

**Western Cape Government
Provincial Treasury**

**Provincial Economic Review
and Outlook
2013**

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Foreword

The Provincial Economic Review and Outlook (PERO) is the annual research report which provides an objective review and analysis of past and estimated future economic growth and socio-economic development of the Western Cape. The Western Cape Government (WCG) is committed to growing the economy and alleviating poverty, through appropriate policy initiatives. This requires an improved understanding of the real economy, in particular of industry activity, their prospects and the constraints they face.

The 2013 PERO provides an analytical reference point for the provincial economic development strategies and interventions utilising an evidence-based platform to inform and guide provincial policy, planning and the Western Cape Medium Term Budget Policy.

Slower global economic growth is expected to impact negatively on both the South African and Western Cape economy. Risks to the regional economy include the impact of slower global growth on exports and catering and accommodation sector (driven by tourism) and further moderation on the national economy.

The labour market has seen little change on employment levels over the last year, while the labour force continues to grow. The challenge high unemployment levels, particularly youth unemployment still dominates the labour market picture.

Living standards and socio-economic conditions in the Western Cape are relatively high by national standards. The figures however still show room for improvement when looking at international benchmarks and provincial goals.

PERO is also complimented by the spatial translation of the provincial economic overview and outlook to the district/municipal level in the companion study, the 2013 Municipal Economic Review and Outlook (MERO). The 2013 MERO looks at recent and forecasted economic growth for each municipality in the Western Cape and the major economic sectors and industries. It also provides extensive analyses of value/supply chains and analyses of informal sector in each municipality.

The 2013 PERO in particular aims to contextualises the challenge of shifting towards an inclusive growth and development in the Western Cape. Inclusive growth emphasises that poverty can only be reduced in a sustainable manner if the poor are enabled to be actively involved in economic growth. The objectives of inclusive growth look toward income generation via employment. The 2013 PERO reaffirms that creative and innovative growth strategies are required to enable growth and competitiveness of industries. Building on our comparative advantages, considering the spatial dimensions, exploring opportunities with for new markets in BRICS and Africa, improving infrastructure delivery, quality education and skills development and developing a matrix of integrated policies, is needed to promote inclusive growth.



Alan Winde

Minister of Finance, Economic Development and Tourism

17 October 2013

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Acronyms

AfDB	African Development Bank
ANA	Annual National Assessment
ART	Anti-Retroviral Treatment
ASEAN	Association of South East Asian Nations
BCI	Business Confidence Index
BER	Bureau for Economic Research
BFAP	Bureau for Food and Agricultural Policy
BOD	burden of disease
BPO	Business Process Outsourcing
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China, South Africa
CAP	Common Agricultural Policy
CIS	Commonwealth of Independent States
CMA	Cape Metropolitan Area
COPD	Chronic Obstructive Pulmonary Disease
CPI	Consumer Price Index
CSP	Community, Social and Personal
CWD	Cape Winelands District
DBE	Department of Basic Education
DEDAT	Department of Economic Development and Tourism
EDP	Economic Development Partnership
EMIS	Education Management Information System
EU	European Union
FAS	Foetal Alcohol Syndrome
G7	Group of Seven
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
HBC	home-based care
HIV and AIDS	Human Immune Virus and 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

MENA	Middle East and North Africa
MERO	Municipal Economic Review and Outlook
MPC	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
PAYE	Pay As You Earn
PBC	primary healthcare facilities
PERO	Provincial Economic Review and Outlook
PMCT	prevention-of-mother-to-child-transmission
PMI	Purchasing Managers Index
PSO	Provincial Strategic Objective
QE	quantitative easing
QLFS	Quarterly Labour Force Survey
RCTA	revealed comparative trade advantage
RMB/BER	Rand Merchant Bank/Bureau for Economic Research
SADC	Southern African Development Community
SARB	South African Reserve Bank
SSA	Sub-Saharan Africa
Stats SA	Statistics South Africa
TIMSS	Trends in International Mathematics and Science Study
UIF	Unemployment Insurance Fund
UK	United Kingdom
WC	Western Cape
WCED	Western Cape Education Department
WCG	Western Cape Government
YLL	years of life lost

1

Introduction and Executive summary

1.1 Background

The Western Cape Provincial Economic Review and Outlook (PERO) is an annual research report which provides an objective review and analysis of past and estimated future economic growth and socio-economic development of the Province. The report provides an analytical reference point for the provincial economic development strategies and interventions utilising an evidence-based platform to inform and guide provincial planning, budget policy formulation and hence the budget of the Western Cape (WC). The 2013 PERO in particular aims to contextualise the challenge of shifting towards an inclusive growth and development trajectory in the Province.

The Western Cape Government (WCG) is committed to alleviate poverty, improve welfare and grow the economy whilst creating jobs through appropriate policy initiatives. The concept of 'inclusive growth' captures this commitment and that is why more attention is given to this important concept in this 2013 PERO. For policy targeting, growth and development to be effective it requires an improved understanding of the real economy, in particular of industry activity, their prospects and the constraints they face. Therefore, the 2013 PERO has been set the task of delving deeper into certain aspects of the Western Cape economy, including:

- The trends in WC economic growth, the performance of its industry sectors and of the drivers and constraints that affect domestic and export production of these industry sectors;
- The agriculture sector and agro-processing that adds much value to the Provincial economy;
- The emerging green economy which have been targeted as a future growth area in the Province; and
- The socio-economic well-being of all the citizens of the Western Cape.

The translation of the PERO to the district/municipal level is contained in the Municipal Economic Review and Outlook (MERO), the companion study to the PERO. The overall objective of the 2013 MERO is to provide a comprehensive overview of the recent economic performance of and outlook for the Western Cape economy at district/municipal level. The 2013 MERO includes estimation of the recent and forecasted GDP growth for each municipality and the major economic sectors and industries and provides extensive analyses of value/supply chains and analyses of informal sector in each district/municipality.

1.1.1 Inclusive growth

It is widely recognised that promoting economic development in the Western Cape necessitates an informed consideration of the global economic environment. This is essential in a region like the Western Cape with its open economy, especially as an exporter of goods and services. As an open economy, the Western Cape is greatly exposed to the vagaries of international economic developments. The recent global economic downturn and subsequent (subdued) recovery, thus impacts in the regions' growth and development trajectory. By implication any focus on local socio-economic issues will not be adequately contextualised if the open nature of the economy is neglected. The importance of exports for the Western Cape economy therefore informs the focus on inclusive growth in the 2013 PERO.

'Inclusive growth' is a concept that has become a central concern in the international development literature in recent years. Although it is often used interchangeably with other terms like 'broad-based growth', 'shared growth' and 'pro-poor growth', the concept has acquired a specific meaning that is distinct from these terms. Inclusive growth emerged from the pro-poor literature (Kakwani and Pernia, 2000) in an attempt to emphasise that, in order to reduce poverty in a sustainable manner, the poor must be enabled to be actively involved in economic growth. Over time "the notion of participation in and benefitting from growth processes identified with inclusiveness came to be seen as related to, yet distinct from, pro-poor growth, pertaining to a broader concept of inclusive growth" (Ranieri and Ramos, 2013).

In a World Bank working paper (Ianchovichina and Lundstrom, 2009) inclusive growth is defined as growth that is sustainable because it is "broad-based across sectors and inclusive of a large part of a country's labour force". The concept, according to some authors, captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms. It is argued that encouraging broad-based and inclusive growth does not imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment.

Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked. The Commission on Growth and Development notes in its Growth Report: Strategies for Sustained Growth and Inclusive Development (2008) that inclusiveness is an essential ingredient in any successful growth strategy. The emphasis is thereby placed on the idea of equality of opportunity in terms of access to markets, resources, and an unbiased regulatory environment for businesses and individuals. The Commission considers systematic inequality of opportunity “toxic” as it will derail the growth process through political channels or conflict.

The African Development Bank (AfDB) also pays central attention to the rate and pattern of growth, considering long-term, sustainable high economic growth essential to reduce poverty and to grow productive employment, both necessary to concomitantly reduce inequality (AfDB, 2012). While absolute pro-poor growth can be the result of direct income redistribution schemes, for growth to be inclusive, productivity must be improved and new employment opportunities created.

An important implication of the inclusive growth approach, and one that is of particular relevance to this PERO, is that inclusive growth focuses on ex-ante analysis of sources of, and constraints to sustained, high growth, and not only on the poor. The analysis focuses on ways to raise the pace of growth by utilising more fully parts of the labour force trapped in low-productivity activities or completely excluded from the growth process. Klasen (2010) argues that for a growth process to be inclusive it needs an extensive contribution of inputs from the labour force.

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

A logical outflow of this understanding of inclusive growth is that policies for inclusive growth must be an important component of a government's strategy for sustainable growth. As has already been stated above, these must be policies that promote broad-based growth with productivity improvements and the creation of employment opportunities, and not the prioritisation of redistribution. The inclusive growth approach recognises that income distribution may worsen in the short term if accelerated poverty reduction is achieved, but postulates that if poverty reduction was the outcome of inclusive growth a foundation would have been laid for reducing inequality in the long term and for doing so in a sustainable manner.

Recent research shows that growth in average incomes explains 70 per cent of the variation in poverty reduction (as measured by the headcount ratio) in the short run, and as much as 97 per cent in the long run. Most of the remainder of the variation in poverty reduction is accounted for by changes in the distribution¹. There is also evidence to suggest that for a given inequality level, the poorer the country, the more important the growth component in explaining poverty reduction². Further, macroeconomic stability related to inflation, as well as education and infrastructure related policies seem to be win-win or 'super pro-poor' policies that have both a positive effect on growth and a negative effect on inequality³.

An alternate approach focuses on what is lacking to enable full inclusiveness rather than on measuring what degree of inclusiveness a country has attained⁴. Utilising a comprehensive approach that covers several dimensions, including the employability of the poor, the cost of capital, geography and infrastructure, that constrain inclusive growth, it is possible to identify barriers to inclusiveness, guiding appropriate policy-making.

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

1.1.2 Policy and institutional initiatives

The annual Western Cape PERO has grown into an important milestone in the annual medium term expenditure planning cycle in the Province. As such it provides the backdrop to the annual Western Cape Medium Term Budget Policy Statement. The intention with the PERO is that it provides a framework for the synergistic reinforcement of the intention/plans of the WCG to facilitate an environment conducive to growing the economy and sharing the benefits of growth among a wide spectrum of citizens. The Province's goal of inclusive economic growth and integrated development must be implemented in an economic and social environment that poses many challenges as well as opportunities. Understanding the trends, patterns and developments within the Western Cape economic sectors, and how these are linked to the labour market's performance in the WC economy, thus becomes a necessity.

¹ Kraay (2004)

² Lopez and Servén (2004)

³ Lopez (2004b)

⁴ Ianchovichina and Lundstrom (2009)

The trajectory of economic development in the Western Cape is also fundamentally affected by policy initiatives at the provincial and national level, as well as institutional developments related to policy interventions. It therefore stands to reason that initiatives undertaken at the provincial level must logically fit into a framework determined by 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. At this point, however, it is appropriate to draw attention to overarching policy initiatives aimed at broad social and economic development, which include:

- The National Industrial Policy Framework (NIPF) and the associated Industrial Policy Action Plans (IPAPs); and
- The New Growth Path (NGP).

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. It culminated in the National Development Plan 2030 (NDP) published in August 2012 (National Planning Commission, 2012). In line with the focus theme of this PERO, 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 National Development Plan is South Africa's long-term vision and plan which provides overarching goals to be achieved by 2030. OneCape 2040 is the Western Cape's vision, which aims to create a resilient, inclusive and competitive Western Cape with higher rates of employment producing growing incomes, greater equality and an improved quality of life. This vision is articulated in 6 areas for transition illustrated below.

Figure 1.1 OneCape 2040 transitions



Source: Economic Development Partnership, OneCape 2040

In support of this vision, Provincial Strategic Objective (PSO) 1: Creating opportunities for growth and jobs is the key strategy of the Western Cape Government to create opportunities for growth and jobs, and also compliments the NDP's vision for South Africa in achieving inclusive growth and improving the wellbeing of society. Western Cape initiatives that align PSO 1 to the NDP covers efforts in key focus areas of red tape, the green economy, infrastructure, the Expanded Public Works Programme and skills development programme.

Policy initiatives of the WCG include the recently released Western Cape Green Economy Strategy Framework, which gives direction to the Province's learning-by-doing approach. Five drivers of the green economy have been identified to achieve the vision of positioning the Western Cape as the lowest carbon province in South Africa and the leading green economic hub of the African continent, namely:

- Smart living and working;
- Smart mobility;
- Smart eco-systems;
- Smart agri-production; and
- Smart enterprise.

These drivers are in turn supported by 5 enablers: Infrastructure; capabilities; knowledge management; and rules and regulation and finance.

The Western Cape Design Strategy is another example of a strategy under development that supports the long term vision for the Province. The purpose of the strategy is to unlock the globally recognised potential of design, thereby allowing it to play a role in economic development by embedding design processes in business and organisational practices across sectors, through the pillars of support, promotion and development. This strategy identifies the key interventions required to elevate the role that design plays in the economic environment, specifically for the Manufacturing and Service industries. It defines Good Design as: "An activity that uses creative and iterative processes to take account of a range of factors and needs in the development of innovative products, services, environments and communication, in response to the human condition and society's needs".

In addition, the Western Cape Government works in partnership with the Western Cape Economic Development Partnership (EDP), an independent non-profit company driving the partnership-building process in the Western Cape toward achieving the longer term vision for the Province. The focus of the EDP is to enhance competitiveness, increase sustainable and resilient growth, and ensure that growth is inclusive. The EDP thus seeks to empower local and regional government, the private and non-profit sectors, and

communities by providing an opportunity to work together to improve the local, regional and, hence, the national economy.

1.2 Executive summary

The annual Western Cape *Provincial Economic Review and Outlook* (PERO) provides the backdrop to the annual Western Cape Medium Term Budget Policy Statement. The economic development goals of inclusive economic growth and integrated development must be implemented in an economic and social environment exposed to many challenges as well as opportunities. In Chapter 1 of the report the concept of inclusive growth is defined and discussed as a framework that can guide economic policy decision-making in the Province.

'Inclusive growth' is a concept that has become a central concern in the international development literature in recent years. Inclusive growth emerged from the pro-poor literature in an attempt to emphasise that poverty can only be reduced in a sustainable manner if the poor are enabled to be actively involved in economic growth. It is argued that encouraging broad-based and inclusive growth does not imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment. The emphasis is thereby placed on the idea of equality of opportunity in terms of access to markets, resources, and an unbiased regulatory environment for businesses and individuals.

Chapter 2: Macroeconomic performance and outlook

One of the key components of inclusive growth is high sustainable economic growth, especially for an economy as open as that of the Western Cape, is linked to global and national economic growth and development. By reviewing the global, national and WC economic performance and outlook, as well as the relationships between the three spheres of economic activity, the effect of the performance of economies which have the most influence on the regional economy is presented. Further, the risks and opportunities presented to the region as a result of changing economic circumstances in these economies can be identified.

The global economic growth is expected to remain subdued in 2013. Growth in emerging market economies will continue to outpace the growth in advanced economies, albeit by a smaller margin than previously. The relatively subdued growth in China in the coming years, as well as the hesitant recovery in Europe, will entail downside risks for the South African economy in 2013. Partly due to the higher level of business confidence seen during the first half of 2013, as well as it being less exposed to the growth slowdown in China, the Western Cape economy is predicted to perform slightly better than the national economy in 2013. Nonetheless, growth in the Province will moderate this year, before accelerating in 2014. Risks to the regional economy include

the impact of slower global growth on exports and catering and accommodation sector (driven by tourism) and further moderation on the national economy, which may place pressure on consumption.

Chapter 3: Development of the Western Cape economic sectors

The sources of and constraints to high sustainable growth are closely linked to the sector composition of economic growth and the productivity-enhancing distribution of resources among industries. 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.

The Western Cape economic performance is disaggregated in Chapter 3 into its sectoral and spatial dimensions. The services sector remains the leading growth and employment sector in the Western Cape economy. Within this broad sector it is the finance, insurance, real estate & business services sector that dominates. It also resides largely in the Cape Metro, although it is also important in the non-metro districts. This sector (including ICT) reveals comparative advantage in the Cape Metro, as well as in the Cape Winelands district. In all districts tourism stands out as an industry with comparative advantage.

Outside of the broad services sector, agriculture and its associated processing industries, as well as building and construction, stand out for their revealed comparative advantage in the non-metro districts. Both these industries have substantial competitive advantage, not only in relation to the other provinces, but also internationally in terms of export growth. Agriculture and agro-processing exports that reveal comparative advantage account for 53 per cent of Western Cape exports, which is more than 80 per cent of the total exports of industries with competitive advantage. Agriculture & agro-processing exports, measured at 31 per cent of output in 2011, accounted for more than a third of the cumulative growth of total provincial exports (i.e. including services) over the period 2000 to 2012. The Cape Winelands is the leading exporting district, having made strides with wine exports, followed by the Cape Metro, the West Coast and Overberg. More than 30 per cent of the agricultural sector production is exported, with the share of exports in the wine industry approaching 50 per cent.

The share of manufacturing in Western Cape GDP has declined from 22.5 per cent in 1995 to 17.1 per cent in 2012.

Manufacturing activity is in relative decline in the Metro and also accounts for the bulk of employment losses. Manufacturing growth consistently lags that of services growth and capital intensity of manufacturing production tend to increase, revealing capital deepening due to increased mechanisation. Moreover, evidence suggests a strong measure of lost competitiveness in the region's manufacturing industry. Manufacturing growth is under pressure in the Winelands where mature agro-processing firms tend to dominate the economic landscape. It may nevertheless be a surprise that growth has been well-balanced in the Eden and Overberg districts, with greater vibrancy in manufacturing activities. A significant contribution was made by the wood products & furniture sector in the Cape Metro, Eden and Overberg.

The third largest sector in the Province is retail, wholesale, catering & accommodation. The tourism industry plays a key role in stimulating the growth of the Eden internal trade sector, but is also important in all the other districts. In all, given the objectives of inclusive growth, i.e. productive investment and employment creation, the development of agriculture and more importantly, the associated agro-processing industries in the non-metro district economies, other light industry (e.g. in Eden, Overberg and Central Karoo) as well as tourism in all districts (including the Cape Metro) should be key areas to explore for inclusive and competitive growth.

Chapter 3 also directs the review spotlight on to the informal sector in the Western Cape. It is characterised by the co-existence of constraints and barriers 'keeping the sector apart' from the formal sector and the apparent linkages with the formal sector. The cost and access to finance was rated as the most important constraint. Other key constraints include shortages of business premises, cost and access to electricity and water and the lack of specialised equipment.

The Chapter also touches on the determination of the WCG to pioneer a green strategy for the region in the context of South Africa's efforts to embark on a greener economic growth path. The Western Cape has the best wind and wave energy in South Africa, as well as good solar and bio-energy potential. Furthermore, the Province has a strong academic and research base, which can play a key catalytic role in developing, designing and commercialising industrial and household green applications. There is also a future for developing renewable energy manufacturing capabilities; the Western Cape is already a leading supplier of photovoltaic cells required in solar heating equipment. It is important that the focus will be on local production.

Chapter 4: Labour market dynamics

Chapter 4 provides an overview of the provincial labour market, i.e. employment, unemployment, labour force, and discouraged work seekers.

