	2000 - 2007	2008 - 2009	2010 - 2011
Retail & wholesale	18.6	75 743	4.3	5.7	-0.5	2.8
Catering & accommodation	1.9	-5 631	4.4	4.8	-1.3	14.8
Transport & storage	7.2	2 888	3.4	5.0	-1.0	6.9
Communication	6.7	-723	8.1	9.0	5.8	-1.9
Finance & insurance	14.4	-4 557	7.0	8.9	0.3	5.2
Business services	30.3	84 286	5.7	6.1	5.7	3.5
CSP services	7.1	44 203	3.1	3.8	1.4	1.8
Government	13.9	56 537	2.2	1.6	4.1	3.1
<b>Total</b>	<b>100.0</b>	<b>252 746</b>	<b>4.7</b>	<b>5.5</b>	<b>2.5</b>	<b>3.5</b>

Source: Quantec Research; own calculations

The fastest growing service sub-sector was communications (8.1 per cent per annum), followed by finance & insurance (7 per cent), business services (5.7 per cent), catering & accommodation (4.4 per cent) and retail & wholesale (4.3 per cent). The communications and finance & insurance sectors grew by no less than 9 per cent per annum during economic expansion (2000 – 2007). Over this period the services sector in aggregate grew by 5.5 per cent, slowing down to 2.5 per cent per annum during the

recession (2008/09) and recovering by 3.5 per cent during the first two years of general economic recovery (2010/11). The recovery growth of the sector is somewhat muted due to a sustained slump in the communications sector and a relatively weak recovery in the financial and business sector. In response to the 2010 FIFA World Cup, the catering & accommodation sector recorded healthy growth in 2010/11. Likewise, the transport & storage sector ostensibly received a boost from the 2010 FIFA World Cup.

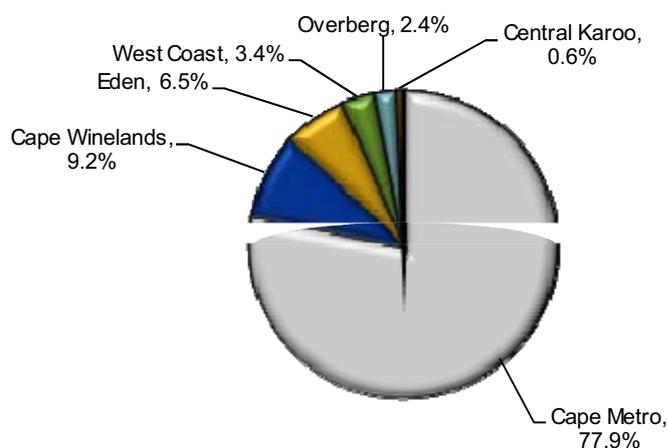
Employment growth in the services sector compensated for the heavy job losses in the agricultural, manufacturing and construction sectors. The business services sector created employment at a rate of 3.6 per cent per annum,<sup>6</sup> retail & wholesale and the government at a rate of 2.6 per cent and community, social & personal services at a rate of 1.9 per cent. The rate of employment creation in the regional services sector is faster than in the rest of South Africa (in contrast to the situation in the manufacturing sector noted above). The Western Cape services workforce expanded by 25 per cent between 2000 and 2010 compared to an expansion of 19 per cent in the rest of South Africa (MERO 2012). In the Eden, Overberg, West Coast and Cape Winelands districts the services workforces expanded by more than 30 per cent over the corresponding period.

### **Geographical perspective**

Although service activities are concentrated in the Cape Metropolitan area, *growth* in services real GDP is stronger in the non-Metro districts. Figure 3.12 shows that 78 per cent of services GDP are generated in the Cape Metro. The Cape Winelands contributed 9.2 per cent of services GDP on average in 2005 - 2010, Eden 6.5 per cent, the West Coast 3.4 per cent, Overberg 2.4 per cent, and the Central Karoo only 0.6 per cent (Figure 3.12). In terms of growth, service activities expanded by 5.5 per cent per annum in non-Metro districts during 2000 – 2010, compared to 4.4 per cent in the Cape Metro (Table 3.6 and Figure 3.13).

The rate of employment creation was also slightly faster in the non-Metro districts. Whereas the non-Metro districts accounted for 22.5 per cent of the services GDP in 2010, services were responsible for 36 per cent of the employment creation in the sector (Metro plus non-Metro) between 2000 and 2010.

<sup>6</sup> Employment numbers in the business services sector may be overstated due to the fact that Statistics South Africa classify workers employed by labour brokers as employed in 'other business services' even though they may actually be manufacturing or construction workers for instance.

**Figure 3.12 Geographical composition of the Services sector, 2005 – 2010**

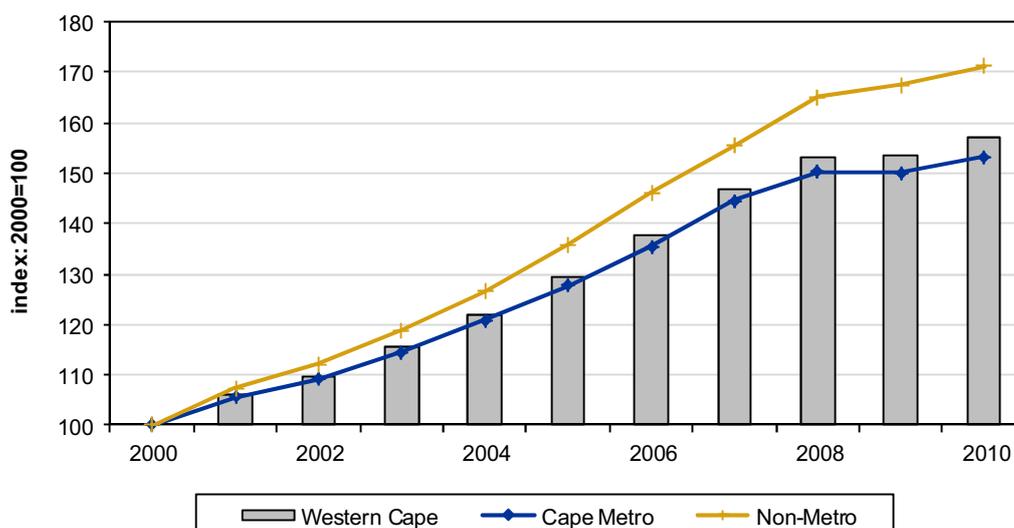
Source: Quantec Research

**Table 3.6 Western Cape services sector: Real GDP & employment trends by district, 2000 - 2010**

District	GDPR (% share)	Employment (number) <sup>7</sup>	GDPR yoy %	Expansion yoy %	Recession yoy %
	2010	2010 vs 2000	2000 - 2010	2000 - 2007	2008 - 2010
Cape Metro	77.5	155 549	4.4	5.3	2.0
West Coast	3.5	12 780	5.4	6.1	3.6
Cape Winelands	9.3	32 832	5.5	6.3	3.4
Overberg	2.5	10 048	6.1	6.9	3.7
Eden	6.6	29 469	5.5	6.5	2.8
Central Karoo	0.6	1 181	4.1	4.6	2.7
<b>Total</b>	<b>100.0</b>	<b>860</b>	<b>4.6</b>	<b>5.5</b>	<b>2.3</b>
Non-Metro	22.5	24 186 311	5.5	6.4	3.3

Source: Quantec Research/CER

<sup>7</sup> See footnote 1 regarding the 2011 and 2012 labour datasets, which is also applicable to Table 3.5 and Table 3.6.

**Figure 3.13 Western Cape services sector real GDP growth across districts, 2000 – 2010**

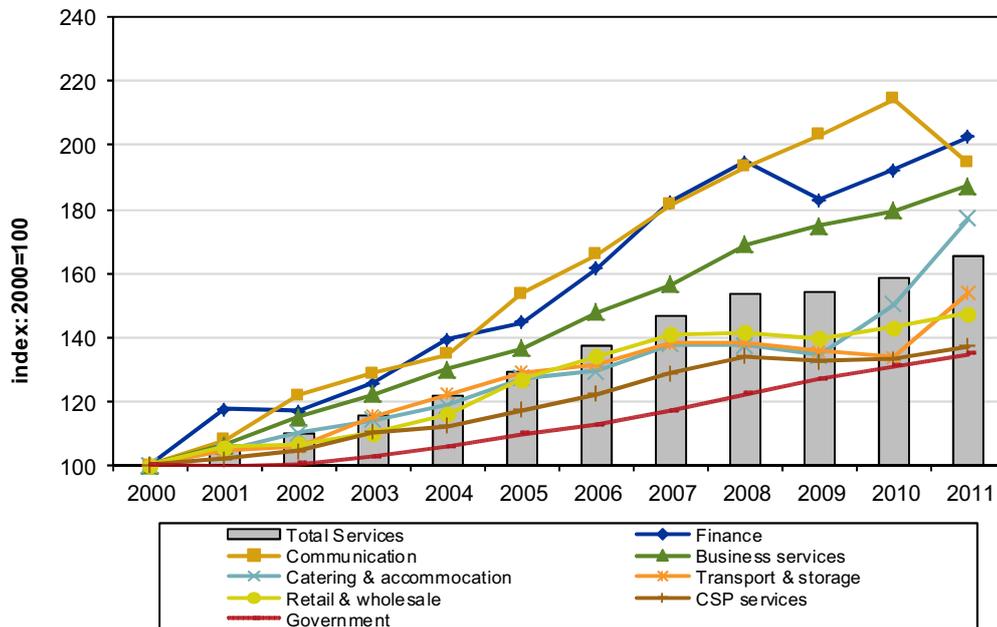
Source: Quantec Research

The MERO study found two interesting tendencies regarding the growth of services activities in the Cape Metro. A number of dynamic municipal sub-regions were identified where services real GDP out-performed that of the City CBD. Combined, the Blue Downs, Brackenfell, Durbanville, Mitchells Plain and Khayelitsha 'municipalities' account for 30 per cent of the Cape Metro services GDP and grew by 6 per cent per annum during 2000 – 2010, compared to services growth in the CBD (or the City of Cape Town) of 3.6 per cent. The rate of employment growth in the selected municipalities during 2000 - 2010 also came to 3.2 per cent compared to only 0.9 per cent in the CBD.

In summary: like agriculture and manufacturing, services are geographically concentrated in the Cape Metro and Cape Winelands districts. There is evidence that GDP and employment growth may be stronger outside the City CBD. While this does not detract from the important role of urbanisation in economic development, it does suggest that there is scope and a rationale for better balanced spatial economic development.

### Sub-sector review and outlook

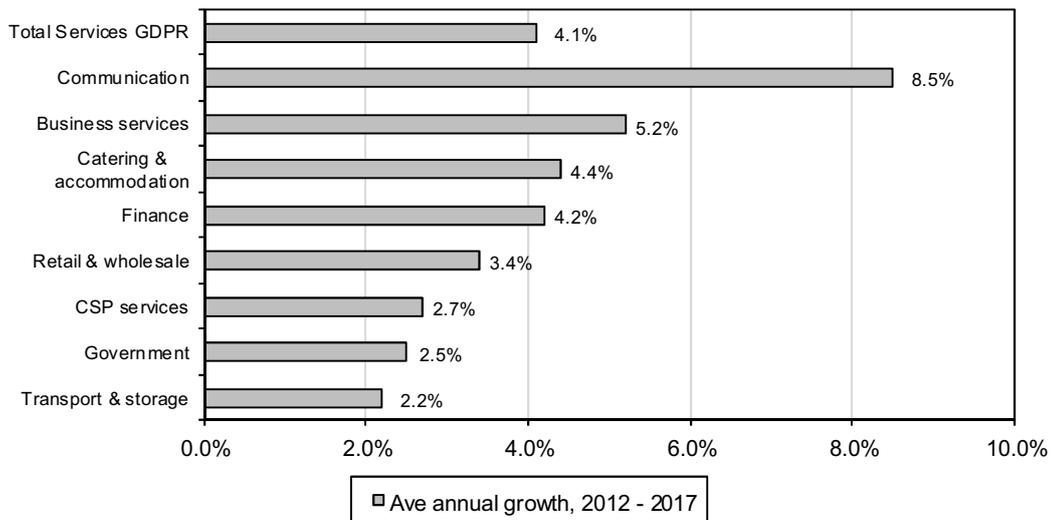
The headline growth and employment trends in services by sub-sector are summarised in Table 3.5 and have briefly been alluded to above. Figure 3.14 depicts the growth trends by sub-sector for 2000 - 2011 by indexing the levels of real GDP to 100 in the base year, 2000.

**Figure 3.14 Western Cape: Real GDP trends by services sub-sector, 2000 – 2011**

Source: Quantec Research

The chart reveals that services real GDP expanded by 65 per cent between 2000 and 2011, merely flattened out during the recession (never contracting) and recovered by 3 per cent in 2010 and an estimated 4 per cent in 2011. Services are known to be less cyclical compared to manufacturing and construction activity, for instance. Only the finance & insurance, retail & wholesale, catering & accommodation and transport & storage sub-sectors contracted somewhat during the recession (2008/09).

Regardless of the recession, finance & insurance real GDP more than doubled during 2000 – 2011. This is also true for the communications sector, but real GDP contracted sharply in 2011. The business service sector expanded by close to 90 per cent and catering & accommodation by close to 80 per cent. The latter-mentioned sector was boosted by the 2010 FIFA World Cup event, assisting the recovery during 2010/11. Transport & storage expanded by 54 per cent and retail & wholesale by 48 per cent. Community, social & personal services and the government sector expanded by a more modest 35 and 37 per cent, respectively.

**Figure 3.15 Western Cape Services sector outlook, 2012 to 2017**

Source: Quantec Research/BER

Figure 3.15 shows the projected outlook for the various sub-sectors. Should the deep-cutting technological change regarding mobile telephony (e.g. the advent of smart phones) and the incremental liberalisation of the telecommunications market prevail, the robust growth of the communications sector is expected to continue. A notable feature of the forecast is the higher projected growth rate for business services compared to finance & insurance. The latter sector is not expected to repeat the exceptional growth rates achieved during the previous economic expansion. In a global environment of financial deleveraging and in the local context of the National Credit Act, it is foreseen that financial services will be under pressure. To sustain a 4.2 per cent growth rate (2012 - 2017) will be difficult but the sector is increasingly engaging in exports, which should underpin real growth. Business services GDP is projected to grow by 5.2 per cent per annum, underpinned, *inter alia*, by the booming developments in the BPO sector (see latest developments in WC BPO sector below). Catering & accommodation is forecast to continue growing at its trend rate of 4.4 per cent per annum.

#### Latest developments & prospects in the Western Cape BPO sector

Since 2003 the Western Cape BPO&O/call centre industry has grown significantly and now has an estimated 33 500 employees (agents, support staff and management). In total the industry generates approximately R7.9 billion per annum, making it a key contributor to the provincial GDP of the Western Cape. The growth of this sector has been built around a mature domestic market with some of South Africa's most prominent companies operating an in-house centre or outsourcing to BPO specialists. These include companies such as Old Mutual, Sanlam, Metropolitan Health, Woolworths, Discovery, Vodacom and Foschini.

The captive market continues to dominate the BPO/call centre Industry, making up 78 per cent of the market while outsourcers account for 22 per cent. There has been significant growth in the number of call centre agents from 20 428 in 2007/08 to 27 552 in 2011/12, i.e. a 34.9 per cent increase. The number of agents in the offshore sector has increased from 2 963 in 2007/08 to 4 727 in 2011/12, i.e. a 59.5 per cent increase. The UK makes up the majority of the offshore BPO business in the Western Cape, contributing 65 per cent. The USA accounts for 12 per cent, Germany 11 per cent, with the Netherlands and Australia accounting for 4 per cent each.

The BPO/call centre industry is dominated by 11 companies making up 50 per cent of the market; 22 companies make up a further 30 per cent, with the remaining 92 constituting 20 per cent of the market. In 2011/12 there were 125 call centre operations. The previous annual report identified 215 companies. The consolidation of operations from 215 to 125 shows a maturing of the industry which is built around a solid base of core companies. This is further underlined by the fact that, despite the number of companies almost halving, the industry has grown by 34.9 per cent since the 2007/08 financial year.

The financial services sector accounts for the highest proportion of agents in the industry at 35.2 per cent. Financial services include banking, asset management, general financial services, life assurance and general insurance. The average entry level salary for agents working in an outsourcing environment ranges from R3 500 – R4 500 per month. The average entry level salary for agents working in a captive environment is R6 500 plus per month.

Over the past two years, there has been investment in the region from global players in the BPO industry. Amazon set up a large captive contact centre last year. This year, we have seen investment in the form of equity buy-outs. WNS, a large Indian outsourcer purchased Fusion, a local operation and Capita purchased a small local operation called Full Circle. SERCO, another major player, has also recently announced its entry into the Western Cape. There is a growing trend globally, and more recently locally, for call centres to offer multiple functions, which may include both inbound customer service and outbound sales. This is known as multi-channel service provision. This is in contrast to previous research where the majority of operations focused on one specific core function. Industry leaders highlighted that a reduction in flexibility and increased regulation in labour laws could threaten potential investment.

There is a growing recognition in the industry that there is a need to establish a skills pipeline of high quality agents and specialist BPO skills (such as team leaders, workforce managers, quality assurers etc.). The industry body is currently coordinating activities that will help develop this talent pipeline.

While other sectors such as retail & wholesale, transport and business services benefit from inward tourism (domestic and foreign travellers), the catering & accommodation sector will be a prime beneficiary. The retail & wholesale sector is projected to accelerate from its sluggish recovery in 2010/11 (2.8 per cent per annum) and is expected to achieve average growth of 3.4 per cent per annum over the forecast period. Retailing conditions are unlikely to reach the buoyancy they obtained during the 2004 - 2007 period. The anticipated pressures on the consumer were noted in Chapter 2. The community, social & personal services sector and the government are projected to expand close to their historical growth rates.

### **3.3 Exports as source of growth**

Expanding the capacity to produce exports and the subsequent growth in exports can be seen as the appropriate growth engine of the Western Cape economy. In this section, the rationale of this causal link (between exports and economic growth) is discussed, including some observations on policy intervention, export markets and the composition of exports. This is followed in Section 3.4 by a detailed analysis of the data on Western Cape exports with a special emphasis on the direction of trade, specifically the destination of exports and the shifts that can be detected in this regard.

### 3.3.1 Rationale of exports as growth engine and the policy competence of provincial government

In the 2011 PERO (Section 3.4) the rationale of growing export production as a source of growth was explained in terms of specialisation and an expansion of the target market. In order to develop this argument further it is useful to quote from the 2011 PERO:

Although specialisation and trade (domestic and international) do not in themselves represent a dynamic theory of economic growth and the role of trade in this regard, it can be concluded that specialisation and the trading of a *growing* surplus of production can only be accommodated in an expanding market. Applied to a region such as the Western Cape the implication is clear. Growth in the Province can be facilitated on the demand side of the growth equation by growth in output aimed at markets that are external to the region, that is, exports to other regions of South Africa and through exports, as conventionally understood, to foreign markets. Since the global market is so much larger than the relatively small South African market, it stands to reason that growth in production to be sold abroad through exports, although a more difficult exercise, provides much more growth potential than production to be sold in the rest of South Africa, thus providing growth opportunities for the Province and ultimately South Africa.

In considering exports as a growth force, it is useful to think in conventional terms of the factors that determine export supply and demand. The demand for current exports will depend on the price of the region's exports, the price of export substitutes, income levels in the export markets, and any other factor such as quality, changes in market preferences and very importantly, barriers to trade that inhibit market access such as import tariffs and a wide range of non-tariff barriers.<sup>8</sup> The supply of exports, in turn, will be determined by the availability of factors of production (capital, entrepreneurial talent and labour, skilled workers in particular) and a range of factors that impact on production cost and thus on competitiveness, including wage costs relative to output (unit labour cost), the cost of capital, raw materials and intermediate inputs as well as the state of technology, logistical support and infrastructure.

In planning an export expansion programme both the demand and supply side of the export growth equation must be taken into consideration. However, a provincial government has very limited, if any influence over the factors that determine the demand for the region's exports. Only the national government can use the conventional instruments that can improve export

<sup>8</sup> Administrative and logistical problems encountered at border crossings can be an important non-tariff constraint on export growth. This is often emphasised when the expansion of South African trade with other African countries is considered. This is relevant because as will be noted later in the chapter, the African market represents a source of export growth for the Western Cape.

competitiveness on the demand side, whether this is the conclusion of international agreements to lower barriers to trade (for example, the conclusion of preferential trading arrangements such as a free trade agreement), the provision of subsidies in support of export production, or the devaluation of the currency. The latter provides protection against imports since it represents a uniform *ad valorem* duty on all imports and support for exports since it provides a uniform *ad valorem* subsidy on all exports. Neither the national nor a provincial government has any influence on foreign income growth as a demand determinant and on the availability of substitute products and their prices. These factors must be treated as exogenous determinants of export demand.

When the supply side of exports is considered, the situation with respect to provincial policy capability is significantly different. A provincial or municipal government can have more impact than what many on first consideration would believe on the supply side of building export capacity and expanding an awareness of the benefits that export production have for the exporter and the region and in providing support to producers that are new to exporting and information on new markets to existing export producers. Arguing the case for a pro-active stance in assisting firms in penetrating foreign markets also featured in the 2011 PERO (p. 76), where the following suggestions were derived from the case studies of selected export manufacturers:

Some of the exporters were finding it difficult to penetrate the emerging Asian markets due to institutional constraints. They saw a role for the Province or some official agency in the Western Cape to help in obtaining and disseminating information, build networks and facilitate the opening of doors by establishing cooperation agreements with governmental structures in Asian economies.

Some exporters expressed the view that the Provincial Government also had a potential role to play in identifying and supporting companies that have already succeeded in penetrating export markets.

#### **The Minneapolis-Saint Paul Export Plan**

The Minneapolis-Saint Paul Business Plan, aimed at the diversification and growth of the region's economy, was released in 2010. The Export Plan has been launched in support of the Business Plan, with the key objectives of increasing and sustaining jobs by doubling the region's exports from 2012 to 2017, expanding the export reach, particularly among small businesses by increasing the number of exporters and the markets to which local firms export, and overall to increase the global orientation of the region.

Four core strategies have been developed to drive the achievement of the objectives. The first is to connect companies to global opportunities through a unified export assistance team. Barriers to exporting are addressed, e.g. lack of market knowledge, by more effectively coordinating and using existing export consulting resources through government agencies, non-profit organisations, private consultants and company networks.

The second strategy is to target the intersection of local products and global demand. This strategy seeks to establish what and where the region is trading, and how its leading economic sectors align with country demand, existing transportation routes, and business connections around the world.

The third strategy is to promote global advantages. Intensive export marketing of identified local industry clusters that have been revealed as sources of strength, based on in-depth research of barriers to increasing exports for the cluster, but not at the expense of assistance to companies in all fields seeking export guidance. Minneapolis-Saint Paul - home to Medtronic, 3M, St. Jude Medical and the Mayo Clinic - has selected their world famous health and wellness industries to start the process of intensified export marketing.

The fourth strategy is to sell the region to the world by first defining and promoting the region's brand and subsequently to sell the brand locally and globally. A noteworthy element of the plan to sell the brand locally is an effort to assemble and coordinate export market research from all sources, supplementing this with unique, locally-generated export data and information. Extensive export information, including events and trade missions, as well as an export services provider road will be made available on a new Minneapolis-Saint Paul regions export website. In a separate policy memo it has been noted, amongst others, that the ability to analyse export data on a local level lags by two to three years. If timely access to pertinent data could be achieved it would assist in effectively tracking results from work on the export plan.

A good example of what can be done in this regard may be found in the Export Plan of the Minneapolis-Saint Paul (Twin Cities) metropolitan region in the American state of Minnesota. A brief summary of this programme is given in the Box. This programme, which is implemented by the metropolitan heart of the state of Minnesota, with the full cooperation of state and federal agencies, illustrates that lower levels of government are not incapacitated in initiating export promotion programmes.

### 3.3.2 Export diversification and growth

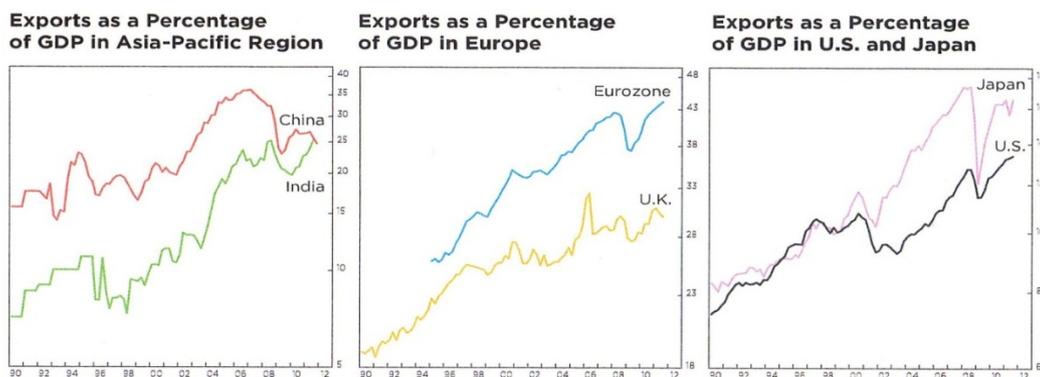
What the Minneapolis-Saint Paul initiative shows is that lower levels of government can strive to have an impact on growth in export production, especially in bringing home the benefits of creating export awareness and promoting the region as a brand in export markets. The importance of potential markets abroad and the relevance of market size and the exploitation of export opportunities, at the same time bringing the BRIC group into the picture, may be illustrated with a simple hypothetical example. From 2009 to 2010 the merchandise imports of the BRIC economies increased by 559.4 billion US dollars. In 2009 the GDP of the Western Cape came to about 41.3 billion US dollars (about 14 per cent of the South African GDP of 283.0 billion US dollars).<sup>9</sup> On the basis of these figures, had the Western Cape been able to capture 1 per cent of the *increase* in BRIC imports, this would have added no less than 13.5 per cent to the regional product. BRIC total imports in 2009 came to 521.7 billion US dollars, which means that a market share of 0.1 per cent of that value would be equal to approximately 3.7 per cent of the Western Cape's GDP.

In its latest *World Economic Outlook (April 2012)*, the IMF projects real growth in the so-called advanced economies (AEs) to proceed at a relatively pedestrian pace of 1.5 - 2 per cent per annum over the next three to five

<sup>9</sup> The values were sourced on 4 September 2012 from the World Bank World Development Indicators at <http://data.worldbank.org/indicator/BM.GSR.MRCH.CD>.

years. Growth in the so-called developing and emerging market economies (EMs) is projected at between 5 - 6 per cent per annum. This difference in real economic growth performance should not be interpreted as conclusive evidence of so-called 'decoupling' as Figure 3.16 shows how global trade interdependence has intensified since the 1990s, with export-to-GDP ratios rising across all regions. The slower growth in the major AEs because of the current debt constraints is impacting on the EMs as well. However, the difference in the respective economic growth performances of the AEs and the EMs is indicative of new global economic dynamics associated with the shift of production (and lately consumption) from West to East and North to South as part of globalisation.

**Figure 3.16 Global interdependence through trade flows intensifies since 1990s**



Source: ECRI (March 2012)

Whereas the major economies in the West tended to dominate events over the past 500 years through innovation in science, technology, business processes and social structures, this is changing. *The Economist* columnist, Alan Wooldridge, succinctly explained it as follows: "What we are currently going through is a complete change in emphasis within the global division of labour. The most visible element of this shift is the explosion of innovation coming from emerging markets." The fact of the matter is that EMs "are generating an increasing proportion of the new ideas, products and processes that make productivity improvements possible. This is a major transformation. It is changing the status quo that has existed for 500 years. It is shifting the axis of the world. It is turning the world upside down." (CDE, March 2012: *The World Turned Upside Down: Business innovation from the South*: 2-3).

A new reality has developed in the global economy, the reality that seventy per cent of global growth over the next few years will come from emerging markets. The EM share of global GDP has increased from 36 per cent in 1980 to 45 per cent in 2008 and is projected to increase to 51 per cent by 2014 (CDE, March 2012: 4-5). New and wealthier consumers will be located in increasing numbers in emerging markets. UNCTAD (May 2011) reports that for the first time in history inward FDI to developing and transition economies exceeded that to AEs in 2010. Trans-National Corporations in search of

expanding markets and production efficiencies are increasingly investing in EMs.

The question is to what extent are local producers and the authorities ready and prepared to confront the challenges and seek the opportunities that these changes bring along? There is no reason why Western Cape agencies could not assist the export industry in taking advantage of these growing markets, especially by tapping into the faster growth of developing country markets.

As noted in Section 3.4.2 a discernible change is taking place in the direction of export flows, with the share of developing country markets growing at the cost of exports to the traditional markets in the developed world. However, as noted earlier in the quotation from the 2011 PERO, export producers will benefit from assistance by Province and regional agencies in accessing these markets. If an export assistance strategy is thought of as aimed at existing exporters and new exporters, efforts to enable exporters to enter new markets in the developing world should target both categories.

Of course, developing a regional awareness among firms of the contribution that selling abroad can make to profitability and company growth, as well as marketing the region as a source of quality goods are not all that the provincial government and its supporting agencies can do. Export producers, having identified markets, depend on the availability of skilled workers and adequate infrastructure to produce for these markets. Provincial and municipal authorities can contribute to the development of infrastructure and related services. Investment in human capital by developing worker skills is a ubiquitous feature of all policy agendas and also appear on a list of 'must do's' for the provincial government, regularly recommended in reports. However, the perennial problem is that the good intentions must be converted into concerted action that produces results, and it is in this regard that it will have merit for any provincial strategy aimed at developing industry and export production to have an action plan on skill development.

From a sector point of view, once the importance of export-oriented growth is realised, attention should focus on the development of industries that produce tradable products, that is, products (services and goods) that are traded across borders. As far as borders are concerned it would be appropriate to distinguish between regional and national borders, a distinction that should become clear when Western Cape sector development is reflected on.