The Western Cape's population is estimated at approximately 6 million in the 2013 mid-year population estimates, representing roughly 11.4 per cent of the national population. Labour force participation rates are higher in the Western Cape than in South Africa as a whole. Participation rates do not differ significantly across race groups in the Province, but are relatively low amongst women, amongst the youngest and oldest cohorts, and amongst those with low levels of education. Differences in participation between the Province and the country as a whole are particularly pronounced amongst the young and those with low levels of educational attainment.

There has been little change in the sectoral composition of employment over the period. While employment in the non-agricultural economy has grown marginally since 2008, the agricultural sector remains under pressure. Formal sector employees in the Western Cape are more likely to have permanent jobs. They are also more likely to have employers that make UIF contributions, and are more likely to have paid leave, sick leave and maternity leave. In spite of these comparative advantages narrow unemployment has grown by 7 per cent per annum between 2008 and 2013, with the unemployment rate recorded at 23.3 per cent at the end of the first quarter of 2013. Growth in unemployment has been particularly rapid amongst males, cohorts aged 35 years or more, and those with complete or incomplete secondary education.

Chapter 5: Socio-economic developments in the Western Cape

Close causal links exist between economic growth and development on the one hand and the 'quality of life' as measured by a number of socio-economic indicators on the other hand. Chapter 5 presents a brief update of a set of preselected socio-economic variables.

Living standards and socio-economic conditions which are relatively high by national standards and comparable only to that of Gauteng. The figures however still show room for improvement when looking at international benchmarks and provincial goals. Despite relatively high educational attainment, the Western Cape experiences a high level of school drop-out between grades 10 and 12, affecting boys more than girls. Educational quality is still far behind that of developed countries and also lags some developing countries. Weak education quality impedes the attainment of inclusive growth in the Province.

The increasing incidence of non-communicable, or chronic, diseases, has placed increasing pressure on the public health system, with large amounts of government resources directed at halting the spread of and managing persons with these diseases. A well-functioning primary health care system is important for the attainment of inclusive growth. The Western Cape fares well in providing access to healthcare as measured by travel time to facilities. Yet, there is a concerning trend of decreasing utilisation of primary-based healthcare services and greater use of hospital-based services.

Housing and municipal services are important measures of living conditions and also have important implications for productivity. They are thus important for inclusive growth. It is thus pertinent that the prevalence of informal housing in the City of Cape Town is relatively low for a metropolitan area that experiences much in-migration. However, since 2001 growth of the housing stock did not keep up with population growth, leading to a rise in informal housing. At the time of printing, the housing backlog in the Western Cape was estimated at 525 648 units.

Despite its relative economic affluence, the Province is plagued by a number of social problems that in turn are affected by and affect the level of economic development. These include the highest levels of violent crime and housebreaking in the country, and also widespread alcohol and substance abuse, abuse of women and of children, and high levels of gang activity.

The chapter concludes by highlighting the importance of effective education in poor areas, of certain aspects of public health, such as healthcare access, performance and outcomes, and of housing in informal settlements in a matrix of policies that will promote inclusive growth.

2

Macroeconomic performance and outlook

Key findings

- After slowing from 3.9 per cent in 2011 to 3.1 per cent in 2012, global economic growth is expected to be largely unchanged in 2013. The International Monetary Fund (IMF) expects global growth to remain subdued at just above 3 per cent in 2013, before accelerating to 3.8 per cent in 2014. In advanced economies, economic activity is also expected to accelerate in 2014, albeit gradually. Growth in emerging market economies will continue to outpace the growth in advanced economies, albeit by a smaller margin than previously anticipated.
- The global growth outlook is dominated by downside risks. In the euro area the remaining issues surrounding the sovereign debt crises should be resolved timeously. In the US, dealing with the debt ceiling and rolling back the monetary stimulus policy are important challenges. In China moderation of growth could weigh on other emerging economies, which remain vulnerable to any slowdown in external demand. On the positive side, growth in the US and euro area could turn out stronger than expected. This would boost activity in emerging economies and global growth.
- The domestic economy also experienced slow growth, from 3.5 per cent in 2011 to 2.5 per cent in 2012. South African GDP growth of 0.9 per cent for the first quarter of 2013 was worse than expected and dampened the outlook for the rest of the year. Economic growth recovered to 3 per cent during the second quarter, but the BER still forecasts subdued growth of around 2 per cent growth for 2013. Consumer expenditure is projected to slow during 2013. The outlook for growth in private sector fixed investment is also subdued. Growth is expected to accelerate to 2.8 per cent in 2014.

- In 2011, economic activity in the Western Cape increased by 3.5 per cent year-on-year, up from the 2.6 per cent growth in 2010. The Province's economy is likely to have expanded by 2.9 per cent in 2012, while the national economy grew by 2.5 per cent.
- Partly due to the higher level of business confidence seen during the first half of 2013, the Western Cape economy is predicted to perform slightly better than the national economy in 2013. Nonetheless, growth in the Province will moderate this year, before accelerating in 2014. Western Cape economic growth is expected to average 3.6 per cent per annum during 2013 to 2018.
- The dominant role that services plays in the Western Cape, suggests that the growth was probably not inclusive in the past. The more positive prospects anticipated for manufacturing in the Western Cape could contribute to inclusive growth in the Province.
- The Western Cape faces similar risks to the growth outlook as the national and global economy. The Province could be disproportionately affected should the recovery in advanced economies be slower than expected due to its strong trade ties with Europe, but is less exposed to the growth slowdown in China.

2.1 Introduction

Global economic prospects have improved, even though economic growth has so far remained sluggish. During the past year, advanced economy policy makers have successfully defused two of the biggest short-term threats to the global recovery: the threat of a euro area break up and a sharp fiscal contraction in the United States (US) caused by a fall off the so called fiscal cliff¹. In the US, private demand has remained stronger than expected, which has supported economic growth. Conversely, the protracted recession in the euro area weighed on the global economy. Improved conditions for the periphery² countries have not yet passed through to the real economy, while traditionally stronger core countries have also recorded slower growth or even a contraction in economic activity in the past year. Global growth was under further pressure following a notable slowdown in several key emerging market and developing economies.

¹ The fiscal cliff refers to the sharp withdrawal of US fiscal stimulus (through subsidies and taxes) which was due to be implemented on 1 January 2013.

² The eurozone or euro area currently consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. Some of the weaker Mediterranean economies are sometimes referred to as 'peripheral'. These countries include Cyprus, Greece, Italy, Malta, Portugal and Spain.

Besides the negative global developments, economic growth in South Africa has also been hampered by domestic constraints. Protracted labour unrest and production stoppages crippled the mining sector during the second half of 2012. This was followed by temporary factory outages in early 2013, which significantly impacted manufacturing output and overall economic growth. Consumer spending and gross fixed capital formation growth also slowed. Investor confidence, both from a domestic and international perspective, was dented by the labour unrest and the violence involved. Lower investor confidence and the persistently large current account deficit weighed on the South African currency, which weakened significantly.

The Western Cape economy fared better than the national economy. This was also reflected in the RMB/BER business confidence indicator, which showed that confidence in the Western Cape has been above the national average since the second quarter of 2012. During the second quarter of 2013, the Western Cape business confidence index still stood at 52. This implied that a small majority of business owners in the Province were satisfied with the current business environment. However, during the third quarter, the Western Cape's business confidence index declined and is now in line with the national level. The Western Cape economy performed better, despite being vulnerable to the slowdown in the global economic growth recovery because of its strong trade links with developed economies. The tertiary sector, in particular, has shown relatively stronger growth over the past year.

2.2 Developments in the global economy

2.2.1 Global economic performance

The global economy expanded by 3.1 per cent during 2012, lower than the 3.9 per cent growth rate recorded in 2011 (see Table 2.1). The slowdown was more pronounced during the second half of 2012, when the global economy grew by 2.5 per cent (annualised). According to the International Monetary Fund (IMF), global growth has since improved, accelerating slightly to 2.75 per cent quarter-on-quarter³ in the first quarter of 2013. The modest global economic recovery was supported by the financial market rally early in 2013, which improved funding conditions and supported confidence.

Conditions in advanced economies were particularly weak during 2012, but tentative signs of improvement were visible during the first half of 2013. In the US, private demand appeared to increase robustly, supported by the apparent recoveries in the housing and credit markets. Conditions in the US labour market also improved in 2013. However, the recovery in the euro area remained very sluggish. Improved conditions for the periphery countries (such as Spain and Italy) were not yet passing through to companies and households as banks were still hampered by poor profitability and low capital,

³ All quarter-on-quarter figures are seasonally adjusted and annualised unless otherwise stated.

which constrained the supply of credit. Furthermore, continued fiscal adjustment, a lack of competitiveness and balance of payment weakness held back a stronger recovery in the region.

There was a noticeable growth slowdown in emerging market and developing economies during 2012. This reflected a sharp fall in demand from key advanced economies, domestic policy tightening and the end of investment booms in some of the major emerging market economies.

Performance of the advanced economies

Economic activity in advanced economies slowed further during 2012. Growth moderated from 1.7 per cent in 2011 to 1.2 per cent in 2012.

The slowdown in the euro area was the most pronounced. While the region's economy still expanded by 1.5 per cent year-on-year in 2011, economic activity shrank by 0.6 per cent in 2012. In the area's largest economy, Germany, growth slowed significantly to only 0.9 per cent, down from 3.1 per cent in 2011. The Spanish and Italian economies contracted by 1.4 per cent and 2.4 per cent respectively in 2012.

Financial market trends have become more encouraging since the second half of 2012. Bond yields in the most indebted European countries, such as Greece, Spain, Portugal and Italy, have declined from previous highs. This has reduced the possibility that these countries would default on their external debt, which could have resulted in a breakdown of the common currency.

Furthermore, during the second quarter of 2013, the euro area likely came out of the recession that had lasted 18 months. A first estimate of Gross Domestic Product (GDP) indicates that the region expanded by 0.3 per cent quarter-on-quarter. In the first quarter, the economy had still contracted by 0.3 per cent. Growth was led by Germany, which grew by 0.7 per cent, its largest expansion in more than a year. France also pulled out of a shallow recession and expanded by 0.5 per cent, driven by consumer spending and industrial output, while investment continued to fall. The debt-laden peripheral countries remained in recession.

In July 2013, the euro area composite Purchasing Managers' Index (PMI), which includes both the manufacturing and the services sector, stood at 50.5. This was the first reading above the 50-point level since January 2012 and indicative of a slight expansion. Particularly in the indebted periphery countries, there were signs of positive underlying developments. If sustained, this implies that the region is likely to experience another small expansion during the third quarter of 2013.

The economy in the United Kingdom (UK) expanded by only 0.3 per cent in 2012, down from 1 per cent in 2011. The country was significantly affected by the recession in the euro area due to its strong financial and trade links with this region. The most recent data suggest that growth in the UK is likely to

accelerate in 2013. The July 2013 reading of the services PMI showed an increase to 60.2, which was the highest level since late 2006. The rise in the PMI was mainly due to the continued increase in new orders and business conditions. As a result, the composite PMI increased to its best reading in the 15-year history of the survey.

In the US, growth accelerated from 1.8 per cent in 2011 to 2.2 per cent in 2012. The so-called fiscal cliff, considerable automatic spending cuts and tax increases that were scheduled for 1 January 2013, could have pushed the economy into a contraction in the beginning of 2013, but at the last moment, a deal was struck and the cliff was (to a large extent) averted. In addition, the debt ceiling was raised on time. A failure to do so could have resulted in the US government not being able to pay its financial obligations (at least temporarily). Despite the implementation of certain tax increases in 2013, consumer spending has held up well in the US. Positive wealth effects from the gains on the equity and housing market supported disposable income growth. Consumer spending and real investment growth has caused GDP growth to accelerate from 0.1 per cent quarter-on-quarter in the fourth quarter of last year to 1.1 per cent in the first quarter of 2013. Economic growth was likely to have been even stronger in the second quarter of the year, accelerating to 2.5 per cent quarter-on-quarter. Again, robust consumption and investment offset the drag of public spending cuts and slower export growth as a result of the sluggish global economy. The labour market, a key focus of US policy makers, was also showing signs of sustained improvement. The monthly payroll data indicate that the economy is steadily adding jobs. Consequently, the unemployment rate has fallen to 7.4 per cent in July 2013, down from the 10 per cent recorded during the height of the recent US financial crisis.

The Japanese economy returned to positive growth in 2012, driven by increased consumption and net exports as well as the recovery from the 2011 Tsunami disaster. The economy expanded by 1.9 per cent in 2012 after contracting by 0.6 per cent in 2011. Growth continued to improve in 2013 with growth of 4.1 per cent quarter-on-quarter in the first quarter of 2013. This was the best performance of the Group of Seven (G7) industrialised countries. The growth acceleration followed on the new government's announcement of a policy to stimulate the economy after years of deflation and little or no economic growth. The policy was based on aggressive quantitative easing, fiscal stimulus and structural reforms. In addition, the Bank of Japan has doubled their inflation target to 2 per cent. The policy has contributed to the considerable weakening of the yen exchange rate, which boosted the export orientated manufacturing sector and overall economic growth. The accommodative policies bolstered confidence and private demand, and are expected to boost growth in the short term. Nonetheless, the growth rate recorded in the second quarter of 2013 was lower than anticipated. A preliminary government estimate showed GDP expanded by 2.6 per cent. While substantially slower than growth in the first quarter, the rate was still more than twice Japan's average growth over the last decade.

Performance of the developing economies

According to the IMF, economic growth in emerging market and developing economies slowed from 6.2 per cent in 2011 to 4.9 per cent in 2012. The growth moderation reflected, in varying degrees, slower external demand growth, infrastructure bottlenecks and other capacity constraints, lower commodity prices and concerns about financial stability.

All of the BRIC nations (Brazil, Russia, India and China) recorded lower growth in 2012 compared to the year before. A significant development was that after three decades of double-digit economic growth, China's expansion showed continued signs of moderating. GDP growth slowed from 9.3 per cent in 2011 to 7.8 per cent in 2012 and continued to moderate in the first half of 2013, as weak external demand weighed on output and investment. The structural, policy-driven shift towards domestic consumer demand resulted in a slowdown in public investment. In recent months, a lack of liquidity pushed the Chinese interbank lending rate up sharply. Given the consumer-led growth, this has resulted in fears of a possible credit crunch in China. As the country is a major commodity consumer, these developments have weighed heavily on key commodity prices.

In Brazil, growth slowed from 2.7 per cent in 2011 to 0.9 per cent in 2012. Recent data shows that the Brazilian economy continued to struggle in 2013. In July, the manufacturing PMI showed its fifth consecutive monthly decline and at 48.5, the index is at its lowest level in more than a year. This indicates that the industrial sector could enter another contraction phase. In India, the growth rate almost halved from 6.3 per cent to 3.2 per cent in 2012. India has seen a significant stalling of investment due to infrastructure bottlenecks, policy uncertainty and regulatory obstacles. The government faces a large fiscal deficit, which limits the ability to address the structural impediments to growth. Both Brazil and India are facing signs of a stagflationary⁴ environment of moderating GDP growth and higher inflation. Economic growth in Russia slowed from 4.3 per cent in 2011 to 3.4 per cent in 2012.

Growth in Sub-Saharan Africa slowed from 5.4 per cent in 2011 to 4.9 per cent in 2012. Economic activity in 2012 was negatively impacted by the interruption of oil exports from South Sudan and civil conflict in Mali and Guinea-Bissau. However, domestic private consumption, investment and exports provided some support to growth. Furthermore, Angolan oil production strengthened and Côte d'Ivoire experienced a sharp rebound in economic activity after the election-related disruptions of 2011.

The Central and Eastern European region recorded significant growth moderation. This was mainly due to their significant exposure to the recession-hit euro area. Growth slowed from 5.4 per cent in 2011 to 1.4 per cent in 2012.

⁴ Stagflation is characterised by slow or stagnant economic growth and relatively high unemployment, accompanied by inflation.

2.2.2 Global medium-term economic outlook

The IMF expects global growth to remain subdued at slightly above 3 per cent in 2013, before accelerating to 3.8 per cent in 2014. In July 2013, the IMF scaled down both of these projections with 0.2 of a percentage point from the previous forecast made in April. The downgrade was mainly the result of weaker domestic demand and slower growth in key emerging market economies. While activity in these economies has already started to pick up, the rate was much slower than initially anticipated. In advanced economies, activity is expected to gradually accelerate.

Table 2.1 World economic outlook 2013 – 2014

	2011	2012	Forecast		<i>Difference from April 2013 forecast</i>	
			2013	2014	2013	2014
World output	3.9	3.1	3.1	3.8	-0.2	-0.2
Advanced economies	1.7	1.2	1.2	2.1	-0.1	-0.2
United States	1.8	2.2	1.7	2.7	-0.2	-0.2
Euro Area	1.5	-0.6	-0.6	0.9	-0.2	-0.1
Germany	3.1	0.9	0.3	1.3	-0.3	-0.1
France	2.0	0.0	-0.2	0.8	-0.1	0.0
Italy	0.4	-2.4	-1.8	0.7	-0.3	0.2
Spain	0.4	-1.4	-1.6	0.0	0.0	-0.7
Japan	-0.6	1.9	2.0	1.2	0.5	-0.3
United Kingdom	1.0	0.3	0.9	1.5	0.3	0.0
Other advanced economies	3.3	1.8	2.3	3.3	-0.1	-0.1
Emerging and developing economies	6.2	4.9	5.0	5.4	-0.3	-0.3
Sub-Saharan Africa	5.4	4.9	5.1	5.9	-0.4	-0.2
Middle East and North Africa	3.9	4.4	3.1	3.7	-0.1	0.0
Central and Eastern Europe	5.4	1.4	2.2	2.8	0.0	0.0
Developing Asia	7.8	6.5	6.9	7.0	-0.3	-0.3
China	9.3	7.8	7.8	7.7	-0.3	-0.6
India	6.3	3.2	5.6	6.3	-0.2	-0.1
Latin America and the Caribbean	4.6	3.0	3.0	3.4	-0.4	-0.5
Brazil	2.7	0.9	2.5	3.2	-0.5	-0.8
Mexico	3.9	3.9	2.9	3.2	-0.5	-0.2
Consumer prices						
Advanced economies	2.7	2.0	1.5	1.9	-0.1	0.0
Emerging and developing economies	7.1	6.1	6.0	5.5	0.1	-0.1

Source: IMF, *World Economic Outlook, July 2013*

Outlook for advanced economies

Economic conditions in the euro area are expected to improve during 2013. However, the economy is still projected to contract by 0.6 per cent year-on-year for 2013 as a whole. A modest recovery of 0.9 per cent growth is forecasted for 2014. The region's largest economy, Germany, is expected to register moderate growth of 0.3 per cent in 2013. A recovery is anticipated for 2014, with growth accelerating to 1.3 per cent. However, growth in the euro area's second largest economy, France, will continue to weigh on the region's prospects in 2013. This reflects a combination of fiscal consolidation⁵, poor export performance and weak confidence. Output in most of the euro area periphery countries is expected to contract in 2013, before experiencing modest growth in 2014 as the peripheral countries become more competitive. Adverse feedback loops between weak banks, weak sovereigns and low activity continue to dampen growth prospects. Encouragingly, financial markets no longer seem to expect an exit from the euro area by any of the member states. The first estimate of second quarter GDP growth for the region is higher than expected. The overall 2013 growth figure could be slightly better.

Unlike the euro area, the UK economy is expected to recover in 2013, on the back of increased consumer spending and an improvement in the housing market. Growth is likely to remain modest at 0.9 in 2013 before accelerating to 1.5 per cent in 2014. These relatively subdued projections were made before the strong PMI readings recorded in July 2013. If sustained, overall growth could turn out better than expected. Any renewed stress in the euro area would likely be a significant setback for the UK, as happened during 2010/11.

As noted earlier, in the US, the full extent of the fiscal cliff, i.e. proposed tax increases and government spending cuts, was averted but smaller spending cutbacks aimed at addressing the large US public debt burden still act as a drag on growth. As the pace of fiscal consolidation slows, GDP growth in the US is expected to increase from 1.75 per cent in 2013 to 2.75 per cent in 2014. However, in order not to stall the economic recovery, the US government once again has to agree to raise the debt ceiling timeously.

Monetary policy in the US remains highly accommodative with low interest rates and monthly asset purchases by the US central bank (Federal Reserve), known as quantitative easing (QE). The continuation of QE is explicitly tied to an improved labour market and overall economic conditions and the assumption assuming that inflationary price pressures will remain in check. With the US economy steadily adding jobs, the Federal Reserve is likely to consider tapering the amount of assets purchased every month later this year. The resulting global re-pricing of risk and decline in liquidity has created

⁵ These are measures (such as increased taxes, reduced government spending) aimed at reducing the fiscal deficit.

volatility on financial markets, particularly influencing bond yields. The official policy interest rate, however, is anticipated to remain at the current low level. The first interest rate increase will likely only take place in 2015. The continued low policy rates should spur private demand for housing and durable goods, supporting growth going forward.

Japan is expected to experience a short-term fiscal- and monetary-stimulus-driven rebound. The economy is projected to expand by 2 per cent in 2013. Aggressive monetary policy easing by the Bank of Japan and expansionary fiscal policy has already boosted the economy. Crucial parts of the policy intervention plan, particularly those aimed at structural reforms (the so called Third Arrow⁶), still need to be implemented but these are notoriously difficult to put into place. Over the longer run, Japan faces major structural problems, such as one of the highest debt levels of the developed economies and adverse demographics, i.e. a fast ageing population. The IMF's projection for growth in 2014 at 1.2 per cent is already lower than forecasted for 2013.

Outlook for developing countries

The IMF estimates that emerging market and developing economies will expand by 5 per cent in 2013, only marginally better than the 4.9 per cent recorded in 2012. Growth is forecasted to accelerate to 5.4 per cent in 2014, as external demand from the advanced economies is expected to pick up. The IMF had lowered both the 2013 and 2014 forecast by 0.3 of a percentage point in July. This adjustment reflected lower growth prospects across all regions. The start of the gradual withdrawal of the monthly QE purchases in the US could have major implications for emerging market economies. The adjustment to the lower liquidity and resulting re-pricing of risk on financial markets may lead to significant yield increases. While the increase in financial market volatility should be temporary, underlying vulnerabilities (such as fiscal and current account deficits) could lead to additional portfolio changes, further yields increases and escalating volatility. This could result in a sustained capital flow slowdown or even flow reversals in emerging economies. This would put the financing of fiscal and current account deficits under pressure and may result in lower growth in these economies.

The outlook for the BRIC economies has also been downwardly adjusted. Although a mild recovery in most countries is expected for 2013, it will likely be at a more moderate pace than initially forecasted. The outlook for the commodity exporting nations within BRICS has deteriorated due to lower international commodity prices. Surging economic growth in China had contributed significantly to global growth over the past decades. However, growth in China is expected to remain more subdued in the coming years

⁶ These structural reforms are focused on: resurrecting Japan's manufacturing industry by boosting capital investment, developing strategic sectors and advancing Japan into international markets.

and expected to remain largely unchanged in 2013 and 2014, at rates of 7.8 and 7.7 per cent. The growth outlook reflects a continuation of robust domestic demand.

Growth in Brazil is projected to accelerate to 2.5 and 3.2 per cent in 2013 and 2014. The large policy rate cuts of the past year and measures targeted at boosting private investment should support growth. However, the impact of fiscal stimulus measures is starting to fade and after the apparent decline in confidence following public demonstrations, growth could turn out lower than expected. The economy in Russia is forecasted to slow further, but a slight pick-up in growth is projected for 2014. The IMF estimates that the output gap in the economy is essentially closed and therefore growth cannot meaningfully accelerate from current levels. India's economy is expected to recover in 2013. Growth is forecasted to increase from 3.2 to 5.6 per cent in 2013 and 6.3 per cent in 2014 as a result of improved external demand from advanced economies and recently implemented pro-growth measures⁷.

Closer to home, growth in the Sub-Saharan region is expected to accelerate to 5.1 and 5.9 per cent in 2013 and 2014. Activity in both the resource-rich and lower-income economies should benefit from robust domestic demand. However, the current growth projections are lower than the initial (April) estimates by the IMF. This is particularly due to concerns regarding growth in the region's two largest economies, South Africa and Nigeria.

The expected improvement in the euro area economy should boost growth in the neighbouring regions. Growth in Central and Eastern Europe is therefore predicted to accelerate to 2.2 per cent in 2013, and 2.8 per cent in 2014.

2.2.3 World inflation outlook

Despite the accommodative monetary policy measures pursued in Europe and the US, inflationary pressures have moderated. Consumer price inflation in developed economies slowed from 2.7 per cent in 2011 to 2 per cent in 2012. Similarly, inflation in emerging market and developing economies also eased, from 7.1 per cent in 2011 to 6.1 per cent in 2012. The more benign inflation environment was largely due to subdued growth in oil prices. After surging by 31.6 per cent in 2011, international oil prices remained largely unchanged and only increased by 1 per cent in 2012.

Downward pressure on the oil price stemmed largely from the Chinese growth slowdown and forecasts that global oil supply would outpace demand in the foreseeable future. These factors outweighed upward price pressure from the on-going conflict in Syria. As the global economy recovers, oil demand should increase, which could boost prices. However, increased supplies should

⁷ A key example of this is the announcement of a \$60 billion currency intervention programme which aims to limit the impact of a weaker currency on inflation and thereby limit the need for "growth inhibiting" interest rate hikes.

dampen these gains. The IMF forecasts international oil prices to fall in 2013 and 2014. The implications of this for the Western Cape are discussed in section 2.4.

The IMF expects global inflation to ease further in 2013 due to subdued commodity prices and slow (albeit accelerating) global growth. In developed countries, inflation is forecasted to moderate to 1.5 per cent in 2013 before accelerating slightly to 1.9 per cent in 2014. In emerging market and developing economies, consumer inflation is expected to remain relatively unchanged in 2013 at 6 per cent before slowing to 5.5 per cent in 2014.

2.2.4 Risks to the global outlook

The global growth outlook is still dominated by downside risks, which means growth could turn out lower than expected. The imminent risk of a massive fall in financial asset prices in advanced economies has diminished. However, as emphasised by the IMF, additional measures will be required to keep them at bay.

- In the euro area, the main short-term risks revolve around weak balance sheets, broken credit channels in the periphery countries and insufficient progress towards a stronger economic and monetary union at the euro area level. Further delays or insufficient action surrounding the sovereign debt could exacerbate the crises. A flare up in uncertainty could result in another spike in bond yields with negative consequences for the euro currency members.
- In the US, a key issue will be the timely increase of the debt ceiling, which needs to be raised again later this year. A delay or political stand-off could increase the risk of financial disruptions and could have a negative impact on consumer and business confidence. The sustainability of the high level of government debt can be highlighted as a key medium-term risk for the US economy.
- The slowdown (and eventual withdrawal) of monthly US asset purchases by the US Federal Reserve Bank would result in a sharp reduction in global liquidity. This could distort financial conditions in emerging economies, as the demand for their bonds would be lower thereby pushing up yields. The higher interest rates could contract economic activity in these countries.
- The growth slowdown in emerging market economies, particularly in the BRIC countries, could possibly continue for longer, given the protracted effects of domestic capacity constraints, slowing credit growth and weak external conditions.
- Slower growth in China continues to pose a big risk to the global growth outlook. The growth moderation will particularly hit exporters of raw materials that have become reliant on surging Chinese demand.

- On the positive side, growth in the US and the euro area could turn out stronger than expected. This would be a significant boost for global growth as improved external demand will also help lift activity in emerging economies.

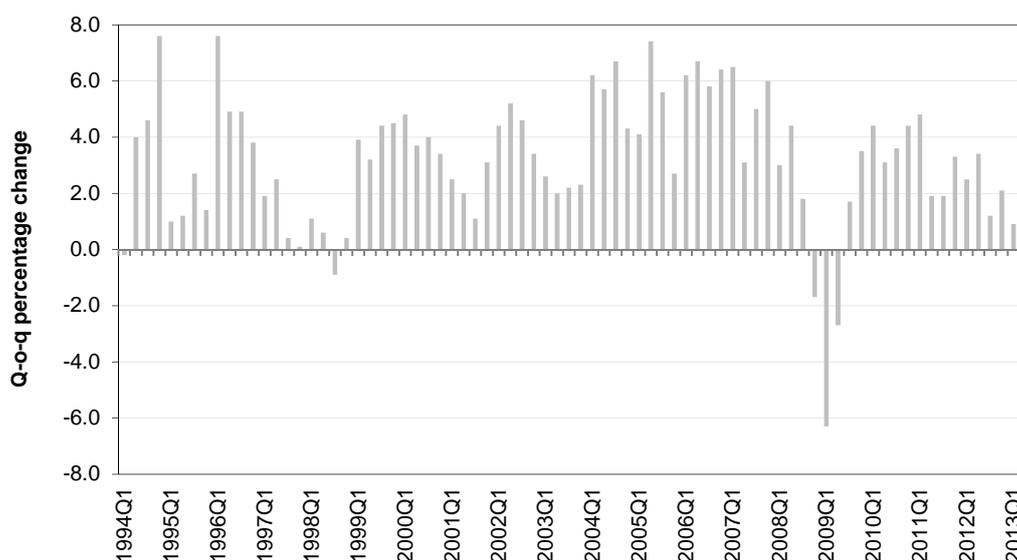
2.3 South African economic development

2.3.1 Performance of the South African economy

GDP growth in South Africa accelerated to 3 per cent quarter-on-quarter during the second quarter of 2013 compared to 0.9 per cent in the first quarter (see Figure 2.1). Compared to the same quarter a year ago, growth moderated slightly to 1.8 per cent from the 2 per cent growth recorded in the first quarter.

A notable recovery in secondary sector growth to 9.3 per cent quarter-on-quarter (from -6.2 per cent) was largely responsible for the overall GDP acceleration. Following a sharp decline in the first quarter, manufacturing value added bounced back sharply and expanded by 11.5 per cent (see Table 2.2). This was expected as the first quarter weakness was mainly the result of temporary factors, such as a fire at a major steel plant and outages at a fuel refinery. The strong manufacturing performance was responsible for more than half of overall GDP growth in the quarter, adding 1.7 percentage points. The electricity and construction sectors also experienced improved growth in the second quarter.

Figure 2.1 South African economic growth, quarter-on-quarter, 1994 - 2013



Source: Stats SA

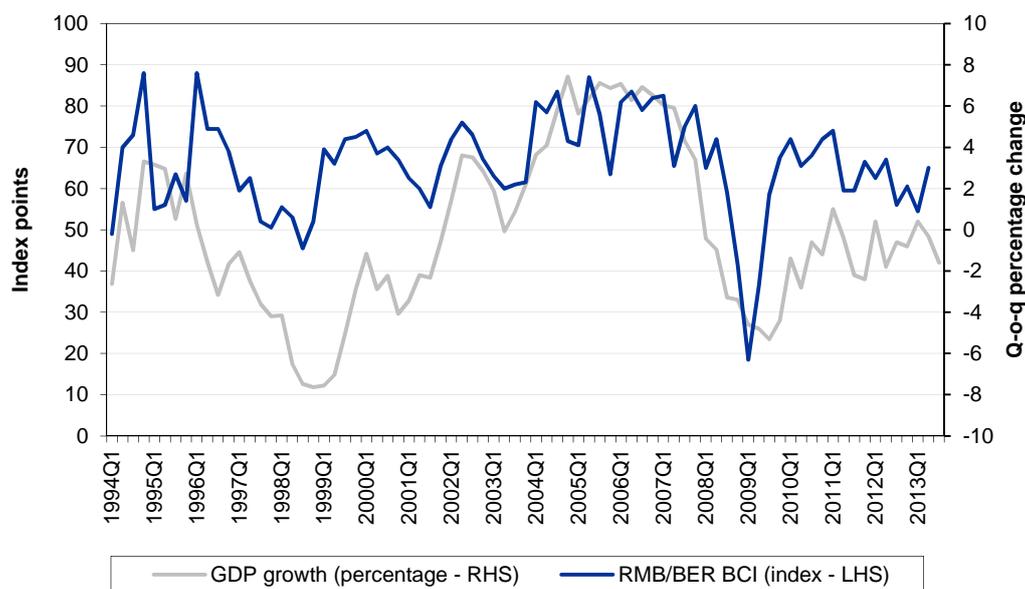
The primary sector performed worse during the second quarter compared to the first quarter of 2013. The strong growth in the mining and quarrying industry recorded during the first quarter was not sustained during the second quarter with the sector contracting by 5.6 per cent quarter-on-quarter. In addition, the agriculture industry experienced its second consecutive quarter of declining value added. The fall during the first quarter may be related to the industrial action in the Western Cape during the beginning of 2013. Overall, gross value added by the primary sector fell by 5 per cent in the second quarter.

Table 2.2 Sector breakdown of GDP growth

	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2
Agriculture, forestry & fishing	9.3	7.4	10.0	-4.9	-3.7
Mining & quarrying	30.9	-12.7	-9.3	14.6	-5.6
Manufacturing	-0.8	1.2	5.0	-7.9	11.5
Electricity, gas & water	-4.3	1.6	-2.2	-3.0	5.3
Construction	3.4	3.3	0.2	0.9	1.2
Wholesale & retail trade, catering & accommodation	2.7	1.7	1.5	1.9	3.2
Transport, storage & communication	2.2	1.1	1.9	2.2	1.6
Financial intermediation, insurance, real estate & business services	2.1	1.8	2.9	3.3	3.5
Community, social & personal services	1.9	2.1	2.5	1.4	1.9
General government services	2.5	2.7	2.6	1.9	0.3
GDP at market prices	3.4	1.2	2.1	0.9	3.0

Source: Stats SA

Growth in the tertiary sector was largely unchanged at 2.3 per cent quarter-on-quarter from 2.4 per cent in the first quarter. Improved growth in the finance, trade and personal services sectors compensated for a more subdued performance from the general government and transport sectors. Within the tertiary sector, the financial intermediation, insurance, real estate and business services sector recorded the strongest quarter-on-quarter growth, expanding by 3.5 per cent compared to 3.3 per cent in the fourth quarter of 2012. The sector contributed 0.8 of a percentage point to overall GDP growth. The wholesale and retail trade, catering and accommodation sector added a further 0.4 of a percentage point by expanding by 3.2 per cent, up from 1.9 per cent in the first quarter. Growth in the Community, social and personal services sector accelerated from 1.4 to 1.9 per cent in the second quarter of 2013. Quarter-on-quarter growth in the general government sector slowed notably to 0.3 per cent from 1.9 previously.

Figure 2.2 RMB/BER Business confidence index


Source: Stats SA/BER

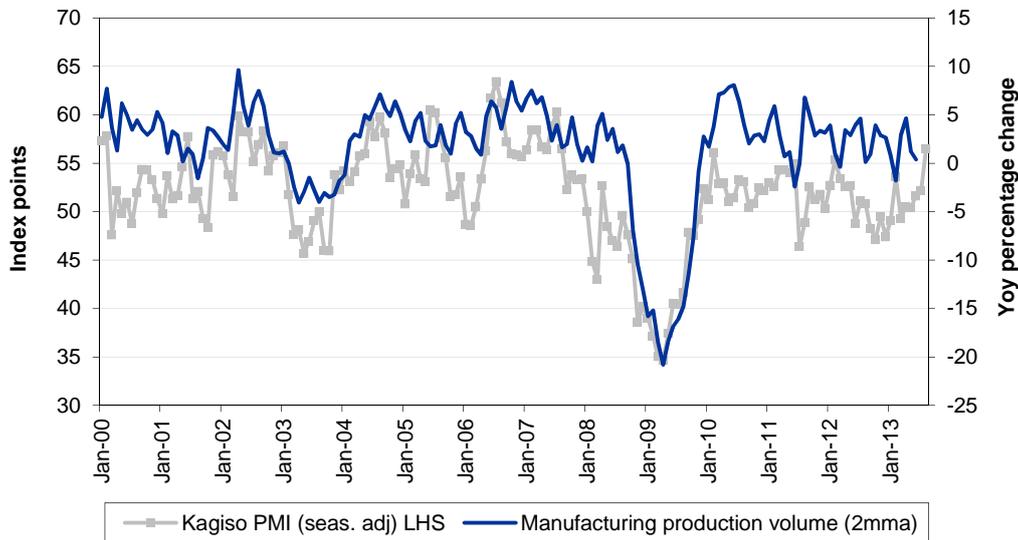
In the third quarter of 2013, the RMB/BER Business Confidence Index fell by six index points to a level of 42. The decline in sentiment was widespread as business confidence fell in three of the five sectors covered in the survey. Only the manufacturing and retail sectors posted a modest improvement in business confidence.

The manufacturing sector, which dragged down overall growth in the first quarter of the year, showed a growth rebound during the second quarter and supported GDP growth. Data from Statistics South Africa (Stats SA) showed that production in the manufacturing industry increased by a subdued 0.4 per cent year-on-year in June 2013. However, for the second quarter as a whole, seasonally adjusted manufacturing production rose by 3.1 per cent compared to the first quarter of 2013. Eight of the ten manufacturing divisions reported positive growth rates over this period. The biggest contribution was recorded in the basic iron and steel, non-ferrous metals products, metal products and machinery sector. The sector rebounded sharply from the first quarter and expanded by 9.1 per cent, thereby contributing 1.8 percentage points to the quarterly growth figure. The motor vehicles, parts and accessories and other transport equipment sector grew by 10.5 per cent and contributed 0.9 of a percentage point to growth.

The Kagiso Purchasing Managers Index (PMI) serves as a reliable leading indicator of manufacturing activity (see Figure 2.3). In August 2013, the seasonally adjusted index stood at 56.5 points, its fifth consecutive reading above the critical 50 point mark which signals an expansion in activity in the sector. The August index level was above the average reading for the first half of 2013 of 50.8 points, being at its highest level since August 2007.

This bodes well for activity in the manufacturing sector. However, industrial action in the manufacturing sector could suppress activity during the third quarter. Furthermore, given the strong links between the manufacturing and mining industry, the sector could also be impacted by any output disruptions in the gold sector as a result of labour strife.

Figure 2.3 Kagiso Purchasing Managers Index, 2000 – 2013



Source: BER

Retail sales data from Stats SA show a moderation in growth. In May 2013, retail sales increased by a surprisingly strong 6.3 per cent year-on-year, but in June, growth moderated significantly to 1.9 per cent. For the second quarter as a whole, retail sales increased by a seasonally adjusted 1 per cent compared to the previous quarter. Retail sales increased by 3.3 per cent in the second quarter of 2013 compared to the second quarter of 2012. The main contributors to the second quarter growth figure were the textiles, clothing, footwear and leather goods retailers (growing by 7.3 per cent and thereby contributing 1.5 percentage points) and all 'other' retailers (growing by 7.3 per cent and contributing 0.8 of a percentage point).