**Table 3.7 Western Cape Exports by destination (%) in sequence of size in 2011**

	2001	2011
Netherlands	6.67	9.90
United Kingdom	14.98	9.06
Not allocated	10.60	5.72
Germany	3.89	5.72
United States	9.36	4.86
Angola	2.71	3.38
Republic of Korea	0.95	3.33
Mozambique	5.48	3.15
Belgium	2.71	2.76
Zambia	2.86	2.61
China	0.67	2.46
Hong Kong Special Administrative Region of China	1.55	2.40
Malaysia	0.37	2.39
Italy	3.11	2.11
Russian Federation	0.29	2.10
Japan	3.32	1.99
France	2.50	1.91
United Arab Emirates	0.82	1.82
Zimbabwe	1.83	1.75
Australia	1.73	1.68
Spain	2.84	1.63

Source: Quantec research

**Table 3.8 South African exports by destination (%) in sequence of size in 2011**

	2001	2011
China	1.76	12.33
Not allocated	16.63	11.53
United States	8.95	8.62
Japan	5.02	8.00
Germany	7.31	6.24
United Kingdom	9.73	4.15
India	1.44	3.52
Netherlands	4.36	3.11
Switzerland	0.80	3.09
Republic of Korea	1.77	2.50
Mozambique	2.57	2.48
Zimbabwe	2.31	2.48
Zambia	2.03	2.34
Belgium	3.09	2.18
Italy	3.03	1.89
Taiwan Province of China	1.78	1.30
Australia	1.10	1.26
France	2.13	1.20
Brazil	0.40	1.11
Kenya	0.60	1.04
Angola	0.55	0.96

Source: Quantec Research

In Section 3.2 the growth performance of the Western Cape sectors was discussed. This analysis and that reported in the 2011 PERO record the growing importance of service industries in the Province, notably finance and insurance, business services and trade. If it is accepted that sustainable economic growth in the Western Cape will depend on growth in export production, it is difficult to escape the conclusion that although services are important, this growth will have to come from growth in the export of goods to foreign markets. Growth in the export of services can be a source of growth, as is found in tourism-related services and in business services such as call centres, but it is safe to assume that a large component of the growth in service production is derived from the growth in income and commensurate demand generated by the sale of services to other provinces. This is particularly true of finance and insurance, which have proven to be a leading growth industry in the Western Cape. However, in the long run the financial sector cannot provide the basis for sustainable, employment-creating growth; this will have to come from producing goods for export, specifically manufactured goods that build on the dynamic comparative advantages of the region.

In so much as export growth is important, cognisance must be taken of the dynamics of international markets, notably the fast growth of the markets of the large developing economies. Comparing the market destinations listed in Tables 3.7 and 3.8, which summarise the top 20 export destinations (excluding the “not allocated” category), reveals that the Western Cape has not during the last ten years experienced a pattern of change similar to that of the national destination of exports. A conspicuous feature of the direction of South African exports is the dramatic leap to the first position of China (Table 3.8). Western Cape exports to China, while increasing from 0.67 per cent of total exports in 2001 to 2.46 per cent in 2011, have not experienced a similar quantum change. It is also noticeable that India does not appear in the Western Cape’s list of top 20 export destinations, while for the country as a whole, exports to India have grown from 1.44 per cent in 2001 of the total to 3.52 per cent in 2011. The European and United States markets have remained the dominant destination for Western Cape exports. What the export destinations also reveal is that of the BRIC group only Russia and China appear in the top 20 Western Cape export destinations; India that imported 0.8 per cent and Brazil 0.6 per cent of Western Cape exports in 2011 are still absent.

**Table 3.9 Composition of Western Cape Exports, top 15 products**

	2011 %
H0: Total: All commodities	100
H08: Edible fruit, nuts, peel of citrus fruit, melons	22.4
H22: Beverages, spirits and vinegar	11.7
H27: Mineral fuels, oils, distillation products, etc.	11.5
H84: Nuclear reactors, boilers, machinery, etc.	7.5
H03: Fish, crustaceans, molluscs, aquatic invertebrates	5.5
H20: Vegetable, fruit, nut, etc. food preparations	4.3
H72: Iron and steel	3.5
H85: Electrical, electronic equipment	3.1
H10: Cereals	3.0
H24: Tobacco and manufactured tobacco substitutes	2.0
H89: Ships, boats and other floating structures	1.7
H74: Copper and articles thereof	1.6
H71: Pearls, precious stones, metals, coins, etc.	1.5
H38: Miscellaneous chemical products	1.4
H39: Plastics and articles thereof	1.2

Source: Quantec Research

**Table 3.10 Composition of South African exports, top 15 products**

	2011 %
H0: Total: All commodities	100
H71: Pearls, precious stones, metals, coins, etc.	25.8
H26: Ores, slag and ash	14.3
H27: Mineral fuels, oils, distillation products, etc.	10.0
H72: Iron and steel	8.5
H87: Vehicles other than railway, tramway	7.7
H84: Nuclear reactors, boilers, machinery, etc.	6.2
H76: Aluminium and articles thereof	2.4
H08: Edible fruit, nuts, peel of citrus fruit, melons	2.4
H28: Inorganic chemicals, precious metal compound, isotopes	1.7
H85: Electrical, electronic equipment	1.6
H29: Organic chemicals	1.5
H73: Articles of iron or steel	1.2
H22: Beverages, spirits and vinegar	1.2
H39: Plastics and articles thereof	1.2
H47: Pulp of wood, fibrous cellulosic material, waste etc.	0.9

Source: Quantec Research

To explain the divergence between the national and Western Cape export destination patterns the composition of export products must be considered. The commodities that take the top 15 positions by value in national and Western Cape exports are listed in Tables 3.9 and 3.10. Agricultural products, notably fruit and to a lesser extent vegetables, beverages (red wine), fish, fruit and vegetable preparations and cereals represented some 47 per cent of Western Cape exports in 2011, compared to the national situation where

minerals and mining-based products plus motor vehicles, contributed 66 per cent of total exports. The remarkable growth of China has been the outstanding feature of the global economy in recent years, a growth process that has generated increasing volumes of mineral imports, which happens to be South Africa's principal export to China, but not of the Western Cape, hence the divergence in export market shares.

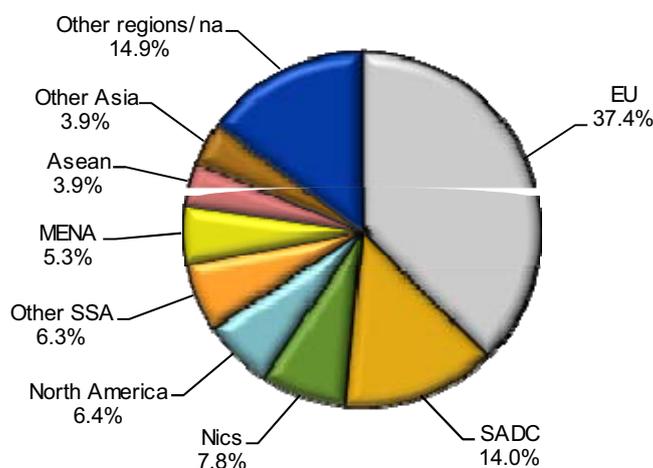
At this point two conclusions can tentatively be made, both dealing with the diversification of export growth. The first is that a need exists to expand the export base of the Province to include a greater contribution of non-traditional, manufactured goods, and the second is to grow exports to the rest of Africa, the Middle East and Asia. Diversification in this sense, however, does not mean that existing markets and export products must be neglected. Every effort should be made to expand the export production of agricultural products, both unprocessed and processed. These products may even prove to be the gateway to market diversification, especially in view of the fact that countries in Asia with their large populations and income growth cannot produce sufficient food to satisfy the growing demand. The growth in wine exports to China in recent years illustrates how an expansion of exports can be absorbed in a new market, which means that an existing leading export product can serve the goal of market diversification without neglecting traditional markets.

### **3.4 Western Cape: direction of trade**

This section in more detail investigates the Western Cape's direction of trade statistics in order to shed some light on the issue of changing international trade patterns from a regional perspective. The intention is to compare the regional picture with that in the national economy.

#### **3.4.1 Destination of exports: 2001 - 2011**

Western Cape goods exports have grown from R25.1 billion in 2001 to R54.7 billion in 2011, i.e. an annual compound rate of growth of 9.3 per cent (which is similar to the growth in the US dollar value of the region's exports as the R/\$ exchange rate remained fairly stable over this time period). In real terms the Western Cape exports of goods *and services* expanded by 4.2 per cent per annum, 2000 - 2011. While the Western Cape's exports of goods and services grew faster than that of South Africa (estimated at 2 per cent per annum, 2002 - 2011), it under-performed the growth in world exports and particularly that in EMs; world exports grew at 5.6 per cent per annum and exports of goods and services from EMs by 8.3 per cent growth over the corresponding period (IMF WEO Database, April 2012).

**Figure 3.17 Western Cape export destinations, 2011**

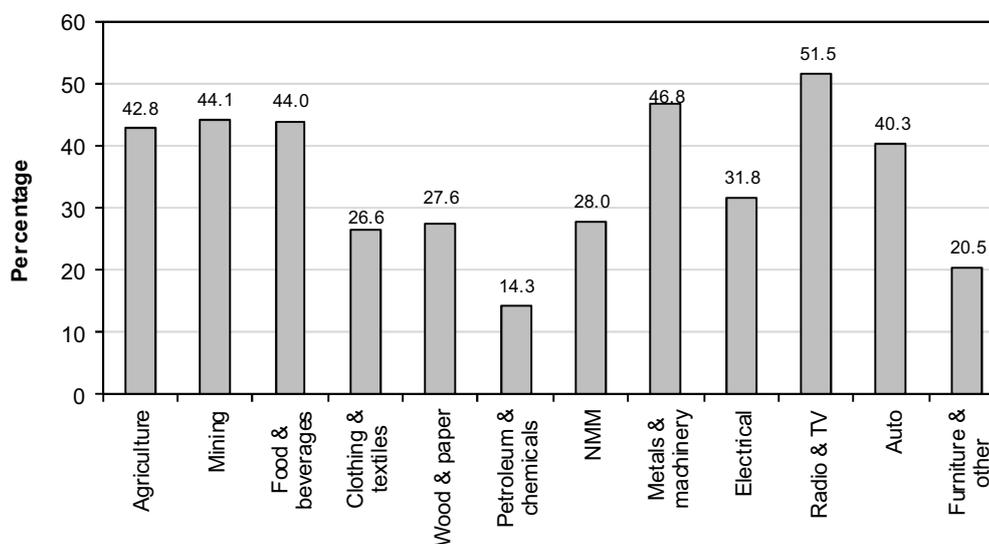
Source: Quantec Research; own calculations

Figure 3.17 shows the Western Cape's regional export destinations by major trade regions.<sup>10</sup> An exposition of the member countries of the regions is provided in the annexure to the chapter. A review of the data allows a number of observations.

- The most dominant trading partner, as noted earlier, is the European Union (EU), absorbing 37.4 per cent of the Western Cape's goods exports. The EU market is the major importer of the Western Cape's agricultural exports; edible fruits & nuts are leading export products to major EU markets such as the Netherlands and the UK. Manufactured exports to, for example, Germany (machinery & equipment) and France (electronic equipment) are prominent (Wesgro, 2010: 4).
- Agricultural and food, beverage & tobacco exports (so-called agro-processing exports) account for 63 per cent of exports to the EU region and other manufactured goods 34 per cent (Quantec Research). The EU is the Western Cape's main export market for most industries, with the share of exports destined for the EU ranging from 14.3 per cent in the case of petro-chemicals to 52 per cent in the case of radio, TV & professional equipment (Figure 3.18).

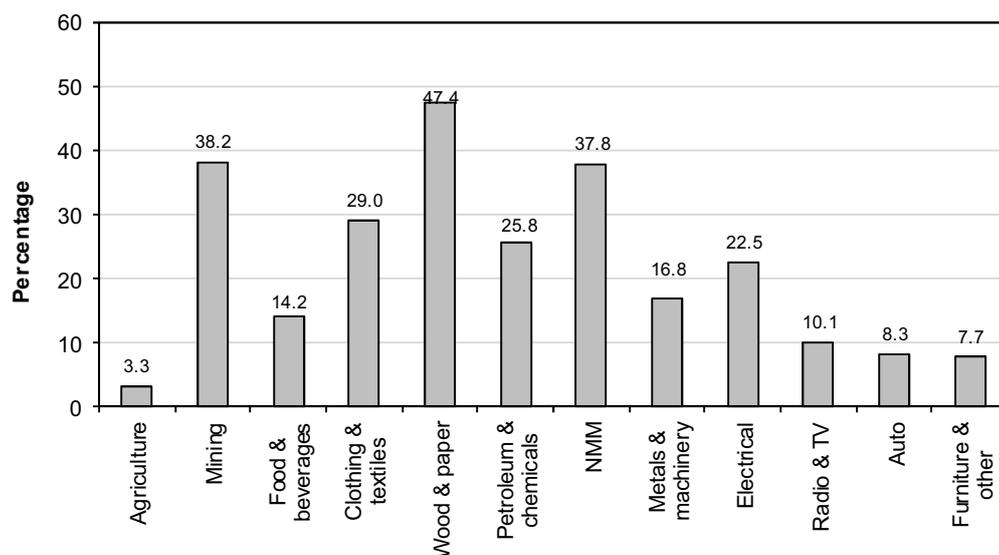
<sup>10</sup> It has to be noted that the direction of trade analysis covers exports of the Southern African Customs Union (SACU) and therefore include exports of the BLNS countries (Botswana, Lesotho, Namibia and Swaziland). As such, the Western Cape's trade with these countries is not indicated, similar to its 'trade' with other province not being indicated.

**Figure 3.18 Western Cape: Share of exports destined for the EU across sectors: 2011**



Source: Quantec Research; own calculations

**Figure 3.19 Western Cape: Share of exports destined for SADC across sectors: 2011**



Source: Quantec Research; own calculations

- The second most important regional export market is SADC countries, which absorb 14 per cent of Western Cape goods exports.<sup>11</sup> The key destinations are Angola, Mozambique, Zambia and Zimbabwe that

<sup>11</sup> The exports to SADC countries noted here are likely to be underestimates of their true value. As mentioned in note 10 the trade values of South Africa are SACU figures and hence exports are in fact to non-SACU member states of SADC. In view of the dominant position of South African imports in BLNS markets the true extent of exports to SADC (including BLNS) will be significantly larger.

account for 78 per cent of the Western Cape's exports to SADC in 2011. As shown in Table 3.19 the SADC market absorbs a substantial share of industry exports from the Western Cape. Sixty one per cent of exports to SADC comprise manufactures of goods (excluding food & beverages) and one third are agricultural, food, beverage & tobacco exports.

- Including the other Sub-Saharan African (SSA) destinations (to the north of SADC; see below), Western Cape exports to SSA countries account for 20 per cent of the total.
- The third most important regional market (3.17) is the so-called Newly Industrialised Countries (NICs, namely Hong Kong, Singapore, Taiwan and Korea) that absorb 7.8 per cent of Western Cape goods exports. Including the ASEAN trading bloc (excluding Korea) and other Asian countries (mainly China and India), Western Cape exports to developing Asia (i.e. excluding Japan) account for 15.6 per cent of the total. The NICs absorb mainly agricultural and processed exports (two-thirds of the total) while the ASEAN countries absorb mainly manufactured goods (mainly petro-chemicals, metals & machinery). Considered across industries, one quarter of furniture & other industries exports are destined for the NICs. Furthermore, 15 per cent of electrical machinery exports are destined for the ASEAN countries.
- In the fourth place is North America, mainly the USA that absorbs 6.4 per cent of Western Cape goods exports. The USA accounts for 75.8 per cent and Canada for 24 per cent of Western Cape goods exports to the North American region. Close to half of Western Cape exports to North America comprise agricultural and processed goods; the other half are manufactured goods (e.g. petro-chemicals, automotive and metals & machinery). One fifth of the Western Cape's automotive exports (mainly auto components) are destined for the North American market.
- Other key export destinations (of which some were already noted above), include 'other SSA countries', i.e. SSA excluding SADC (6.3 per cent), the Middle East and North Africa (MENA; 5.3 per cent) and ASEAN and 'other Asian countries' (3.9 per cent each). Included in the latter mentioned region are China (absorbing 2.5 per cent) and India (0.8 per cent).

The regional markets noted above are destinations for 85 per cent of the Western Cape's goods exports. The BRIC countries are not a regional trade group and exports to these markets are included in the relevant regions or groups of which they form part. However, as a group of leading EMs they have developed a group identity which has become institutionalised in having regular summits and in playing an increasingly important role in the global political and economic arena. South Africa has been invited to join the group and although BRICS do not have an underlying trade agreement it could have an important role in encouraging intra-BRICS trade and investment. In 2011 the BRIC economies were the destination of 5.9 per cent

of Western Cape exports (Table 3.11), which is relatively low but provides the basis for significant expansion in the future.

### 3.4.2 Growth across export regions

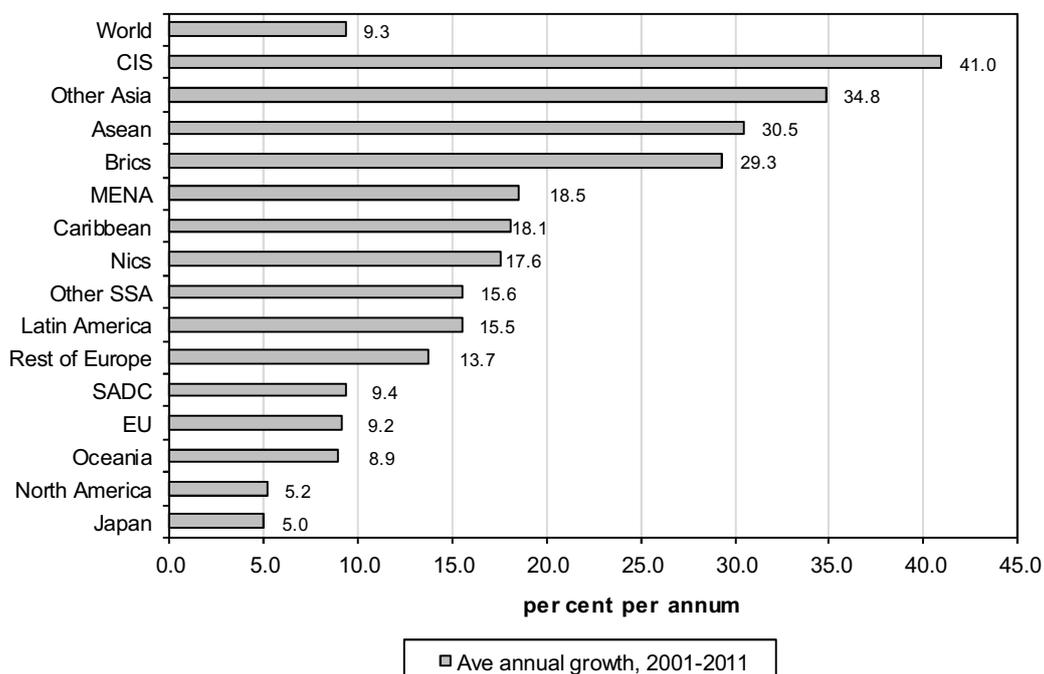
Table 3.11 shows the composition of the Western Cape's regional export markets and how this has changed between 2001 and 2011. The table also compares this to the national situation. The results are revealing and should be read in conjunction with Figure 3.20, which shows the average annual growth in the rand value of Western Cape exports to the various trade regions:

- The EU has remained the Western Cape's dominant export destination over the 2000s, with the share of exports only falling modestly from 39.5 per cent to 37.4 per cent. By comparison the national share of exports destined for the EU dropped dramatically by close to 12 percentage points to 22 per cent, almost mirroring the swing in favour of exports to 'other Asia' (i.e. mainly China and, to a lesser extent, India). This presumably is explained by two factors: first, it reflects the Western Cape's comparative advantage in particularly agricultural exports to the EU, as well as the region's steadfast trading relations with the EU; and second, it reflects the extent to which non-Western Cape commodity exports (mining and base metals) have shifted from the EU to Asia.

**Table 3.11 Western Cape and RSA export destinations: 2001 to 2011**

Region	Western Cape goods exports (% share)			South Africa goods exports (% share)		
	2001	2011	change	2001	2011	Change
SADC	17.1	14.0	-3.1	11.1	10.8	-0.4
Other SSA	4.2	6.3	2.2	3.1	3.6	0.5
MENA	2.5	5.3	2.8	4.2	3.1	-1.0
Japan	3.3	2.0	-1.3	5.0	8.0	3.0
NICs	3.9	7.8	4.0	5.5	5.5	-0.1
ASEAN	1.0	3.9	3.0	1.8	2.4	0.6
Other Asia	1.6	3.9	2.2	3.6	16.2	12.7
North America	10.9	6.4	-4.4	9.6	9.1	-0.5
Latin America	1.3	1.6	0.3	2.0	2.2	0.2
Caribbean	0.5	0.1	-0.3	0.1	0.0	-0.1
EU	39.5	37.4	-2.1	33.8	22.0	-11.8
Rest of Europe	1.4	1.0	-0.4	1.4	4.0	2.6
CIS	0.3	2.3	2.0	0.1	0.4	0.3
Oceania	2.0	2.1	0.1	1.9	1.1	-0.9
Not allocated	10.6	5.7	-4.9	16.6	11.5	-5.1
<b>World</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>
BRICs	2.2	5.9	3.7	4.2	17.0	12.9

Source: Quantec Research; own calculations

**Figure 3.20 Western Cape export growth by destination region: 2001 - 2011 (Rand values)**

Source: Quantec Research; own calculations

- The Western Cape ships a comparatively larger share of its exports to African countries, namely one quarter (if MENA is included) compared to only 17.5 per cent in the case of SA. It appears that export growth to countries north of SADC is faster than the growth of exports to SADC. The growth of exports to SADC averaged 9.4 per cent while that to 'other SSA countries' was 15.6 per cent and to the MENA 18.5 per cent per annum. However, growth came off a lower base in the latter two cases. SADC remains the more important destination for Western Cape exports and it would appear that growth has accelerated in recent years.<sup>12</sup>
- While the Western Cape's export relations with the EU remain on a firm footing, the rest of the country has comparatively stronger (and even expanding) ties with North America (9.1 per cent) and Japan, the latter absorbing 8 per cent of SA's goods exports in 2011, up from 5 per cent in 2001. Western Cape exports to North America dropped by 4.4 percentage points.

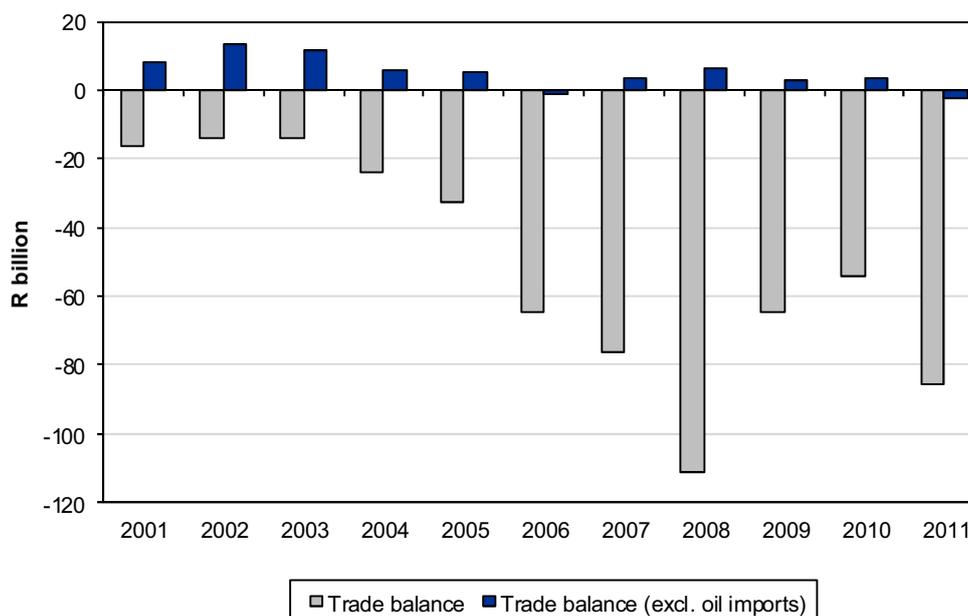
<sup>12</sup> The decline in the share of exports to SADC (3.1 percentage points) is misleading as a big drop occurred in 2002 and further in the years thereafter up to 2007 when SADC only accounted for 10 per cent of Western Cape goods exports. Since then SADC's share was restored to 14 per cent in 2011.

- Finally, while the Western Cape's dominant export markets remain the EU and SADC, considering the *growth* in exports local producers do seem to be penetrating non-traditional markets on an increasing scale. This fact is best reflected in the 30 per cent plus average annual export growth rates to regions such as the Commonwealth of Independent States (CIS), 'other Asia' and the ASEAN bloc also mirrored in the rapid export growth to the BRIC economies.<sup>13</sup> Other rapidly growing exports are destined for regions such as the NICs, Latin America and the Caribbean (ostensibly the outcome of the Western Cape's famous boat-building industry) and the rest of Europe. The export shares of these regions have generally risen over the 2000s as growth was above average, albeit coming off a low base.

In considering the change in the composition of the Western Cape's export market shares between 2001 and 2011, it is clear that non-traditional destinations have gained market share at the cost of the traditional destinations. Table 3.11 shows that the NICs, the BRICs, the ASEAN bloc, MENA, other Asian countries (mainly China and India also part of BRICs), non-SADC Sub-Saharan African countries, CIS and Latin America all gained market share while North America, SADC, the EU, Japan, the rest of Europe and the Caribbean all lost market share; the proportion of goods exports 'not allocated' also declined significantly.

While a similar pattern is evident regarding South Africa's direction of trade, the one obvious difference is the sharp increase of exports to 'other Asian' countries (i.e. mainly China and, to a lesser extent, India), also reflected in the export share to the BRIC economies. What has been China's gain appears to have been the EU's loss. Beyond this major shift in South Africa's export destinations, trading links appear to be relatively stable. However, the increased share of goods exports destined for Japan and 'other European countries' should be noted.

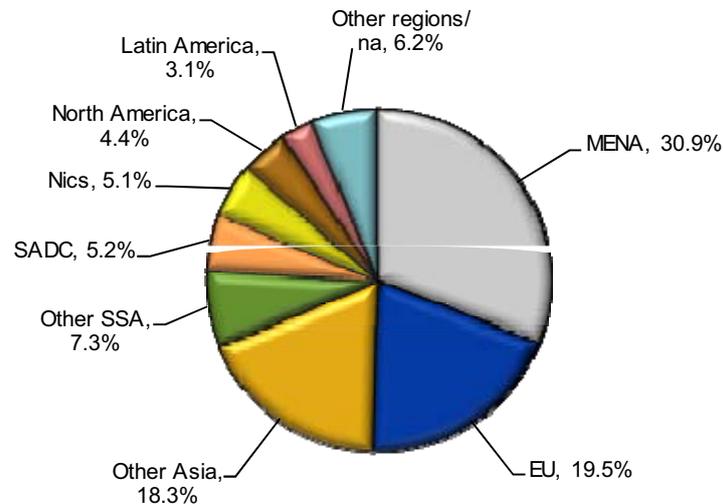
<sup>13</sup> Average annual growth rate over the period could be affected by the high volatility of the trade data.

**Figure 3.21 Western Cape trade balance (R billion)**

Source: Quantec Research; own calculations

### 3.4.3 Source of Western Cape imports: 2001 - 2011

Western Cape goods imports increased at an average annual growth rate of 15.6 per cent from R41.4 billion in 2001 to R140.3 billion in 2011. A major part of imports comprises oil & distillates, *inter alia* feeding the Chevron oil refinery. Excluding oil gives imports of R16.9 billion and R57.3 billion, respectively and an average annual growth rate of 13 per cent. Therefore, given goods exports of R54.7 billion in 2011, the Western Cape ran a trade deficit of R85.6 billion (or R2.6 billion excluding oil imports) in 2011. As Figure 3.22 shows, the region has for the most part run a small surplus on its trade account when oil imports are excluded. However, this surplus has tended to shrink resulting in a small deficit in 2011. This is due to the fact that real import growth exceeded real export growth over the 2000s.