The building sector showed signs of improved performance. The real value of recorded building plans passed increased by 16.2 per cent year-on-year during the period January to June 2013. Furthermore, over the same period, the real value of buildings reported as completed rose by 10.2 per cent year-on-year. In the second quarter, the FNB/BER building confidence index stood at its highest reading since 2008. This was the first time since 2005 that the index has risen for three consecutive quarters. The rise in confidence was noted across the different phases of the building sector indicating that the recovery was becoming more broad-based and therefore more likely to be sustained. Nonetheless, the FNB/BER civil construction confidence index fell by six index points to 45 in the second quarter of 2013, after having jumped by 15 index points in the quarter before. Despite the fall the index remains close to its long-term average of 48 points.

2.3.2 Outlook of the South African economy

Table 2.3 summarises the BER forecast as published in July 2013. The sections that follow will provide some background on the specific drivers of GDP.

Table 2.3 Forecast for selected SA variables (2013 - 2014)

	2012	2013f	2014f
Final consumption expenditure, households	3.5	2.5	3.5
Durable goods	11.0	5.6	6.5
Semi-durable goods	6.2	5.1	5.2
Non-durable goods	2.5	1.6	2.3
Services	1.8	1.6	3.0
Gross Fixed Capital Formation	5.7	3.6	3.6
Private residential	-0.8	1.1	3.0
Private excluding residential	4.4	2.9	2.9
Government	8.5	5.0	3.8
Public Corporations	9.1	5.4	5.4
Exports of goods and services	0.1	3.8	4.7
Non-gold exports	1.0	4.0	4.8
Interest rates (fourth quarter averages)			
3-month BA rate	5.03	5.13	5.22
10-year Government Bond	6.61	7.77	7.65
Prime overdraft rate	8.5	8.5	8.5
Inflation (annual average %)			
Producer prices	6.9	5.9	5.6
Consumer prices	5.6	6.0	5.9
Nominal wage rate	7.6	7.6	8.2
Exchange rates (fourth quarter averages)			
R/US dollar	8.69	10.05	9.30
R/Euro	11.27	12.91	11.81
R/Pound sterling	13.96	15.38	14.14
Yen/R	10.72	9.95	8.73
Gross Domestic Expenditure	4.1	2.4	3.5
Gross Domestic Product	2.5	1.9	2.8
Current account balance (R billion, seas. adj.)	-197.6	-196.87	-210.31
<i>(as % of GDP)</i>	-6.25	-5.77	-5.65

Source: SARB/BER, July 2013 (f = forecast)

The worse than expected GDP growth data for the first quarter of 2013 dampened the outlook for the rest of the year. While economic growth recovered during the second quarter, the BER forecasts a subdued 1.9 per cent growth for 2013 as a whole. Growth is expected to accelerate to 2.8 per cent in 2014.

Final household consumption expenditure

The South African consumer faces a tough macroeconomic backdrop including a weakening currency, higher inflation and no further expected interest rate reductions. This was reflected in the slowdown in real growth in consumer spending, which moderated to 2.7 per cent year-on-year in the first quarter of 2013 from 3.5 per cent in 2012. Nonetheless, growth in real consumer spending was still higher than overall GDP growth during the first quarter of the year.

The slowdown in consumer spending was underpinned by weaker disposable income growth, which eased to 2.7 per cent year-on-year in the first quarter of 2013, from 3.7 per cent in 2012. In 2011, disposable income growth was still above 5 per cent. The weaker income growth was caused by a slowdown in employment and real wage growth as higher inflation than anticipated eroded nominal wage increases (see Table 2.4).

Table 2.4 Drivers of disposable income

Yoy % change	2012Q1	2013Q1
CPI inflation	6.1	5.7
Nominal wages	8.2	6.6
Formal employment	1.1	1.0
Real disposable income	3.9	2.7

Source: SARB/BER, July 2013

Growth in sales of durable goods (e.g. cars, hardware, furniture and household appliances) has gradually lost momentum since the fourth quarter of 2011. Growth in real spending on durable goods slowed from 7.7 per cent year-on-year in the fourth quarter of 2012 to 7 per cent in the first quarter of 2013. The moderation in durable goods consumption occurred despite sustained robust unsecured credit provision. Higher prices for imported goods and a deteriorated outlook for the South African economy might have persuaded consumers to postpone their durable goods purchases. According to the SARB, the slower spending growth mainly occurred in the personal transport equipment category, particularly new vehicle sales, which could indicate that the replacement cycle is starting to mature. The Ernst & Young/BER retail survey indicates that durable sales growth, particularly in the furniture and appliances category, remained weak in the second quarter of 2013. As growth in unsecured credit is anticipated to moderate in 2013 due to a tightening in lending standards of banks, consumer spending on durable goods will be subdued. Therefore, the BER forecasts that durable goods will experience the largest slowdown in expenditure growth, although growth is still likely to remain the highest of the four expenditure categories.

Spending on semi-durable goods (e.g. textiles, clothing, footwear and leather goods) remained largely unchanged in the first quarter of 2013, having increased by 6.1 per cent year-on-year compared to 6 per cent in the fourth quarter of 2012. According to the SARB, the largest category of semi-durable goods, clothing and footwear, recorded firm growth in the first quarter, partly because the prices of these products have so far remained well contained. Spending on household textiles, furniture and recreational and entertainment goods also picked up. The continued slowdown in real disposable income and credit growth, along with increasing clothing prices, has resulted in the BER's projection of a slowing in semi-durable spending growth.

Growth in spending on Non-durable goods (e.g. food, beverages, tobacco, pharmaceuticals and cosmetics) decelerated from 2.2 per cent year-on-year to 1.9 per cent in the first quarter of 2013. Higher spending on food, the largest category of non-durable goods, was neutralised by slower growth in spending on beverages. Sharp fuel price increases likely contributed to the fall in real spending on petroleum products and expenditure on transport services in the first quarter of 2013. Spending growth of non-durable goods is expected to continue to lag the other categories as the price increases that influence this category. Food and petrol prices, in particular, are set to outpace increases in durable and semi-durable prices. Furthermore, the weak employment outlook is set to be particularly detrimental to this category.

Real spending on services, the largest component of household expenditure, rose by 1.2 per cent year-on-year in the first quarter of 2013. This was slightly slower than the 1.8 per cent year-on-year growth rate recorded in the quarter before. Higher spending on rent, household and medical services was partly offset by a decline in expenditure on transport and communication services.

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

Description	2011	2012	2013f	2014f
Non-durable goods	3.1	2.5	1.6	2.3
Semi-durable goods	5.9	6.2	5.1	5.2
Durable goods	15.8	11.0	5.6	6.5
Services	3.5	1.8	1.6	3.0
Total	4.8	3.5	2.5	3.5

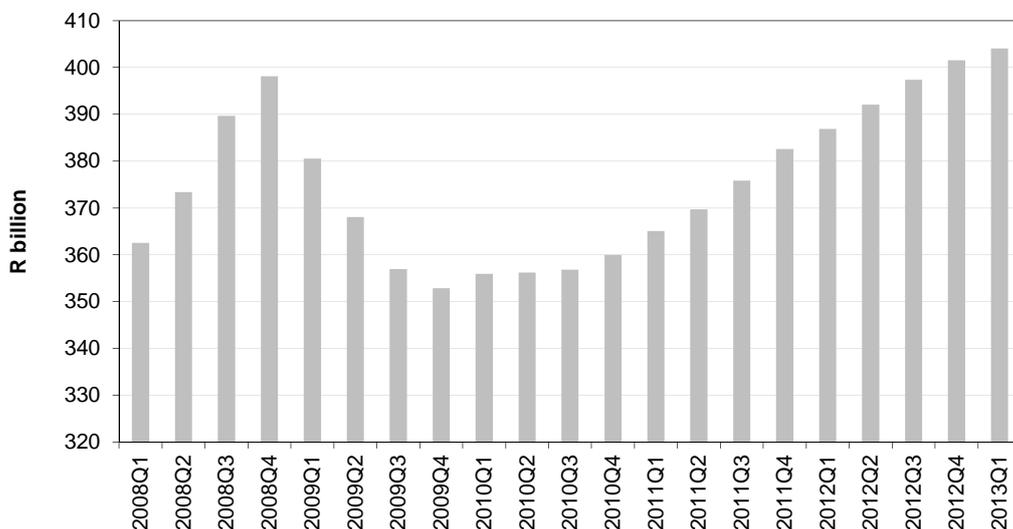
Source: SARB/BER, July 2013 (f = forecast)

The outlook for the consumer spending categories is set out in Table 2.5. The BER projects overall consumer spending to slow from 3.5 per cent in 2012 to 2.5 per cent in 2013, before accelerating back to 3.5 per cent in 2014. A key risk to the consumer spending outlook is the potential of large scale job losses among low skilled workers, specifically in the mining sector. These job losses would be particularly harmful for the non-durable goods category. The main positive, especially for over indebted consumers, is the BER's projection that the current low prime interest rate will remain unchanged through 2014. This should provide support to durable goods sales in particular.

Gross fixed capital formation

Similar to the trend in consumer spending, the growth in total real fixed investment moderated further during the first quarter of 2013. Growth in real capital spending declined from 5 per cent year-on-year in the fourth quarter of 2012 to 4.4 per cent in the first quarter of 2013. This compares to the 5.7 per cent increase in 2012 and was the weakest annual growth rate since the 3.8 per cent growth recorded in the second quarter of 2011. The slowdown was notwithstanding the low interest rate and the high priority assigned to the government's infrastructural development programme. Nonetheless, Figure 2.4 shows that the level of overall fixed investment outlays during the fourth quarter of 2012, exceeded the peak reached in the fourth quarter of 2008.

Figure 2.4 Fixed investment, 2008 - 2013, R billion



Source: SARB

In the first quarter of 2013, annualised growth in real fixed capital expenditure by private business enterprises increased slightly, to 3 per cent year-on-year from 2.9 per cent in the previous quarter, which was a slowdown from the 3.9 per cent growth recorded in 2012. According to the SARB, investment in all sectors, except the agriculture, construction and finance sectors, was more subdued. The mining and manufacturing sectors significantly lowered capital spending on machinery and equipment. On the positive side, building contractors increased their capital spending and the business services sector increased spending on computer software and information technology equipment.

Real fixed capital expenditure by public corporations reflected meaningful growth moderation as growth slowed from 9.6 per cent year-on-year to 7.2 per cent in the first quarter of 2013. This was mainly caused by a slowdown in investment by Eskom due to the protracted industrial action at the Medupi

power plant. However, growth was supported by capital spending on on-going projects by Transnet, specifically on the freight rail expansion project and the port terminals capacity expansion project. The outlook for fixed investment by public corporations remains clouded by problems faced by Eskom in bringing the new base load stations on line. The first electricity from Medupi will probably only be available in mid-2014 as opposed to December 2013.

Growth in capital expenditure by general government slowed to 6.6 per cent quarter-on-quarter from 7 per cent during the fourth quarter of 2012 and 8.5 per cent for 2012 as a whole. Growth was supported by provincial and central government departments increasing their capital spending on housing and construction works. The social and economic infrastructure spending programmes have been the key contributor throughout 2012 and have continued into the first quarter of 2013.

The BER expects total fixed investment growth to moderate to 3.6 per cent in 2013 and to remain at a similar level in 2014. Slower investment growth is expected for all investment expenditure groups. The outlook for growth in private sector fixed investment, responsible for roughly 60 per cent of total fixed investment, is subdued due to continued global economic uncertainties and domestic constraints. Factors such as the current low levels of capacity utilisation, subdued business confidence as well as uncertainty about electricity prices and supply weigh on private investment. Real fixed capital expenditure by private business enterprises is therefore expected to moderate to 2.7 per cent in 2013 and expected to only accelerate marginally in 2014.

Balance of payments and rand exchange rate outlook

As the global economy slowly recovers, South African exports experienced an increase in external demand. Given that the South African economy has a relatively high import propensity, the demand for foreign goods remained robust during the first quarter of 2013, despite increased cost. However, growth in the value of merchandise exports outpaced the growth in merchandise imports and the trade deficit consequently narrowed from R86.1 billion in the fourth quarter of 2012 to R78.2 billion in the first quarter of 2013. This was supported by a notable improvement in the shortfall on the services, income and current transfer account with the rest of the world. Consequently, the current account deficit narrowed from R212.6 billion in the fourth quarter of 2012 to R190.9 billion in the first quarter of 2013. As a ratio of the country's GDP, the deficit fell to 5.8 per cent from 6.5 per cent previously.

Despite the narrowing of South Africa's current account deficit during the first quarter of 2013, it remains one of the largest (as a percentage of GDP) of all emerging markets. The deficit requires large amounts of foreign capital as financing. So far, the interest rate differential with the advanced economies has favoured South Africa to ensure the required inflow of foreign capital. In the past few years, the particular financing mix has been dominated by

foreign buying of South African bonds. However, in recent months foreign investors were at times net sellers of South African bonds, putting the financing of the current account deficit at risk. South African bond yields are vulnerable to the financial market adjustment due to the expected decline in liquidity once the Federal Reserve starts to taper their monthly asset purchases. The problem is compounded by the decline in prices of South Africa's export commodities, which may ensure that the deficit remains large in the foreseeable future. The BER expects the current account deficit to average 5.8 and 5.7 per cent of GDP in 2013 and 2014.

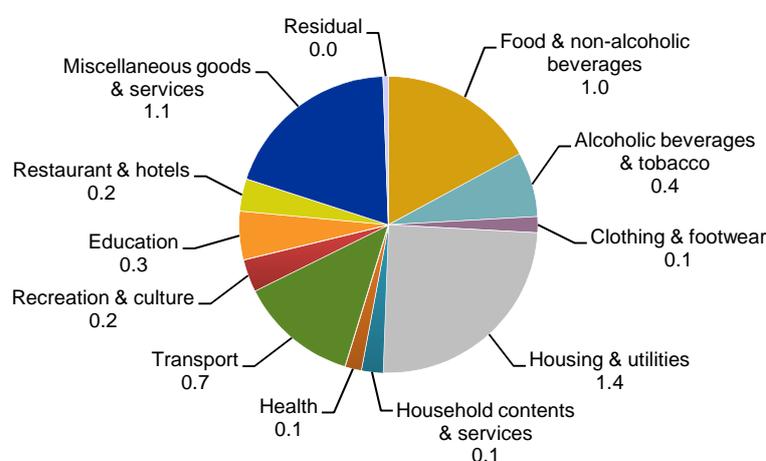
Against a basket of trading-partner currencies, the rand declined by 5.7 per cent during the first quarter. During the second quarter of 2013, the rand exchange rate weakened for a fifth consecutive quarter against the US dollar. Compared to the first quarter, the local currency lost another 5.8 per cent to average R9.47/\$, the weakest quarterly average since the first quarter of 2009, i.e. at the height of the recent global financial crisis.

The weakness of the rand can to a large extent also be traced back to domestic factors. The deterioration in the current account deficit and widespread labour unrest in the second half of 2012 weighed heavily on the currency. Since May 2013, global developments have put further downward pressure on the rand. Concerns about the US central bank tapering its asset purchasing programme and the adverse commodity price impact of weaker Chinese data can largely explain the recent weakness seen in emerging market currencies, including the South African rand. The speculation about possible tapering has led investors to rethink their exposure to emerging markets. The rollback of quantitative easing could already start during the second half of 2013, but will most probably take several years to complete.

Overall, the Rand is expected to trade around the R10/\$ level through the first quarter of 2014, before strengthening in the second half of 2014.

Inflation and interest rate outlook

During the second quarter of 2013, inflation remained unchanged compared to the first quarter at 5.7 per cent year-on-year. Figure 2.5 sets out the largest contributors to inflation in the second quarter of 2013. These categories were housing and utilities (+1.4 percentage points), miscellaneous goods and services (+1.1 percentage points) and food and non-alcoholic beverages (+1 percentage point). This means that during the first half of 2013, inflation remained within the SARB inflation target range of three to six per cent of Consumer Price Index (CPI) increases. However, consumer prices have been on a rising trend since reaching a low of 4.9 per cent year-on-year in July 2012. In July 2013 (the first month of the third quarter) CPI inflation breached the SARB's target as inflation accelerated to 6.3 per cent year-on-year from 5.5 per cent in June. On average, prices increased by 1.1 per cent between June and July.

Figure 2.5 Contributors to inflation of 5.6 per cent in 2013Q2 (percentage points)

Source: Stats SA

The pass-through from the weak exchange rate results in more persistent price pressure. Furthermore, the weaker rand prevents South Africa from benefiting from lower international energy prices. These are set to remain important contributors to overall inflation. In addition, the weak rand exchange rate and concerns about domestic crop harvests keep South African maize prices elevated.

During the third quarter of 2013, CPI inflation breached the upper limit of the SARB's target range and the BER forecasts an average inflation rate of 6 per cent for 2013 as a whole. Price pressure from the weak Rand exchange rate will likely be more pronounced during 2014, keeping inflation high at just below 6 per cent on average for that year. If the Rand turns out weaker than expected, inflation could be even higher than estimated. A further upside risk to the outlook is the possibility of higher than expected wage settlements.

Financial market and analyst views on the outlook for the South African policy interest (repo) rate have changed significantly over the past few months. In the lead-up to the May meeting of the Monetary Policy Committee (MPC) domestic money markets were discounting a further interest rate reduction before the end of 2013. The MPC kept interest rates unchanged, but emphasised that "The MPC is ready to act appropriately in either direction in the event of material changes to the outlook" (MPC Policy Statement, 18 July 2013). Combined with the sustained weaker rand exchange rate, these comments altered the money market's view. Financial markets were now discounting the prices of financial assets due to the expectation of fairly aggressive interest rate increases over the next 12 months. During the most recent MPC meeting, in July 2013, the MPC kept rates unchanged. The BER expects interest rates to remain unchanged through 2014. This is due to the balance between the upside risks to inflation and the possible downside risks to economic growth. However, the outlook is, as stressed by the SARB, highly data dependent.

2.3.3 Risks to the outlook

The South African growth outlook depends on both global and local developments. Most risks indicate that growth could turn out lower than currently expected.

- The end of the US monetary easing cycle could have important implications for South Africa. The Rand could turn out weaker than expected and South African government bond yields could increase sharply. If sustained, this could weaken the country's fiscal stance and also significantly increase the funding cost of the public infrastructure drive. This could result in cutbacks to the investment programme with negative implications for overall fixed capital formation.
- Sustained concerns about the Chinese growth slowdown could push the price of South African commodity exports lower. Furthermore, if the global economic recovery is weaker than anticipated, lower external demand for South African products will also weigh on growth and could worsen the current account deficit.
- Given recurring bouts of global risk aversion, the financing of the persisting current account deficit could become a real concern due to a possible slowdown of portfolio flows into South Africa. Should these flows stop completely or even reverse and flow out of South Africa, the required adjustment could be a significant drag on growth.
- The weak first quarter GDP figure implies that the 1.9 per cent growth forecasted for 2013 as a whole might be a challenge to achieve. While growth in the second quarter was relatively strong, it is uncertain whether momentum can be sustained during the second half of the year. This implies that GDP growth could turn out weaker than forecasted. In 2014, growth could also be weaker than expected depending on private sector employment and fixed investment decisions.
- Any renewed labour disruptions, particularly if violent, could have significant negative implications as resulting production stoppages will reflect in GDP. Furthermore, this will likely dent investor confidence further and push the Rand lower. A fall in investor confidence could also result in a more significant slowdown in private capital spending. This would reduce the long-term growth potential of the economy and could cause capacity constraints to develop. Furthermore, possible unrest and production stoppages could disrupt exports and worsen the already precarious current account position.
- Finally, further delays in the completion of the Medupi power plant could result in electricity supply disruptions. This could have significant implications for industrial and mining output and will weigh on GDP.