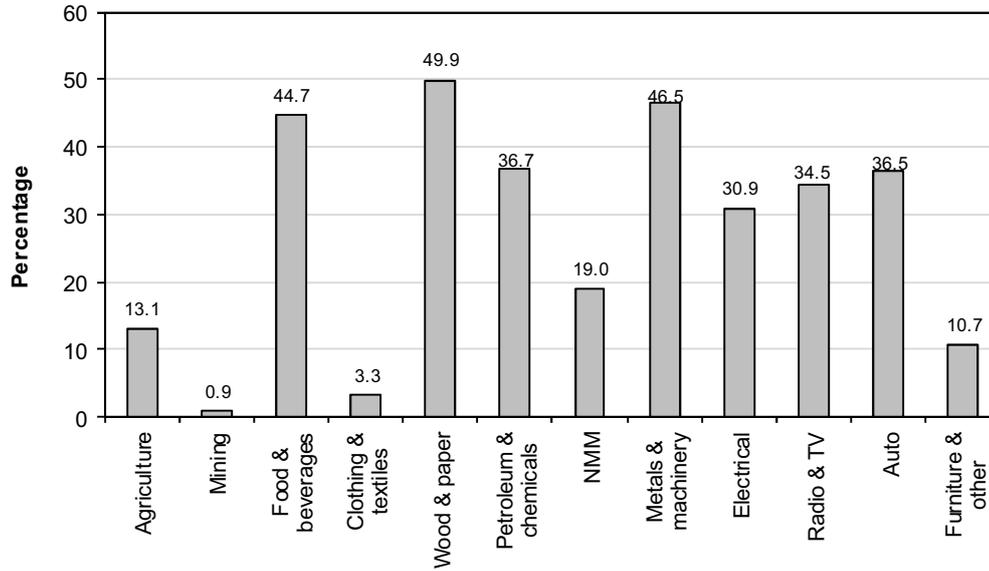
**Figure 3.22 Western Cape source of imports, 2011**

Source: Quantec Research; own calculations

Figure 3.22 shows the source of Western Cape imports in 2011. A number of observations are possible:

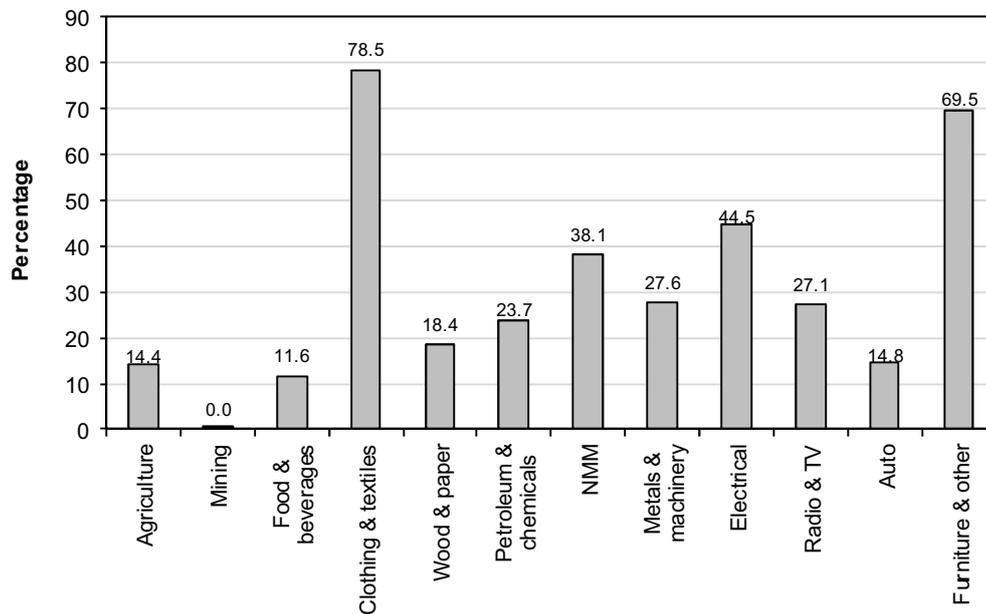
- Close to one third of imports (mainly oil) is sourced from the MENA countries; Saudi Arabia, Iran and the UAE supply 85 per cent of imports from MENA.
- The second most important source of imports is the EU that supplies close to one fifth of Western Cape goods imports. The leading suppliers are Germany (with machinery & equipment being a key import product), the UK (beverages), Italy, the Netherlands (mineral fuels) and Belgium (Wesgro, 2010: 5 and 2012: 7).
- Figure 3.23 shows an array of imports sourced mainly from the EU, ranging from 50 per cent of all wood & paper products imports, 47 per cent of metals & machinery and 45 per cent of food, beverages & tobacco to around one third in the case of the petro-chemicals, electrical machinery, radio, TV & professional equipment and automotive industries. Including food, beverages & tobacco, close to 97 per cent of imports from the EU comprise manufactured goods. Half of these imports originate in the petro-chemical sector.

**Figure 3.23 Western Cape: share of imports sourced from the EU across sectors: 2011**



Source: Quantec Research; own calculations

**Figure 3.24 Western Cape: share of imports sourced from 'other Asia' across sectors: 2011**



Source: Quantec Research; own calculations

- Third on the regional list is 'other Asia' (mainly China and India) that supplies 18.3 per cent of goods imports. In 2011 China was the top source of Western Cape imports and accounts for two-thirds of the province's imports from 'other Asian' countries. India accounts for 31 per cent.
- Figure 3.24 shows that close to 80 per cent of clothing & textile imports are sourced from China and India and close to 70 per cent of furniture & other industry imports. Other imports sourced mainly from China and India include electrical machinery (45 per cent) and non-metal minerals (38 per cent). Manufactured goods comprised 94 per cent of total imports from these two countries in 2011.
- Fourth on the regional list are 'other SSA' countries and fifth is SADC, with the SSA region supplying 12.5 per cent of Western Cape imports. More than 95 per cent of the imports from 'other SSA' are sourced from Nigeria (mainly oil); in the SADC region, Angola accounts for more than 70 per cent of imports (presumably also mainly oil).
- Finally, other key source regions for Western Cape imports are the NICs (5.1 per cent); North America (mainly the USA; 4.4 per cent) and Latin America (3.1 per cent). A noteworthy feature in this regard is the fact that 40 per cent of the Western Cape's agricultural imports are sourced from Latin America.

#### **3.4.4 Growth of imports across regions**

Table 3.12 shows the change in the composition of import source markets between 2001 and 2011 and should be read in conjunction with Figure 3.25 that traces the average annual growth rates (in the rand value of goods imports across the various source markets). Considering the changes in the Western Cape's import source markets, a few aspects stand out:

- The importance of the MENA region as a source of (mainly oil) imports has declined from more than half of total Western Cape goods imports in 2001 to 31 per cent in 2011. It would appear that oil is increasingly sourced from African countries such as Nigeria and Angola, which explains the increased importance of the SADC and 'other SSA' regions as sources of imports. Non-oil imports from other SADC countries such as Mozambique, Mauritius, Tanzania and Madagascar have also witnessed healthy growth, which is a sign of improving bilateral trading relations with the Western Cape.

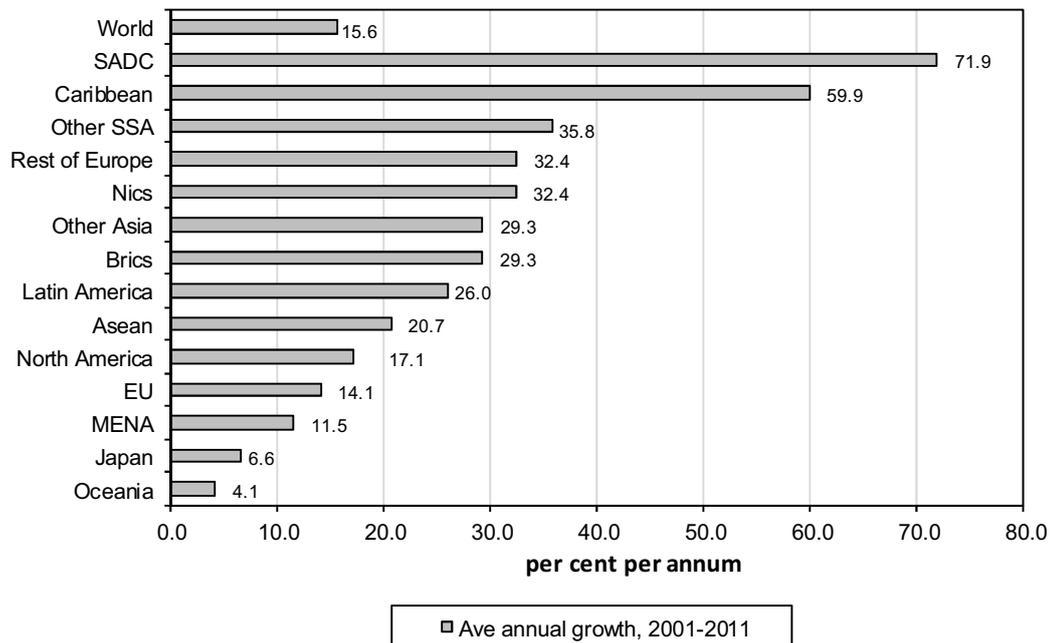
**Table 3.12 Western Cape versus RSA source of imports: 2001 to 2011**

Region	Western Cape goods imports (% share)			South Africa goods imports (% share)		
	2001	2011	change	2001	2011	Change
SADC	0.9	5.2	4.3	2.1	4.3	2.2
Other SSA	5.0	7.3	2.3	1.3	3.3	2.0
MENA	52.2	30.9	-21.2	13.0	11.3	-1.8
Japan	1.7	0.7	-1.0	6.8	4.8	-2.1
NICs	4.2	5.1	1.0	5.6	4.9	-0.7
ASEAN	1.9	2.9	1.0	3.0	5.1	2.1
Other Asia	5.6	18.3	12.7	5.4	18.6	13.2
North America	4.2	4.4	0.1	12.7	8.9	-3.8
Latin America	1.7	3.1	1.4	2.9	3.7	0.8
Caribbean	0.1	0.6	0.5	0.1	0.2	0.1
EU	19.6	19.5	-0.1	41.6	30.7	-10.9
Rest of Europe	1.0	1.4	0.4	2.3	2.1	-0.2
CIS	0.3	0.1	-0.2	0.2	0.3	0.1
Oceania	1.8	0.6	-1.2	3.0	1.8	-1.2
Not allocated	0.0	0.0	0.0	0.0	0.2	0.1
<b>World</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>
BRICs	6.3	19.4	13.1	6.9	20.1	13.2

Source: Quantec Research; own calculations

- China and India has become important source markets for Western Cape imports, reflected in the fact that the share of 'other Asia' increased from 5.6 per cent to 18.3 per cent during 2001 – 2011. The growing importance of China and India is also reflected in the equally sharp increase in the share of goods imported from the BRIC countries. While there is a big discrepancy in this regard on the export side between what transpired in the Western Cape and the rest of the country, this change on the import side is mirrored nationally.
- Apart from the two shifts noted above, the composition of the Western Cape's import source markets has remained remarkably stable. This is specifically true for the second largest source market, the EU, which continued to supply close to one fifth of Western Cape imports. However, in a number of the other regions relatively small shifts in shares may conceal relatively high growth (Figure 3.25)<sup>14</sup> in imports from regions such as the rest of Europe (mainly Switzerland and Turkey), the NICs, Latin America and the ASEAN bloc.
- Despite the reduced importance of the EU, it remains SA's largest source of imports, accounting for more than 30 per cent of all goods imports.

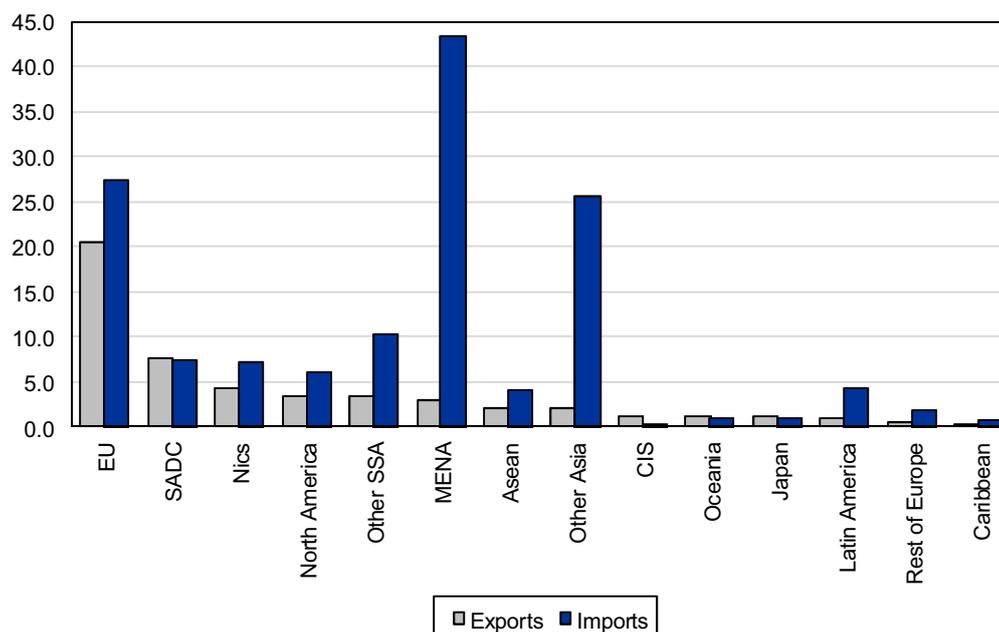
<sup>14</sup> As noted in note 13 some of the average growth rates are somewhat distorted by volatile data. For example, imports sourced from SADC have been very volatile. In other cases (for example, the Caribbean) the high growth comes from a low base.

**Figure 3.25 Western Cape import growth by source region, 2001 - 2011 (Rand values)**

Source: Quantec Research; own calculations

In summary: considering the change in composition of the Western Cape's regional import source markets, the altered configuration of oil imports is a key finding, as well as the notable increase in importance of China and India as source markets. Furthermore, the high import growth from a number of other (smaller import) regions (e.g. rest of Europe, NICs, Latin America and ASEAN) should be noted.

Figure 3.26 shows the Western Cape's bilateral trade flows in 2011, ranked according to the size of exports to the regional destinations. The sizable trade deficit of the Western Cape (measured at R85.6 billion in 2011 in total) with most regions is conspicuous. The only four regions with whom the Western Cape had a trade surplus in 2011 were CIS (R1 100 million), SADC (R320 million), Oceania (R270 million) and Japan (R110 million). As noted earlier oil-related imports explain a substantial part of the Western Cape's trade deficit. However, it should also be noted that real import growth exceeded export growth over the 2000s, partly reflecting an unsatisfactory rate of export growth. But perhaps most importantly, import values and trade balances of a region with the rest of the world, especially a region with a major port that furthermore hosts the headquarters of major retail chains, should be considered with less rigour than the trade balance of the national economy. It is very likely that a significant proportion of imports recorded as Western Cape imports is not consumed or used in the Province but destined for other regions.

**Figure 3.26 Western Cape bilateral goods trade: 2011**

Source: Quantec Research; own calculations

### 3.5 Conclusion

The Western Cape economy is services oriented. The sector accounts for close to three quarters of GDP, grew the most rapid over the 2000s and, in employment creation, more than compensated for the steep job losses in the agricultural, manufacturing and construction sectors. The sector did not contract during the 2008/09 recession and recovered in line with the manufacturing sector in 2010/11. The latter bounced back from a steep contraction in 2008/09.

Unfortunately the skills intensity of the demand for labour does not match the semi- and unskilled nature of the labour supply and the tradable goods sectors (typically absorbing semi- and unskilled labour) are adding to unemployment, which all contribute to the phenomenon of “jobless growth”. Little has changed regarding this structural imbalance in the regional economy from last year.

The Western Cape economic activity is geographically concentrated with 87 per cent of services GDP generated in the Cape Metro and Cape Winelands districts, 85 per cent of manufacturing GDP and 60 per cent of agricultural GDP. However, there is evidence of pockets of strength outside the City CBD in both the manufacturing and services sectors where growth and employment creation are more robust (e.g. Eden, Overberg and the Cape Winelands).

The Western Cape economy managed to grow by 5 per cent per annum during the expansion phase of the previous business cycle from 2000 to 2007. However, at the time of the global recession in 2008 and 2009 growth slumped to 1.7 per cent per annum. In 2010 real economic growth recovered by 3 per cent and the current estimate for growth in 2011 is 3.3 per cent. During the years of economic expansion employment grew by 1 per cent per annum, then it declined by 3.4 per cent per annum during 2008/09, to recover by only an estimated 0.8 per cent per annum during 2010 - 2011. In Chapter 2, it was explained why real GDP growth is expected to cool down in 2012 (2.9 per cent), with a recovery to higher growth in the remainder of the forecast period.

As far as expected growth is concerned the outlook for agriculture may be positive because of a growing global food shortage and wide-spread poverty and underdevelopment in Africa. While the agriculture, forestry & fishing sector is forecast to continue growing at a trend growth rate in the short run, the medium to longer term may deliver greater opportunities.

Manufacturing is projected to grow at 3 per cent per annum, which is higher than its trend growth rate over the 2000s but well below the growth in the previous business cycle upswing. It is hoped that the trend of labour retrenchment will be arrested. On a sub-sector level, the radio, TV & professional equipment, automotive components, metals & machinery and food & beverages are expected to grow above the average (i.e. 3.5 to 4.3 per cent per annum). Clothing, textiles & leather goods, furniture and petro-chemicals are projected to grow around 3 per cent per annum and electrical machinery, non-metal minerals and wood & paper products are likely to lag the rest, with real value added growth of around 1.5 to 2 per cent.

The services sector is again projected to be most prominent with real GDP growth projected at 4.1 per cent per annum. Employment growth of 2.1 per cent per annum is anticipated. Given the deep technological changes in the communications industry this sector is again expected to be the fastest growing sub-sector in the province (8.5 per cent per annum). Other services sub-sectors expected to continue doing well are business services (5.2 per cent per annum), catering & accommodation (4.4 per cent) and the finance & insurance sector (4.2 per cent). However, it should be noted that the projected growth for the latter is well below that achieved during the 2000s, which is to be expected in a global environment of financial deleveraging and the National Credit Act that puts a damper on credit utilisation.

The exciting opportunities opening up in the oil & gas sector, the growth achievements and initiatives in the BPO and ICT sectors and the positive outlook for the tourism industry must be emphasised. These are cross-cutting sectors which are prioritised by the WCG as important parts of the Western Cape economic growth dynamic.

### Great potential in the oil & gas sector

The South African Oil & Gas Alliance (SAOGA) is a section 21 non-profit company established by the Provincial Government of the Western Cape for the purposes of supporting and promoting the growth of local industry targeting the substantial opportunities in the upstream Oil & Gas sector within sub-Saharan Africa. Aside from its public sector development mandate it also functions as a de facto member association for the local upstream supplier industry and represents approximately 160 member companies.

The continuing growth of West Africa and the new growth in East Africa offshore and Rift Valley will drive tens of billions of dollars of investment and operational expenditure over the coming years. A significant increase in the South African upstream project activity is probable in the medium- to longer-term but will not be the key driver of South African upstream service activity over the next 2 - 4 years. A recent Marintek Market Study has revealed that another market opportunity within the Scheduled Inspection and Reclassification Maintenance Modification of Maritime Vessels (MMM) segment environment exists for our industry.

South Africa is the only significant industrial economy in the region and is logistically well connected to the region. It is therefore a natural location for providing repair and maintenance services, warehousing and logistics and professional/technical services where proximity to end location is an advantage, e.g. subsea services, infrastructure and engineering.

This in essence has resulted in a number of successes within the 2011 - 2012 financial year, namely:

- Oil and gas has once again been placed in the IPAP as National Priority
- Officially launched the A-Berth repair quay
- Attracted eleven projects compared to the average seven
- Attracted R1.2 billion value of Rig and Ship repair
- Facilitated approximately 5 800 jobs
- Has been identified as the launching sector for the IDZ
- Facilitated R6 million NIPP programme funding for a State of the Art Metallurgy Testing Centre
- Facilitated training for 166 learners and placed 50

The Marintek Report (2012) has highlighted the potential for the expansion of rig/OSV (OSV – offshore support vessels) repair services focused on the regional upstream oil & gas market. In response to this and a number of other studies undertaken in the past few years the National Ports Authority (TNPA) has indicated its intention to target the sector by investing in rig/OSV repair infrastructure at Saldanha Bay. The proposed investment is to build an additional 250 – 500 m (extension of quay 204) of deep water quayside (approximately 20 m alongside) with dedicated facilities for rig/OSV servicing and two complementary floating dry docks capable of handling vessels up to approximately 30 000 tonnes. In total, these projects will require well over R1.5 billion worth of investment.

In order to ensure that the industry complements the physical infrastructure projects, it is imperative that South Africa establish a significant position in the regional upstream supply chain. This will need to be driven by promotion of our most capable companies into the regional sector and investment promotion to get key foreign companies to invest in South Africa. Success in these areas will bring business that creates opportunities for smaller and emerging businesses in South Africa.

Although services dominate the Western Cape economy, the export production of tradable goods is crucial for economic performance and an expansion of the export base must be seen as an imperative for raising growth and employment creation. The WCG can play a significant role in building this export capacity by exercising policy options that exist on the supply side of export growth. In applying their policy competence the provincial government, local authorities and related agencies, two export development

goals, both dealing with export diversification, should be adopted. The first is to expand the export base of the Province to include a greater contribution of non-traditional, manufactured goods, and the second is to grow exports to the rest of Africa, the Middle East and Asia, a process that has started as revealed by the trade data analysed in this chapter. In following this route exports to the Western Cape's traditional markets in the developed world, notably the EU, must be maintained and even expanded. However, a provincial export strategy must take cognisance of the shifts in global markets towards the emerging markets and other fast-growing developing economies and support the growth in exports to these markets.

The world's developing and emerging market economies are out-performing the advanced economies from an economic growth perspective. While this has been a trend over the 2000s, the difference in growth performance has been accentuated in the aftermath of the global financial crisis, with the major advanced economies in the USA, Europe and Japan confronted with huge debt mountains. The most striking statistic is the calculation that seventy per cent of global economic growth is expected to come from emerging markets over the next few years and this is the reality that the Western Cape must face in expanding export production. The direction of trade analysis revealed a number of points:

- The Western Cape has strong and stable trading relations with the EU, both regarding exports and imports. Despite some key shifts, the EU remains the favourite export destination and source market for imports across most industries. However, on the export side, the *growth* to the EU has been below par. In fact, the growth of exports to all the Western Cape's traditional trading partners (including SADC) over the 2000s has been below par. However, it would appear that export growth to SADC countries recovered in recent years.
- Considering the change in composition of export destinations between 2001 and 2011, there is clear evidence that non-traditional export destinations are gaining market share. Export growth has been stronger to regions such as the NICs, the BRICs/'other Asia' (mainly China and India), the ASEAN bloc, MENA, non-SADC Sub-Saharan African countries, CIS and Latin America. In many instances growth is occurring from a low base. Nevertheless, the regions listed here account for 31.2 per cent of the Western Cape's export destinations in 2011, up from 14.8 per cent in 2001. This development is of a bilateral nature as the import share of these regions (excluding MENA) increased from 18.6 per cent in 2001 to 36.7 per cent in 2011. This development reflects the faster growth of many of these regions over the period under consideration and the fact that local producers are responding to the change.
- Viewed in a national context, the shift to emerging economies has been less pronounced because the Western Cape does not produce bulk

commodity exports on the scale that they are produced in SA's mining provinces and exported to countries such as China.

- The Western Cape's share of exports to the EU has remained relatively stable. In 2011, 63 per cent of the province's exports to the region comprised agro-processing exports, products in which the Western Cape has a clear comparative advantage. Agricultural exports to the EU also appear to have continued to do well during the global recession. While this comparative advantage suggests the EU will always remain a key market, there is evidence that even in this sector the search for new markets is on<sup>15</sup>.
- It may be concluded that Western Cape producers, with the assistance of the provincial and local authorities, can do more to diversify export relations in order to capture a larger share of the fast-growing import demand from emerging economies. The Western Cape's real export growth rate of 4.2 per cent per annum over the 2000s is unsatisfactory, especially when compared to the 8.3 per cent export growth of South Africa's peer developing and emerging economies.

<sup>15</sup> In 2001 65 per cent of agricultural exports were destined for the EU; in 2011 only 43 per cent were destined for the EU; the corresponding numbers regarding food, beverages & tobacco are 55 per cent and 44 per cent, respectively.

# Annexure A

## Classification of countries

For the purposes of the direction of trade analysis trading regions/blocs were identified and classified as follows:

### **Africa and the Middle East**

#### **South African Development Community (SADC)**

Angola  
Botswana  
Democratic Republic of the Congo  
Lesotho  
Madagascar  
Mauritius  
Malawi  
Mozambique  
Namibia  
Seychelles  
Swaziland  
United Republic of Tanzania  
South Africa  
Zambia  
Zimbabwe

#### **Other Sub-Saharan Africa (other SSA)**

Burkina Faso  
Burundi  
Benin  
Belize  
Central African Republic  
Congo  
Côte d'Ivoire  
Cameroon  
Cape Verde  
Djibouti  
Dominican Republic  
Western Sahara  
Eritrea  
Ethiopia  
Gabon  
Ghana  
Gambia  
Guinea  
Equatorial Guinea  
Guinea-Bissau  
Kenya

#### **Asia**

Japan

### **Newly Industrialised countries (Nics)**

Hong Kong Special Administrative Region of China  
Republic of Korea  
Singapore  
Taiwan Province of China  
Comoros  
Liberia  
Mali  
Mauritania  
Niger  
Nigeria  
Réunion  
Rwanda  
Sudan  
Saint Helena  
Sierra Leone  
Senegal  
Somalia  
Suriname  
Sao Tome and Principe  
Chad  
Togo  
Uganda

### **Middle East and North Africa (MENA)**

United Arab Emirates  
Afghanistan  
Bahrain  
Algeria  
Egypt  
Israel  
Iraq  
Iran (Islamic Republic of)  
Jordan  
Kuwait  
Lebanon  
Libyan Arab Jamahiriya  
Morocco  
Oman  
Qatar  
Saudi Arabia  
Syrian Arab Republic  
Tunisia  
Yemen

**Other Asia**

Bangladesh  
 Bhutan  
 China  
 India  
 Democratic People's Republic of Korea  
 Sri Lanka  
 Mongolia  
 Macao Special Administrative Region  
 of China  
 Maldives  
 Nepal  
 Pakistan  
 East Timor

**ASEAN<sup>16</sup>**

Brunei Darussalam  
 Indonesia  
 Cambodia  
 Lao People's Democratic Republic  
 Myanmar  
 Malaysia  
 Philippines  
 Thailand  
 Vietnam

**Americas**

**North America**

Bermuda  
 Canada  
 Saint Pierre and Miquelon  
 United States

**Latin America**

Argentina  
 Bolivia  
 Brazil  
 Chile  
 Colombia  
 Costa Rica  
 Ecuador  
 Falkland Islands (Malvinas)  
 French Guiana  
 Guatemala  
 Guyana  
 Honduras  
 Mexico  
 Nicaragua  
 Panama  
 Peru  
 Paraguay  
 El Salvador  
 Uruguay  
 Venezuela

**Europe**

**European Union (EU)**

Austria  
 Belgium  
 Bulgaria  
 Cyprus  
 Czech Republic  
 Germany  
 Denmark  
 Estonia  
 Spain  
 Finland  
 France  
 United Kingdom  
 Gibraltar  
 Greece  
 Hungary  
 Ireland  
 Italy  
 Lithuania  
 Luxembourg  
 Latvia  
 Malta  
 Netherlands  
 Poland  
 Portugal  
 Romania  
 Sweden  
 Slovenia  
 Slovakia

**Caribbean**

Antigua and Barbuda  
 Anguilla  
 Netherlands Antilles  
 Aruba  
 Barbados  
 Bahamas  
 Cuba  
 Dominica  
 Grenada  
 Guadeloupe  
 Haiti  
 Jamaica  
 Saint Kitts and Nevis  
 Cayman Islands  
 Saint Lucia  
 Martinique  
 Montserrat  
 Puerto Rico  
 Turks and Caicos Islands  
 Trinidad and Tobago  
 Saint Vincent and the Grenadines  
 British Virgin Islands  
 United States Virgin Islands

<sup>16</sup> The Republic of Korea is also a member of ASEAN; however, for the purpose of the analysis it was included in the Newly Industrialised Countries (Nics).

**Rest of Europe**

Andorra  
Albania  
Bosnia and Herzegovina  
Switzerland  
Faeroe Islands  
Greenland  
Croatia  
Iceland  
Liechtenstein  
Monaco  
Republic of Moldova  
The former Yugoslav Republic of Macedonia  
Norway  
Svalbard and Jan Mayen Islands  
San Marino  
Turkey  
Holy See  
Yugoslavia

**Commonwealth of Independent States (CIS)**

Armenia  
Azerbaijan  
Belarus  
Georgia  
Kyrgyzstan  
Kazakhstan  
Russian Federation  
Tajikistan  
Turkmenistan  
Ukraine  
Uzbekistan

**Oceania**

American Samoa  
Australia  
Cook Islands  
Fiji  
Micronesia, Federated States of  
Guam  
Kiribati  
Marshall Islands  
Northern Mariana Islands  
New Caledonia  
Norfolk Island  
Nauru  
Niue  
New Zealand  
French Polynesia  
Papua New Guinea  
Pitcairn  
Palau  
Solomon Islands  
Tokelau  
Tonga  
Tuvalu  
Vanuatu  
Wallis and Futuna Islands  
Samoa



# 4

## Labour market dynamics

### Key findings:

- The Western Cape accounted for roughly 10.5 per cent of the national population in mid-2011. Almost two-thirds of the province's populations fall within the working age population, between the ages of 15 and 65 years.
- The labour force participation rate in the Western Cape is significantly higher than the South African average. Close to seven out of ten working age adults are active in the provincial narrow labour force, compared with just over five nationally. Participation rates are very similar across race groups in the Province, but are relatively low for women, the young and the old, and those with relatively little education. Labour force participation amongst 15 to 24 year olds is 18 percentage points higher in the Province than in South Africa.
- Employment remains unchanged in the first quarter of 2012 from its level in the first quarter of 2008. Half of the employed are Coloured, 28.6 per cent are African and 20.2 per cent are White. The gender gap in employment is considerably narrower in the Western Cape than is the case nationally.
- No significant shifts in employment by sector are observed for the period. Employment within agriculture appears to be under pressure, while the non-agricultural sector appears to be growing slowly. Within formal sector employment, community, social and personal services and wholesale and retail trade each account for more than one-fifth of employment, while manufacturing and financial and business services account for nearly 18 per cent each. Together, these sectors account for more than 78 per cent of formal sector employment.

- Formal employment, which describes the nature of the employment relationship, rather than the sector of employment, is substantially more common in the Western Cape than is the case nationally and accounts for 76 per cent of all jobs. This is largely related to a higher rate of formal employment amongst workers employed in agriculture and private households, as well as to the province's smaller informal sector.
- Narrow unemployment has grown by nearly 12 per cent per annum between 2008 and 2012. Two groups in particular experienced rapid growth in unemployment, namely males (nearly 17 per cent per annum) and those with incomplete secondary education (almost 15 per cent per annum). While the provincial narrow unemployment rate is not statistically different from the national average, the Province has a significantly lower expanded unemployment rate than all other provinces. This is due to the fact that the non-searching unemployed (or discouraged work seekers) are relatively rare in the province.

## 4.1 Introduction

In the preceding two chapters the emphasis has been on economic growth as prerequisite for improvement in the wellbeing of the Western Cape population. Growth, however, can only raise levels of welfare for society as a whole if it creates employment opportunities. Job creation is the principal transmission mechanism through which the benefits of economic growth are distributed equitably among society. The persistence of poverty and inequality in South Africa, also as it exists in the Western Cape, can only be addressed sustainably through the labour market. Specifically, the need is for more jobs as well as a more equitable distribution of jobs of different types across dimensions such as race, gender, age and location.