2.4 Developments in the Western Cape economy

2.4.1 Western Cape economic performance

In 2011, economic activity in the Western Cape increased by 3.5 per cent (at basic prices⁸), accelerating from the 2.6 per cent growth recorded in 2010. The Province recorded slightly higher growth than the national economy, which expanded by 3.3 per cent in 2011.

Over the period 2007 to 2011, regional GDP in the Western Cape economy grew at an average rate of 3.2 per cent per annum (as shown in Table 2.6). Over this five-year period, the construction sector recorded the highest average growth rate per annum (5.5 per cent), followed by the financial intermediation, insurance, real estate and business services sector (4.3 per cent) and the general government services sector (4 per cent).

Table 2.6 Western Cape economic growth (2007 - 2012)

Description	2007	2008	2009	2010	2011	2012e	5-year average growth (2007 - 2011)
Agriculture, forestry & fishing	1.6	17.7	-1.2	-1.8	0.3	1.7	3.3
Mining & quarrying	0.8	-7.0	-7.9	3.3	-1.0	-5.1	-2.4
Manufacturing	5.2	2.1	-8.6	5.0	3.5	1.7	1.4
Electricity, gas & water	2.4	-3.8	0.7	1.4	1.0	-1.4	0.3
Construction	15.1	7.2	3.7	0.6	0.8	2.6	5.5
Wholesale & retail trade, catering & accommodation	5.4	0.3	-1.5	3.9	4.6	4.3	2.5
Transport, storage & communication	7.0	2.9	1.2	1.9	3.2	2.5	3.2
Financial intermediation, insurance, real estate & business services	8.2	7.5	0.2	1.9	3.9	3.5	4.3
Community, social & personal services	5.4	4.1	-1.3	0.3	2.4	2.0	2.2
General government services	3.8	4.5	4.0	3.4	4.5	3.5	4.0
GDPR at basic prices	6.4	4.6	-1.2	2.6	3.5	2.9	3.2

Source: Stats SA/BER/Quantec Research (e = estimate)

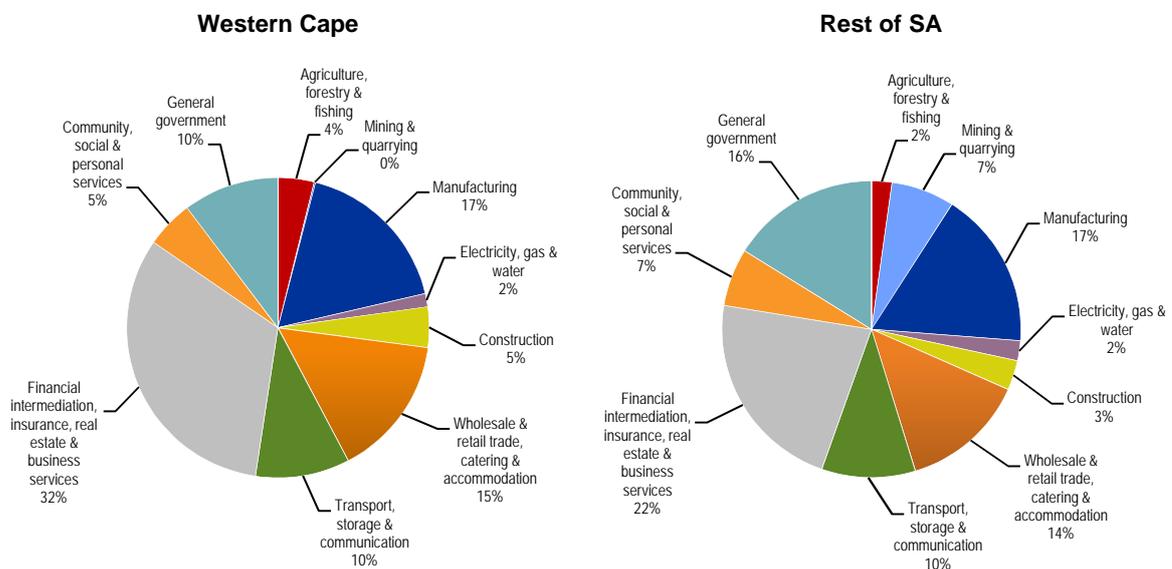
During 2011, the main driver of economic growth in the region was the financial intermediation, insurance, real estate and business services sector. The sector expanded by 3.9 per cent and contributed 1.2 percentage points to overall growth in the Province. The Western Cape is considerably more services orientated than the national economy (see Figure 2.6), representing approximately 32 per cent of total economic activity in the Province, compared to the 22 per cent in the rest of South Africa. The Western Cape's second largest contributor to growth in 2011, the wholesale and retail trade, catering and accommodation sector, expanded by 4.6 per cent in 2011 and thereby contributed 0.7 of a percentage point to growth. The sector

⁸ All GDP figures in this section are quoted at basic prices (market prices less taxes on products plus subsidies on products).

represents just above 15 per cent of economic activity in the Western Cape, compared to 14 per cent in the rest of South Africa. The manufacturing sector, making up approximately 17 per cent of economic activity in the region, contributed 0.6 of a percentage point to overall growth by expanding by 3.5 per cent in 2011. General government services added another 0.5 of a percentage point after growing by 4.5 per cent in 2011.

The only sector to record a decline in economic activity in the Province was the mining and quarrying sector (-1 per cent). However, this sector is relatively small and only represents 0.2 per cent of total economic activity in the Province.

Figure 2.6 Structure of the Western Cape economy and the Rest of SA, 2011 (basic prices)



Source: Stats SA

It is estimated that the Western Cape economy continued to grow at a faster pace than the national economy during 2012. According to BER/Quantec Research estimates, the Province expanded by 2.9 per cent in 2012, while the national economy grew by 2.5 per cent. It is estimated that the wholesale and retail trade, catering and accommodation sector recorded the strongest growth at 4.3 per cent. This was likely followed by the financial intermediation, insurance, real estate and business services sector and the general government services sector, which are both expected to have expanded by 3.5 per cent in 2012. The mining and quarrying sector likely continued to decline (-5.1 per cent) and a fall in the electricity, gas and water sector (-1.4 per cent) is also estimated for 2012, this in line with the performance of the sector nationally.

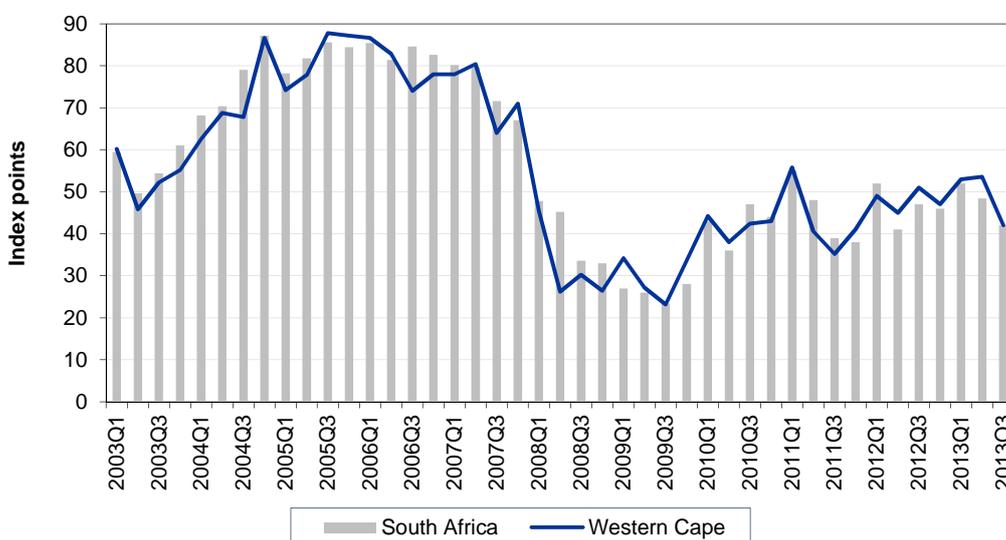
The pace and pattern of growth contributes to whether growth can be considered as inclusive growth. As inclusive growth must be broad-based and characterised by increasing productivity, the dominant role that services,

especially retail (including tourism) and financial services, played in Western Cape growth, suggests that the growth was probably not inclusive. It is unlikely that growth in these already relatively sophisticated sectors in the Western Cape, entailed broad-based increases in labour income based on productivity growth. It is also unlikely to have contributed significantly to poverty reduction in a sustainable manner.

2.4.2 Outlook for the Western Cape economy

The RMB/BER business confidence index shows that business confidence in the Western Cape has been above South Africa’s overall confidence level since the second quarter of 2012. However, in the third quarter of 2013, business confidence in the Province fell and is now in line with the national level.

Figure 2.7 Western Cape vs SA business confidence



Source: BER

Partly due to the higher level of business confidence during the first half of the year, the Western Cape economy is predicted to perform slightly better than the national economy in 2013. Growth in the Province is likely to moderate this year in line with the national economy, before accelerating slightly in the following years (see Table 2.7). Over the period 2013 to 2018, growth in the Western Cape is expected to average 3.6 per cent per annum, compared to 3.3 per cent at national level. This compares to the 3.2 per cent average annual rate by which the Western Cape economy is likely to have expanded from 2007 to 2012. In this period, average growth was dragged down by a contraction during the 2008/09 recession and this implies that the current growth forecast is relatively subdued.

As was the case in previous years, economic activity in the Western Cape will probably be supported by strong growth in the tertiary sector. The financial intermediation, insurance, real estate and business services sector, in particular, is expected to expand relatively strongly. The sector is expected to grow at an average of 4.6 per cent per annum over the period 2013 to 2018. The transport, storage and communication sector is expected to grow by 4.3 per cent per annum over the same period. Supported by the Province's well developed and diverse tourism industry, the wholesale and retail trade, catering and accommodation sector is projected to expand by 3.1 per cent per annum between 2013 and 2018. In this sector, the Western Cape is likely to fare better than the national economy.

Over this period, the strongest annual growth is projected for the construction sector at an estimated 5.1 per cent year-on-year. This is on the back of continued expenditure by the public sector on key economic and social infrastructure initiatives. The Province's second largest sector, manufacturing, is expected to perform slightly better in the coming six-year period compared to the 2007 to 2012 period. Manufacturing in the Western Cape is anticipated to show stronger growth than the overall manufacturing sector. This is also aided by the expectation of an earlier recovery in developed economies, which are traditionally strong export markets for goods produced in the Western Cape.

The more positive prospects for manufacturing in the Western Cape could be the only force contributing to inclusive growth in the Province. However, this will depend on the nature of the growth of manufacturing and whether it happens on the back of a broadening of the employed labour force to include the participation of previously excluded people in the process of increasing productivity. It will therefore be necessary to return to this issue in subsequent chapters.

The Western Cape has a small mining sector compared to the overall economy. Therefore, the Province will be shielded somewhat from the impact of labour tension and possible unrest with resulting production stoppages that are expected in this sector over the short term. The mining and quarrying sector is nonetheless the sector in the Province that is expected to show the most subdued growth over the forecast period, at an estimated 1.3 per cent growth per annum. Growth in the agriculture, forestry and fishing sector is also expected to remain subdued during the forecast period. The considerable increase in the minimum wage for farm workers granted earlier in 2013 could place pressure on farmers' profitability and could result in employment losses and lower production. Uncertainty regarding land reform policies could also weigh on this sector.

The contraction of employment in agriculture in the Western Cape is not necessarily bad news for inclusive growth. Labour that is employed at low levels of productivity will not make it possible to reduce rural poverty in a sustainable manner. Increased mechanisation also means increasing productivity and income growth of agricultural workers. Training redundant

and previously underemployed agricultural workers with the skills that will enable them to participate in productivity-increasing growth on a sustainable basis becomes important. Also relevant will be the creation of an environment that will encourage a restructuring of the rural economy and investment in new, more broad-based, industries.

Table 2.7 Economic outlook for the Western Cape (%) real growth in GDP, 2013 - 2018

Description	2013f	2014f	2015f	2016f	2017f	2018f	2013 – 2018 average growth
Agriculture, forestry & fishing	1.9	1.5	1.2	1.5	1.6	1.4	1.5
Mining & quarrying	0.8	1.2	1.4	1.5	1.6	1.5	1.3
Manufacturing	1.6	2.5	2.8	3.1	3.5	3.2	2.8
Electricity, gas & water	0.1	3.1	2.8	2.8	2.7	3.0	2.4
Construction	2.9	4.3	5.3	5.9	6.0	6.1	5.1
Wholesale & retail trade, catering & accommodation	2.0	2.5	3.2	3.3	3.8	3.7	3.1
Transport, storage & communication	2.8	3.5	4.4	4.6	5.2	5.0	4.3
Financial intermediation, insurance, real estate & business services	2.9	4.1	4.6	5.3	5.5	5.2	4.6
Community, social & personal services	2.2	3.0	3.0	3.2	3.3	3.3	3.0
General government services	2.3	2.5	2.5	2.4	2.6	2.6	2.5
GDP at basic prices	2.4	3.2	3.6	4.0	4.3	4.1	3.6

Source: BER/Quantec Research (f = forecast)

2.4.3 Risks to the outlook

The Western Cape is generally facing the same risks to the growth outlook as the national economy. However, the Province could be disproportionately affected.

- Should the global recovery be slower than expected, the Province could be excessively affected due to its strong trade ties with Europe. The Province's exports are more orientated towards these developed economies.
- A slower global recovery could have further implications for the Western Cape, as the catering and accommodation subsector (which is partly driven by tourism) is larger in the Western Cape compared to the rest of the economy.
- Due to its strong reliance on the services industry, an unexpected moderation in the domestic economy, particularly if paired with a further slowdown in employment growth with the resultant pressure on consumption, would also negatively impact the Western Cape.

There are possible factors that could influence provincial economic development:

- The Western Cape is less exposed to the growth slowdown in China and other emerging market economies due to its lack of mineral resources, the primary SA export to these markets.
- The weaker exchange rate could also be an important boost to export growth in the Province. This could also support the Western Cape's tourism industry.
- Lower commodity prices (especially oil) could bode well for domestic inflation which would boost disposable income. This in turn should support the more income sensitive services sector.
- If growth in the euro area and US is stronger than expected it will also lift economic activity.

2.5 Conclusion

The global economic recovery is underway, albeit at a slow rate. Global economic growth is expected to be unchanged from 2012 to 2013. Accelerated growth is only expected in 2014. This is due to a more protracted recession in the euro area, but also due to a notable growth slowdown in developing economies. These countries have been the key drivers of global growth in recent years, but a persisting lack of demand from the developed nations and domestic constraints have put pressure on the developing countries.

The South African economy has also lost significant growth momentum. The first quarter growth was disappointing and pushed down growth prospects for the remainder of the year. The economy is faced with a weakening currency, a persistent current account deficit and several other domestic constraints, not in the least the continued threat of labour unrest. Investor and business confidence has been dented and will take some time to recover. Consumer spending and capital formation growth will accordingly continue to moderate in the coming year.

The Western Cape has managed to slightly outperform the national economy in 2011 and possibly 2012 as well. The Province's strong reliance on tertiary sector growth is expected to continue in the coming years. Nonetheless, the Western Cape remains particularly vulnerable to a possible lapse in the global growth recovery, especially in developed economies. Overall, the Western Cape is expected to grow at an annual average of 3.6 per cent between 2013 and 2018.

3

Development of the Western Cape economic sectors

Key findings

- From a spatial perspective, more than 80 per cent of the Province's leading finance, insurance, real estate & business services sector resides in the Cape Metro. This sector (including ICT) reveals comparative advantage in the Cape Metro, as well as in the Cape Winelands district. In all districts tourism stands out as an industry with comparative advantage and agriculture and its associated processing industries, as well as building and construction, in the non-metro districts. Growth has been well-balanced in the Eden and Overberg districts, with greater vibrancy in manufacturing activities, stimulating services. These two districts were the fastest growing regions over the 2000 to 2011 period and are projected to continue out-performing over the 2013 to 2018 period.
- The informal sector in the Western Cape is characterised by the co-existence of constraints and barriers 'keeping the sector apart' from the formal sector and the apparent linkages with the formal sector. The cost and access to finance was rated as the most important constraint; other key constraints include shortages of business premises, cost and access to electricity and water and the lack of specialised equipment.
- The development of agriculture and the associated agro-processing industries in the non-metro district economies, should be key areas to explore in terms of the objective of inclusive growth. Both these industries have substantial competitive advantage, not only in relation to the other provinces, but also internationally in terms of export growth. More than 30 per cent of the agricultural sector production is exported and the share of exports in the wine industry approaches 50 per cent.

- Manufacturing growth consistently lags that of services growth and the capital intensity of manufacturing production tends to increase, revealing capital deepening due to increased mechanisation. Moreover, evidence suggests a strong measure of lost competitiveness in the region's manufacturing industry. A return to job-creating vibrancy is required in order to achieve inclusive growth.
- The services sector remains the leading growth and employment sector in the Western Cape economy.
- The Western Cape Government has a vision to play a pioneering role in becoming a green economy leader in the country. The Province has a strong academic and research base, which can play a key catalytic role in developing, designing and commercialising industrial and household green applications.

3.1 Introduction

In the 2012 Provincial Economic Review & Outlook (PERO) export growth remained the focus, with specific attention paid to the direction of the Western Cape's goods trade. The 2012 study also introduced some geographical analysis to gain perspective of the sector development across the various district economies. These themes are explored further in the 2013 study, but with a special emphasis on the concept of *inclusive growth*.

Figure 3.1 Western Cape Districts



Policies aimed at achieving inclusive growth involve intervention, both at the macro and the micro level, to remove constraints to business investment and productive employment. It should not be interpreted as old style government-directed heavy industrial policy intervention aimed at developing selected sectors of the economy, but rather as policy to generate an environment

conducive to productive investment and employment creation across sectors. Policies need to allow the poor to share in income generation via employment. This approach, referred to as inclusive growth, has a longer term objective of generating productive investment and employment creation, rather than only short term measures aimed at alleviating the hardship associated with poverty.

3.2 The spatial aspect of economic growth and development

Economic development does not occur in a spatial vacuum. Human settlement, agricultural activities, exploration and mining and industrial location and services directed at all of these have profound geographical patterns and dimensions. In the modern era urbanisation and the economic growth benefits of agglomeration are accepted but for historical and political reasons contemporary geographical patterns of economic development may not be ideal and could cause blockages in the process of economic growth. For this reason it is necessary to review not only the sectoral pattern of growth, but also the geographical dimensions. More detail on spatial aspects of the Western Cape's economic development is presented in the partner study, the Municipal Economic Review & Outlook (MERO). The MERO discusses and analyses the economic growth performance and outlook of the Western Cape at the municipal level.

3.2.1 The geographical dispersion of economic activity in the Western Cape

The Western Cape economy is geographically concentrated. No less than 85 per cent of real value added is generated in the Cape Metropolitan Area (CMA) and the adjacent Cape Winelands District (CWD).