Apart from the economic imperative for employment creation, there are various social benefits related to social cohesion, reduced incidence of crime, and psychological well-being, amongst others. Increased employment levels are not only beneficial for individuals and households, they also hold important benefits for the state: greater employment allows for the broadening of the tax base, greater revenue collection and possibly spending, and improvements in the sustainability of government spending, for example. It is, therefore, not surprising that employment creation remains at the forefront in policymaking and debate.

This chapter presents developments in the Western Cape labour market between the first quarters of 2008 and 2012, a period of four years characterised by global economic turmoil. The analysis utilises the Quarterly Labour Force Survey (QLFS) conducted by Statistics South Africa (StatsSA). These surveys are nationally representative and collect a wide range of labour market information from more than 80 000 respondents around the country. Unfortunately, the QLFS continues to be published without any wage information, representing a significant gap in our understanding of recent

labour market trends. Indeed, in the context of the recession and the significant job losses experienced during 2009, this is particularly unfortunate.

The chapter is divided into five main sections, the first of which provides an overview of the provincial and national labour markets. The remaining sections focus on the demographic structure of the population, the labour force, employment and unemployment.

### Labour Market Definitions

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

**Labour force:** Comprises all individuals within the working-age population who are willing and capable of working, and therefore includes the employed and the unemployed.

**Employed:** Comprises all working-age individuals who, during the reference week, did any work for at least one hour or had a job or business, but were temporarily absent from it. The employed are also referred to as the workforce.

**Unemployed:** Comprises all working-age individuals who were not employed during the reference week, but were available to work 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 work but had a job or business to start at a definite date in the future and were available. This is known as the narrow or official definition of unemployment.

**Discouraged work seekers (Non-searching unemployed):** Are unemployed individuals who did not report taking active steps to find employment or start their own businesses, and 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.

**Expanded unemployment:** Comprises all working-age individuals who were not employed seven days prior to the interview, but were available to work. The expanded unemployed therefore include all individuals unemployed according to the narrow definition of unemployment AND all discouraged work seekers.

**Labour force participation rate:** Represents the proportion of the working-age population who are members of the labour force (i.e. who are either employed or unemployed).

**Unemployment rate:** Represents the proportion of the labour force that is unemployed. Both narrow/official and broad/expanded unemployment rates can be calculated.

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

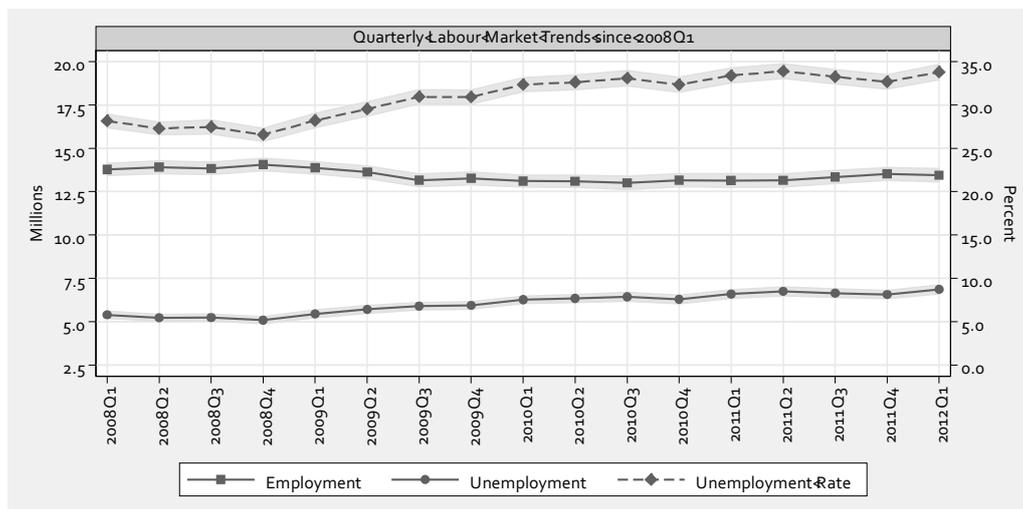
**Formal sector:** StatsSA describes formal sector employment in the QLFS questionnaire as employment “where the business, institution or private individual is registered in some way with the government or statutory bodies to perform the activity. Registration may involve collecting taxes (e.g. PAYE), making UIF contributions or having a business licence”.

*Source: StatsSA (2011b: xvii)*

## 4.2 Overview of the labour market

While South Africa's banking system was largely protected from the global financial crisis, its economy was not. The country entered a recession in the fourth quarter of 2008 (see Chapter 2), exposing the labour market to substantial job losses. Quarterly estimates of national employment, expanded unemployment and the expanded unemployment rate are presented graphically in Figure 4.1. During the recession period, the South African economy lost more than one million jobs. Recent indications have been that employment had begun to recover while unemployment stabilised. However, this trend has been contradicted by a slight increase in unemployment – in absolute and proportional terms – during the first quarter of 2012. Employment is estimated at 13.4 million in the first quarter of 2012, a figure that is not statistically different from the first quarter of 2008.

**Figure 4.1 National employment and narrow unemployment trends since 2008Q1**



Source: Own calculations, various QLFS surveys, StatsSA (various years)

Measured according to the expanded definition, which includes discouraged work seekers, unemployment has seen a significant increase over the last four years, increasing by 1.5 million individuals over the period. There are currently 6.9 million broadly unemployed individuals in South Africa, accounting for one-third of the expanded labour force. This increase has been driven by a rapid rise in the number of non-searching unemployed, the so-called discouraged work seekers, with an addition of 1.2 million discouraged work seekers to the labour force between 2008 and 2012. This near-doubling of discouraged work seekers translates into a growth rate of 25.6 per cent per annum.

**Table 4.1 Overview of the Western Cape labour market, 2012Q1**

	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 (%)	%	%
<b>Total</b>	<b>3 504</b>	<b>100.0</b>	<b>1 853</b>	<b>100.0</b>	<b>546</b>	<b>100.0</b>	<b>2 398</b>	<b>100.0</b>	<b>68.4</b>	<b>22.8</b>
<b>By Race</b>										
African	1 085	31.0	529	28.6	253	46.3	782	32.6	72.1	32.3
Coloured	1 828	52.2	931	50.2	271	49.6	1 201	50.1	65.7	22.5
White	566	16.2	374	20.2	22	4.0	396	16.5	70.0	5.5
<b>By Gender</b>										
Male	1 668	47.6	962	51.9	296	54.3	1 258	52.5	75.4	23.6
Female	1 836	52.4	891	48.1	249	45.7	1 140	47.5	62.1	21.9
<b>By Age Group</b>										
15 - 24 years	899	25.6	221	11.9	181	33.2	403	16.8	44.8	45.1
25 - 34 years	961	27.4	626	33.8	191	35.0	817	34.1	85.0	23.4
35 - 44 years	766	21.9	522	28.2	111	20.4	633	26.4	82.7	17.6
45 - 54 years	517	14.8	337	18.2	48	8.9	385	16.0	74.4	12.6
55 - 65 years	362	10.3	147	7.9	13	2.5	161	6.7	44.4	8.4
<b>By Education</b>										
No education	46	1.3	10	0.6	4	0.8	23	0.9	48.9	19.1
Grade 0 - 7	465	13.3	197	10.6	66	12.1	263	11.0	56.5	25.2
Grades 8 - 11	1 509	43.1	650	35.1	298	54.6	948	39.5	62.8	31.4
Grade 12	1 010	28.8	618	33.3	150	27.4	767	32.0	76.0	19.5
Dipl/Cert	238	6.8	197	10.6	15	2.7	212	8.8	89.1	7.0
Degree	185	5.3	147	7.9	8	1.4	155	6.5	83.9	5.1

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

Source: Own calculations, StatsSA (2012)

The Western Cape's working age population constitutes just over ten per cent of the national working age population and has increased by an estimated 232 000 individuals at a rate of 2.3 per cent per annum over the past four years. Growth in the working age population in the Western Cape has been slightly above the national average of 2.1 per cent per annum and could be explained by internal migration patterns and differing population age structures.

**Table 4.2 Labour market aggregates, 2008 and 2012**

	2008Q1	2012Q1	Change	
	Thousands	Thousands	Thousands	Per cent
<b>Western Cape</b>				
Working Age Population	3 273	3 504	232	2.3 p.a
Employment	1 816	1 853	37	0.7 p.a
Narrow Unemployment	393	546	153	11.6 p.a *
Narrow Labour Force	2 209	2 398	190	2.8 p.a
Expanded Unemployment	438	574	136	9.4 p.a *
Expanded Labour Force	2 254	2 426	173	2.5 p.a
Discouraged Work seekers	45	28	-17	-14.4 p.a

	2008Q1	2012Q1	Change	
	Thousands	Thousands	Thousands	Per cent
<b>South Africa</b>				
Working Age Population	30 963	33 000	2 037	2.1 p.a *
Employment	13 778	13 447	-332	-0.8 p.a
Narrow Unemployment	4 222	4 526	305	2.3 p.a
Narrow Labour Force	18 000	17 973	-27	0.0 p.a
Expanded Unemployment	5 400	6 862	1 461	8.3 p.a *
Expanded Labour Force	19 178	20 308	1 130	1.9 p.a *
Discouraged Work seekers	1 179	2 335	1 157	25.6 p.a *

Note: An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence.

Source: Own calculations, StatsSA (2008b, 2012)

There are 1.9 million individuals employed in the Western Cape, representing 13.8 per cent of employment nationally. While national employment has fallen slightly between 2008 and 2012 – at an average rate of 0.8 per cent per annum – it appears as if there may have been a marginal increase in employment in the Western Cape over the same period. However, neither national nor provincial employment changes over the period are found to be statistically significant.

### Confidence Intervals

The data used in this chapter is from the QLFS published by StatsSA. 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.

Narrow unemployment in the Western Cape has been growing rapidly: increasing by more than 150 000 to 546 000 in the first quarter of 2012. This is equivalent to an average annual rate of growth of 11.6 per cent. National narrow unemployment growth over the same period has been considerably slower (a statistically insignificant 2.3 per cent per annum). Expanded unemployment, however, has increased significantly in both the Western Cape and South Africa, averaging 9.4 per cent and 8.3 per cent per annum respectively, although the source of growth differs between the two. In South Africa, expanded unemployment has grown rapidly since 2008 due to the near-doubling of the number of discouraged work seekers (25.6 per cent per

annum), while in the Province this growth has occurred due to rapid growth in narrow unemployment. The increase in expanded unemployment means that by early 2012 nearly 600 000 broadly unemployed individuals reside in the Western Cape out of a total of 6.7 million in South Africa.

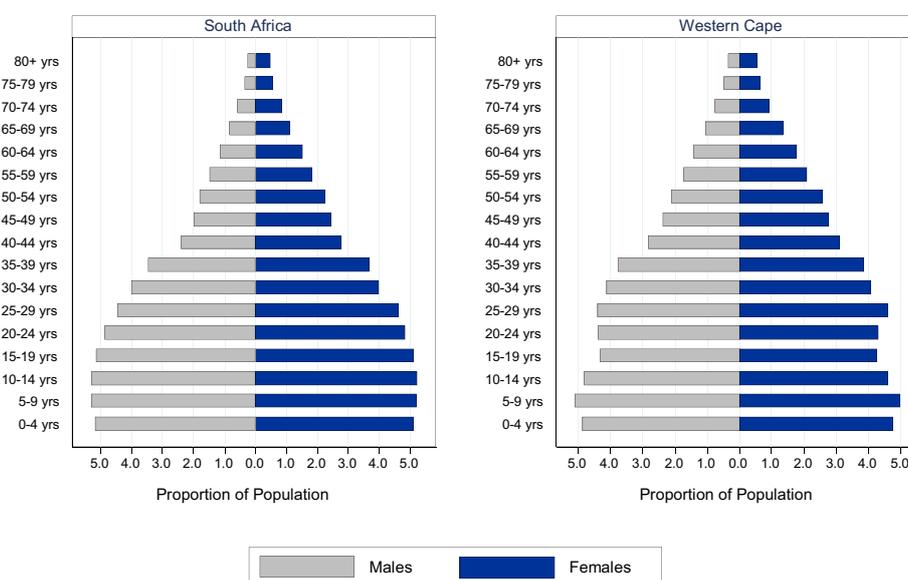
Whereas the non-searching unemployed account for a large part of the national broad labour force, the same is not true for the Western Cape. The non-searching unemployed constitute a mere one per cent of the provincial expanded labour force, while nationally this proportion is almost 12 per cent. This difference in the structure of the provincial labour market is largely attributable to the fact that the Province does not have the isolated deep rural areas that exist in many of South Africa's other provinces. These areas are characterised by very little economic activity and long distances to economic centres, which significantly constrain the ability of the unemployed to actively seek employment.

### **4.3 The Western Cape Population<sup>1</sup>**

According to the 2011 mid-year population estimates, 5.3 million people live in the Western Cape, which is 10.5 per cent of South Africa's total population. The provincial and national age structures are quite similar to each other, with the bulk (almost two-thirds) of the population between the ages of 15 and 64 years; this cohort is the working age population. The Western Cape population has a lower proportion of the population aged below 15 years (i.e. between 0 and 14 years), 29.1 per cent compared to 31.3 per cent nationally. The province thus has a marginally older population, with 6.1 per cent of the population aged 65 years, compared to 5 per cent nationally.

The dependency ratio, a measure which quantifies the number of children (aged between 0 and 14 years) and the elderly (those aged older than 65 years) relative to the number of working age adults is a useful indicator of the reliance on the working age population by children and the elderly. A higher number means that the working age population is required to support a larger number of dependents and vice versa. The dependency ratio for South Africa is marginally higher than that of the Western Cape. It is estimated that 57 children and elderly individuals depend on 100 working age adults in South Africa (a dependency ratio of 0.57). The provincial dependency ratio is 0.54 indicating that 54 children and elderly individuals depend on 100 working age adults.

<sup>1</sup> Statistics South Africa publishes mid-year population estimates annually in July/August. This year, however, with the 2011 population census currently being processed, Statistics South Africa has decided to delay the release of the mid-year population estimates in order to allow for the incorporation of results from the census. Consequently, the population estimates used in this section are for 2011 and are the same as those presented in the 2011 Provincial Economic Review and Outlook.

**Figure 4.2 Age structure of the South African and Western Cape populations, 2011**

Source: Own calculations, StatsSA (2011a: 9, 15)

As the relatively younger population begin to age, more people begin entering the working age population. This process presents both an opportunity and a challenge. The large number of potential workers that can contribute to the economy is the opportunity: with falling dependency ratios, an improvement in living standards and the creation of financial space for greater investment in human capital, particularly of children, may result. The challenge lies in the fact that the economy may not be able to generate sufficient work opportunities to absorb new labour market entrants into productive work, resulting in rising unemployment, poverty and inequality. This combined opportunity and challenge points to the need for policies that work efficiently and effectively in equipping young people with the necessary skills required for employment, while at the same time ensuring that an appropriate economic environment is created and maintained to facilitate greater employment.

Apart from natural population growth, another factor contributing to the Western Cape's growing share of the national population is migration. Gauteng and the Western Cape are the country's only real receiving provinces insofar as net migration is concerned. Net in-migration to the Western Cape is estimated at more than 95 000 individuals, compared to over 365 000 in Gauteng (StatsSA, 2011a: 13). Total migration flows for the Western Cape are estimated at just over 205 000 in-migrants compared to around 110 000 out-migrants. Gauteng and the Eastern Cape are the two most important provinces in terms of provincial migration flows both into and out of the Western Cape. Gauteng is estimated to have received just over 40 000 migrants from the Western Cape, with more than 48 000 individuals estimated

to have moved in the opposite direction, while the figures for the Eastern Cape are around 30 000 and 105 000, respectively (StatsSA, 2011a: 13).

Migration holds both benefits and costs for receiving and sending regions, a fact that is important in the case of the Western Cape as it receives a diverse mix of individuals and households. While the migration of labour within South Africa is often viewed in a negative light by receiving regions, it is often forgotten that such migration of labour represents an opportunity for receiving regions to satisfy skills shortages and may boost sending regions in terms of reducing local surplus labour and creating and sustaining remittance streams to poverty-stricken households and areas.

#### **4.4 The Western Cape labour force**

The labour force is comprised of those individuals aged between 15 and 65 years who are economically active, that is, those who are either employed or unemployed. The demographic characteristics of the narrow labour force for the Western Cape are presented in Table 4.3. The narrow labour force consists of the employed and the narrowly unemployed, but excludes the non-searching unemployed (discouraged work seekers).

The narrow labour force in the Western Cape stood at just below 2.4 million individuals in early 2012, representing an average annual growth rate of 2.8 per cent from the first quarter of 2008. This increase was, however, not statistically significant. Coloureds account for the largest portion of the narrow labour force (50.1 per cent or 1.2 million individuals) followed by Africans (32.6 per cent or 782 000 individuals) and Whites (16.5 per cent or 396 000 individuals) in the first quarter of 2012. The provincial sample includes very few Asians and their numbers are therefore not detailed here or elsewhere in the chapter.

Males dominate the provincial labour force in 2012, accounting for 52.5 per cent of the narrow labour force. Women constitute 47.5 per cent of the narrow labour force and number 1.1 million. While men dominate numerically in the provincial labour force, most of the net increase in the labour force is accounted for by women. The female labour force grew at an average rate of 4.3 per cent, compared to a statistically insignificant 1.5 per cent for men, considerably narrowing the gap between the two genders in the labour force. The age groups that make up the bulk of the narrow labour force in the first quarter of 2012 are those aged 25 to 34 years (817 000 individuals) and those aged 35 to 44 years (633 000). These two age cohorts combined comprise just over 60 per cent of the narrow labour force in 2012. The 15 to 24 year and 45 to 54 year cohorts each account for roughly 16.8 and 16 per cent of the labour force respectively, with those aged 55 years or older accounting for just 6.7 per cent. While the older four age cohorts in the labour force all appear to have increased, the only statistically significant increase is observed for those between the ages of 45 and 54 years, which grew by

5.4 per cent per annum between the first quarter of 2008 and the first quarter of 2012. Although the changes are not statistically significant, the labour force appears to be aging slightly as the highest rates of increase are observed for older age groups.

The data shows that, in terms of educational attainment, those with incomplete secondary education account for the largest share of the narrow labour force, with almost 40 per cent (948 000 individuals) of the narrow labour force falling into this category. Matriculants are the second-largest group and account for 32 per cent of the narrow labour force. The data suggest that the educational attainment of the provincial labour force, like that of the country as a whole, is gradually improving, as those with no education and those with some primary education declined in absolute numbers and at a rapid rate over the past four years. While the number of labour force participants with complete secondary education increased by a statistically significant 6.8 per cent per annum, the increase in the number of degree-holders in the labour force, though at a similar rate, was found not to be statistically significant.

**Table 4.3 Composition of the Western Cape narrow labour force, 2008 and 2012**

	2008Q1		2012Q1		Change	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)	Number ('000s)	Rate (Per cent)
<b>Narrow Labour Force</b>	2 209	100.0	2 398	100.0	190	2.8 p.a.
<b>By Race</b>						
African	640	29.0	782	32.6	142	6.9 p.a.
Coloured	1 211	54.8	1 201	50.1	-9	-0.3 p.a.
White	344	15.6	396	16.5	52	4.8 p.a.
<b>By Gender</b>						
Male	1 203	54.5	1 258	52.5	55	1.5 p.a.
Female	1 006	45.5	1 140	47.5	134	4.3 p.a. †
<b>By Age Group</b>						
15 to 24 years	403	18.3	403	16.8	-1	-0.1 p.a.
25 to 34 years	770	34.9	817	34.1	46	2.0 p.a.
35 to 44 years	574	26.0	633	26.4	59	3.3 p.a.
45 to 54 years	329	14.9	385	16.0	56	5.4 p.a. †
55 to 65 years	132	6.0	161	6.7	29	6.9 p.a.
<b>By Educational Attainment</b>						
No education	42	1.9	23	0.9	-19	-18.3 p.a. †
Grade 0 - 7	337	15.3	263	11.0	-74	-8.0 p.a. †
Grades 8 - 11	838	38.0	948	39.5	110	4.2 p.a.
Grade 12	630	28.5	767	32.0	137	6.8 p.a. *
Diploma/Certificate	207	9.4	212	8.8	5	0.9 p.a.
Degree	128	5.8	155	6.5	27	6.6 p.a.

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

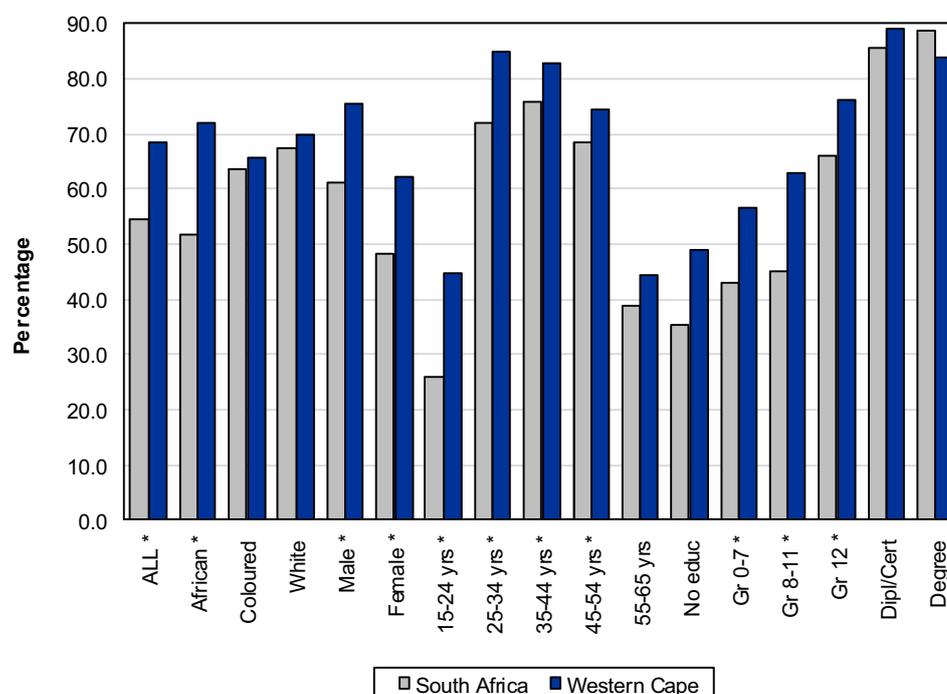
2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, StatsSA (2008b, 2012)

The decision to enter the labour market is influenced by a number of factors, such as potential earnings, family commitments, the existence of other income earners within the household and the expected probability of finding work. The likelihood with which individuals enter the labour force is referred to as the labour force participation rate (LFPR). Mathematically, the LFPR is calculated as the proportion of working age individuals who are labour force participants and can be calculated for the various constituent groups within the labour force. Both narrow and expanded LFPRs can be calculated, depending on the definition of unemployment used. Essentially, the LFPR 'translates' the size of a given working age population into the size of the labour force. Narrow labour force participation rates for South Africa and the Western Cape across a range of demographic covariates in the first quarter of 2012 are presented in Figure 4.3.

Overall, 68.4 per cent of the working age population in the Western Cape participated in the narrow labour force in the first quarter of 2012, compared to 54.5 per cent in South Africa as a whole. This difference is observed across virtually all the covariates presented: labour force participation is higher in the Western Cape across race, gender, age and educational attainment. However, it is important to note that this gap of almost 14 percentage points is narrowed considerably when including the non-searching unemployed: the expanded LFPR for South Africa is 61.5 per cent, compared to 69.2 per cent for the Western Cape. At 7.7 percentage points, the gap between national and provincial expanded LFPRs is statistically significant.

**Figure 4.3 Labour force participation rates, 2012Q1**



Note: An asterisk (\*) denotes a statistically significant difference between the national and provincial estimates at a 95 per cent level of confidence.

Source: Own calculations, StatsSA (2012)

There are two important points to note as far as labour force participation by race is concerned. The first is that, as already noted, LFPRs across all three race groups are higher in the Western Cape than is the case nationally, although it is only in the case of Africans that this difference is statistically significant. The second is that LFPRs are much more similar across race groups in the Western Cape than they are nationally. In the Western Cape, LFPRs for Africans and Whites are not statistically different from each other, while that of Coloureds is slightly lower. This pattern provides some corroboration for the assertion earlier that it is a lack of deep rural areas that differentiates the Western Cape from South Africa as a whole in terms of non-searching unemployment. Africans in the Western Cape are far more likely to participate in the labour force, while Coloureds, who are more likely to be located in the more isolated rural areas of the Province, have a slightly lower rate of participation.

Labour force participation rates are significantly higher for both males and females in the Western Cape than is the case in South Africa as a whole. Just over three-quarters (75.4 per cent) of working age men form part of the labour force in the Province, compared to 61.1 per cent nationally. For women, the provincial LFPR is 62.1 per cent, 13.9 percentage points higher than the national average for women. The gap between men and women, both nationally and provincially, is approximately 13 percentage points.

The differences in LFPRs between the Province and the country as a whole are statistically significant for all age groups except for individuals between the ages of 55 and 65 years. Labour force participation is most likely amongst the prime working ages: more than eight out of ten individuals aged between 25 years and 44 years are economically active. Labour force participation is, though, low for the youngest cohort (due to relatively high rates of involvement in education and training) and the oldest cohort. The latter is due to the progressive exiting of workers from the labour force through early retirement and ill health, amongst other factors. This pattern is observed across the country, although the province is rather unique in its high rate of participation amongst 15 to 24 year olds: at 44.8 per cent, this proportion is 18.7 percentage points higher than the national average and is related to the higher rates of drop-out from the educational system observed in the province, particularly amongst boys. This problem is discussed in Section 5.4.1 of Chapter 5.

Labour force participation rates are positively correlated with educational attainment: individuals with better levels of education are more likely to be economically active. Nationally, just over one-third (35.5 per cent) of those with no formal education are economically active, compared to between 80 per cent and 90 per cent of those with post-secondary education. The only statistically significant differences found between the Western Cape and South Africa as a whole are for those individuals with primary education, with incomplete secondary education and completed secondary education (matriculants). Again, there is greater equality across the educational categories in terms of LFPR in the province than there is nationally.

## **4.5 Employment in the Western Cape**

### **4.5.1 Overview of total employment**

The state of employment remains a serious concern in South Africa, with only 66.2 per cent of the expanded labour force employed by early 2012. Importantly, just 40.7 per cent of the working age population were employed in the first quarter of 2012. The International Labour Organisation (2012) estimates South Africa's employment-to-population ratio, including informal sector employment, in 2010 at 39.1 per cent, lower than all but 11 other countries for which there is data and significantly lower than, for example, Brazil (64.8 per cent), China (71.1 per cent), India (53.6 per cent) and Russia (58 per cent). For the Western Cape, the ratio is 52.9 per cent in the first quarter of 2012, which is slightly lower than that of India.

Post-recession, employment has not moved significantly in either direction. Total employment in the first quarter of 2012 remains more than 300 000 below its level in the first quarter of 2008, although this difference is not statistically significant (Table 4.4). In the Western Cape, employment stands at 1.85 million and has barely changed compared with four years earlier. Employment performance in South Africa has been weakest for those with low levels of education and for those under the age of 25 years. Employment amongst 15 to 24 year olds has contracted by 7.8 per cent per annum over the four-year period, while those with no formal education and those with primary education (grades 0 - 7) lost jobs at 13.4 per cent and 9.2 per cent per annum, respectively. In contrast, national employment expanded at a rate of 5.9 per cent per annum amongst those with degrees.

**Table 4.4 Demographic characteristics of employment, 2008 and 2012**

	2008Q1		2012Q1		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
<b>WESTERN CAPE</b>						
<b>Total Employment</b>	<b>1 816</b>	<b>100.0</b>	<b>1 853</b>	<b>100.0</b>	<b>37</b>	<b>0.7 p.a.</b>
<b>By Race</b>						
African	479	26.4	529	28.6	51	3.4 p.a.
Coloured	999	55.0	931	50.2	-69	-2.3 p.a.
White	326	18.0	374	20.2	48	4.7 p.a.
<b>By Gender</b>						
Male	1 016	55.9	962	51.9	-54	-1.8 p.a.
Female	800	44.1	891	48.1	91	3.7 p.a.
<b>By Age</b>						
15 to 24 years	259	14.2	221	11.9	-37	-5.1 p.a.
25 to 34 years	617	34.0	626	33.8	9	0.5 p.a.
35 to 44 years	517	28.5	522	28.2	5	0.3 p.a.
45 to 54 years	299	16.5	337	18.2	37	4.0 p.a.
55 to 65 years	124	6.8	147	7.9	23	5.8 p.a.
<b>By Education</b>						
No education	35	1.9	10	0.6	-25	-33.2 p.a. *
Grades 0 – 7	276	15.2	197	10.6	-79	-10.7 p.a. *
Grades 8 – 11	640	35.3	650	35.1	10	0.5 p.a.
Grade 12	526	29.0	618	33.3	91	5.5 p.a. †
Diploma/Certificate	190	10.5	197	10.6	7	1.2 p.a.
Degree	124	6.8	147	7.9	23	5.8 p.a.
<b>SOUTH AFRICA</b>						
<b>Total Employment</b>	<b>13 778</b>	<b>100.0</b>	<b>13 447</b>	<b>100.0</b>	<b>-332</b>	<b>-0.8 p.a.</b>
<b>By Race</b>						
African	9 595	69.6	9 480	70.5	-115	-0.4 p.a. †
Coloured	1 553	11.3	1 491	11.1	-62	-1.4 p.a.
White	2 166	15.7	1 975	14.7	-191	-3.0 p.a.
<b>By Gender</b>						
Male	7 826	56.8	7 535	56.0	-291	-1.3 p.a.
Female	5 952	43.2	5 911	44.0	-41	-0.2 p.a.
<b>By Age</b>						
15 to 24 years	1 665	12.1	1 305	9.7	-360	-7.8 p.a. *
25 to 34 years	4 688	34.0	4 491	33.4	-197	-1.4 p.a.
35 to 44 years	3 664	26.6	3 899	29.0	235	2.1 p.a.
45 to 54 years	2 591	18.8	2 551	19.0	-39	-0.5 p.a.
55 to 65 years	1 171	8.5	1 200	8.9	29	0.8 p.a.
<b>By Education</b>						
No education	554	4.0	360	2.7	-194	-13.4 p.a. *
Grades 0 – 7	2 263	16.4	1 695	12.6	-568	-9.2 p.a. *
Grades 8 – 11	4 377	31.8	4 350	32.3	-27	-0.2 p.a.
Grade 12	3 943	28.6	4 090	30.4	147	1.2 p.a.
Diploma/Certificate	1 601	11.6	1 762	13.1	162	3.3 p.a.
Degree	873	6.3	1 037	7.7	164	5.9 p.a. †

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

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

Source: Own calculations, StatsSA (2008b, 2012)

In the Western Cape, it is only in terms of educational attainment that statistically significant changes in employment are observed. Employment has contracted rapidly amongst the least educated. The number of employed individuals with no formal education has fallen by one-third (33.2 per cent) each year since 2008. Similarly, employment of those with only primary education has declined by 10.7 per cent per annum. Although employment of tertiary graduates appears to have grown (5.8 per cent per annum), this change is not statistically significant. However, employment of matriculants has expanded at a very similar pace, namely 5.5 per cent per annum. Thus, in the Western Cape, as in South Africa, employment change continues to exhibit skills bias.