The core of the Province's finance, insurance, real estate & business services sector, which contributes 32.4 per cent to the GDP¹, is located in the Cape Metro. This sector accounts for 36.1 per cent of the Cape Metro economy, with more than 80 per cent of the province-wide financial & business services sector located in the Metro. The sector is also important in all the non-metro districts, accounting for between 23 and 27 per cent of district economic activity. The Cape Winelands and Eden districts are home to 8 and 5.5 per cent of the sector.

The second largest sector in the Province with a contribution of 17.1 per cent of the GDP is manufacturing. Manufacturing has a stronger presence in the Cape Winelands economy, accounting for a quarter of economic activity in that district. In all the other districts, manufacturing activity accounts for

¹ For a graphic representation of the sector composition of the Western Cape economy, see Figure 2.6 in Chapter 2 of this review.

approximately 16 to 18 per cent of real GDP. Only in the Central Karoo, the contribution is lower at 11 per cent. More than two thirds of the provincial manufacturing sector is located in the Metro (see Table 3.2). Almost 92 per cent of manufacturing is located in the Metro, Winelands and Eden districts combined.

Table 3.1 Western Cape economy: Sector composition by district: 2011

Sector	Cape Metro	Cape Winelands	Eden	West Coast	Overberg	Central Karoo	Western Cape
Agriculture, forestry and fishing	1.4	11.1	5.5	14.6	11.6	9.0	3.8
Mining and quarrying	0.1	0.2	0.2	0.7	0.1	0.1	0.1
Manufacturing	15.9	24.2	16.5	17.7	16.2	11.1	17.1
Electricity, gas and water	1.5	0.9	1.5	0.9	1.2	1.1	1.4
Construction	3.9	3.5	8.7	4.3	7.7	5.6	4.4
Wholesale and retail trade, catering and accommodation	15.2	13.8	17.9	12.8	13.9	13.9	15.4
Transport, storage and communication	10.9	7.3	7.7	8.5	7.9	12.2	10.0
Finance, insurance, real estate and business services	36.1	22.9	24.3	25.6	27.1	27.4	32.4
Community, social and personal services	5.1	5.8	5.3	4.1	4.2	6.5	5.1
General government	9.8	10.2	12.4	10.7	10.2	13.1	10.3
Western Cape	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Quantec Research

Manufacturing activity is in relative decline in the Metro and also accounts for the bulk of employment losses. Manufacturing growth is under pressure in the Winelands where mature agro-processing firms tend to dominate the economic landscape. The Eden manufacturing sector reveals greater vibrancy; this is also true regarding light industry² in the Overberg and Central Karoo districts.

The third largest sector in the Province, with a contribution of 15.4 per cent of the Western Cape GDP is retail, wholesale, catering & accommodation. The tourism industry plays a key role in stimulating the growth of the Eden internal trade sector, accounting for close to 18 per cent of the district's economy. In all the other districts, retail, wholesale, catering & accommodation accounts for approximately 13 to 15 per cent of real GDP.

The fourth largest sector in the Province, with a contribution of 10.3 per cent of the Western Cape GDP, is the government³. In relative terms, it is the smallest in the Cape Metro, accounting for 9.8 per cent of the regional economy and

² Light industry is usually less capital intensive than heavy industry, and is more consumer-oriented than business-oriented (i.e. most light industry products are produced for end users rather than as intermediates for use by other industries). Light industry facilities typically have less environmental impact than those associated with heavy industry, and zoning laws are more likely to permit light industry near residential areas.

³ According to the Standard Industrial Classification (SIC) the 'government' includes public administration and defence activities, education and health and social work services.

the largest in Eden at 12.4 per cent. From a geographical perspective, however, the concentration of activity in the Metro, Winelands and Eden still applies.

Table 3.2 Western Cape economy: Sector composition across districts: 2011

Sector	Cape Metro	Cape Winelands	Eden	West Coast	Overberg	Central Karoo	Western Cape
Agriculture, forestry and fishing	27.6	33.9	11.0	16.8	9.3	1.4	100.0
Mining and quarrying	57.4	14.0	7.4	19.4	1.5	0.4	100.0
Manufacturing	68.7	16.3	7.2	4.5	2.9	0.4	100.0
Electricity, gas and water	78.9	7.2	8.0	2.9	2.6	0.5	100.0
Construction	65.8	9.1	14.9	4.2	5.3	0.8	100.0
Wholesale and retail trade, catering and accommodation	73.7	10.5	8.9	3.7	2.8	0.6	100.0
Transport, storage and communication	79.3	8.3	5.7	3.7	2.4	0.7	100.0
Finance, insurance, real estate and business services	80.2	7.9	5.5	3.4	2.5	0.5	100.0
Community, social and personal services	72.6	12.9	7.8	3.5	2.5	0.8	100.0
General government	71.0	11.5	9.1	4.6	3.0	0.8	100.0
Western Cape	73.2	11.4	7.5	4.3	3.0	0.6	100.0

Source: Quantec Research

The transport, storage & communication sector with its contribution of 10 per cent of the Western Cape GDP is also well-represented throughout all districts, albeit relatively larger in the Cape Metro and the Central Karoo. Communications explain the relative larger size of this broad sector in the Metro, while transport & storage activity explains the relatively larger share in the Central Karoo given the geographical location of this district.

Two smaller sectors in the Province, each contributing approximately 4 per cent of GDP, play a key role: agriculture, the backbone of most of the non-metro district economies, and construction with its pivotal role in fixed investment activity and the roll-out of infrastructure. Agriculture accounts for close to 15 per cent of West Coast economic activity and more than 11 per cent of that in the Cape Winelands and the Overberg. In absolute terms, the Winelands has the largest agriculture, forestry & fishing sector, being home to more than a third of the province-wide agricultural sector. When the downstream linkages with the agro-processing sectors are added, it is clear that agri-business is a key economic activity across all the districts. Even the Metro is home to a large section of the industry.

The relatively larger roles of the construction sector in the Eden and Overberg districts are notable. These two districts have been the fastest growing districts in the Province, which may reveal the link between infrastructure investment and real economic growth (see below).

Sector strengths, linkages and developments

Considering real GDP growth rates by district, Eden and the Overberg with real GDP growth averaging 5.2 per cent during the 2000 to 2011 period, were the fastest growing regions. This was well above the provincial average of 4.1 per cent per annum. The Cape Metro, Central Karoo and Cape Winelands grew in line with the provincial average (i.e. 4.1 per cent per annum), while the West Coast lagged, growing by 3.3 per cent on average.

Table 3.3 Western Cape economy: Sectoral real GDP growth by district: 2000 - 2011

Sector	Cape Metro	Cape Winelands	Eden	West Coast	Overberg	Central Karoo	Western Cape
Agriculture, forestry and fishing	10.0	0.3	1.1	-0.4	-0.7	-1.2	2.0
Mining and quarrying	-	2.1	-4.1	-4.0	0.1	15.8	-1.4
Manufacturing	2.3	2.4	4.1	1.2	6.7	9.7	2.7
Electricity, gas and water	3.4	2.1	0.6	-2.2	1.1	-0.3	2.8
Construction	6.5	7.2	10.3	6.6	9.0	9.3	7.1
Wholesale and retail trade, catering and accommodation	4.1	5.4	5.5	3.8	3.6	3.1	4.4
Transport, storage and communication	5.0	6.8	5.5	4.5	6.3	2.0	5.1
Finance, insurance, real estate and business services	5.5	7.1	7.1	10.6	11.0	7.9	5.8
Community, social and personal services	2.8	3.8	5.0	2.9	3.6	2.6	3.0
General government	1.9	3.3	4.5	2.4	3.3	2.4	2.4
Western Cape	4.1	3.9	5.2	3.3	5.2	4.0	4.1

Source: Quantec Research

The above-average trend growth in Eden and Overberg can be explained by strong growth performances in their financial & business services sectors, as well as some vibrancy in manufacturing (compared to the other districts) and robust growth in the construction sector. These two districts also grew the fastest during the initial two calendar years of the general economic recovery (i.e. 2010 to 2011).

The below-trend growth in the West Coast district can be explained by the contraction in agriculture in some of the municipal areas in the district, namely Bergvliet, Matzikama and Cederberg, as well as a struggling manufacturing sector, which also took a big hit during the recession. While the West Coast performed better during the initial recovery years when manufacturing activity in particular bounced back, the adverse recessionary impact on employment continued to linger.

The recovery growth in all the other districts is similar compared to the trend-growth patterns with one key deviation. The leading financial & business services sector only grew by 3 per cent per annum over 2010 and 2011 on average, compared to average annual real growth of 7 per cent during 2000 - 2007 i.e. before the recession. The impact of tighter credit lending

conditions in the domestic market, as well as banks having to comply with stricter reserve requirements (in lieu of Basel III)⁴, combined with the uncertain investment environment in the post-global financial crisis period, made for more subdued growth in the sector, which is the mainstay of the Western Cape economy. The dominance of this sector in the Cape Metro economy partly explains why the recovery growth of the sub-region (and Province) has been below par (i.e. 3 per cent per annum), thus lagging the non-metro districts in growth.

The other reason for the relative under-performance is a lagging manufacturing sector. Compared to a real growth rate of 4.5 per cent per annum in both the Gauteng and KwaZulu-Natal manufacturing during the previous expansion phase of the business cycle (i.e. 2000 to 2007) and recovery growth measuring 4.8 per cent in each province, the corresponding growth rates of Western Cape manufacturing were 3.8 per cent and 3.4 per cent, respectively. The Gauteng and KwaZulu-Natal provincial economies (3.8 and 3.6 per cent per annum respectively) also grew faster than the Western Cape economy overall (3 per cent per annum) during the initial two calendar years of the general economic recovery.

Table 3.4 Western Cape: Change in employment between 2000 and 2011

Sector	Cape Metro	Cape Winelands	Eden	West Coast	Overberg	Central Karoo	Western Cape
Agriculture, forestry and fishing	-9 400	-70 400	-25 400	-44 900	-26 300	-4 300	-180 700
Mining and quarrying	900	400	-	100	-	-	1 400
Manufacturing	-57 900	-2 400	-3 100	-6 400	100	400	-68 500
Electricity, gas and water	1 100	100	-	-100	-	-	1 100
Construction	-13 200	-1 600	3 600	-900	500	100	-11 600
Wholesale and retail trade, catering and accommodation	52 300	11 700	9 600	2 400	900	100	77 200
Transport, storage and communication	1 100	1 500	600	200	200	-200	3 300
Finance, insurance, real estate and business services	6 700	10 300	9 200	900	7 600	800	103 900
Community, social and personal services	27 400	7 800	7 400	100	1 600	200	45 300
General government	41 700	10 200	11 300	3 300	2 800	500	69 800
Western Cape	110 900	-32 400	13 200	-36 500	-11 600	-2 300	41 300
Primary sector	-8 500	-7 000	-25 500	-44 800	-26 300	-4 300	-179 200
Secondary sector	-70 100	-3 900	500	-7 400	1 500	500	-7 900
Tertiary sector	189 400	41 500	38 100	15 800	13 100	1 500	299 500

Source: Quantec Research

⁴ Basel III is a global, voluntary accord agreed upon by the members of the Basel Committee on Banking Supervision in 2010 – 2011 and relates to a regulatory standard on bank capital adequacy, stress testing and market liquidity risk. Implementation has been postponed to March 2018 and is intended to strengthen banks' capital requirements following events during the global financial crisis of 2007/08. Globally, banks are already preparing to comply with the accord.

In terms of employment creation, the structural trend identified in previous PERO studies, namely poor job growth in the primary and secondary sectors of the Province, counterbalanced by reasonable strong employment growth in the tertiary sectors, is also reflected in the sub-regions. The recession had a major adverse impact on manufacturing employment. From a geographical perspective, 85 per cent of the net job losses in manufacturing in the Province is accounted for by the Cape Metro. The West Coast manufacturing sector accounts for a further 9.3 per cent of the net job losses. In agriculture, all districts experienced net worker lay-offs during the 2000 to 2011 period, with the Winelands and West Coast districts experiencing the heaviest losses. In construction, net retrenchments were limited to the Cape Metro, Winelands and, to a lesser extent, the West Coast districts.

Strong employment creation occurred in financial & business services, retail, wholesale, catering & accommodation, the government, the community, social & personal services sectors and, to a lesser extent, in the transport, storage & communication sector. The Cape Metro accounted for more than 60 per cent of the net job creation in the tertiary sector over the 2000 to 2011 period and the Winelands and Eden districts for 13.8 and 12.7 per cent, respectively.

Table 3.5 Western Cape: Industry revealed comparative advantage by district

Cape Metro	Cape Winelands	Eden
Textiles, clothing & leather	Agriculture & processing	Agriculture & processing
Tourism	Tourism	Tourism
Finance, BPO, ICT	Building & construction	Building & construction
'Knowledge sector'	Communications & ICT	Timber & furniture
Timber & furniture		
West Coast	Overberg	Central Karoo
Agriculture & processing	Agriculture & processing	Agriculture & processing
Tourism	Tourism	Tourism
Building & construction	Building & construction	Building & construction
	Timber & furniture	Electrical machinery
		Finance & insurance

Source: CER

The rationale for industrial policy support is to facilitate the allocation of resources to more productive sectors in the economy in order to encourage growth and job creation. It is necessary to establish which sectors of the (regional) economy reveal comparative advantage⁵. This was done in the MERO study at the district level that evaluated 22 industry groups. Those sectors with comparative advantage are listed in Table 3.5 across all six districts of the Western Cape economy.

⁵ For a definition and method of calculation of revealed comparative advantage, see the Box in section 3.4.1 of this chapter.

A first observation is that tourism appears to be a sector with a comparative advantage across all districts. While tourism is a cross-cutting sector in catering & accommodation, transport, business services and retail activities, those districts in which these activities generally have a revealed comparative advantage are listed in the table. The tourism sector is geographically well-dispersed; it is labour intensive, a foreign exchange earner and has close linkages to agriculture and with rural communities.

A second observation is the importance of agriculture, which also reveals comparative advantage in all the non-metro districts. The analysis in section 3.4 shows that the associated agro-processing sectors also reveal comparative advantage. Agriculture and agro-processing is competitive, both in a national and an international context.

A third observation is the competitiveness of the wood products & furniture sector in the Cape Metro, Eden and Overberg. While the growth of this sector has been below average, it appears that it has some edge vis-à-vis its peers outside the Western Cape.

An interesting observation is the competitiveness of the building & construction sector, suggesting that property development and public sector-driven civil construction works in all districts have shown above-average growth in a national context. This sector plays a key role in the establishment of infrastructure in order to facilitate economic growth and development.

In the Cape Metro, the finance, BPO and ICT sector, as well as the so-called 'knowledge sector'⁶ reveal comparative advantage; ICT also features in the Cape Winelands.

In all, given the objectives of inclusive growth, i.e. productive investment and employment creation, the development of agriculture and more importantly, the associated agro-processing industries in the non-metro district economies, other light industry (e.g. in Eden, Overberg and Central Karoo) as well as tourism in all districts (including the Cape Metro) should be key areas for productivity growth.

3.2.2 Regional characteristics of the informal sector

An analysis of the informal sector labour market in the 2011 PERO highlighted the critical need to obtain a better understanding of the nature of the informal sector in the Province. It is critically important that the constraints faced by this sector be addressed and the linkages with the formal sector be strengthened in order to facilitate migration from informal to formal economic activity. The Department of Economic Development & Tourism (DEDAT)

⁶ In the 21st century, innovation and the need to develop the national capabilities in this regard has become important and ties in with the idea of building a knowledge economy. The idea of a knowledge economy is also strongly linked with the necessity of eco-production and green technologies, while the Information and Communication Technology (ICT) sector plays a pivotal role (see DEDAT, 2013: 16).

recently conducted a survey of 200 informal enterprises in each of the Province's five districts as well as the Cape Metropolitan Area in order to ascertain the key characteristics of the informal sector⁷ in the Province.

Informal food & drink retailing is by far the most prevalent economic activity, with 35 per cent (Cape Metro) to more than half of the respondents (West Coast) active in this line of business. Between 8 per cent (West Coast) and 21 per cent (Overberg) of respondents are involved in clothing retail and between 4 per cent (Central Karoo) and 14 per cent (West Coast) in the sale of general household goods. Around one third of informal businesses are involved in micro manufacturing activities (e.g. furniture making, tailoring and cobbling – approximately 10 per cent) or a range of personal, business or social services (approximately 20 per cent). Close linkages with the various formal district economies are evident.

An important finding is that the majority of the respondents, ranging from 51 per cent (Cape Winelands) to 72 per cent (Central Karoo) are not registered in any 'formal' way. The most prevalent form of registration is with the local authorities for licensing as an informal business entity (between 7 and 37 per cent in the Central Karoo and Cape Winelands). The benefits of 'non-compliance' apparently exceed the cost of registration. The main reason given for starting up or continuing with an informal business is the inability to find alternative employment on the one hand and the regulatory burden of starting a formal business on the other.

Income levels in the informal sector are low, with between 70 and 80 per cent of the respondents reporting profit levels of less than R2 500 per month, but they prefer to remain in the informal sector compared to working at the minimum wage in the formal sector. Workers are mainly semi- and unskilled, having received their training on the job (50 per cent of respondents in the Cape Metro to 60 per cent in Eden). In all six districts around 50 per cent of informal businesses survive between one and five years, a further 20 per cent between 6 and 10 years and about 20 per cent longer than 10 years. Rather than being in transition, informal business owners prefer staying in the informal sector for the long haul. Even those earning higher profits prefer staying in the informal sector (between 20 and 30 per cent of all the respondents).

⁷ The informal economy covers both businesses and employment. Informal employment extends to both the informal and formal sector, as well as private households, where the informally employed do not have written employment contracts and are not entitled to employment benefits such as pension and medical aid contributions from their employers. The informal sector is defined as one where firstly, employees work in establishments of less than five employees, where income tax is not deducted from their salaries and wages; and secondly, where employees are not registered with the Receiver of Revenue for income tax or value added tax (Stats SA, 2012).

The key constraints indicated (in order of importance), include:

- Access to affordable finance (rated by 48 per cent in the Cape Winelands and up to 82 per cent in Eden as a key constraint);
- Shortage of business premises (50 to 60 per cent of the respondents); cost and access to electricity (34 to 47 per cent);
- Cost and access to water (17 to 41 per cent);
- Crime (26 to 39 per cent in the non-Metro districts; 50 per cent in the Cape Metro); and
- Competition (26 to 39 per cent).

Policies aimed at addressing these constraints are bound to promote inclusive economic growth and at the same time relieve poverty.

Despite the survivalist nature of many of the informal businesses, confidence levels were reported to be quite positive in the current trying general economic conditions. Around 55 per cent of the respondents in all districts (except the Cape Winelands with 60 per cent) reported satisfactory profit and employment conditions at the time of the survey. The level of these readings is in line with business confidence measures in the formal sector of the economy, which indicates that the informal sector is not disconnected from the formal economy even though the extremes of the inequality divide often give that impression⁸.

While the characteristics of the informal sector discussed above vary between the Western Cape districts, the common tenets are: the co-existence of real blockages, constraints and barriers 'keeping the sector apart' from the formal sector of the regional economies on the one hand; and the apparent and conspicuous linkages with the formal sector on the other hand.