The major structural difference in employment between the Western Cape and South Africa is observed in terms of race. Given provincial demographics, it is not surprising that Coloureds constitute 50.2 per cent of provincial employment, compared to just 11.1 per cent nationally. Whites also account for a larger share of provincial employment than is the case nationally. Conversely, Africans account for a much smaller proportion of provincial employment: 28.6 per cent compared to 70.5 per cent nationally.

While men dominate employment both nationally and provincially, the bias is far less pronounced at a provincial level. Indeed, the estimates of male and female employment in the Province in 2012 are not statistically different from each other. Nationally, the distribution of the employed across age groups is very similar to that observed provincially. The bulk of the workforce (i.e. more than three-fifths) are between the ages of 25 and 44 years. There is, though, a slightly larger proportion of employment amongst 15 to 24 year olds in the Western Cape than is the case nationally (11.9 per cent compared to 9.7 per cent, respectively).

Workers in the Province are less likely to have no formal or only primary education relative to South Africa as a whole, with only 11.2 per cent of the employed having completed primary schooling or less in the Western Cape, compared to 15.3 per cent nationally. While the proportions with degrees are similar, there are relatively fewer individuals with diplomas and/or certificates (with or without grade 12) employed in the Province (13.1 per cent nationally compared to 10.6 per cent in the Western Cape).

Various sectors are included in the total employment aggregate, potentially masking important differences and trends. Specifically, total employment includes both the formal and the informal sectors, as well as the seasonally volatile agricultural sector and domestic work (private households), which does not fit well in any of these sectors. StatsSA's definition of the informal sector is based on registration and size classification of enterprises and consists of "[employees] who are not registered for income tax and who work in establishments that employ less than five persons ... [and] employers, own account workers and persons helping unpaid in their household business that are not registered for either income tax or value-added tax"

(StatsSA, 2008a: 23). Table 4.5 disaggregates total employment into agriculture (formal and informal), non-agriculture (formal and informal) and private households.

In the first quarter of 2012, only 4.9 per cent of South Africa's 13.4 million workers were employed in agriculture, while 8.6 per cent were employed in private households. This means that the vast majority of employment (86.5 per cent) is located in the non-agricultural sector. In total, the informal sector accounts for 16.3 per cent of total employment, virtually all of it in the non-agricultural sector. Thus, the formal non-agricultural economy employs seven out of ten workers in South Africa, or 9.5 million workers in total. It is really only the formal non-agricultural sector and private households that have managed to maintain employment levels over the past four years. Employment in agriculture has contracted at an average annual rate of 6.7 per cent, while the informal non-agricultural sector has lost almost a quarter of a million jobs at a rate of 3.5 per cent per annum between the first quarter of 2008 and the first quarter of 2012.

**Table 4.5 Sector decomposition of total employment, 2008 and 2012**

	2008Q1		2012Q1		Change	
	Number ( <i>'000s</i> )	Share ( <i>Per cent</i> )	Number ( <i>'000s</i> )	Share ( <i>Per cent</i> )	Number ( <i>'000s</i> )	Rate ( <i>Per cent</i> )
<b>WESTERN CAPE</b>						
<b>Total Employment</b>	<b>1 816</b>	<b>100.0</b>	<b>1 853</b>	<b>100.0</b>	<b>37</b>	<b>0.7 p.a.</b>
Agriculture	175	9.6	128	6.9	-47	-9.9 p.a.
Formal agriculture	166	9.1	125	6.7	-41	-9.1 p.a.
Informal agriculture	9	0.5	3	0.2	-6	-28.8 p.a.
Non-Agriculture	1 546	85.1	1 606	86.7	61	1.3 p.a.
Formal non-agriculture	1 362	75.0	1 438	77.6	76	1.8 p.a.
Informal non-agriculture	184	10.1	168	9.1	-16	-2.9 p.a.
Private households	95	5.2	119	6.4	23	7.6 p.a.
<b>SOUTH AFRICA</b>						
<b>Total Employment</b>	<b>13 778</b>	<b>100.0</b>	<b>13 447</b>	<b>100.0</b>	<b>-332</b>	<b>-0.8 p.a.</b>
Agriculture	809	5.9	656	4.9	-153	-6.7 p.a. *
Formal agriculture	645	4.7	572	4.3	-73	-3.9 p.a.
Informal agriculture	164	1.2	84	0.6	-80	-20.0 p.a. *
Non-Agriculture	11 827	85.8	11 636	86.5	-191	-0.5 p.a.
Formal non-agriculture	9 474	68.8	9 523	70.8	49	0.2 p.a.
Informal non-agriculture	2 353	17.1	2 112	15.7	-240	-3.5 p.a. *
Private households	1 142	8.3	1 155	8.6	13	0.4 p.a.

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence.

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

Source: Own calculations, StatsSA (2008b, 2012)

The composition of total employment for the Western Cape is slightly different to that of South Africa as a whole. Western Cape workers are more likely than their national counterparts to be employed in agriculture (6.9 per cent in the first quarter of 2012 compared to 4.9 per cent, respectively). The Province also has a significantly smaller informal sector: only 9.3 per cent of employment is located in the Province's informal sector, less than three-fifths of the national share of 16.3 per cent. Despite these differences, the non-agricultural economy accounts for an almost identical share of employment nationally and provincially. The Province's high share of employment in agriculture is compensated for by a relatively low proportion in private households, while the small informal sector means that the formal non-agricultural sector accounts for 77.6 per cent of employment. No changes in employment across these sectors were found to be statistically significant in the Province. However, the Province appears to be experiencing similar trends: rapid decline in agricultural employment, as noted in Chapter 3, contraction in the informal sector and relatively stable employment levels in the non-agricultural formal economy.

Another way to look at employment is from the perspective of employees, distinguishing between formal and informal employment as opposed to employment in the formal and informal sector. Informal employment is defined as including all individuals employed in the informal sector; all persons working unpaid in household businesses; and all formal sector workers and workers in private households who receive neither pension nor medical aid benefits and who also do not have written contracts. In Table 4.6, employment is classified as formal employment, informal employment and 'other' employment. Other employment refers to employers and own account workers who work outside of the informal sector, while formal employment refers to all employed individuals who do not fulfil the criteria for either informal or other employment. This set of definitions means that an individual employed in the formal sector may fall within either formal, informal or other employment. All informal sector workers, though, are considered informally employed.

Table 4.6 effectively divides employment into a three-by-four matrix: the nature of employment (formal, informal or other employment) across the columns and the sector of employment (formal, informal, agriculture or private households) across the rows. The Table shows the breakdown of provincial and national employment across these category combinations, as well as the rate of growth in each combination. Nationally, 66.5 per cent of the employed are considered formally employed, while 29 per cent are informally employed and just 4.5 per cent fall within the other category. Within the Western Cape, these proportions are somewhat different: 76 per cent of the employed are formally employed, while 18.9 per cent are informally employed (the differences in both cases being statistically significant). Although these overall proportions may be different, growth rates are broadly similar: nationally, formal employment has been growing over the past four

years (1.7 per cent per annum), while informal employment has been contracting (-4.8 per cent per annum), indicating an encouraging trend towards formalised employment. Within the Western Cape, these trends are also evident: the rates of change are more rapid than those observed nationally, but are only statistically significant in the case of informal employment.

**Table 4.6 Nature of Employment in the Western Cape, 2008 - 2012**

	Formal Employment		Informal Employment		Other		Total
	Share of Sector	Growth Rate	Share of Sector	Growth Rate	Share of Sector	Growth Rate	Growth Rate
<b>Western Cape</b>	<b>76.0</b>	<b>2.9 †</b>	<b>18.9</b>	<b>-6.4 *†</b>	<b>5.1</b>	<b>-2.0</b>	<b>0.5</b>
Formal Sector	87.9	3.2	6.1	-13.3 *	6.0	-1.7	1.4
Informal Sector			100.0	-2.2			-2.2
Agriculture	73.1	-2.8 †	21.1	-18.8 *†	5.8	-1.6	-7.5
Private Households	43.0	7.1 †	56.5	5.3 †	0.5	-24.6	5.6
<b>South Africa</b>	<b>66.5</b>	<b>1.7 *</b>	<b>29.0</b>	<b>-4.8 *</b>	<b>4.5</b>	<b>-2.5</b>	<b>-0.6</b>
Formal Sector	87.5	1.6	6.7	-11.7 *	5.8	-2.7	0.1
Informal Sector			100.0	-2.7 *			-2.7 *
Agriculture	55.9	3.0	39.6	-12.2 *	4.5	-10.0	-5.1 *
Private Households	20.5	1.6	77.7	-0.5	1.8	35.9 *	0.3

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant difference between estimates of shares between the Western Cape and South Africa at the 95 per cent level of confidence.

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

Source: Own calculations, StatsSA (2008b, 2012)

Formal employment is far more common within agriculture in the Western Cape than it is nationally: 73.1 per cent of workers in agriculture in the Province are formally employed, compared to just 55.9 per cent nationally. Similarly, amongst workers in private households, formal employment is twice as common in the Western Cape as it is nationally (43 per cent against 20.5 per cent, respectively). As a result, informal employment is considerably less common in the Province in these two sectors. The growth rate of informal employment in agriculture (effectively contraction) is substantially poorer than that of formal employment in that sector, both in the Province and in South Africa as a whole. This is also true of the formal sector. This may indicate that employers have found informally employed workers easier to retrench over the past four years, but also that there may be a process of formalising informal employment relationships (particularly where formal employment growth is positive).

## 4.5.2 Formal sector employment

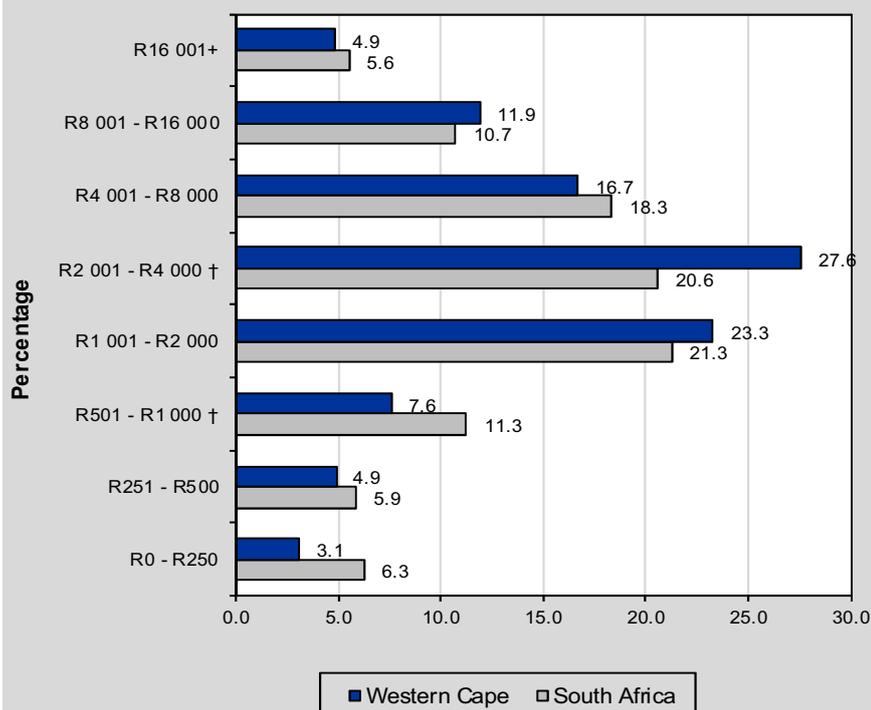
By far the greatest part of employment in both South Africa and the Western Cape is located in the formal sector. Provincially, the formal sector accounts for 84.3 per cent of total employment and, given its dominance, it exhibits a broadly similar structure to total employment. The structure of formal sector employment in the Western Cape according to the four main demographic variables – race, gender, age and education – is presented in Table 4.7, along with the structure for formal sector employment in South Africa as a whole.

Nationally, Africans dominate formal sector employment, accounting for 64.3 per cent of the total. Whites account for 18.6 per cent and Coloureds 12.6 per cent. Provincially, however, Coloureds account for approximately half (51.2 per cent) of formal sector employment, followed by Africans (25.5 per cent) and Whites (22.2 per cent). Although Whites appear to account for a larger share of formal sector employment in the Province compared with the country as a whole, this difference is not statistically significant.

### Wages

Wage data remains a key gap in our knowledge of the South African labour market, as this information is no longer released by StatsSA as part of the QLFS. This means that we need to rely on other data sources to try to fill this gap. One such data source is the National Income Dynamics Survey (NIDS), conducted by the Southern Africa Labour and Development Research Unit (SaldrU) at the University of Cape Town. The figure here uses data from the second wave (2010 - 2011) of this dataset to present the distribution of the employed across income categories. Income includes all income received in the 30 days prior to the survey in the form of main and secondary wages; casual wages; self-employment income; 13<sup>th</sup> cheques; profit share; bonus income; and extra payments on a piece rate basis.

Of the employed in the Western Cape roughly half (50.9 per cent) earned between R1 001 and R4 000. One-third (33.5 per cent) earned above R4 000, while 15.6 per cent earned no more than R1 000. Nationally, these proportions are 41.9 per cent, 34.6 per cent and 23.5 per cent, respectively. The provincial distribution is, therefore, quite similar to that of South Africa as a whole, although for those earning up to R4 000 there appears to be more clustering at higher wages in the Province. Of the employed in South Africa, 11.3 per cent report earnings between R501 and R1 000 in the previous 30 days, while this is true of just 7.6 per cent of the employed in the Province. Conversely, the proportion of workers reporting having earned between R2 001 and R4 000 is considerably higher in the Western Cape than in South Africa (27.6 per cent compared to 20.6 per cent). It should, though, be noted that these differences are only statistically significant at the 90 per cent level.

**Figure 4.4 Distribution of monthly labour income of the employed, 2010 - 2011**

Note: A dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, Southern Africa Labour and Development Research Unit (2012)

Males dominate formal sector employment at both the national and provincial level. However, females account for a larger share of formal sector employment in the Western Cape compared to the country as a whole: 45.2 per cent provincially against 41.1 per cent nationally. Nevertheless, women are underrepresented within formal employment relative to their share of the labour force (47.5 per cent), implying a relatively high proportion of women in informal sector employment, employment in private households or unemployment (or a combination of the three).

The age structure of formal sector employment is fairly similar between the Western Cape and South Africa as a whole. The bulk of those in formal employment are aged between 25 and 44 years. This age cohort accounts for close to two-thirds of formal employment both nationally (63.4 per cent) and in the Western Cape (63.6 per cent). Formal sector workers in the Western Cape are, though, somewhat more likely to be under the age of 25 years than is the case nationally (12.1 per cent against 9.6 per cent, respectively). Conversely, they are less likely to be 45 years or older. This is despite the relatively older structure of the provincial population, reflecting the younger profile of the provincial labour force in the context of early exit from the educational system.

**Table 4.7 Demographic characteristics of formal sector employment, 2012Q1**

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
<b>Total Formal Sector Employment</b>	<b>10 095</b>	<b>100.0</b>	<b>1 562</b>	<b>100.0</b>
<b>By Race</b>				
African	6 489	64.3	399	25.5 *
Coloured	1 271	12.6	800	51.2 *
White	1 874	18.6	346	22.2
<b>By Gender</b>				
Male	5 951	58.9	857	54.8 *
Female	4 144	41.1	705	45.2 *
<b>By Age</b>				
15 to 24 years	965	9.6	190	12.1 *
25 to 34 years	3 444	34.1	555	35.5
35 to 44 years	2 955	29.3	439	28.1
45 to 54 years	1 867	18.5	263	16.8
55 to 65 years	865	8.6	116	7.4
<b>By Education</b>				
No education	174	1.7	12	0.7 *
Grades 0 - 7	869	8.6	135	8.7
Grades 9 - 11	2 806	27.8	519	33.2 *
Grade 12	3 506	34.7	555	35.6
Diploma/Certificate	1 651	16.4	186	11.9 *
Degree	1 014	10.0	139	8.9

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

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

Source: Own calculations, StatsSA (2012)

Provincially, formal sector workers are more concentrated within the incomplete secondary education category than is the case nationally. One-third (33.2 per cent) of those employed in the formal sector in the Province have incomplete secondary education, compared to 27.8 per cent nationally. South Africa and the Western Cape have very similar proportions of matriculants (roughly 35 per cent) and those with only primary education (around 8.6 per cent) in formal sector employment. This means that the Province has relatively fewer formal sector workers with post-secondary qualifications. While those with diplomas and/or certificates account for 16.4 per cent of formal sector employment nationally, this proportion is just 11.9 per cent in the Western Cape. Tertiary graduates also appear to be less common provincially, although the difference is not statistically significant.

The fact that the Province has relatively fewer formal sector workers with post-secondary qualifications is surprising and in some sense disappointing. Considering the existence of no less than four universities in the Province, which is home to about 10.5 per cent of the South African population and 15.5 per cent of formal sector employment (Table 4.7), this would seem to indicate a substantial migration of graduates to other provinces. Also, it

identifies a challenge to the observation often made that the Western Cape's universities, although national assets that attract students from other provinces, provide the Province with a comparative advantage in growing skill-intensive industries and in attracting foreign and domestic investment<sup>2</sup>. Clearly, thus far economic development, as reflected in employment creation and the skill composition of the formally employed, has not been able to exploit the perceived comparative advantage.

The industrial structure of formal sector employment is dominated by the service sectors. Together, the tertiary sector accounts for two-thirds (66.5 per cent) of formal sector employment in the Province (Table 4.8). This is followed by the secondary sector (25.3 per cent) and the primary sector (8.2 per cent). At this aggregated level, there are no statistically significant differences in the structure of formal sector employment.

**Table 4.8 Industrial composition of formal sector employment, 2012Q1**

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
<b>Total Formal Sector Employment</b>	<b>10 095</b>	<b>100.0</b>	<b>1 562</b>	<b>100.0</b>
Agriculture	572	5.7	125	8.0 †
Mining and Quarrying	335	3.3	3	0.2 *
<b>Primary Sector</b>	<b>907</b>	<b>9.0</b>	<b>127</b>	<b>8.2</b>
Manufacturing	1 541	15.3	275	17.6
Utilities	91	0.9	5	0.3 *
Construction	659	6.5	114	7.3
<b>Secondary Sector</b>	<b>2 291</b>	<b>22.7</b>	<b>395</b>	<b>25.3</b>
Wholesale & Retail Trade	2 066	20.5	323	20.6
Transport, Storage and Communication	576	5.7	89	5.7
Financial & Business Services	1 610	16.0	275	17.6
Community, social & personal (CSP) services	2 638	26.1	353	22.6 *
<b>Tertiary Sector</b>	<b>6 890</b>	<b>68.2</b>	<b>1 040</b>	<b>66.5</b>

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

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

Source: Own calculations, StatsSA (2012)

Three of the four largest employment sectors in the provincial economy are located in the tertiary sector. Community, social & personal (CSP) services account for 22.6 per cent of provincial formal sector employment, followed by wholesale & retail trade (20.6 per cent), with financial & business services and manufacturing each accounting for 17.6 per cent, the latter being located in the secondary sector. These same industries are also the top four employers nationally, accounting for broadly similar proportions of

<sup>2</sup> It has to be acknowledged that the benefit for investment, foreign direct investment in particular, is also linked to the research capacity that the universities supply and not only to the potential provision of skilled workers.

employment. The one exception, though, is CSP services, which accounts for a larger proportion of employment in South Africa than is the case in the Western Cape (26.1 per cent compared to 22.6 per cent). Other statistically significant differences are in mining and quarrying and utilities, which are relatively small employers provincially, and in agriculture, which is a relatively large employer provincially. The latter differences are also reflected in the contributions of these sectors to GDP, which were highlighted in Chapter 3. The comparatively small size of the mining sector in the mineral poor Western Cape and the comparative advantage of the Province in agriculture explain the differences.

The occupational structure of formal sector employment is broadly similar between the Western Cape and South Africa as a whole (Table 4.9). Three main skills categories are identified: high skilled occupations (managers and professionals), skilled occupations (technicians, clerical, service and sales, skilled agriculture, crafts, and operators and assemblers), and low skilled (elementary) occupations. Most formal sector workers are employed in skilled occupations, accounting for 63.3 per cent of formal sector employment in South Africa and 59.9 per cent in the Western Cape. As a result, high skilled and low skilled occupations account for slightly higher proportions of formal sector employment in the Province than nationally. Individuals in high skilled occupations account for 18.1 per cent of formal sector employment in the Province, while those in low skilled occupations represent 22 per cent.

**Table 4.9 Occupation structure of formal sector employment, 2012Q1**

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
<b>Total Formal Employment</b>	<b>10 095</b>	<b>100.0</b>	<b>1 562</b>	<b>100.0</b>
Managers	995	9.9	164	10.5
Professionals	728	7.2	119	7.6
<b>High Skilled</b>	<b>1 722</b>	<b>17.1</b>	<b>283</b>	<b>18.1</b>
Technicians	1 427	14.1	212	13.6
Clerical	1 360	13.5	212	13.6
Service and sales	1 531	15.2	235	15.1
Skilled agriculture	45	0.4	6	0.4
Crafts	1 095	10.8	156	10.0
Operators and assemblers	935	9.3	113	7.2 *
<b>Skilled</b>	<b>6 393</b>	<b>63.3</b>	<b>935</b>	<b>59.9 †</b>
Elementary	1 979	19.6	344	22.0
<b>Low Skilled</b>	<b>1 979</b>	<b>19.6</b>	<b>344</b>	<b>22.0</b>

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

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

Source: Own calculations, StatsSA (2012)

Elementary workers constitute the largest occupational category in formal sector employment. This occupation accounts for roughly one-fifth of formal sector employment nationally and provincially. In the Western Cape, this is followed by services and sales occupations (15.1 per cent), technicians and clerical workers, with each of the latter two groups accounting for 13.6 per cent of formal sector employment. At the level of major occupational categories, it is only in the case of operators and assemblers that there are statistically significant differences in the proportions of formal sector employment: operators and assemblers are more common nationally than provincially, accounting for respectively 9.3 per cent and 7.2 per cent of formal sector employment and possibly linked to the lack of large-scale mining in the Province.

### **4.5.3 Informal sector employment**

The informal sector in South Africa remains an important research area, not least because of its somewhat unique nature within an international context. In many developing countries, formal labour markets are small and weak, and are unable to provide employment for significant proportions of the labour force. As a result the informal sector has grown and has drawn those who would otherwise have been unemployed into employment. In South Africa, however, this has not happened: the informal sector has remained small despite massive unemployment. This raises the important question as to what is preventing the informal sector in South Africa from 'soaking up' the unemployed.

The International Labour Organisation (ILO) Department of Statistics (2011: 3) estimates that the informal sector accounted for 17.8 per cent of non-agricultural employment in South Africa in 2010. Compared with other African countries for which data exists, this is a very low proportion with only Mauritius having a lower proportion. Even relative to other middle income countries, this is a low proportion: the informal sector accounts for one-quarter of non-agricultural employment in Brazil and one-third in Argentina, Mexico and Uruguay. South Africa is found to have a relatively small informal sector in relation to its per capita GDP and the proportion of the population living below the poverty line (ILO Department of Statistics, 2011: 9-10).

This question (why a small informal sector in the presence of high unemployment?) was considered by Kingdon and Knight (2001b). Their analysis provides various economic and psychological reasons that suggest that many individuals are not 'voluntarily' unemployed, but must instead be facing serious barriers of entry into the informal sector. The authors list as potential constraints restrictive by-laws, poor entrepreneurial skills and poor social/trading networks. Underlying many of these constraints is the damage done by the apartheid system. Kingdon and Knight also identified the following: 1) constraints in access to capital, 2) credit and land, 3) the lack of infrastructure in township areas, 4) the prevalence of violence and insecurity

in the informal economy and, 5) for those employing non-family members, industry-based wage and working condition mandates.

The informal sector's contribution to total employment, both in South Africa as a whole and the Western Cape in particular, is relatively small. Nationally, out of 13.4 million employed individuals, only 2.2 million (16.4 per cent) were employed in the informal sector in the first quarter of 2012. Of these, around 170 000 (or just 7.8 per cent) were located in the Western Cape. This proportion is considerably lower than the Province's share of the national narrow labour force (13.3 per cent) and its share of total employment (13.8 per cent). As a result, the Province's informal sector accounts for just 9.3 per cent of provincial employment.

Relative to formal sector employment, the informal sector consists of a considerably higher proportion of Africans. Nationally, 87.8 per cent of workers in the informal sector are African, compared to 64.3 per cent in the formal sector. Similarly, in the Western Cape, Africans comprise 40.8 per cent of informal sector employment compared to 25.5 per cent in the formal sector. The Western Cape's informal sector is quite different from that of the country as a whole: the largest proportion (42.8 per cent) are Coloured, while Whites' share is 15.8 per cent, more than three-and-a-half times their share in the national informal sector. This high proportion of Whites employed in the Province's informal sector points to the possible existence of a larger non-survivalist informal sector in the Province.

As with formal employment, males dominate within the informal sector both nationally and provincially. The provincial gender gap is slightly smaller than is the case nationally, provincially 53.1 per cent are men compared to 60.1 per cent nationally. Nationally and provincially, the shares of males in formal and informal sector employment are relatively similar, albeit the informal sector gender gap is slightly wider than the formal sector gender gap in South Africa and slightly narrower in the Western Cape. However, gender differences between provincial and national estimates for the informal sector are statistically insignificant.

**Table 4.10 Demographic composition of informal sector employment, 2012Q1**

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
<b>Total Informal Sector Employment</b>	<b>2 196</b>	<b>100.0</b>	<b>172</b>	<b>100.0</b>
<b>By Race</b>				
African	1 928	87.8	70	40.8 *
Coloured	134	6.1	73	42.8 *
White	95	4.3	27	15.8 *
<b>By Gender</b>				
Male	1 321	60.1	91	53.1
Female	876	39.9	80	46.9
<b>By Age</b>				
15 to 24 years	261	11.9	26	15.3
25 to 34 years	726	33.0	48	28.0
35 to 44 years	609	27.7	47	27.4
45 to 54 years	402	18.3	32	18.4
55 to 65 years	199	9.1	19	11.0
<b>By Education</b>				
No education	108	4.9	4	2.6
Grades 0 – 8	458	20.8	24	14.2 †
Grades 9 – 11	1 003	45.7	72	42.1
Grade 12	458	20.8	45	26.3
Diploma/Certificate	102	4.6	10	5.6
Degree	22	1.0	8	4.5

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

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

Source: Own calculations, StatsSA (2012)

With respect to age structure there are no statistically significant differences between provincial and national estimates. More than half (55.4 per cent) of those employed in the informal sector in the province are aged between 25 and 44 years, while this is true of approximately 60.7 per cent nationally. Similar to patterns of formal sector employment, the Western Cape appears to have more informal sector workers under the age of 25 years than South Africa as a whole.

In terms of educational attainment, those with incomplete secondary education account for 42.1 per cent of those employed in the informal sector, while those with grade 12 account for 26.3 per cent within the Western Cape's informal sector. Just over ten per cent of informal sector workers have diploma and/or certificates and degrees. The Western Cape has a considerably lower share of workers in the informal sector that have primary education compared to South Africa as a whole (14.2 per cent against 20.8 per cent). Overall, the profile of educational attainment amongst informal sector workers in the Province appears to be slightly better than is the case nationally.

## 4.6 Unemployment in the Western Cape

The unemployed comprise individuals who, in the survey week, did not work at all, either for pay or assisting in a family business, yet were available for work (either paid employment or self-employment), and were actively seeking work. Satisfying these criteria qualifies an individual as being unemployed according to the 'strict', 'narrow', or 'official' definition of unemployment. This approach of defining unemployment is supply-side oriented as it gives emphasis to the searching activity of the unemployed.