3.2.3 Infrastructure spending and regional growth

Sustainable economic growth requires infrastructure development. Not only does infrastructure investment directly add to real GDP growth, but over the longer term it facilitates economic development. Public investment in infrastructure lowers production costs and boosts economic growth by "crowding in" related private sector investment. It has been found that investment in roads & transport and communications infrastructure has the highest economic multiplier effects, followed by electricity and water (MERO 2013).

⁸ See Philip, K (2010): *Inequality and Economic Marginalisation: How the Structure of the Economy Impacts on Opportunities on the Margins*, in Law, Democracy and Development, Volume 14, pp. 1-27) for references to various investigations and descriptions of this relationship (e.g. 'adverse incorporation' and 'asymmetrical interdependence').

The government has embarked on a major infrastructure investment programme to address backlogs and to promote economic growth and reduce poverty⁹. Infrastructure investment is important at the regional level and there is a need to establish whether the government's infrastructure strategy will yield the desired growth benefits both at the national and regional levels. The positive association between infrastructure development and economic growth is supported by the Western Cape, with the lowest incidence of infrastructure backlogs, and relatively higher real economic growth compared to the other provinces in South Africa. The 2013 MERO study found corroborating evidence at the municipal level in the various Western Cape districts. Those municipalities with higher levels of infrastructure, including astute management and maintenance thereof and new investment tend to be the higher-growing economic areas in the Province.

The relationship between infrastructure and economic growth is particularly evident when the level of infrastructure is compared with economic growth in the various Western Cape districts. Regarding the level of infrastructure, comprehensive infrastructure indices have been calculated for Western Cape towns in the *Growth Potential of Towns Study* (see Donaldson, 2010) referring to general infrastructure. Correlating these infrastructure indices¹⁰ with real economic growth at the district level produces interesting results. The correlation coefficient of 23 per cent is not high, but is significantly positive to confirm the relationship. Further research is required to establish the existence of a *causal* relationship¹¹.

In most districts the correlation appears to be good, particularly in the West Coast, Overberg, Central Karoo and, to a lesser extent, the Cape Winelands. Deviations are explained by other factors that determine variations in the municipal growth rates, e.g. sector performances.

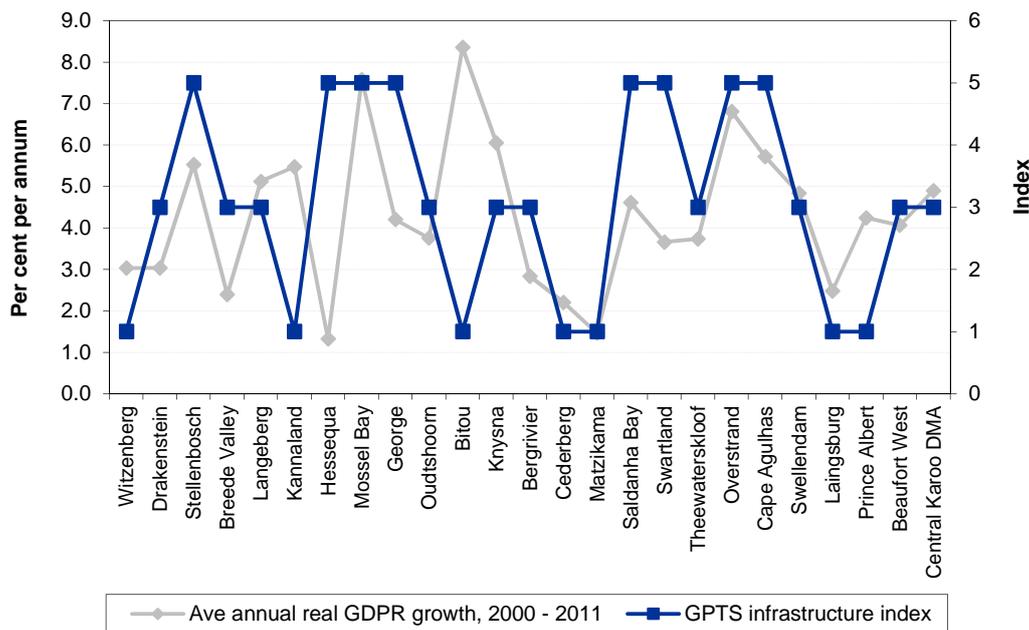
⁹ The government's infrastructure investment drive is ambitious, with cost estimates currently ranging between R3 to R4 trillion over 15 years; the current Medium-Term Expenditure Framework (MTEF) budgets for R844 billion capital spending.

¹⁰ In the *Growth Potential of Town Study* (Donaldson, 2010) composite infrastructure indices were constructed from a range of core infrastructure indicators, namely: vacant industrial stands, distance to nearest scheduled airport, distance to nearest small harbour and slipway, percentage households with in-house access to water, percentage households with access to electricity, and spare capacity of waste water treatment works. The indices were calculated for each town and aggregated into municipal infrastructure indices which were then classified as either low, medium or high. In Figure 3.2 a value of one is accorded to 'low', three to 'medium' and five to 'high' and correlated with the actual average real GDP growth rate, from 2000 to 2011 at the municipal level.

¹¹ While a correlation exists, this still does not prove a causal relationship from infrastructure level to growth; however, it does confirm that the evidence across Western Cape municipalities conforms to what economic theory and other empirical data suggests. Further research is required to prove the causal relationship.

The district with notable disparities is Eden. Hessequa registered a low growth rate despite being rated as high on the level of infrastructure. The problem appears to be a struggling agricultural sector. In two agricultural centres, Heidelberg and Riversdale, low agricultural growth spilled over to the manufacturing, retail and wholesale sectors. In Kannaland growth has been better off a low base despite a poor infrastructure rating. The Bitou municipality has also registered high growth rates while being rated low on the level of infrastructure.

Figure 3.2 Western Cape Municipalities: Real GDP growth and level of infrastructure



Source: Donaldson (2010)/Quantec Research

The provision of economic infrastructure is only a necessary condition for economic growth. Other factors such as the high cost of electricity and water, skills shortages, mismanagement and budgetary constraints could all be constraining growth.

The analysis of the Province’s competitive strengths revealed that the tourism industry (in all districts, including the Cape Metro) and agriculture and related agribusiness (in particularly the non-metro districts) may be key focus areas that can benefit from focused infrastructure provision. There are also close linkages between the agricultural and tourism sectors.

The infrastructure investment programme of the national government provides an opportunity for the provincial and local governments to collaborate and identify growth nodes, areas and sectors with comparative advantage and to direct infrastructure spending accordingly. Also, relevant for inclusive growth are the infrastructure requirements of the marginalised communities and the informal sector in order to bridge the gap with the formal sector.

3.3 The Agriculture, forestry & fishing sector – the food value chain

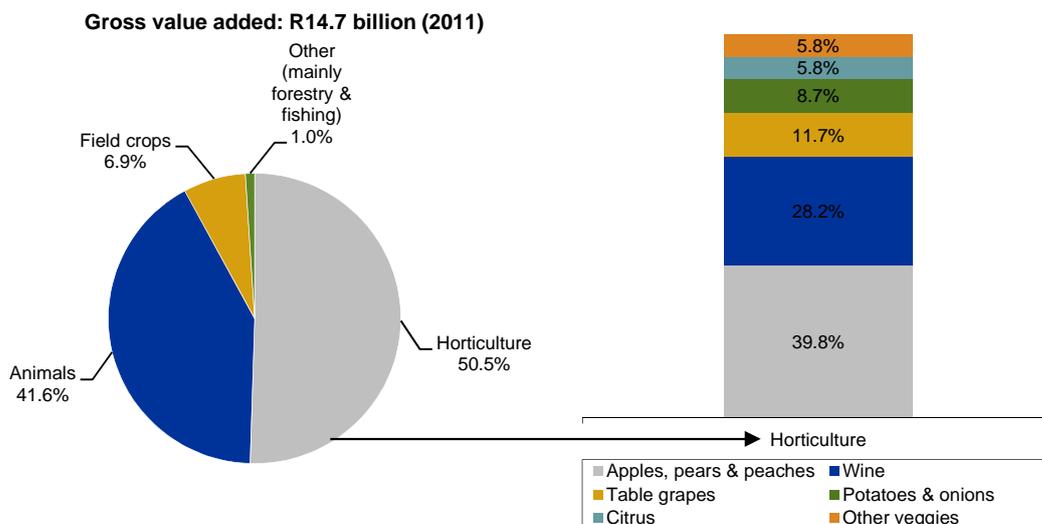
The Western Cape has made the development transition from slower-growing agricultural activity to faster-growing secondary and tertiary economic activities, but the agricultural sector remains the backbone of the regional economy. This is particularly evident in the non-metro districts. In most districts the linkages with the manufacturing and services sectors are strong. Agricultural and agro-processing activities are key elements of all the Western Cape districts.

The value added in Western Cape agriculture (R14.7 billion in 2011) accounts for 23 per cent of national agricultural value added (R64 billion) whilst the regional economy only accounts for 14.2 per cent of national GDP. This reveals the comparative advantage of agricultural production in the Province. Figure 3.3 depicts the four main commodity groups of Western Cape agriculture, including a breakdown of horticulture, the largest commodity grouping.

Horticultural products (50.5 per cent) consist mainly of: apples, pears & peaches (39.8 per cent); wine (28.2 per cent); table grapes (11.7 per cent); potatoes & onions (8.7 per cent); citrus (5.8 per cent); and 'other' vegetables (5.8 per cent). The key producing areas are the Cape Winelands, Cape Metro, West Coast and Overberg.

Animals & animal products (42 per cent) consist mainly of: poultry (51 per cent); cattle (29 per cent); sheep (12 per cent); ostrich (6 per cent) and pigs (2 per cent). The key producing areas are Paarl & Worcester, Goodwood, Malmesbury, Swellendam and Oudtshoorn.

Figure 3.3 Western Cape agriculture – range of commodities: 2011



Source: Provincial Treasury/Quantec Research

Field crops (7 per cent) consist mainly of: wheat (75 per cent); maize (13 per cent) and barley (11 per cent). Two thirds of field crops are produced in Malmesbury, Moorreesburg, the Piketberg regions (West Coast) and Caledon; and Bredasdorp (Overberg).

Other products (1 per cent) consist mainly of fishing and forestry. Forestry is limited and mainly state-owned. Aquaculture is a new blossoming industry found in and around Hermanus (Overstrand).

Both agriculture and the agro-processing industry in the region have substantial competitive advantage, not only in relation to the other provinces, but also internationally in terms of export growth (see Annexure B).

Conditions on Western Cape farms were drawn into sharp focus recently due to the outbreak of labour instability. A recent Bureau for Food and Agricultural Policy (BFAP) report goes to the heart of the matter: the sector is in transition from one relying on cheap and unskilled labour to one characterised by fewer, more skilled and better paid workers (BFAP, December 2012: 50).

3.3.1 Structural change in the agricultural sector

The desirability of inclusive economic growth was outlined in the introduction to this chapter. South Africa faces a serious problem of unemployment. The country's number one challenge is to broaden the process of economic growth in order to find productive employment for the unemployed. This challenge has many dimensions; however, one key dimension is the fact that the labour intensity of growth needs to improve (see Chapter 4, sections 4.5 and 4.6). This challenge is profound as the contemporary skills demand (disproportionately in favour of skilled and highly skilled workers) does not match the (surplus) supply of skills (mainly semi- and unskilled). This is not only a challenge in the Western Cape, but also nationally and internationally. Even in the most basic industries better trained and educated labour are in demand.

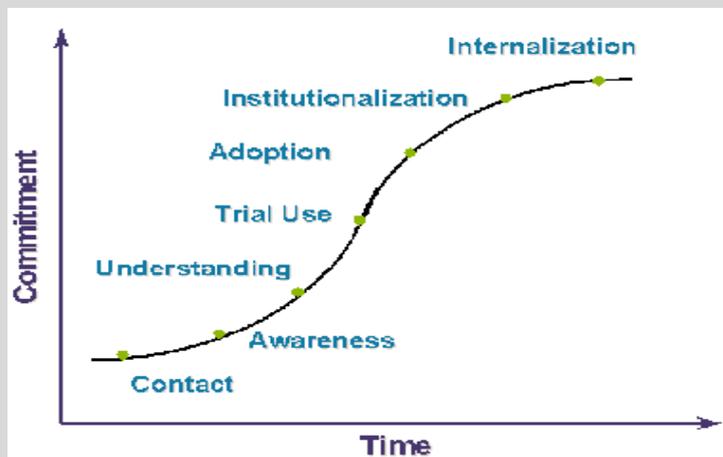
These challenges are mirrored in the agricultural sector, which developed on the basis of low-paid and unskilled labour and is currently changing to a production system of fewer, better skilled and better paid workers (see BFAP, December 2012: 50). Agriculture by its nature is labour intensive; however, the search for higher agricultural yields and technological advance renders mechanisation in the sector a reality as in all other sectors of the economy. Mechanisation in agriculture is not a new trend in response to the current labour difficulties, or the introduction of earlier social policies, such as the minimum wage legislation introduced in agriculture in 2005. It is part of the long march of technological advance (*see the Box*). Mechanisation is also not suitable on all farms.

Mechanisation in agriculture

It is necessary to unpack the issue of mechanisation in agriculture as it has become a loaded term in the current labour instability on Western Cape farms and the changes in the sector, both in the Province and beyond.

- The fundamental point regarding mechanisation in agriculture is the economic reality that it will only be considered as long as the benefits of the technology exceed the cost thereof. It is possible that public policy intervention can influence this longer-term process from time to time as producers advance or delay implementation of new technologies, but over the longer term this fundamental economic reality will be the driver of change.
- New technologies are typically subject to an S-curve in terms of their application and diffusion in the market place. During the initial phase its cost exceeds its benefits and a period of refinement and cost reduction alongside escalating cost of the old technology causes a slow uptake. However, once the inflection point is reached where the technology becomes economically viable, large scale introduction of the new technology can become very disruptive (see Agrifutura, 2012:125-126).

Figure 3.4 The standard adoption of technology S-curve



- A range of new agricultural technologies (associated with robotics) are currently in an experimental phase (e.g. sophisticated milking machines in the dairy industry which can monitor the health of a cow and a vine pruning machine being commercialised in the USA) which may in a few years' time render manual labour in these industries superfluous. There appears to be little public policy can do to deter this long-term march of technological advance. It is a reality for which the policy-making authorities, producers and workers need to prepare for and adjust to.

Issues involved, for instance, include the re-skilling of labour and institutional arrangements to effect this and the movement of workers from one district/ sector to another (growing) district/ sector of the economy.

- Mechanisation is typically more suited to large commercial farms, mainly for financial reasons and scale economies. Any un-economic increase in labour cost (wages or otherwise) will strengthen what can be described as a global trend towards consolidation of farming units (i.e. larger farms) and mechanisation aimed at maximising agricultural yields and reducing labour inputs, up-skilling labour (to operate the machines) and affording higher wages.
- Finally, any new technology causing certain categories of labour to be redundant, tend to leave pockets or niches of labour-intensive activities in its wake (e.g. the well-paid modern blacksmith active in the horse racing industry).

For an extensive discussion of the latest technological developments and (potential) applications in agriculture, see Agrifutura, 2012: 123-172). Also see, Troskie, D (16 February 2013): Mismoedige Marvin in die Mielieland, By in Die Burger.

Therefore, while all stakeholders in the agricultural sector need to prepare in adjusting for the inevitable march of technological advance over the long term, irresponsible public policy can cause short term disruptions by, for instance, accelerating this process. An inclusive growth approach should be flexible. Public policy must be aimed at supporting technological change that increases productivity and the training of labour, not only for the higher skills that will be demanded in mechanised agriculture, but also for the migration of redundant rural labour into dynamic and growing sectors and regions.

3.3.2 Trade potential and export markets

The Western Cape agricultural sector and associated processing industry account for the mainstay of the region's exports to the rest of the world. More than one third of the cumulative growth of goods and non-factor services exports of the Province between 2000 and 2012 is accounted for by these industries¹². The main export products are raw, dried and processed fruit as well as wine. More than 30 per cent of the agricultural sector production is exported and the share of exports in the wine industry approaches 50 per cent. Areas of comparative advantage in the agricultural sector exist (Vink, 2013).

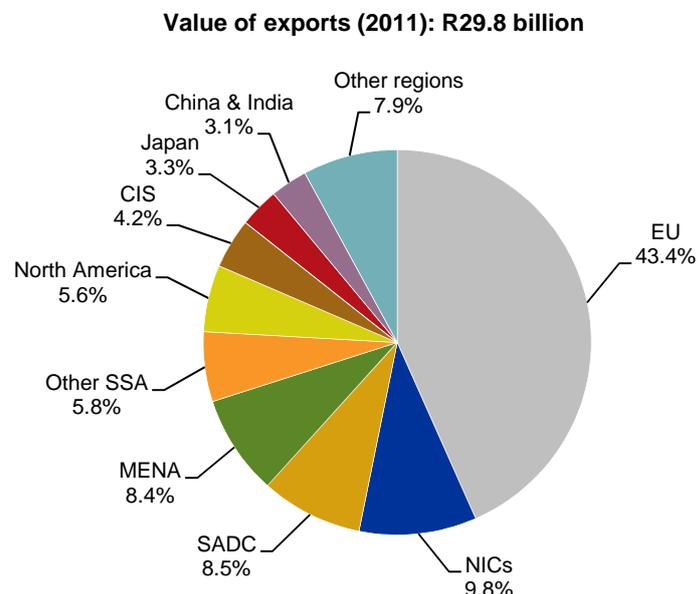
- The production of *citrus fruit* benefits from a favourable climate especially for the seedless varieties, whilst quality is highly regarded (with it passing the USA sanitary and phyto-sanitary requirements).
- The Western Cape is also the largest producer of *deciduous fruit* in the country and a major exporter. While exports are predominantly to developed markets, destinations are being diversified. Superior quality is again a key competitive edge, but local producers face substantial pressure in the form of non-tariff barriers in the EU protected by the Common Agricultural Policy (CAP).
- The region also has a comparative advantage in the production of *wheat* depending on the type of soil, differences in climate and methods of production.
- As noted, *wine* exports have made major inroads into export markets over the past two decades.

Western Cape agriculture, forestry & fishing, beverages & tobacco and food processing sectors all reveal comparative advantage compared to their national peers (section 3.4.1). Furthermore, this comparative advantage also extends to the international sphere. More than half of the Western Cape's

¹² Data from the Quantec Research database show that agriculture, forestry & fishing exports grew by 11.2 per cent per annum in real terms between 2000 and 2012 (whilst accounting for 18 per cent of total Western Cape exports in 2012) and food & beverage (i.e. agro-processing) exports grew by 4.6 per cent per annum over the corresponding period (accounting for 18.3 per cent of total exports in 2012). The sector's contribution to the cumulative export growth over the 2000 to 2012 period is calculated by weighting the average real growth rate with the average contribution over this period.

goods exports revealing international comparative advantage is produced in the agricultural sector and associated processing industries.