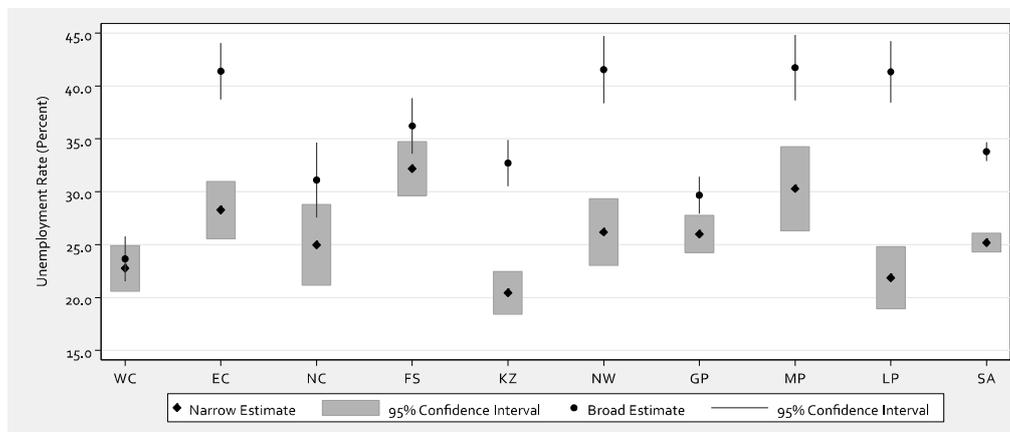
A broader approach to defining unemployment gives implicit consideration to demand-side factors, i.e. factors affecting the demand for labour (or the supply of jobs). This approach does not require that the unemployed be actively seeking work and is referred to as the 'expanded', or 'broad' definition. The expanded definition is deemed appropriate in situations where the conventional means of seeking work are of limited relevance, the labour market is largely unorganised or of limited scope, labour absorption is inadequate or the economy is largely informal. Research has shown that the searching unemployed are not different from the non-searching unemployed in South Africa (Kingdon and Knight, 2001a) and, as a result, research on the South African labour market has tended to use the expanded definition of unemployment.

The analysis of unemployment in this section is focused on the narrow definition of unemployment because the number of non-searching unemployed in the Province is very low. As a result, estimates for narrow and broad unemployment are quite similar in the Western Cape and only two other provinces have narrow and broad unemployment rates that are not statistically different from each other (the Northern Cape and Free State). The Western Cape, though, is unique in that both the narrow and broad unemployment rates are statistically indistinguishable from the national narrow unemployment rate.

The narrow and expanded unemployment rates for South Africa and its nine provinces are presented in Figure 4.5. The narrow unemployment rate for South Africa as a whole was 25.2 per cent in the first quarter of 2012, while the expanded unemployment rate was 33.8 per cent. The Western Cape is one of the few provinces with lower narrow unemployment rates than the national estimate (22.8 per cent). While KwaZulu-Natal (20.4 per cent) and Limpopo (21.9 per cent) also have narrow unemployment rates below the national average, once the non-searching unemployed are included in the estimate, their respective rates increase considerably (32.7 per cent and 41.3 per cent, respectively). In the South African context, it should be noted that a relatively low narrow unemployment rate does not signal good employment performance. This is due to the fact that high unemployment generally can often significantly reduce the incentive to actively search for employment,

lowering the narrow unemployment rate while the broad unemployment rate remains high.

**Figure 4.5 Provincial and national unemployment rates, 2012**



Note: Detailed estimates can be found in Annexure B.

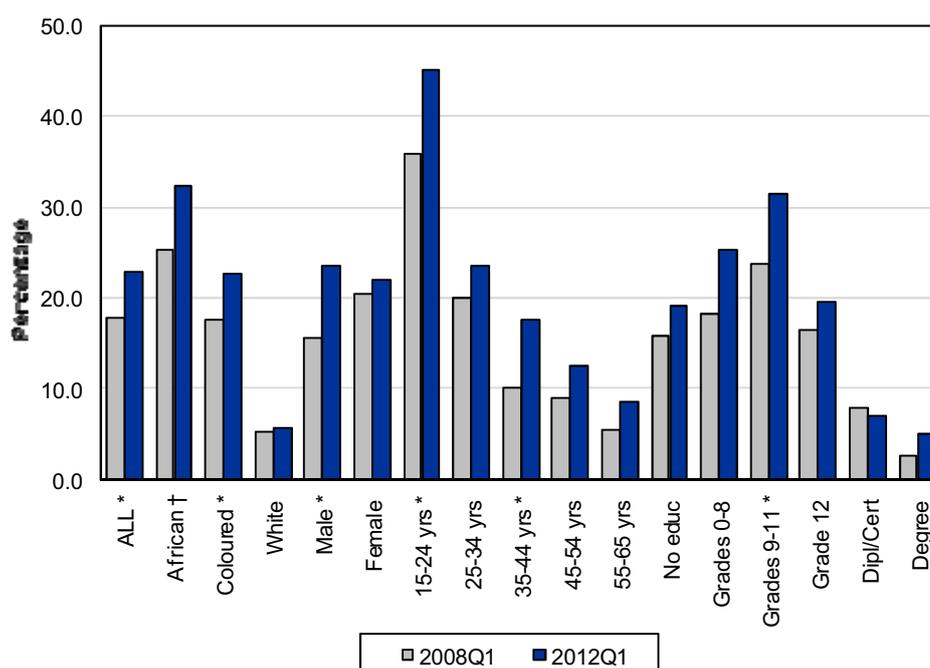
Source: Own calculations, StatsSA (2012)

Narrow unemployment rates are rather similar across provinces (apart from the Western Cape, KwaZulu-Natal and Limpopo) and generally range between 25 per cent and 31 per cent. Expanded unemployment rates, though, show greater variation. Mpumalanga, with an expanded unemployment rate of 41.7 per cent, is the province with the highest expanded unemployment rate, although three other provinces have almost identical rates, namely the North West (41.5 per cent), the Eastern Cape (41.4 per cent), and Limpopo (41.3 per cent). These four provinces, though, stand out above the Free State and, to a lesser extent, the Northern Cape and KwaZulu-Natal.

These average unemployment rates, though, mask substantial variation across different groups. Figure 4.6 presents narrow unemployment rates for the Western Cape by race, gender, age and educational attainment for the first quarter of 2008 and first quarter of 2012. The key feature that emerges is that unemployment rates are consistently estimated higher in 2012 than in 2008, even though such differences are not necessarily statistically significant. Between 2008 and 2012, the provincial unemployment rate increased by a statistically significant five percentage points to 22.8 per cent. There is a clear racial hierarchy in terms of unemployment rates: the rate amongst Africans is highest (32.3 per cent), followed by Coloureds (22.5 per cent), and is lowest for Whites (5.5 per cent). In the case of the former two groups, unemployment is substantially higher today than it was four years ago: 7.1 percentage points in the case of Africans and 5.1 percentage points for Coloureds.

The usual pattern of unemployment in South Africa is higher unemployment rates for women than for men. This is found to be the case in 2008, although in the first quarter of 2012 the male unemployment rate is not statistically different from that of females. Importantly, neither unemployment rate is statistically different from the provincial average. However, the data reveals that the narrow unemployment rate for men rose by a statistically significant 8 percentage points over the period.

**Figure 4.6 Western Cape narrow unemployment rates, 2008 and 2012**



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

Source: Own calculations, StatsSA (2008b, 2012)

Younger and less educated individuals within the labour force are more likely to be unemployed than their older and better-educated counterparts. By age group, 15 to 24 year olds have the highest unemployment rate, which at 45.1 per cent is more than twice the provincial average. Unemployment rates decline at a decreasing rate as age increases, the largest decline being between 15 to 24 year olds and 25 to 34 year olds (22.7 percentage points). The unemployment rate amongst 55 to 65 year olds is estimated at just 8.4 per cent. The unemployment rate for 15 to 24 year olds has increased by 7.2 percentage points between the first quarter of 2008 and the first quarter of 2012, while amongst 35 to 44 years olds it has increased by 7.6 percentage points to 17.6 per cent. The beneficial impact of education on labour market outcomes is evident in the general pattern of falling rates of unemployment as educational attainment rises. However, it is only amongst those with post-secondary education that the likelihood of unemployment drops (statistically significantly) below that of the Province. Those with incomplete secondary

education are most likely to be unemployed (31.4 per cent), but even matriculants have an unemployment rate (19.5 per cent) that is statistically indistinguishable from the provincial average.

In Table 4.11, narrow unemployment is disaggregated according to the four demographic variables used throughout this chapter for South Africa and the Western Cape. Unemployment in the province is virtually evenly split between Africans (46.3 per cent) and Coloureds (49.6 per cent). It is the difference between this proportion and the share of Africans within employment that gives rise to the high unemployment rate for Africans observed earlier. Again, the racial composition of unemployment is very different nationally, with 85.7 per cent of the unemployed being African and 10.3 per cent Coloured. While total unemployment is found to have grown by 11.6 per cent per annum in the Western Cape over the four-year period, it is only amongst Africans that there has been a statistically significant increase (16.2 per cent per annum). Thus, not only do Africans in the Province have a significantly higher unemployment rate than the other race groups, they also experienced the most rapid rate of increase in unemployment.

The number of unemployed males in the Province and nationally has increased significantly since the first quarter of 2008. The share of unemployed men increased from 47.6 per cent in the first quarter of 2008 to 54.3 per cent in the first quarter of 2012, which means that women no longer outnumber men in unemployment within the Province. The number of unemployed males grew by an average of 16.6 per cent per annum, or 109 000 men over the four year period. A similar trend of relatively rapid growth in male unemployment has occurred nationally: the number of unemployed men has risen by almost a quarter of a million individuals between 2008 and 2012 nationally. While it may appear as female unemployment may also be on the rise, these changes, in the Province and South Africa as a whole, are statistically insignificant.

Of special concern is the fact unemployment in the Province and South Africa as a whole is concentrated amongst younger age cohorts. Although 15 to 24 year olds account for just 16.8 per cent of the provincial labour force, they constitute twice that proportion (33.2 per cent) of the unemployed. The age group typically associated with the designation 'youth', i.e. 15 to 34 year olds, account for 68.2 per cent of the Province's unemployed and an even higher proportion nationally. Growth in the number of unemployed, however, appears to have been more pronounced amongst older age groups. Rates of growth of unemployment are higher for these older cohorts and the only statistically significant increases are observed for 35 to 44 year olds and for 45 to 54 year olds. This pattern is very similar to that observed nationally.

More than half (54.6 per cent) of the unemployed in the Province have incomplete secondary education. This is a higher proportion than is the case nationally and this group also has the highest unemployment rate of all educational cohorts. Combined with lower rates of unemployment amongst holders of post-secondary qualifications in particular, this points to the need to prevent drop-out amongst young people. At the same time, it suggests that programmes aiming to bring those who have dropped out of the education system back into the system may hold significant benefits in terms of improved labour market outcomes. Unemployment amongst this group has grown rapidly over the period (14.6 per cent per annum on average). More than one-quarter (27.4 per cent) of the unemployed, however, have completed matric. Completion of secondary education is, therefore, no longer strongly associated with improved labour market outcomes and lower unemployment rates. The number of unemployed matriculants in the province has grown by 13.1 per cent per annum. Nationally, trends are similar, although growth has been most rapid amongst unemployed matriculants rather than amongst those with incomplete secondary education. At the same time, unemployment amongst those without formal education and amongst those with only primary education appears to be falling. One of the reasons for this relates to these cohorts' older age profile, which means that they may exit the labour force entirely upon becoming unemployed. Generally, though, these cohorts will gradually age out of the working age population over time.

**Table 4.11 Demographic composition of unemployment, 2008 and 2012**

	2008Q1		2012Q1		Change	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)	Number ('000s)	Rate (Per cent)
<b>WESTERN CAPE</b>						
<b>Total Unemployment</b>	393	100.0	546	100.0	153	11.6 p.a. *
<b>By Race</b>						
African	161	41.0	253	46.3	92	16.2 p.a. †
Coloured	211	53.8	271	49.6	59	8.6 p.a.
White	18	4.5	22	4.0	4	7.1 p.a.
<b>By Gender</b>						
Male	187	47.6	296	54.3	109	16.6 p.a. *
Female	206	52.4	249	45.7	43	6.6 p.a.
<b>By Age</b>						
15 - 24 year olds	145	36.9	181	33.2	37	7.8 p.a.
25 - 34 year olds	153	39.0	191	35.0	38	7.6 p.a.
35 - 44 year olds	58	14.7	111	20.4	54	24.5 p.a. *
45 - 54 year olds	30	7.6	48	8.9	18	17.4 p.a. †
55 - 65 year olds	7	1.8	13	2.5	6	22.9 p.a.
<b>By Education</b>						
No education	7	1.7	4	0.8	-2	-13.1 p.a.
Grades 0 – 7	62	15.7	66	12.1	5	2.5 p.a.
Grades 8 - 11	198	50.4	298	54.6	100	14.6 p.a. *
Grade 12	103	26.3	150	27.4	46	13.1 p.a. †
Diploma/Certificate	16	4.2	15	2.7	-2	-3.6 p.a.
Degree	3	0.9	8	1.4	4	31.7 p.a.

	2008Q1		2012Q1		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
<b>SOUTH AFRICA</b>						
<b>Total Unemployment</b>	<b>4 222</b>	<b>100.0</b>	<b>4 526</b>	<b>100.0</b>	<b>305</b>	<b>2.3 p.a.</b>
<b>By Race</b>						
African	3 676	87.1	3 880	85.7	204	1.8 p.a.
Coloured	363	8.6	468	10.3	104	8.8 p.a. †
White	121	2.9	128	2.8	7	2.0 p.a.
<b>By Gender</b>						
Male	2 013	47.7	2 261	50.0	248	4.0 p.a. *
Female	2 209	52.3	2 265	50.0	56	0.8 p.a.
<b>By Age</b>						
15 - 24 year olds	1 424	33.7	1 393	30.8	-30	-0.7 p.a.
25 - 34 year olds	1 680	39.8	1 819	40.2	139	2.7 p.a.
35 - 44 year olds	706	16.7	862	19.0	156	6.9 p.a. *
45 - 54 year olds	314	7.4	366	8.1	52	5.3 p.a.
55 - 65 year olds	98	2.3	86	1.9	-12	-4.3 p.a.
<b>By Education</b>						
No education	99	2.3	76	1.7	-24	-8.6 p.a.
Grades 0 – 7	664	15.7	502	11.1	-162	-8.9 p.a. *
Grades 8 - 11	1 918	45.4	2 094	46.3	176	3.0 p.a.
Grade 12	1 266	30.0	1 520	33.6	255	6.3 p.a. *
Diploma/Certificate	195	4.6	245	5.4	50	7.9 p.a.
Degree	49	1.2	59	1.3	10	6.6 p.a.

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

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

Source: Own calculations, StatsSA (2008b, 2012)

Table 4.12 disaggregates employment in terms of the reasons why individuals may have become unemployed. Specifically, StatsSA designates the unemployed as job losers, job leavers, new entrants, re-entrants or those who last worked more than five years ago. The distinction between job losers and job leavers rests on who terminated the prior employment relationship, the firm or the individual, respectively. New entrants are effectively individuals who have never before been employed. In the Western Cape, job losers represent the largest group within this categorisation, accounting for 45.1 per cent of unemployment in the first quarter of 2012. No doubt, this high percentage of job losers in the Province can be linked to the retrenchment of farm workers in a comparatively substantial agricultural sector, as discussed in Section 3.2.2 of Chapter 3.

Job losers are followed by new entrants (29 per cent) and individuals who last worked more than five years ago (14.2 per cent). Nationally, however, new entrants constitute the largest of the five groups (44 per cent), followed by job losers (30.9 per cent) and those who last worked more than five years ago (15.3 per cent).

Table 4.12 Unemployment status, 2008 and 2012

	2008Q1		2012Q1		Change	
	Number ( <i>'000s</i> )	Share ( <i>Per cent</i> )	Number ( <i>'000s</i> )	Share ( <i>Per cent</i> )	Number ( <i>'000s</i> )	Rate ( <i>Per cent</i> )
<b>WESTERN CAPE</b>						
<b>Total Unemployment</b>	<b>393</b>	<b>100.0</b>	<b>546</b>	<b>100.0</b>	<b>153</b>	<b>11.6 p.a. *</b>
Job loser	154	39.2	246	45.1	92	16.9 p.a. *
Job leaver	58	14.7	45	8.2	-13	-8.1 p.a.
New entrant	117	29.9	158	29.0	41	10.5 p.a.
Re-entrant	25	6.4	18	3.4	-7	-9.7 p.a.
Last worked 5+ years ago	39	9.9	78	14.2	39	25.9 p.a. *
<b>SOUTH AFRICA</b>						
<b>Total Unemployment</b>	<b>4 222</b>	<b>100.0</b>	<b>4 526</b>	<b>100.0</b>	<b>305</b>	<b>2.3 p.a.</b>
Job loser	1 232	29.2	1 400	30.9	168	4.4 p.a. †
Job leaver	382	9.0	275	6.1	-107	-10.4 p.a. *
New entrant	1 749	41.4	1 993	44.0	244	4.5 p.a. *
Re-entrant	289	6.8	164	3.6	-124	-17.1 p.a. *
Last worked 5+ years ago	571	13.5	694	15.3	123	6.7 p.a. *

Note: An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: Own calculations, StatsSA (2008b, 2012)

Growth in the Western Cape amongst these five groups has been most rapid amongst those who last worked more than five years ago (25.9 per cent per annum) and amongst job losers (16.9 per cent). Although new entrants appear to be growing rather rapidly at 10.5 per cent per annum over the four-year period, this change is not statistically significant. This appears to indicate considerable churn in the provincial labour market related primarily to job losses and new entrants. Nationally, growth is quite similar between job losers (4.4 per cent per annum) and new entrants (4.5 per cent per annum), although the number of those who last worked more than five years ago has increased slightly more rapidly (6.7 per cent per annum). Statistically significant negative changes are observed for job leavers and re-entrants, a pattern echoed (though not statistically significantly) in the Province. Falling numbers of job leavers and rising numbers of job losers amongst the unemployed point to the continued weakness of the labour market. Although this does not mean that fewer individuals are ending their employment of their own accord, it points to them increasingly only doing so if they have secured alternative employment (or if they intend leaving the labour market altogether).

Importantly, new entrants continue to exert substantial pressure on the labour market. Over the four-year period, the number of new entrants (who have never worked before) added nationally to the searching unemployed is almost 250 000. While the Province faces particular challenges in terms of rapid growth in the number of job losers amongst the unemployed, it faces a relatively smaller challenge insofar as new entrants are concerned.

## 4.7 Conclusion

While economic growth has recovered since the recession of 2009 (noted in Chapters 2 and 3), the labour market has not. The immediate labour market reaction to the recession was a rapid loss of jobs: between the fourth quarter of 2008 and the third quarter of 2009, 900 000 jobs were lost. The following 12 months saw the loss of a further 150 000 jobs (Development Policy Research Unit, 2011: 3), after which employment stagnated. Recent data suggests a slow recovery in employment and a stabilisation of unemployment. Nationally, job losses translated into an immediate and rapid increase in non-searching unemployment, while provincially the reaction was almost exclusively felt in narrow unemployment.

Employment in the Western Cape in the first quarter of 2012, numbering 1.85 million, is virtually unchanged compared to the first quarter of 2008. In contrast, narrow unemployment has increased at an average annual rate of 11.6 per cent over this period. The non-searching unemployed are extremely rare within the Western Cape (they account for less than five per cent of broad unemployment) and, as a result, growth in expanded unemployment is driven entirely by growth in narrow unemployment. The Province's weak employment performance, combined with steady growth in the working age population of 2.3 per cent per annum, underlie the surge in unemployment and can be expected to continue to exert pressure on public and private support systems. Amongst the unemployed, the difficult labour market conditions are evidenced by growth in the number of job losers and a decline in the number of job leavers.

Little progress has been made in South Africa towards addressing historical patterns of labour market disadvantage over the past four years, although it must be noted that recent labour market conditions have not been conducive to making significant improvements. This is also reflected in the provincial labour market. Relative to their shares of both the working age population and the labour force, Africans remain under-represented in total and formal sector employment, and over-represented in unemployment. Their rate of unemployment is also considerably higher than the provincial average. However, labour force participation amongst Africans in the Province is significantly higher than is the case nationally and the African share of provincial employment (28.6 per cent) is more than two percentage points higher than in the first quarter of 2008. Whites are found to be over-represented in formal sector employment and under-represented in unemployment, while Coloureds are not found to be significantly under- or over-represented in any of the labour market aggregates presented.

The data presented confirms the continued challenges facing young people within the national and provincial labour markets. Although 15 to 24 year olds represent just 16.8 per cent of the provincial labour force, their share of unemployment is twice that (33.2 per cent). At the same time, the

unemployment rate for this age cohort is more than twice that of the province (45.1 per cent compared to 22.8 per cent). Over the past four years, however, the size of the 15 to 24 year old labour force has remained constant, with decreased employment balanced by increased unemployment. In essence, this means that the rise in the rate of unemployment amongst 15 to 24 years olds observed between 2008 and 2012 in the Province has had nothing to do with growth in the size of the cohort. Rather, it is net job losses for 15 to 24 year olds alone that have driven up the unemployment rate. For older cohorts, however, there has been growth in the size of the labour force coupled with stagnant or low employment growth, resulting in rising rates of unemployment.

The age-related challenges within the labour market are interwoven with those related to education. Unemployment rates in the Western Cape for educational categories up to and including grade 12 are statistically indistinguishable from the provincial average, while the likelihood of unemployment is significantly lower for those with post-secondary qualifications. This benefit of further education is not limited to tertiary education, but includes those with diplomas and/or certificates. Unemployment of those with incomplete secondary education has grown rapidly over the period, increasing by 100 000 to around 300 000 in the first quarter of 2012, with the number of unemployed matriculants growing at a similar rate. Together, these two groups account for 82 per cent of unemployment and 95 per cent of unemployment growth. At the same time, skilled occupations, while dominant within formal sector employment, account for a smaller proportion of employment in the Province than in the country as a whole. These trends point to the urgent need for effective policy interventions aimed not only at encouraging individuals to remain in education to complete grade 12, but also to ensure that more matriculants continue on to further and higher education. For those who have already dropped out prior to completing matric, programmes designed to facilitate either re-entry into secondary education or the transition into further education and training are particularly important. The skills-biased pattern of employment growth has long been documented in South Africa and is unlikely to reverse. Addressing the educational deficits that exist within the provincial labour force are, therefore, of vital importance.

In the Western Cape, the formal sector is particularly dominant within employment, accounting for 84.3 per cent of employment compared to 75.1 per cent in South Africa as a whole. The informal sector, while small in South Africa by international standards, is even smaller in the Western Cape. While agricultural employment appears to have contracted over the period, the changes are not found to be statistically significant. The tertiary sector is dominant in provincial employment, followed by the secondary sector. Apart from a relatively large agricultural sector, and relatively small mining and CSP services sectors in the Province, the sectoral structure of employment is quite similar in the Province and South Africa as a whole.

Formal employment has grown at the expense of informal employment in particular in South Africa, a pattern that is also reflected in the Western Cape. Provincially, formal employment grew by 2.9 per cent per annum, while informal employment contracted by 6.4 per cent per annum between 2008 and 2012. In aggregate, however, a larger proportion of employment in the Province is formal employment (76 per cent compared to 66.5 per cent nationally), with informal employment correspondingly less common. This relates partly to the small provincial informal sector, in which all employment is classified as informal employment. However, it also relates to the significantly higher proportions of formal employment within the agriculture and private household sectors. In the Western Cape, 73.1 per cent of employment in agriculture is formal employment, as is 43 per cent in private households, compared to 55.9 per cent and 20.5 per cent respectively in the country as a whole.

The dominant trend over the past four years, has been the rapid increase in unemployment. This has occurred both in the Western Cape and in South Africa. The difference between the two, however, has been the fact that in the Western Cape the growth has occurred amongst the searching unemployed, while nationally the growth has been amongst the non-searching unemployed. While the Western Cape's narrow unemployment rate is similar to those of five other provinces and is not statistically different from the national rate, in terms of expanded unemployment its rate is the lowest by a substantial margin. The main reason suggested for this difference is the lack of deep rural areas in the Province when compared with other parts of South Africa. At the same time, although the Province has a relatively high proportion of job losers amongst the unemployed, it has a relatively smaller proportion of those who have never worked before, presenting the Province with a slightly different mix of challenges than is the case nationally.

Growing unemployment feeds into social problems and instability and serves as an indication that the wellbeing of society is not improving. A prerequisite for welfare to improve is to achieve inclusive economic growth, that is, growth that distributes its benefits through job creation. This is the challenge that the implementation of Strategic Objectives 1: Creating opportunities for jobs and growth and 11: Increasing opportunities for growth and development in rural areas of the Western Cape Government has to address.

## Annexure B

## Detailed estimates

## Annexure B1 Narrow labour force participation rates, 2012

	South Africa		Western Cape	
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>
<b>Overall</b>	54.5	[53.698; 55.230]	68.4	[66.829; 70.056] *
<b>By Race</b>				
African	51.7	[50.767; 52.582]	72.1	[68.738; 75.432] *
Coloured	63.7	[61.949; 65.352]	65.7	[63.778; 67.643]
Asian	58.4	[54.118; 62.746]	75.3	[58.406; 92.294]
White	67.3	[65.304; 69.291]	70.0	[65.084; 74.879]
<b>By Gender</b>				
Male	61.1	[60.178; 62.118]	75.4	[73.209; 77.652] *
Female	48.2	[47.275; 49.038]	62.1	[59.958; 64.227] *
<b>By Age Group</b>				
15 to 24 years	26.1	[24.995; 27.121]	44.8	[41.477; 48.106] *
25 to 34 years	71.9	[70.756; 73.070]	85.0	[82.816; 87.242] *
35 to 44 years	75.7	[74.648; 76.762]	82.7	[80.251; 85.199] *
45 to 54 years	68.3	[67.039; 69.552]	74.4	[71.324; 77.525] *
55 to 65 years	38.9	[37.243; 40.506]	44.4	[40.020; 48.738]
<b>By Educational Attainment</b>				
No education	35.5	[32.553; 38.371]	48.9	[37.316; 60.514]
Grades 0 – 7	43.1	[41.455; 44.660]	56.5	[52.486; 60.469] *
Grades 8 – 11	45.1	[44.059; 46.151]	62.8	[60.278; 65.314] *
Grade 12	66.1	[64.894; 67.318]	76.0	[73.169; 78.776] *
Diploma/Certificate	85.5	[83.960; 86.968]	89.1	[85.664; 92.599]
Degree	88.8	[86.854; 90.783]	83.9	[78.072; 89.819]

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

Source: Own calculations, StatsSA (2012)

**Annexure B2 Provincial unemployment rates, 2012**

	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	22.8	[20.598; 24.906]	23.7	[21.540; 21.540]	1.04
Eastern Cape	28.3	[25.551; 30.985]	41.4	[38.716; 44.060]	1.46
Northern Cape	25.0	[21.145; 28.801]	31.1	[27.548; 34.646]	1.25
Free State	32.2	[29.623; 34.727]	36.2	[33.606; 38.824]	1.13
KwaZulu-Natal	20.4	[18.398; 22.460]	32.7	[30.528; 34.894]	1.60
North West	26.2	[23.027; 29.328]	41.5	[38.367; 44.712]	1.59
Gauteng	26.0	[24.225; 27.759]	29.7	[27.913; 31.425]	1.14
Mpumalanga	30.3	[26.319; 34.240]	41.7	[38.631; 44.823]	1.38
Limpopo	21.9	[18.921; 24.797]	41.3	[38.430; 44.236]	1.89
<b>South Africa</b>	<b>25.2</b>	<b>[24.299; 26.070]</b>	<b>33.8</b>	<b>[32.910; 34.665]</b>	<b>1.34</b>

Source: Own calculations, StatsSA (2012)

## Annexure B3 Narrow unemployment rates, 2008 and 2012

	2008Q1		2012Q1		
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>	
<b>WESTERN CAPE</b>	<b>17.8</b>	<b>[16.186; 19.400]</b>	<b>22.8</b>	<b>[20.592; 24.911]</b>	<b>*</b>
<b>By Race</b>					
African	25.2	[21.680; 28.662]	32.3	[27.871; 36.774]	†
Coloured	17.5	[15.250; 19.668]	22.5	[20.275; 24.794]	*
Asian	19.2	[0.340; 37.986]	1.2	[-1.235; 3.597]	†
White	5.2	[3.147; 7.224]	5.5	[3.350; 7.711]	
<b>By Gender</b>					
Male	15.6	[13.728; 17.391]	23.6	[20.520; 26.595]	*
Female	20.5	[18.242; 22.689]	21.9	[19.228; 24.496]	
<b>By Age Group</b>					
15 to 24 years	35.9	[31.727; 40.088]	45.1	[40.116; 50.026]	*
25 to 34 years	19.9	[17.082; 22.723]	23.4	[20.267; 26.487]	
35 to 44 years	10.0	[7.881; 12.208]	17.6	[14.062; 21.122]	*
45 to 54 years	9.1	[6.780; 11.378]	12.6	[9.625; 15.501]	
55 to 65 years	5.5	[2.439; 8.605]	8.4	[4.891; 11.910]	
<b>By Educational Attainment</b>					
No education	15.9	[7.486; 24.309]	19.1	[6.417; 31.796]	
Grades 0 – 7	18.3	[14.023; 22.493]	25.2	[19.252; 31.161]	
Grades 8 – 11	23.6	[21.209; 26.076]	31.4	[27.887; 34.970]	*
Grade 12	16.4	[13.811; 19.030]	19.5	[16.496; 22.493]	
Diploma/Certificate	8.0	[4.637; 11.322]	7.0	[3.509; 10.428]	
Degree	2.7	[0.404; 4.984]	5.1	[2.031; 8.116]	
<b>SOUTH AFRICA</b>	<b>23.5</b>	<b>[22.680; 24.229]</b>	<b>25.2</b>	<b>[24.301; 26.068]</b>	<b>*</b>
<b>By Race</b>					
African	27.7	[26.776; 28.622]	29.0	[27.980; 30.099]	
Coloured	19.0	[17.033; 20.887]	23.9	[21.804; 25.945]	*
Asian	11.7	[9.004; 14.471]	9.3	[5.262; 13.293]	
White	5.3	[4.093; 6.466]	6.1	[4.644; 7.532]	
<b>By Gender</b>					
Male	20.5	[19.602; 21.318]	23.1	[22.058; 24.106]	*
Female	27.1	[25.973; 28.157]	27.7	[26.535; 28.871]	
<b>By Age Group</b>					
15 to 24 years	46.1	[44.347; 47.848]	51.6	[49.384; 53.886]	*
25 to 34 years	26.4	[25.180; 27.583]	28.8	[27.477; 30.177]	†
35 to 44 years	16.2	[15.149; 17.159]	18.1	[16.919; 19.289]	†
45 to 54 years	10.8	[9.767; 11.838]	12.5	[11.430; 13.651]	
55 to 65 years	7.7	[6.464; 9.025]	6.7	[5.486; 7.913]	
<b>By Educational Attainment</b>					
No education	15.2	[12.881; 17.487]	17.4	[13.521; 21.205]	
Grades 0 – 7	22.7	[21.102; 24.276]	22.9	[20.471; 25.233]	
Grades 8 – 11	30.5	[29.140; 31.795]	32.5	[31.108; 33.894]	
Grade 12	24.3	[23.149; 25.445]	27.1	[25.749; 28.446]	*
Diploma/Certificate	10.9	[9.531; 12.191]	12.2	[10.664; 13.748]	
Degree	5.3	[3.807; 6.813]	5.4	[3.977; 6.828]	

Note: An asterisk (\*) denotes a statistically significant change between 2008 and 2012 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: Own calculations, StatsSA (2008b, 2012)



# 5

## Socio-economic situation in the Western Cape

### Key findings:

- The City of Cape Town dominates not only the economy but also the population of the Western Cape. Two-thirds of the Western Cape population reside within this local authority area, while many more commute to the City on a daily basis.
- Generally, socio-economic conditions in the Western Cape are better than in other provinces, though Gauteng has a somewhat higher educational attainment.
- Educational attainment in the Western Cape is quite high; the average of 10.55 years of education completed in 2007 by 25 year olds is almost two years more than for 55 year olds, educated three decades earlier. However, there is a surprisingly high levels of school drop-out learners between grades 10 and 12. This affects boys much more than girls, leading to high Gender Parity Rates in the Further Education and Training band (grades 10 - 12) of schools.
- Educational quality in the Western Cape is much higher than in other provinces, but still very far behind that of developed countries. Poor quality education is likely to hold back economic performance in the province. Grade 8 mathematics performance is similar to that of Morocco and weaker than in Egypt and Tunisia. Most primary school children do not reach national performance norms in the Annual National Assessment and two-thirds of schools fail to reach these norms on average.
- Western Cape life expectancy is still quite low, due to high mortality stemming from the mixture of diseases of affluence and of poverty combined with many deaths from HIV/AIDS and from injuries (mainly homicides and traffic accidents). Tuberculosis is extremely wide-spread. Deaths from inter-personal violence are particularly high amongst male youths and young men. Almost 2 500 homicides occur annually, many perpetrated on acquaintances. Infant mortality remains much higher than in other middle-income countries.

- National data shows a net inflow of fewer than 100 000 migrants to the Western Cape in the past five years, but school data point to higher rates of migration. There are about 25 000 annual transfers to Western Cape schools from other provinces (about 2.8 per cent of learners), especially concentrated in grades 1, 6 and 8.
- The City of Cape Town is a metropolitan area with a low proportion of households in informal housing. Limited housing progress has been made in the Province as well as nationally since 2001. Survey data point to a housing shortage of about 200 000 units, without even considering overcrowding. The Western Cape is far ahead of all other provinces in providing municipal services of water, sanitation, electricity and refuse removal; 83.3 per cent of all households enjoy all four of these services.
- Pervasive social ills evident in the Western Cape include inter-personal violence, with a very high homicide rate of 47 per 100 000 population, high levels of violent crime, housebreaking and other crimes, wide-spread alcohol and substance abuse, abuse of women exceeding rates at the national level, and high rates of child abuse, family break-up and neglect of children that also will affect future generations.

## 5.1 Introduction

This chapter provides an overview of socio-economic conditions and development in the Western Cape, dealing with such matters as education, health migration, housing conditions and related municipal services, and some social ills such as inter-personal violence, homicide and gang wars, abuse of alcohol and other substances, and abuse of women and children. (Labour market issues also have a strong bearing on socio-economic conditions in the Province, but have already been dealt with in Chapter 4.) The chapter therefore provides a perspective of the context within which the Western Cape economy operates. As socio-economic conditions are relatively slow to change, and new data become available only intermittently, parts of this chapter are similar to that in last year's review. Many of the issues looked at are greatly influenced by service delivery of the social sectors within the provincial government (e.g. education, health, social development and housing) or by services delivered by local authorities. The chapter will not directly attempt to assess these services, but rather present a broad picture of the socio-economic circumstances of the population. In this year's review, special focus is placed on the situation regarding school education.

The mid-year population estimates of Statistics South Africa (StatsSA) (2011) show the Western Cape's 2011 population share as 10.5 per cent of the national population. The Cape Town metropolitan area dominates the Province in terms of both population and economic activity. Two-thirds of the Western Cape population resides in the local authority area of the City of Cape Town, while even more people commute to it on a daily basis. Thus

provincial averages may hide the situation of many of those not resident in Cape Town.

For historical reasons, the Western Cape's population composition is dissimilar from that of most other provinces. In 2007 the coloured population group constituted just over half (50.1 per cent) of the provincial population, Africans less than a third (30.1 per cent) and whites just under one-fifth (18.5 per cent). Slightly more than half (51.2 per cent) of the population was female.

Generally, socio-economic conditions in the Province are more favourable than in the rest of the country. This can be ascribed to the large urban population, high average incomes and less inequality than in other provinces. Economic activity has developed to higher levels in the Western Cape than in most other provinces, and service delivery is generally better in a number of fields. However, socio-economic conditions are still far from ideal and there are a number of social ills that are particularly endemic in the Western Cape. Such issues include violence, including homicide, where victims and perpetrators often know each other; gangs; alcohol and substance abuse; abuse of women; and abuse and neglect of children. Due to the absence of hard data, not all these issues will be dealt with in depth in this chapter, but they provide an important backdrop against which the favourable economic development of this province should be seen.

Table 5.1 puts the socio-economic position in the Western Cape into the national perspective by some comparisons of social and economic living conditions between the Western Cape and Gauteng (the economically most similar province), other provinces as a whole, and South Africa. Most of the data are drawn from national datasets, particularly surveys undertaken by StatsSA. The Community Survey of 2007 is a somewhat older survey than most, but its large size makes it attractive to use as this makes it more accurate at the provincial and even regional level. Where possible, much use is also made of the very recently released Living Conditions Survey of 2008/09, which contains rich information about living conditions and service delivery across a number of social sectors. It also contains more detailed information on household income and expenditure.

**Table 5.1 Some indicators of the relative socio-economic situation in the Western Cape, Gauteng and South Africa**

	Western Cape	Gauteng	Other provinces	South Africa
<b>Demography:</b>				
% metropolitan 2007	66.4%	85.7%	13.8%	35.1%
Household size 2007	4.84	4.56	5.67	5.34
Population 2011	5 287 863	11 328 203	33 970 691	50 586 757
Population 2008 estimate	5 299 901	10 533 103	33 038 364	48 871 368
Population aged 15 - 64, 2008	3 480 239	7 125 907	20 350 686	30 956 832

	Western Cape	Gauteng	Other provinces	South Africa
Dependency Ratio (population in other age groups per 100 in working age 15 - 64), 2011	54.3	46.6	61.1	56.9
Employed dependency ratio (non-working population per 100 employed), 2011	196	183	363	286
% of children 0 - 15 living with:				
* Both biological parents	58.67%	57.44%	41.57%	46.02%
* Neither biological parent	6.76%	6.99%	12.96%	11.30%
* Biological mother, not father	31.67%	31.52%	43.40%	40.17%
* Biological father, not mother	2.89%	4.06%	2.08%	2.51%
<b>Economic conditions:</b>				
Average per capita household income, 2008	R42 155	R38 101	R18 854	R24 675
Median per capita household income, 2008	R17 707	R15 346	R6 906	R8 901
Gini Coefficient of per capita household income, 2008	0.63	0.67	0.69	0.68
Poverty headcount ratio (poverty line R3 864 per capita in 2000 Rand, i.e. R6 302 at time of survey)	22.3%	30.9%	57.7%	50.0%
<b>Education &amp; skills:</b>				
Adult (20+) population able to read and write, 2008	95%	96%	85%	89%
7 - 15 year olds not attending school, 2008	4.5%	4.5%	3.7%	3.8%
% of non-matriculated 16 - 19 year olds not attending school, 2008	32.5%	18.4%	17.8%	19.1%
Mean years of schooling of 25 year olds, 2007	10.55	10.91	9.89	10.24
Labour force members without any secondary education, 2008	18.9%	14.1%	27.9%	23.7%
Labour force members matriculated, 2008	35.0%	43.1%	26.1%	31.0%
<b>Health and disability:</b>				
Life expectancy at birth 2006 - 2011: Females (years)	65.8	59.1		56.2
Life expectancy at birth 2006 - 2011: Males (years)	59.9	55.4		52.1
Total fertility rate (children born per woman given prevailing age-specific fertility), 2006 - 2011	2.30	2.10		2.52
% of households who find their health care inadequate	15.8%	18.8%	22.6%	20.9%
% of population who consider themselves to be in poor health	3.8%	4.6%	6.7%	6.0%
% have disability	3.30%	4.58%	3.11%	4.13%
% have physical impairment	1.05%	1.43%	0.73%	1.24%
Number physically impaired	55 256	76 510	487 283	619 859
Kind of health care worker consulted if ill or injured:				
* Nurse (%)	12.53%	26.08%	56.33%	47.58%
* Doctor (%)	76.20%	61.39%	33.43%	41.71%

	Western Cape	Gauteng	Other provinces	South Africa
* Medical specialist (%)	4.11%	2.87%	0.95%	1.54%
% of population indicating they have a chronic illness, 2008	13.00%	9.82%	10.52%	10.65%
% of population aged 60+ indicating they have a chronic illness, 2008	36.94%	29.04%	23.73%	26.20%
<b>Crime and position of women:</b>				
Women abused by partner in last year, 1998	8.0%			6.3%
Women ever abused by partner, 1998	16.9%			12.5%
Adult (15 - 49) women ever raped, 1998	6.6%			4.0%
Adult (15 - 49) women assaulted in 2008/09	4.6%	3.5%	2.3%	2.9%
<b>Victims of crimes such as assault, mugging, armed robbery, gang attacks, rape or hijacking, 2008</b>				
* Number	200 016	355 586	986 386	1 541 988
* Number of adult women 15 - 49	65 532	104 129	294 887	464 546
* % of population	3.83%	3.57%	2.99%	3.20%
* % of adult women 15 - 49	4.62%	3.64%	3.63%	3.75%
<b>Victims of crimes such as pick-pocketing, car or cell phone theft, 2008:</b>				
* % of population	6.57%	5.70%	3.49%	4.26%
* % of adult population (age 16+)	8.87%	7.38%	5.38%	6.26%
<b>Victims of housebreaking:</b>				
* Numbers of household	181 134	230 426	512 069	923 629
* % of households	12.88%	7.41%	7.44%	8.10%

\* The average Gini Coefficient shown for the other seven provinces is a simple average of the Coefficient calculated for each of these provinces separately.

Sources: 2011 population data and fertility rates and life expectancy for 2006 - 2011: StatsSA's 2011 mid-year population estimates.

2007 data: Own calculations, Community Survey 2007.

2008 data: Own Calculations, Living Conditions Survey 2008/09.

1998 data calculated from the Demographic and Health Survey 1998; the 2003 study has not been released.

Fertility and life expectancy estimates from: StatsSA 2011. Mid-year population estimates 2011. Statistical release P0302. Pretoria.

2012 employment statistics: Own calculations, Quarterly Labour Force Survey 2012, Quarter 1.

## 5.2 The provincial population

According to the 2011 mid-year population estimates of StatsSA (2011), the Western Cape population was 5 287 863. A regional breakdown of the 2011 population is not available, but the 2007 Community Survey indicated that virtually two-thirds of the provincial population resided in the City of Cape Town, followed by the Cape Winelands (13.6 per cent) and Eden (9.7 per cent). The Central Karoo, although covering a very large area, is sparsely populated and has a population of barely 54 000, just 1.1 per cent of the

provincial population. In all regions except for the City of Cape Town the coloured population group constitutes the majority.

The fertility rate in the Western Cape has declined considerably over the years and is now estimated by StatsSA at 2.30 for the period 2006 - 2011. This rate expresses the number of children that would be born to each woman if the fertility pattern in each age group remained at current levels. Internationally, the replacement rate is regarded as 2.10, i.e. where each woman on average replaces herself (allowing for some mortality before they reach the fertile years). In Gauteng, fertility has dropped to replacement level; the Western Cape is still above that level, but well below the national fertility rate of 2.52. With such low levels of fertility having been reached, much of the population increase comes from in-migration, in particular from the Eastern Cape, though demographic momentum implies that natural population growth would continue until lowered fertility has worked its way through to the age structure of the population.

The effect of lowered fertility on the age structure means that the dependency ratio, the number of people outside the working age group of 15 - 64 years per 100 people within this age group, is low in the Western Cape at 54.3, compared to the national rate of 56.9, but above Gauteng's 46.6. The number of non-workers (dependents) per 100 employed workers is much lower in the Western Cape (196) and Gauteng (183) than in the other provinces (363), reflecting the Province's better economic situation, however, this does not consider the fact that some workers in the Western Cape also may have dependents outside the Province.

### **5.3 Economic conditions of the population: Poverty and income inequality**

According to the 2008/09 Living Conditions Survey, which better captures income than most other recent surveys, the average income per person of the Western Cape, at R42 155, was slightly more than that of Gauteng (which may be under-estimated in this survey), but far ahead of the national average of just below R25 000 (see Table 5.1). Average incomes are much affected by the incomes of the richest, but median income per person (income of the middle person in the distribution) better reflects broad living standards. At R17 707 per person per year this was again higher than in Gauteng, and almost twice the South African average. Income inequality was lower in the Western Cape than in Gauteng, with the Gini Coefficient<sup>1</sup> for the Western Cape at a high 0.63, below Gauteng's 0.67 and South Africa's 0.68.

<sup>1</sup> The Gini Coefficient calculated here does not take into account the social wage, i.e. the per person cost of providing amenities within a society from public funds. Intuitively, the inclusion of the social wage would improve the Gini Coefficient significantly given the quantum of social spending in South Africa. This will be explored in the 2013 PERO.

### The Gini Coefficient

The Gini Coefficient is a measure of inequality that has a value of 0 if everyone has the same income and 1 when there is complete inequality, i.e. if one person were to earn everything. Note that the Gini Coefficient for the country can be higher than the value of any individual province, because part of national inequality stems from inequality between provinces. For these estimates no adjustments were made in cases where respondents indicated that household income was zero.

Poverty is lower in the Western Cape than in any other province. For a poverty line set at R6 302 per person per year at the time of the survey in 2008, 22.3 per cent of the Western Cape population was poor, compared to 30.9 per cent in Gauteng, a massive 57.7 per cent in the other seven provinces, and exactly 50 per cent nationally. Though the Western Cape has far less poverty to contend with, poverty is still wide-spread. Almost a quarter of the Western Cape population falls below this poverty line and with the increase in unemployment in recent years, as revealed in Chapter 4, poverty is sure to have increased.

The large size of the Community Survey for 2007 offers an opportunity to analyse some regional differences too as this survey is more accurate for comparing smaller areas than are smaller surveys. Unemployment trends from the first quarter of 2008 to the first quarter of 2012 have been discussed in Chapter 4 and the comparatively fast growth in Western Cape unemployment has been identified as a problem. Although dated, the Community Survey of 2007 allows discussion of the regional dimension of unemployment. While the City of Cape Town had a relatively high narrow unemployment rate of 24.5 per cent in 2007, the rate was far less in most other regions, ranging between 15.6 per cent in the West Coast and 18.5 per cent in Eden. The exception was Central Karoo, with an even higher unemployment rate than the City of Cape Town at 30.9 per cent. The City of Cape Town's high unemployment stems from migration from both inside and outside the Province targeted at metropolitan Cape Town. Other measures of well-being, such as the poverty headcount, are clearly worse in Central Karoo than in other regions, as Table 5.2 illustrates.

**Table 5.2 Some demographic and living standards within the Western Cape by region**

	West Coast	Cape Wine-lands	Over-berg	Eden	Central Karoo	Cape Town	Total
Population	282 023	706 192	209 981	506 514	54 477	3 469 467	5 228 654
Population share	5.39%	13.59%	4.09%	9.69%	1.09%	66.39%	100%
African share	9.0%	20.5%	20.0%	29.0%	9.6%	34.9%	30.1%
Coloured share	71.6%	65.1%	59.6%	52.2%	80.4%	44.0%	50.1%
White share	19.2%	14.0%	20.1%	18.4%	9.9%	19.4%	18.5%
Labour force	127 717	317 839	95 242	225 904	19 971	1 642 934	2 429 607

	West Coast	Cape Wine-lands	Over-berg	Eden	Central Karoo	Cape Town	Total
Share of labour force	5.26%	13.08%	3.92%	9.30%	0.82%	67.62%	100%
Narrow unemployment rate	15.6%	16.2%	17.8%	18.5%	30.9%	24.5%	22.2%
Poverty head-count ratio	21.3%	21.0%	25.9%	29.1%	39.1%	23.7%	24.0%
Gini Coefficient	0.645	0.634	0.66	0.685	0.678	0.699	0.694

Source: Own calculations, Community Survey 2007

Living Standards Measures (LSMs) offers an alternate view on economic conditions at an individual level. LSMs do not use income but rather the level of urbanisation, household assets and access basics services to measure living conditions. According to the South African Institute of Race Relations, the proportion of South African adults with the lowest living standards has declined from 11 per cent in 2001 to just 1 per cent in 2011. LSM 1 is the lowest category and LSM 10 the highest. The LSM profile of the Western Cape population will be explored in the 2013 PERO.

## 5.4 Education

As noted in the introduction this year's chapter on socio-economic conditions has an expanded section on education. The focus here is not so much on the policies and processes involved in the delivery of this important social service; these are better dealt with in specialist education documents, such as the Annual Performance Plan 2012/13 – 2013/14 (Western Cape Government: Education 2012). Instead, in this review the focus falls on education in the context of the economy, e.g. on the education situation as it is reflected in education levels of the population and the labour force and thereby directly linked to the broader theme of this review of prospects for economic progress, and on the quality of school education, which similarly has important implications for broader skills development and economic progress.

### 5.4.1 Educational attainment, schools and the labour market<sup>2</sup>

The level of education of the Western Cape adult population is only marginally second to that of Gauteng. Western Cape adults have completed an average of 9.62 years of education, about 0.3 years less than in Gauteng and 0.9 years more than the South African average. Table 5.3 shows that a larger share of adults have matriculated in Gauteng than in the Western Cape (35 per cent versus 29.2 per cent), while the proportion with degrees is the same at 1.10 per cent. The almost 1.1 million Western Cape adults with matric and the just over 41 000 with degrees constitute 13.8 per cent and

<sup>2</sup> This section supplements the analysis of Section 4.5.2 in Chapter 4 and should be read in conjunction with that section.

21.7 per cent respectively of the national stock of people with such qualifications. The Western Cape thus possesses a relatively well educated population by South African standards. Education levels are also rising, as reflected in the fact that the youngest cohort (at the time of the 2007 Survey) that had completed their education, the then 25 year olds born in 1982, had attained about 10.6 years of education on average, almost two years than those aged 55 years and born in 1952, i.e. 30 years earlier. (StatsSA, Community Survey 2007)

**Table 5.3 Educational attainment of the South African adult population (20 years or more) by province, 2007**

Province	Mean years of education of adults	Number with degrees	Number with matric or more (incl. degrees)	As % of adult population	
				Degrees	Matric
Western Cape	9.62	41 190	1 098 013	1.10	29.20
Eastern Cape	8.00	11 166	649 703	0.28	16.27
Northern Cape	8.03	2 031	150 426	0.28	21.04
Free State	8.44	8 326	409 025	0.44	21.57
KwaZulu-Natal	8.46	23 991	1 557 825	0.37	23.88
North West	7.88	6 376	433 781	0.29	19.74
Gauteng	9.91	83 531	2 651 424	1.10	34.99
Mpumalanga	8.16	5 956	512 524	0.26	22.10
Limpopo	7.70	6 879	518 855	0.22	16.56
<b>South Africa</b>	<b>8.73</b>	<b>189 446</b>	<b>7 981 576</b>	<b>0.59</b>	<b>24.85</b>

Source: Own calculations, Community Survey 2007

In South Africa, there is no longer a major problem of ensuring high levels of school enrolment; until the age of 15 and even beyond, more than 95 per cent of children are enrolled in school (Department of Education, 2008). Neither is the issue faced by many developing countries of low school attendance amongst girls compared to boys particularly relevant in this Country. Nationally, the Gender Parity Index or GPI (i.e. the ratio of girls to boys) attending school was about 0.96 for primary school grades in 2010, and 1.07 for the secondary school grades. This latter figure reflects the fact that boys tend to drop out of school earlier than girls. This situation is even more evident in the Western Cape, where the GPI rises from 1.02 in primary school to a high 1.15 at secondary school, due to large numbers of boys dropping out from secondary school. In the FET phase (grades 10 to 12), this ratio rises even further to 1.24 in the Western Cape, compared to 1.12 nationally (Department of Basic Education, 2012b). This is a clear reflection of the fact that the high drop-out rates from high schools in the Western Cape are particularly concentrated amongst boys, and more common than elsewhere in South Africa.

According to the Community Survey, in 2007 there were more than 41 000 youths aged 17 - 19 years in the Western Cape who had completed grade 10 but who were no longer attending an educational institution, i.e.

they had dropped out without a matric or having gone onto alternative educational institutions (such as FET colleges). This is a high proportion (30 per cent) of those in this age group that drop out of education in good standing between grades 10 and 12, much higher than in Gauteng (20 per cent) and other provinces (13 per cent).<sup>3</sup> To a large extent this may be because employment appears to be easier to find for many school early leavers in this province, yet it is worrying that education appears to be less valued than it should be amongst many youths and parents in the Western Cape. Interestingly, almost universally, in the Western Cape as well as in other provinces, youths below the age of 19 not attending schools give as reason that they are “too old”. What this may refer to is that many of them have fallen behind through repeating or dropping out and that they now consider themselves too old for their grade.

#### 5.4.2 School education in the Western Cape in perspective

Table 5.4 shows the main educational services provided by the Western Cape Education Department (WCED). The numbers in public ordinary schools refer to those students not in special or independent schools. By far the majority of Western Cape schools are public schools, with learners in independent schools constituting only 4.1 per cent of the total, slightly higher than the figure for all of South Africa (3.7 per cent), but far less than in Gauteng (9.9 per cent) (Department of Basic Education, 2012b). Numbers in grade 1 to 12 are almost stagnant due to declining fertility and the fact that school enrolment has reached close to saturation levels. In contrast, grade R only recently expanded to its present size. Other numbers refer to education for learners with special education needs, adult education, and Further Education and Training (FET) colleges. The latter function is being transferred from provinces to become a national responsibility, administered by the national Department of Higher Education and Training (DHET).

**Table 5.4 Education provided by the Western Cape Education Department**

Sector	2009	2010	2011
Grade R learners in Public Ordinary Schools	46 100	52 597	53 688
Grade 1 - 12 learners in Public Ordinary Schools	913 965	919 936	923 224
Learners at Special Needs Schools	17 966	18 292	18 878
Adults at Community Learning Centres	38 053	40 120	36 582
Full time equivalent students at FET Colleges	28 053	38 120	35 748

Source: *Western Cape Education Department, 2012, p.8*

<sup>3</sup> ‘In good standing’ refers to the fact that they are still of potential school going age and have already completed grade 10.

46 per cent of schools in the Western Cape are classified as belonging to quintiles 1 to 3 on the national list, a similar figure as in Gauteng. This indicates that a far lower proportion of schools from the Western Cape and Gauteng serve mainly the poorest population, compared to proportions as high as 75 - 95 per cent in most other provinces (Department of Basic Education, 2012a). While the proportion of such poor schools is very low at 24 per cent in the numerically dominant education districts of the Cape Metropolitan area, there are far higher proportions of quintile 1 to 3 schools in other education districts, namely Cape Winelands (69 per cent), West Coast (61 per cent), Overberg (74 per cent), Eden (72 per cent) and Central Karoo (79 per cent) (Department of Basic Education, 2012a).

To deal with poverty, the WCED has considerably expanded the number of children benefiting from the National School Nutrition Programme (NSNP), with 427 000 children in 1 020 schools benefiting in 2011, compared to only 335 000 two years earlier. It is interesting that, despite the Western Cape having lower poverty levels in schools, Table 5.5 shows that more respondents in this province indicated that they were in schools with feeding schemes, than in any other province.

A particular problem in the Western Cape is safety at schools. Table 5.5 shows that 12.3 per cent of respondents viewed safety as a major problem at school, more than twice the national average. Unfortunately, not too strong conclusions can be drawn from such perceptions about schools. However, respondents indicated twice as much dissatisfaction with large class sizes in the Western Cape than nationally, even though Western Cape class sizes are not larger than elsewhere. Thus, it is also uncertain whether the high frequency of respondents indicating that there were problems of poor discipline, was the result of more such problems in the Western Cape, or just higher expectations.

There is a little more clarity regarding questions related to school facilities, though. For instance, it is indeed true that more schools in Gauteng and the Western Cape have library facilities, science laboratories, or computers, as respondents indicated in Table 5.5. Considering the safety concerns in Western Cape schools, it is interesting that fewer respondents reported having a security guard at the gate than in other provinces. Surprisingly, there appears to be almost no provincial differences in access to sports fields, which could be due to the limited nature of the question. Finally, from this Table, although there are fewer cases where children in the Western Cape repeated at least one grade than elsewhere in the country, the 30 per cent of 17 - 18 year olds who have repeated is still quite high.

**Table 5.5 Some comparative information on education drawn from the Living Conditions Survey, 2008/09**

	Western Cape	Gauteng	Other Provinces	South Africa
<b>Problems reported at school:</b>				
* Crime at school	12.32%	7.74%	5.03%	6.09%
* Poor discipline	7.85%	5.74%	3.92%	4.55%
<b>Facilities at school:</b>				
* Running water	97.9%	97.7%	82.7%	86.6%
* Toilet facility	98.1%	97.6%	94.2%	95.1%
* Library	63.3%	64.4%	30.0%	38.7%
* Science laboratory	47.8%	46.0%	18.3%	25.6%
* Computers	76.7%	61.1%	25.9%	36.1%
* Feeding scheme	66.6%	50.2%	61.0%	59.6%
* Security guard at the gate	57.8%	70.0%	60.2%	61.7%
* Soccer netball field/tennis court	78.7%	74.9%	79.1%	78.4%
% 17 & 18 year olds who have repeated at least one grade	30%	34%	48%	43%

Source: Own calculations, Living Conditions Survey 2008/09

### 5.4.3 Education quality

While it has been indicated previously that attainment (years of education completed) is somewhat lower in the Western Cape than in Gauteng, the Western Cape offers the best quality education in the country by far. This can be deduced best from provincial performance against the national norm in a large number of educational assessments, both national and international, in which the Province participated and which has been summarised in the Department of Basic Education's (DBE) Annual National Assessment report of 2011 (Department of Basic Education, 2011). According to this information, the Western Cape's performance lies between 1.5 and 2 standard deviations above the South African average, and well above that of any other province in every single one of these tests. Such a performance is equivalent to at least a three to four year learning advantage on the average South African learner, based even on a relatively optimistic assumption of half a standard deviation annual increase in cognitive scores.

Yet this does not provide much ground for complacency about the quality of education in the Western Cape. Though its performance is not as weak as most other provinces, the Province still performs well below developed country standards in international tests. In Trends in International Mathematics and Science Study (TIMSS), a grade 8 mathematics and science test, the score of Western Cape students of 389 was well above the South African score of 264, but also below the low international benchmark set at 400 and almost one standard deviation below the international mean of 467 among all participating countries. This placed the Western Cape's performance at about the same level as that of Morocco, and below Egypt (406) and Tunisia (410), to mention some other middle income countries on the African continent.

Even in the Annual National Assessment of 2011, performance of Western Cape grade 3 and grade 6 learners was on average well below the national norm of 50 per cent in both Literacy and Mathematics (see Table 5.6), though it performed the best of all the provinces. Similarly, in the Province's own systemic tests undertaken in 2011, performance was still weak, despite improvements on previous years: Only 47 per cent of grade 3 students reached the relatively lenient pass standard set for Numeracy at that grade and 30 per cent for Literacy, and only 23 per cent of grade 6 learners achieved the same standards in Mathematics and 32 per cent in Literacy. The tests were made substantially more challenging in Literacy than in past years. The comparison with the Annual National Assessment data shows that the Western Cape's own testing no longer appears more lenient than the national benchmark set, at least not in Literacy.

**Table 5.6 Average percentage scores by province in the 2011 Annual National Assessment**

	Grade 3		Grade 6	
	Literacy	Numeracy	Languages	Mathematics
Western Cape	43	36	40	41
Eastern Cape	39	35	29	29
Northern Cape	28	21	27	28
Free State	37	26	23	28
KwaZulu-Natal	39	31	29	32
Gauteng	35	30	35	37
North West	30	21	22	26
Mpumalanga	27	19	20	25
Limpopo	30	20	21	25
<b>SA</b>	<b>35</b>	<b>28</b>	<b>28</b>	<b>30</b>

*Source: Department of Basic Education, Annual National Assessment 2011: Table 1*

An analysis of the Annual National Assessment data shows great heterogeneity of performance amongst schools. Table 5.7 shows that after schools were placed into performance categories according to their average scores in literacy and numeracy across all six grades tested (grades 1 to 6), fewer primary schools in the Western Cape performed in the lower performance categories than for the country as a whole. Although the Western Cape fares best of all the provinces, this again needs to be put into perspective: Almost two-thirds of schools in the Province perform at levels below 50 per cent, which means that the average child in these schools falls short of the national norm set for the child's grade in literacy and numeracy.

**Table 5.7 Percentage of primary schools in various performance categories based on average literacy and numeracy performance over all grades**

	Western Cape	Gauteng	South Africa
Below 30%	3.3	17.6	19.2
30 - 40%	23.6	29.4	31.8
40 - 50%	38.6	25.7	26.3
50 - 60%	17.5	15.0	14.1
60 - 70%	10.7	10.3	6.4
70%+	6.2	2.1	2.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Annual National Assessment, 2011

Performance in the matriculation examination also shows both a bright and a dark side. Matric pass rates have risen encouragingly from 78.7 per cent in 2006, to 82.9 per cent in 2011, after first having declined in the last few years, yet the number who passed has been more stubborn, even declining a little to just over 33 000. (Western Cape Government, 2012) This was due to a decline in the number in matriculation, which is partly the result of a change in the school entry age 12 years earlier. More encouragingly, the percentage of matric candidates who achieved well enough to obtain access to degree studies increased substantially to 38.1 per cent from 33 per cent three years earlier, and the number of such achievers also rose, despite the decline in candidates. But the overall performance still shows some important weaknesses. For instance, only 18 per cent of the 25 per cent of the matriculants who wrote isiXhosa home language, roughly 1 800 candidates, achieved entry to degree studies (Bachelor's achieved), against 47 per cent amongst other candidates.<sup>4</sup>

A second weakness that is still pervasive not only in Western Cape schools, is weak results in gateway subjects that determine access to further studies at university level in fields that are important for economic development, such as engineering, health, sciences, and commerce. Crucial in this regard are physical sciences and mathematics. Table 5.8 shows the performance in those subjects most commonly followed in matric in 2011.<sup>5</sup> All candidates have to take Life Orientation, a home language, and either Mathematics or Mathematical Literacy. There appears to be some avoidance of subjects such as Mathematics and Physical Science, which are taken by only 35 per cent and 27 per cent of candidates respectively. One reason for this is that these subjects have high failure rates of almost half. Pass rates and average performance vary greatly across subjects, e.g. they are generally high for languages, particularly home languages, but generally much lower for some

<sup>4</sup> Own calculations from matric data set.

<sup>5</sup> The numbers shown here include a small number of candidates who did not write the full matriculation exam.

content subjects, and then particularly for Mathematics, Physical Science and Life Sciences (Biology), which already in general attract stronger candidates. Appropriate subject choice can improve the chances of a candidate achieving matriculation, yet there are signs that the quality of the performance in technical gateway subjects is still very weak.

**Table 5.8 Most popular matric subjects by number of candidates, average score and pass rate, 2011**

	Number of candidates	% taking subject	Average score	% pass rate (40% or above)
Life orientation	40 036	100%	65%	99%
Mathematical literacy	25 861	65%	53%	77%
English First Additional Language	25 312	63%	53%	87%
Life Sciences	19 871	50%	47%	59%
Business Studies	16 521	41%	46%	61%
Afrikaans Home language	16 173	40%	59%	98%
English Home Language	14 721	37%	56%	92%
Mathematics	14 162	35%	45%	54%
Geography	14 012	35%	40%	44%
Afrikaans First Additional Language	12 801	32%	62%	94%
Physical Science	10 782	27%	44%	51%
Xhosa Home language	10 153	25%	63%	100%
History	10 044	25%	47%	60%
Accounting	9 003	22%	45%	51%
Computer Application Technology	8 488	21%	50%	72%
Economics	7 671	19%	40%	41%
Consumer Studies	7 126	18%	50%	76%
Tourism	5 399	13%	56%	89%

Source: Own calculations, Western Cape Matriculation dataset

Another indication of the weakness in performance in technical subjects is that barely 4 000 candidates, achieved a C-symbol (60 per cent) or higher in Mathematics, or 10.1 per cent of all matric candidates, and barely 3 000 in Physical Science (see Table 5.9), or only 7.6 per cent of all candidates.<sup>6</sup> This symbol is often the minimum requirement for continuing into these fields at university. The small number of candidates who achieve this level is of concern for an economy which requires far greater numbers of skilled workers in technical fields. The numbers available from Western Cape public schools for such technical studies are put into perspective if one considers that the cohort from which they are drawn numbers about 87 000.

<sup>6</sup> Independent schools contribute only a small additional number.

**Table 5.9 Performance in Matric examinations in Mathematics and Physical Science, 2011**

Score	Cumulative performance at indicated score or higher					
	Number		Percentage of those writing subject		Percentage of <u>all</u> matric candidates	
	Mathematics	Physical Science	Mathematics	Physical Science	Mathematics	Physical Science
40	7 708	5 499	54.4%	51.0%	19.3%	13.7%
50	5 737	4 136	40.5%	38.4%	14.3%	10.3%
60	4 033	3 025	28.5%	28.1%	10.1%	7.6%
70	2 555	2 035	18.0%	18.9%	6.4%	5.1%
80	1 343	1 152	9.5%	10.7%	3.4%	2.9%

Source: Own calculations, Western Cape Matriculation dataset

#### 5.4.4 Conclusion on education

The foregoing analysis has shown that educational attainment and the quality of education received by the Western Cape population are good from a national perspective, but still far from satisfactory in terms of international standards. This performance is especially so if one considers the need for the economy to be internationally competitive in a development strategy that depends on building its capacity to expand export production (Chapter 3). Reason for concern is that almost 20 per cent of the labour force has no secondary education even though more than a third has matriculated, and also that educational quality is still extremely weak by developed country standards. The number of students reaching tertiary institutions to provide the higher level technical skills required for growth in an increasingly skill-hungry economy are inadequate, while the limited vocational training taking place also cannot fully meet the needs for artisans and semi-skilled workers. Thus, it is essential that the school education system continue its emphasis on quality improvement to meet these needs.

### 5.5 Health

A diversity of factors influence health outcomes, including economic conditions, sanitation, water, housing, education and health services. Certain health outcomes are therefore often used as a summary measure of social and economic conditions, such as the infant mortality rate or life expectancy at birth. Western Cape life expectancy at birth of 65.8 years for females and 59.9 years for males for the period 2006 - 2011 is more than five years above those in Gauteng (see Table 5.1) and even further above the national average of 56.2 and 52.1 for females and males respectively. Yet these values are quite low from an international perspective, even when compared to many other developing regions of the world. In South America, average life expectancy of both sexes combined is 73 years, 10 years more than in the Western Cape. In Central America it is even higher at 75 years, and even in

the poor South Asian region (including India, Pakistan, Bangladesh and Sri Lanka), it is two years higher than in the Western Cape.

The low life expectancy in the Western Cape stems from what has been termed a "quadruple burden of disease". Factors associated with high mortality include diseases related to poverty (e.g. TB and diarrhoea), those associated with an affluent lifestyle (e.g. stroke, heart disease, diabetes), HIV/AIDS, and high levels of deaths due to trauma (e.g. homicides, road accidents, drowning and death from fires). Information on the causes of death is based on the Burden of Disease (BOD) Reduction Project, a study of Western Cape deaths undertaken by the Medical Research Council in cooperation with the Western Cape Department of Health, using data from *inter alia* StatsSA.<sup>7</sup>

Mortality patterns for 2009 show stark gender differences, with far more deaths recorded in younger age groups amongst men than women. A strong contributory factor to mortality amongst young men is injury, including deaths from inter-personal violence and from road accidents, which together cause almost two-thirds (64 per cent) of the deaths of young males aged 15 – 24 years. This remains an extremely common cause of death also for somewhat older males (e.g. 39 per cent of males aged 25 - 34 years). Altogether almost 2 500 people die from homicide each year in the province, i.e. almost 7 per day, and another almost 1 700 from road traffic accidents. HIV/AIDS is also an important cause of death among young adults, while non-communicable diseases rise in importance with age.

The most common causes of death in the Province appear to be HIV/AIDS (9.1 per cent), Tuberculosis (8.7 per cent), heart disease (7.6 per cent), cerebrovascular diseases (stroke) (6.3 per cent), and homicide (also 6.3 per cent), followed by diabetes (5.3 per cent) and transport injuries (road accidents) (4.5 per cent). Deaths disproportionately affecting younger people lead to more years of life lost, e.g. almost 25 years of life is lost per person from each death caused by HIV/AIDS, homicide, road accidents, and intestinal infectious diseases. The very young are also greatly affected by drowning and fire-related death, which contribute more than 2 per cent of years of life lost in the province.

An estimate of infant mortality of 23.7 per 1 000 in 2008 for the Western Cape is much lower than the estimate for South Africa<sup>8</sup> of 54.8 for the period 2005 - 2010. Yet the Western Cape figures are still slightly above those of many other middle-income developing countries: In South America infant mortality averages around 21 per 1 000 live births and in Central America 19 per 1 000.

<sup>7</sup> Provisional and unpublished data obtained from Prof Debbie Bradshaw at the Medical Research Council

<sup>8</sup> UN Population Division, 2010

The fact that the Western Cape was the first province to provide anti-retroviral treatment (ART) to all those affected by HIV/AIDS has had a large impact on the disease. According to data from the provincial Department of Health, just over 100 000 patients were on ART in the Western Cape in June 2011, almost 7 per cent of them being children. Three-quarters of this treatment were provided in the Cape Metropolitan Region, almost 10 per cent in Cape Winelands Health Region and 8 per cent in Eden.

Survey data allows some assessment of personal perceptions about health and health services. Table 5.1 showed that Western Cape residents are less inclined than people from other provinces to consider their health care inadequate (15.8 per cent against 18.8 per cent in Gauteng and 20.9 per cent nationally), and according to that data (from the 2008/09 Living Conditions Survey) only 3.8 per cent considered themselves in poor health, compared to 4.6 per cent in Gauteng and 6.7 per cent on average in other provinces. Table 5.10 shows more detail from other surveys on self-perceived health: Excellent health is far more common in the Western Cape than in any other province, and more than 70 per cent of Western Cape respondents perceived themselves to be either in excellent or in very good health. Satisfaction with public health services was also particularly high in the Western Cape, with more than 75 per cent very satisfied and 87 per cent being satisfied or very satisfied.

**Table 5.10 Perceptions about own health and about public health services**

	Western Cape	Gauteng	South Africa
<b>Self-perceived health status 2008</b>			
Excellent	46.1 per cent	36.3 per cent	36.4 per cent
Very good	24.2 per cent	29.2 per cent	28.4 per cent
Excellent or very good	70.3 per cent	65.6 per cent	64.8 per cent
<b>Satisfaction with public health services 2011</b>			
Very satisfied	75.4 per cent	61.4 per cent	64.1 per cent
Satisfied	12.1 per cent	13.8 per cent	15.8 per cent
Satisfied or very satisfied	87.5 per cent	75.2 per cent	79.92 per cent

Source: *Self-perceived health status calculated from the National Income Dynamics Survey (NIDS) 2008, satisfaction with services from the General Household Survey (GHS) 2011*

The Living Conditions Survey data presented in Table 5.1 show that the Western Cape has a moderate number of people with disabilities, far less than Gauteng, but more than other provinces as a group. Similar patterns apply to one of the forms of disability included here, physical impairment. Chronic disease, on the other hand, is very common in the Western Cape, much more so than elsewhere: 13 per cent of the total population, and 36.9 per cent of the population aged 60 and above, indicated that they suffered from chronic illness. The latter figure especially is far above the rates experienced elsewhere in South Africa.

The distribution of health services in South Africa leads to the situation where those who were ill or injured and went to see a health worker were far more likely to see a doctor (76.2 per cent) or even a medical specialist (4.1 per cent) than in Gauteng or other provinces. More patients visited a nurse in other provinces (56.3 per cent) against only 12.5 per cent in the Western Cape.

## 5.6 Migration trends

Migration, both into the Province and outward bound, is of considerable importance as it affects the size of the population, its geographic distribution, the age composition and thereby service needs. This section expands on the discussion of migration provided in Section 4.3 of Chapter 4.

In the StatsSA 2011 mid-year estimates it is noted that 206 493 people migrated to the Western Cape in the period 2006 - 2011, of which 104 215 from Eastern Cape and 48 951 from Gauteng. Out migration was estimated to be 110 937 of which 40 097 were to Gauteng.<sup>9</sup> The flow from the Eastern Cape to the Western Cape is one of the largest migration streams. The net effect of migration between Western Cape and Gauteng was a net movement from Gauteng to the Western Cape. These numbers are based simply on trend projection by StatsSA. Migration trends will be confirmed when the results of the 2011 census become available later this year.

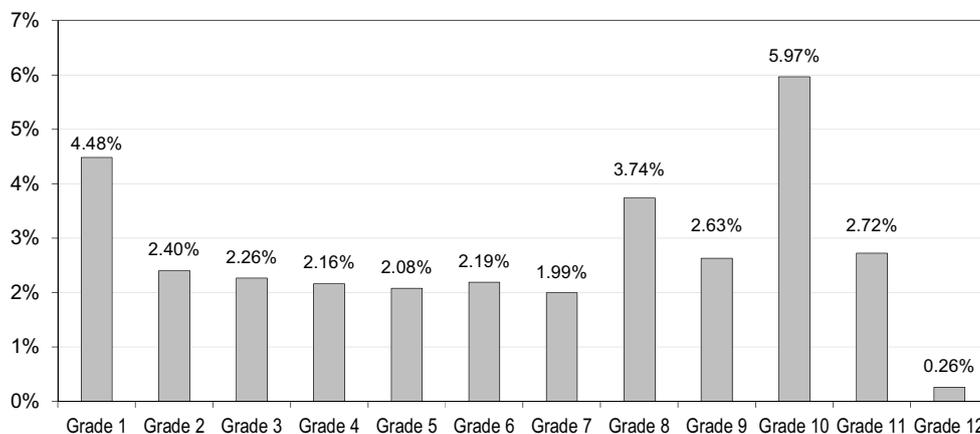
Data from the WCED's Education Management Information System (EMIS) offer an alternative perspective on migration. Of the 918 835 children recorded at school in 2010, those who transferred in from other provinces or abroad across all grades constituted 25 956, or 2.82 per cent.

Considering the pattern of transfers-in by grade as reflected in Figure 5.1, there are some specific grades that stand out. While the normal pattern is slightly more than 2 per cent of learners in a grade to be transfers-in, there are considerably more in grade 1. This probably reflects the fact that children from other provinces and abroad are sent to school in the Western Cape because of the latter's perceived good quality schools. Many such children may migrate with their parents or join one or both of their parents or other relatives in the Western Cape. While the proportion of transfers remains quite steady during the other primary grades at just above two per cent of all learners, there are sharp increases in early high school (grade 8) and especially in grade 10, for the final school phase leading to matriculation. It is known that many learners come to the Western Cape in secondary school, some even staying on their own without an accompanying adult, in order to attend school in the Province. Most stay and join the Western Cape labour market once they leave school.

<sup>9</sup> These are *net* movements, i.e. if a person moved in and again out within the same five year period, such movement would not reflect in these numbers.

Figure 5.1 below shows the transfers-in from outside of the Province as a percentage of those in each grade.

**Figure 5.1 Transfers-in from outside the Province as a percentage of those in each grade, Western Cape 2010**



Source: WCED EMIS data

Such migration puts pressure on service delivery, leading to crowding in schools and under-provisioning.

Migration within the Province has similar effects. Generally, there is a gradual shift of population from other regions to the Cape Town metropolitan area. This also has important implications for service delivery needs and for resource planning.

## 5.7 Housing and municipal services

Housing is an important factor in the living conditions of any population. It affects health and thereby worker productivity, but is in turn affected by economic conditions, particularly income and housing costs. Municipal services complement such housing and are equally important.

In the Western Cape, overcrowding and informal backyard housing are major issues, while informal housing in informal settlements is less common. Table 5.11 shows the proportion of the population living in informal housing in 2001 and 2007. Census 2001 and Community Survey 2007, which provide large data sets that allow fairly accurate estimates at the district level, were used in preparing the table. Informal or traditional housing is still quite common in South Africa, with only 70.6 per cent of the national population and 83.4 per cent of the Western Cape population housed in formal dwellings.

The Western Cape made only limited progress in formal housing provision between 2001 and 2007, with the proportion of the population housed in formal housing rising only from 81 per cent to 83.4 per cent, an increase of similar magnitude as experienced in the country as a whole. Within the

Western Cape, there appears to have been deterioration in the Eden District Municipality.

In national comparison the proportion of informal housing in backyards relative to all informal housing is high in the Western Cape (see last column of Table 5.11). Overcrowding is also quite common. The unmet housing need in the Province remains substantial. Based only on the proportion of households without formal housing, there appears to be a shortage of at least 200 000 housing units in the Western Cape. To reduce over-crowding would require even more.

Table 5.11 shows the percentage of formal and informal housing in 2001 and 2007 in the 6 West Cape districts, all metropolitan area in the country as well as per Province.

**Table 5.11 Type of housing, 2001 and 2007 (per cent of households)**

	Formal 2001	Informal 2001	Formal 2007	Informal 2007	Informal in back- yards 2007	% of all informal in back- yards 2007
West Coast District Municipality	90.1	9.1	93.0	6.0	4.1	67
Boland District Municipality	84.9	14.5	82.7	11.1	5.7	52
Overberg District Municipality	82.3	16.7	88.0	11.0	5.1	47
Eden District Municipality	82.6	16.6	77.9	21.2	10.9	51
Central Karoo District Municipality	95.8	3.7	96.9	2.2	1.3	59
City of Cape Town	78.7	20.8	83.0	15.9	6.4	40
Port Elizabeth: Nelson Mandela Bay	75.2	24.4	85.1	14.4	2.7	19
Durban: Ethekewini	72.6	26.9	72.2	23.5	6.2	26
East Rand: Ekurhuleni	69.7	29.9	71.0	26.2	9.1	35
Johannesburg: City of Johannesburg	77.4	22.3	77.3	19.1	8.6	45
Pretoria: City of Tshwane	75.0	24.6	70.8	27.3	7.2	26
<b>Western Cape</b>	81.0	18.5	83.4	15.0	6.5	43
Eastern Cape	50.7	49.0	53.7	45.7	9.4	20
Northern Cape	82.9	16.0	81.4	13.4	2.1	16
Free State	65.9	33.7	71.0	23.0	6.1	26
KwaZulu-Natal	61.0	38.6	61.4	35.0	9.3	27
North West	72.1	27.6	69.8	25.9	8.2	32
Gauteng	74.2	25.4	72.6	23.1	8.7	37
Mpumalanga	70.6	29.0	74.8	20.4	4.4	21
Limpopo	73.3	26.4	84.4	13.6	4.9	36
<b>South Africa</b>	68.4	31.2	70.6	26.1	8.5	33

Note: Informal housing here includes traditional housing. Formal and informal housing do not add up to 100 per cent, as this still excludes institutional housing and some smaller categories.

Source: Own calculations, Census 2001 and Community Survey 2007

More recent data from the Western Cape Department of Human Settlements estimates the housing backlog in the Province at around 594 385 units<sup>10</sup>, with almost 61 per cent situated in the City of Cape Town. Table 5.12 illustrates the estimated backlogs in district municipalities and the City of Cape Town in 2012.

**Table 5.12 Western Cape housing backlog estimate, 2012<sup>11</sup>**

Municipality	Housing backlog (Households)
City of Cape Town	361 835
Cape Winelands District Municipality	87 881
Overberg District Municipality	29 198
Central Karoo District Municipality	8 046
Eden District Municipality	67 375
West Coast District Municipality	40 050
<b>Total</b>	<b>594 385</b>

Source: Department of Human Settlements (2012)

Table 5.13 shows data from the GHS (the average over 2007 - 2009) on the percentage of households with access to certain services, by District Council as well as for the City of Cape Town, some other metropolitan councils for comparison purposes, and for all of South Africa. This includes the following levels of provision:

- Water: Having piped (tap) water in dwelling or on site or in yard;
- Sanitation: Having flush toilet, septic tank or chemical toilet;
- Fuel: Having electricity from mains or a generator; and
- Refuse removal: Removed by municipality or community members at least once a week.

Using various data sources the final columns indicate what proportion of households has access to all four municipal services and how this has changed over time. From the table it is clear that the Western Cape is far better served in these respects than the country as a whole. The proportion of households in the Western Cape with all four services has risen from 74 per cent in 2001 to 83.3 per cent in 2007 - 2009, as against only 50.2 per cent in the most recent period for South Africa as a whole. Amongst District Councils in the province, Eden performs best. The Western Cape has also continued its progress in providing these services, thus maintaining its advantage compared to the national average and starting to approach universal coverage in some services.

<sup>10</sup> As at August 2012

<sup>11</sup> The housing backlog estimates are based on estimates provided by each municipality as captured in the WC Housing Demand Database. Given the dynamic nature of the Database, the figures provided here are subject to continuous update and sanitisation exercises.

**Table 5.13 Percentage of households with access to four main municipal services, 2007 – 2009 and with all four services, 2001, 2007 and 2007 - 2009**

	Water 2007 - 2009	Sanitation 2007 - 2009	Fuel 2007 - 2009	Refuse removal 2007 - 2009	With all 4 services		
					Census 2001	CS 2007	GHS 2007 - 2009
West Coast District Municipality	97.1	95.3	95.4	72.3	60.7	79.2	67.7
Boland District Municipality	86.7	96.2	89.8	78.8	60.3	65.1	68.6
Overberg District Municipality	87.8	95.5	90.7	82.0	62.7	82.4	71.9
Eden District Municipality	92.8	92.4	94.0	90.9	68.8	79.2	83.3
Central Karoo District Municipality	98.7	88.9	93.5	76.2	72.5	84.0	74.0
City of Cape Town	91.8	93.8	95.3	95.0	79.7	86.7	88.3
<b>Western Cape</b>	<b>91.3</b>	<b>93.9</b>	<b>94.3</b>	<b>90.5</b>	<b>74.0</b>	<b>82.6</b>	<b>83.3</b>
Durban: Ethekwini Municipality	82.0	72.1	90.9	81.4	55.9	62.8	62.8
City of Johannesburg	92.7	91.0	89.3	91.4	74.2	80.8	83.0
Pretoria: City of Tshwane	89.1	80.2	90.5	80.6	62.2	63.5	73.5
<b>South Africa</b>	<b>70.4</b>	<b>59.8</b>	<b>83.1</b>	<b>58.7</b>	<b>41.7</b>	<b>49.1</b>	<b>50.2</b>

Sources: *The 2001 Census; the Community Survey 2007; and for 2007 - 2009, the General Household Surveys*

## 5.8 Social ills

Thus far a broad overview of patterns of socio-economic development in the Western Cape has been provided. More difficult to capture in data, but nonetheless equally important, are some pervasive social ills that still afflict the Western Cape. Due to a lack of hard evidence on their magnitude and the difficulty of comparing this to the situation in other Provinces and regions, only a short overview will be provided here. For the economic development of the Province, some of these are of great concern.

### Crime and Inter-personal violence

Compared to other Provinces, the Western Cape experiences extremely high crime levels. Inter-personal violence in the Western Cape is very high. The implicit rate of almost 50 (47) homicides per 100 000 population in the Western Cape is exceeded by few countries in the world (United Nations Office on Drugs and Crime 2009). Perpetrators and victims often know each other. Gang warfare is another phenomenon that contributes to a culture of violence among parts of the population and sometimes spills over into the wider community, often also affecting schools and households.

As shown in Table 5.1, in the year 2008/09, more than 200 000 people in the Western Cape experienced violent crimes in the form of assault, mugging, armed robbery, gang attacks, rape or hijackings; this constituted 3.78 per cent of the population, above levels experienced in Gauteng (3.57 per cent)

or other provinces (2.99 per cent). Though women in the age group 15 - 49 do not appear to be more targeted in Gauteng than the rest of the population, the levels of such crimes perpetrated on this group are especially high in the Western Cape, as also in other provinces taken as a group.<sup>12</sup>

Crimes such as pick-pocketing, car or cell phone theft are also more prominent in the Western Cape than elsewhere in South Africa: In 2008/09, 6.57 per cent of the population and 8.87 per cent of adults in the Province reported that they were victims of such crimes, compared to levels that are more than one-quarter lower in South Africa as a whole.

Housebreaking, too, is reported by respondents to be far more common in the Western Cape than anywhere else: One in eight households had been victims of housebreaking in the twelve months preceding the survey.

### **Alcohol and substance abuse**

The incidence of abuse of both alcohol and other substances is high in the Western Cape. Both these forms of abuse are often also associated with violence, and often spills over into abuse of women and children.

### **Abuse of women**

Abuse of women is a wide-spread problem in the country as a whole, but the little reliable though old data that is available (from the Demographic and Health Survey of 1998) indicate that this problem is greater in the Western Cape than in the country as a whole. In Table 5.1 it is shown that the incidence of women having been abused by a partner in the preceding year was 8 per cent, which is considerably higher than that for the country as a whole, as was that for women ever abused by a partner (at 16.9 per cent). Similarly, the proportion of women 15 - 49 acknowledging that they had ever been raped was 6.6 per cent, which is almost two-thirds higher than for the country as a whole.

### **Child abuse**

The extent of child abuse is known to be high in the Western Cape, and is often associated with alcohol abuse, family break-up and the general neglect of children. Declining fertility rates have improved the situation somewhat, but many children are still not offered the supportive and warm environment that they need for them to grow to become healthy adults. Such behaviour has inter-generational effects, thereby also undermining the growth of a productive and healthy society.

<sup>12</sup> This age group is selected to make it comparable to data from Demographic and Health Surveys.

## 5.9 Conclusion

This chapter has given a broad background of the socio-economic situation of the Western Cape population. It shows that the population is generally less poor than in other provinces and that income is slightly less unequally distributed; that health, educational and municipal services function better; and that a smaller proportion of the provincial population cannot find formal housing. Compared to the rest of South Africa, it would appear that the Western Cape population shares more in the fruits of economic growth. But linking the analysis of Chapters 3 and 4 with that of this chapter, it is likely that the comparatively faster growth in unemployment because of job losses (retrenchments) in recent years has had a negative effect on the general welfare of Western Cape society.

It also became clear in this discussion that many specific challenges remain in the Western Cape, such as the quality of education that still remains extremely weak by international standards. This acts as a barrier to accelerated economic growth. Added to that there is the fact that the Western Cape experiences, perhaps more acutely than most other provinces, particular types of social ills, such as interpersonal violence, abuse of women and children, and abuse of alcohol and drugs. While a growing economy can do much to improve the living standards of the population, some of these problems require more direct efforts. Such efforts are continuing, but it appears that success is far more difficult to achieve in these fields than is often acknowledged.



# Appendix

## Western Cape Statistics

Indicator	GDP – Total Rm	GDP – Agriculture Rm	GDP – Mining Rm
2005	204 661	8 876	469
2006	216 711	8 370	443
2007	230 568	8 503	446
2008	241 136	10 004	415
2009	238 215	9 879	382
2010	245 398	9 697	395
Average annual growth	3.7	2.1	-3.3

Indicator	GDP - Manufacturing Rm	GDP - Electricity Rm	GDP - Construction Rm
2005	38 733	3 477	7 691
2006	41 157	3 546	8 514
2007	43 300	3 630	9 801
2008	44 195	3 490	10 511
2009	40 375	3 514	10 897
2010	42 394	3 558	10 970
Average annual growth	2.0	0.5	7.5

Indicator	GDP – Wholesale and retail trade Rm	GDP – Transport, storage and communication Rm	GDP – Finance, real estate and business services Rm
2005	32 236	20 897	60 411
2006	33 926	21 775	66 090
2007	35 758	23 292	71 511
2008	35 855	23 956	76 910
2009	35 329	24 241	77 083
2010	36 491	24 712	79 826
Average annual growth	2.5	3.4	5.8

Indicator	GDP – Community and social services Rm	GDP – General government Rm
2005	11 122	20 751
2006	11 596	21 295
2007	12 228	22 099
2008	12 732	23 067
2009	12 569	23 947
2010	12 643	24 712
Average annual growth	2.6	3.6

Indicator	Building plans passed: Province - Western Cape: All buildings R'000	Building plans passed: Province - Western Cape: Residential buildings R'000	Building plans passed: Province - Western Cape: Non-residential buildings R'000
2005	18 464 988	9 551 617	3 317 868
2006	17 345 425	8 037 725	3 256 823
2007	18 526 949	8 692 352	3 506 052
2008	17 405 545	8 097 330	3 613 514
2009	12 261 287	4 936 990	2 375 782
2010	13 397 212	5 282 182	2 164 098
2011	14 093 960	5 850 214	2 620 612
Average annual growth	-3.4	-6.0	-2.2

Indicator	Building plans passed: Province - Western Cape: Additions and alterations R'000	Building completed: Province - Western Cape: All buildings R'000	Building completed: Province - Western Cape: Residential buildings R'000
2005	5 595 503	8 286 668	5 460 381
2006	6 050 877	10 550 878	6 455 298
2007	6 328 545	12 381 016	6 905 910
2008	5 694 701	13 427 640	6 592 344
2009	4 948 515	13 205 877	6 005 474
2010	5 950 932	10 228 153	4 608 270
2011	5 623 134	10 406 295	4 695 390
Average annual growth	0.7	5.1	-1.6

Indicator	Building completed: Province - Western Cape: Non-residential buildings R'000	Building completed: Province - Western Cape: Additions and alterations R'000
2005	1 016 076	1 810 211
2006	1 444 926	2 650 654
2007	2 558 415	2 916 691
2008	2 867 334	3 967 962
2009	3 289 662	3 910 741
2010	1 938 376	3 681 507
2011	1 940 058	3 770 847
Average annual growth	17.5	14.6

Indicator	Electricity consumption	Air traffic (Arrivals)	Air traffic (Departures)
2005	21 445	3 637 296	3 680 226
2006	22 382	3 892 740	3 921 455
2007	23 410	4 467 141	4 502 231
2008	23 245	4 338 173	4 369 647
2009	22 583	4 125 761	4 146 771
2010	23 093	4 302 292	4 332 258
2011	22 779	4 492 699	4 509 032
Average annual growth	1.1	3.8	3.6

Indicator	Crop estimates (Wheat)	Vehicle sales
2005	645 000	51 199
2006	730 000	58 074
2007	812 000	50 061
2008	860 000	34 105
2009	675 000	23 950
2010	530 000	31 084
2011	675 750	36 826
Average annual growth	2.5	-2.3



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