Figure 3.5 Western Cape agriculture & agro-processing export destinations: 2011



Source: Quantec Research; own calculations

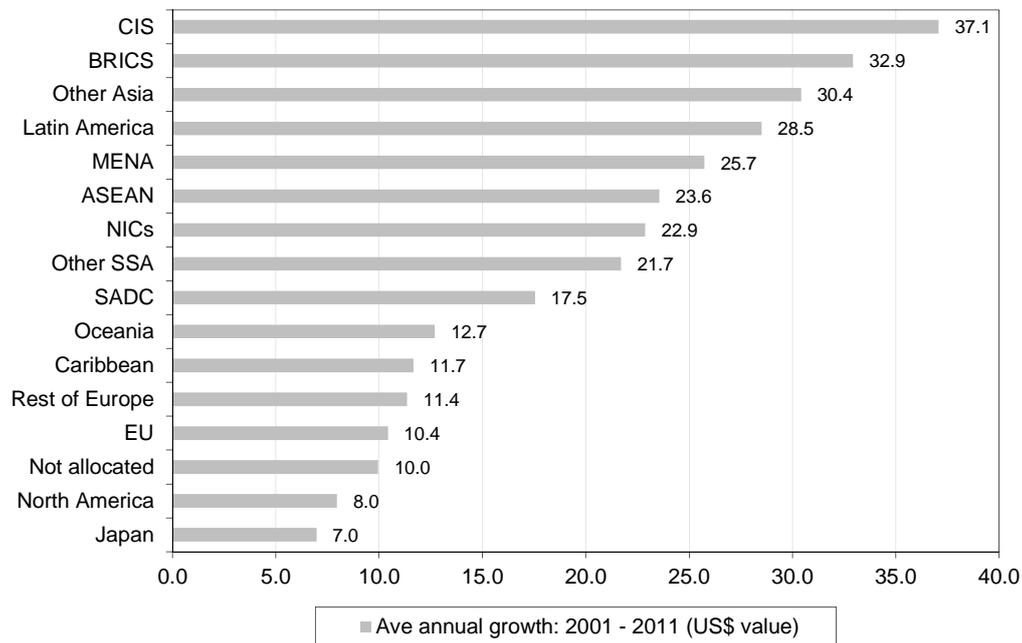
Figure 3.5 shows the destinations of agricultural and agro-processing exports. The EU is by far the dominant market absorbing 43.4 per cent of Western Cape goods exports in 2011. The second most important (continental) region is Africa. At a sub-regional level, the Newly Industrialised Countries of East Asia, absorbing close to 10 per cent of exports, are also important destinations.

When the growth of agricultural exports is considered the picture changes (Figure 3.6). It is evident that export growth to the non-traditional regions¹³ has been the most rapid over the period under consideration, i.e. 2001 to 2011. While the sharp growth of exports to non-traditional markets is off a low base, the more significant factor is that in 2011 the share of Western Cape agricultural & agro-processing exports destined to these regions added up to more than 35 per cent of the total¹⁴.

¹³ Non-traditional regions here include all world regions outside of the European Union, the USA and Japan, as well as the SADC countries.

¹⁴ This excludes exports to the BRICS 'region' in order to avoid double counting. Included are the Newly Industrialised Countries (Hong Kong, South Korea, Taiwan and Singapore), African countries other than SADC, Middle Eastern countries, China, India, ASEAN countries (e.g. Malaysia, Philippines, Indonesia, Cambodia, Thailand, Vietnam, etc.) and the Commonwealth of independent States – see Annexure A.

Figure 3.6 Agriculture & agro-processing exports: 2001 – 2011 (US\$ value yoy % change)

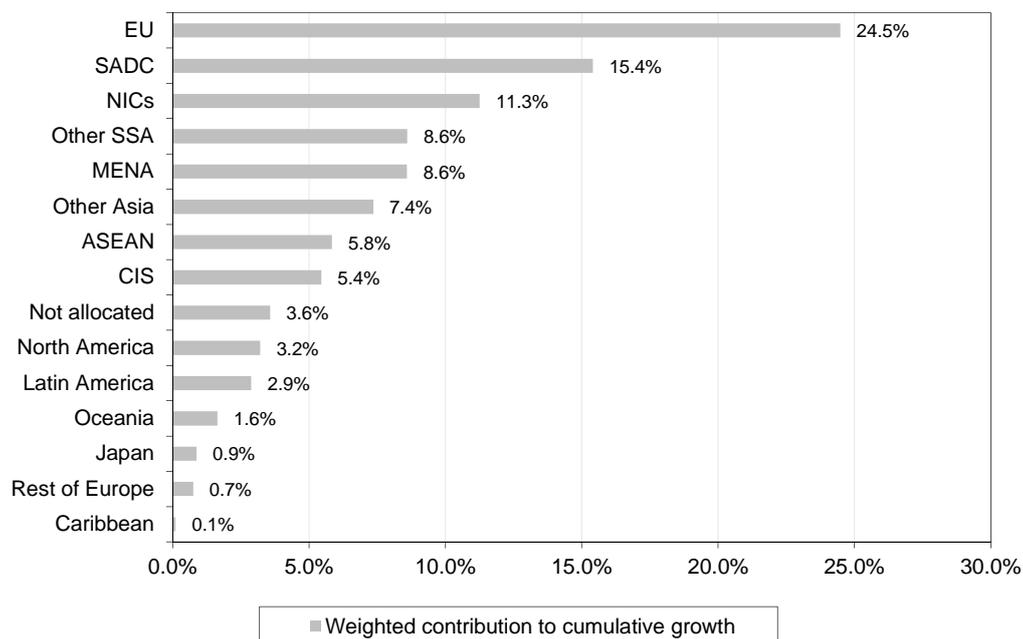


Source: Quantec Research; own calculations

At the other end of the spectrum agricultural export growth to the EU, North America and Japan has been the slowest, with the market share of agriculture and agro-processing exports to these regions having declined by 16.1, 4 and 2.9 percentage points respectively between 2001 and 2011. All the other regions gained market share, except Oceania and the rest of Europe marginally losing market share.

It is evident that producers have diversified export destinations to the faster-growing emerging economies of the world over the 2000s. There are two major points that need to be made in terms of future export growth.

Firstly, Figure 3.7 portrays a more balanced picture, with average export growth rates weighted by the respective market shares in order to gain an appropriate understanding of both market growth and depth. The EU remains the Western Cape's key export market by a wide margin (accounting for one quarter of cumulative agricultural export growth between 2001 and 2011). The other key markets are SADC, the NICs, other SSA countries, MENA, China & India and ASEAN. (See Annexure A for a classification of countries.)

Figure 3.7 Agriculture & agro-processing exports: weighted contribution to cumulative growth, 2001 – 2011

Source: Quantec Research; own calculations

Secondly, the poor economic growth in the advanced economies of the world has also impacted on the emerging market group of countries and the latest evidence point to a gradual strengthening of economic conditions in the major advanced economies. Trade relations with these countries are still strong and producers should not neglect these markets.

3.3.3 Agricultural commodities and job creation

The National Development Plan sets a goal of close to one million new jobs in the agricultural sector and related industries nationally by 2030 (NDP, 2013: 217). A key part of the plan is to pick and support commercial farming sectors which can expand on a sustainable basis given the demand conditions in the domestic and foreign markets for agricultural goods.

The NDP classifies three types of commercial farms earmarked for expansion and job creation, i.e. large labour intensive farms (e.g. citrus, table grapes & raisins, subtropical fruit and vegetables); small labour intensive farms (e.g. nuts, olives, rooibos tea, figs, cherries and berries); and non-labour intensive farms (mainly field crops such as maize and wheat, or grains, oilseed and livestock, i.e. farms with strong downstream and upstream industry linkages).

The BFAP team designed the chart, Figure 3.8, mapping various agricultural commodities on two axes: the horizontal axis showing dependence on labour and the vertical axis showing current growth potential.

The results are relatively favourable for the Western Cape’s preferred agri-products, e.g. citrus, apples, pears, nectarines, plums, table grapes, raisins, nuts, olives and vegetables. The production of peaches, apricots and wine is also labour intensive, but the growth potential may be more limited.

Figure 3.8 Agricultural growth and employment potential in South Africa



Source: National Development Plan, 2013: 223

3.3.4 The food value chain

The processing of the Western Cape’s primary agricultural output (R28.5 billion in 2011) is an integral part of regional economic production and employment creation. Activities such as winemaking, fruit, vegetable and fish canning, dairy products and baking add value to primary agricultural output and are key sources of economic growth and development in the provincial economy. The output of the food (72 per cent) and beverage & tobacco (28 per cent) sectors amounted to R48.8 billion in 2011 and combined with agriculture the sector employed 10 per cent of the regional workforce (Quantec Research, 2013).

Table 3.6 Western Cape agriculture & processing value chain: 2011 (R million)

	Supply			Output = sales	Demand		
	Intermediate imports	Intermediate inputs (BLs)	GVA		Sales to households	Exports	Intermediate output (FLs)
Agriculture, forestry & fishing	4 638 16.3%	9 229 32.3%	14 666 51.4%	28 533 100.0%	4 610 16.2%	11 930 41.8%	11 993 42.0%
Food, beverages & tobacco	4 953 10.1%	26 804 54.9%	17 100 35.0%	48 857 100.0%	30 372 62.2%	11 964 24.5%	6 521 13.3%

Notes: BLs = Backward linkages (or intermediate inputs); FLs = Forward linkages (or intermediate outputs); GVA = Gross value added (or GDP)

Source: Quantec Research I/O Table Western Cape (2011); own calculations

Table 3.6 summarises the Western Cape food value chain (expressed in 2011 Rand). In the agricultural sector intermediate imports (16.3 per cent of output) were combined with extensive intermediate inputs (the so-called backward linkages of agricultural production (e.g. fertiliser from the chemical sector and agricultural machinery), which accounts for 32.3 per cent of output) to generate gross value added of R14.7 billion; employment is estimated at 116 000 (Quantec Research, 2013). A large share of the output (42 per cent) was exported and 16 per cent of sales were directly to households. The remaining 41.8 per cent was sold as intermediate outputs (i.e. the so-called forward linkages) to the food & beverage processing industry (mainly) and other industries (e.g. the catering & accommodation sector).

In the agro-processing industries an additional R17.1 billion gross value added was generated by combining the intermediate imports (10 per cent) and intermediate inputs (54.9 per cent) to produce output of R48.8 billion in 2011. Employment in the food, beverage & tobacco sector is estimated at 52 700 (Quantec Research, 2013). The bulk of the processed foods & beverages are sold directly to domestic households (62.2 per cent), while 24.5 per cent is exported. The remaining 13 per cent found its way back to industry as intermediate output.

From Table 3.6 it is evident that the agro-processing industries are well supplied by the local primary agricultural sector and other local industry, with intermediate imports only amounting to 10.1 per cent of output. The ratio of processed food & beverage value added to intermediate inputs (i.e. 0.74) is low which indicates there may be scope to move higher up the value chain producing higher value added products. In the agricultural sector it seems that both exports and domestic demand generate scope for value addition and employment.

The processing firms outside the Cape Metro play an integral part in the development of rural towns and agricultural processing could provide opportunities for new industries and small business development, which supports the objectives of inclusive growth.

Agri-business generates competitive exports. Agriculture & agro-processing exports, measured at 31 per cent of output in 2011, accounted for more than a third of the cumulative growth of total (i.e. including services) provincial exports over the period 2000 to 2012 (Quantec Research, 2013). The Cape Winelands is the leading exporting district, having made strides with wine exports, followed by the Cape Metro, the West Coast and Overberg.

Modern agri-business is research & development-driven and the development and growth of this sector is a key source of science & technological development, i.e. a potent virtuous circle. In this regard, issues regarding the environment and resource limitations also enter the picture. Far from being a sunset industry, agri-business has gained renewed significance in the 21st century.

New industries are being developed, such as the aquaculture industry, with significant potential in terms of value addition, exports and (lesser-skilled) employment creation (see PERO 2010 & 2011; DEDAT, 2011).

The foregoing analysis has shown that the Western Cape agricultural & processing sector is a formidable asset in the regional economy. All stakeholders have to navigate the transition from a sector which tended to develop on the basis of low-paid and low-skilled labour in the bygone era to one where workers need to be up-skilled, better paid and technological advances accommodated in search of yield. This process will be different for different farm types and sizes; however, the importance of productive employment, the growth of export market share, the replacement of imports and institution building to facilitate change in the industry will remain paramount for the achievement of inclusive growth.

3.4 Manufacturing sector and revealed comparative advantage

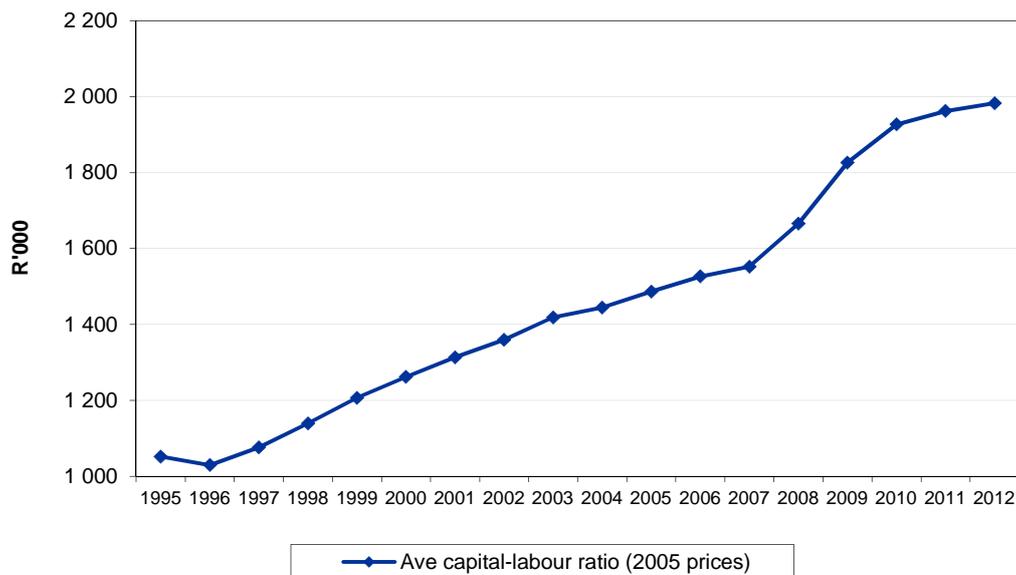
The concept of inclusive growth has important implications for the development of the manufacturing sector in the Western Cape. From the perspective of *productive investment* and *employment creation* across sectors the development of manufacturing activity gains new prominence. In previous PERO reports (2011 and 2012) the widening gap between real economic growth, i.e. the expansion in real value added, on the one hand and employment on the other was highlighted as a matter of grave concern¹⁵.

The key structural challenge appears to be the rapid growth of the region's services industries, which tend to employ disproportionately more skilled labour. In contrast, slower growth and job-shedding have occurred in manufacturing, which is semi- and unskilled labour intensive. Capital intensity of manufacturing production tend to increase capital/labour ratios (see Figure 3.9) which reveal capital deepening through increased mechanisation and the relative decline of labour-intensive manufacturing such as garment production.

¹⁵ Over the period 2001 to 2011 real GDP in the Western Cape expanded by more than 60 per cent while the level of total employment (i.e. including the informal sector) only expanded by 16 per cent. While this is a feature of the provincial economy, it is not limited to the Western Cape as this trend is also observable nationally, in fact – at least to some extent – also internationally (PERO, 2011).

The result of this structural growth path is the continued growth of semi- and unskilled unemployment, particularly amongst the youth¹⁶. The rapidly expanding services industries in turn runs into serious skills shortages creating the need for the importation of scarce skills. Major mismatches between the industry demands and education and training institutions' supply of skills exacerbate the skills problem.

Figure 3.9 Western Cape manufacturing: Average capital-labour ratio (constant 2005 prices)



Source: Quantec Research

Western Cape manufacturing real value added as a share of region-wide GDP has shrunk from 22.5 per cent in 1995 to 17.3 per cent in 2011. Whilst the 2008 - 2009 recessions had a major adverse impact on the sector, particularly in terms of employment losses, which the sector continues to recover from, the trend has clearly been established well before the recession. The so-called 'de-industrialisation' of the regional economy needs to be unpacked with the objective of inclusive growth in mind.

¹⁶ See Chapter 4, section 4.6

the dti Industrial Production Action Plan (IPAP), 2013/14 – 2015/16

National industrial policy is contained in the National Industrial Policy Framework (NIPF) and its successive industrial Policy Action Plans (IPAPs). The IPAP is “premised on the principle of critical engagement with industry to identify opportunities and constraints and continuous improvement of the corresponding transversal and sector specific interventions required to unlock industry growth, in close collaboration with all industry stakeholders.” (IPAP 2013/14 – 2015/16: 20)

The whole suite of **the dti**'s policy interventions consist of, as indicated above, a set of eight transversal interventions and a range of sector specific support measures. Regarding the latter, three clusters of sector support are identified:

- **Sectors already supported since 2007 (cluster 1):** A range of eight sectors (or clusters of economic activity) ranging from clothing, textiles, footwear & leather to automotive products & components, medium & heavy commercial vehicles; plastics & pharmaceuticals; metals fabrication, capital & rail equipment; agro-processing; forestry, timber, paper, pulp & furniture; BPO and creative industries (film, crafts & music).
- **Qualitatively new areas of focus (cluster 2):** Green & energy-saving industries (renewables); downstream mineral beneficiation; upstream oil & gas services & equipment; and boatbuilding.
- **Developing long-term advanced capabilities (cluster 3):** Nuclear; advanced materials; aerospace & defence and electro-technical.

In the respect of *transversal interventions* **the dti** has identified the following eight components of industrial policy: public procurement (e.g. in the government's comprehensive infrastructure investment programme, including that of Eskom and Transnet) as well as strategic approaches to local procurement; industrial financing; developmental trade policy; competition policy; regional integration; skills for the economy; innovation & technology and Special Economic Zones (SEZs).

The Western Cape Government (WCG) commenced with a cluster intervention policy programme from 1998 with the establishment of eight so-called Special Purpose Vehicles (SPVs), which has evolved to twelve SPVs by 2012/13. Sectors that are supported are divided into so-called '*propulsive sectors*', namely the oil, gas & marine complex; green economy; tourism & film, BPO, financial services & ICT and '*labour-absorbing sectors*', being clothing & textiles, leather & fashion; aqua- and agro-processing; metal products (tooling industry); creative industries & design; and the green economy. The objective with the cluster programme is to build systemic competitiveness.

It is known that the productivity of manufacturing growth exceeds that of the tertiary sectors, particularly due to its more extensive forward and backward linkages to other sectors. The question is what sectors and subsectors (or clusters of economic activity, or product lines) reveal comparative advantage in the Western Cape? Once these sectors have been identified, supportive policies can be designed to remove negative externalities preventing productive investment and employment creation in order to generate inclusive economic growth.

The analysis of revealed comparative advantage has two dimensions: firstly, the national context, i.e. the question is asked which industries are growing faster in the Western Cape compared to the rest of the country; and, secondly, in which commodities/industries do the Western Cape reveal comparative international trade advantages? The latter is important because exports are accepted as a source of economic growth and employment creation since the domestic market is too small to generate the required economies of scale production.

3.4.1 Revealed comparative advantages of industry

The regional economy is services oriented. Its manufacturing base tends to have a competitive edge in innovation and niches, i.e. in small and medium-sized enterprise rather than in heavy industry. Mining contributes a small part of the real value added in the region. However, primary production in agriculture, forestry and fishing remains the backbone of the provincial economy.

The average annual growth rates in real value added across the various sectors over the period 2000 to 2011 are summarised in Table 3.7 and Table 3.8 (as well as Annexure B to this chapter) and allow a number of observations.

Firstly, the fast growth of a range of services is conspicuous. Whilst services industries also grew rapidly in the rest of the country, the Western Cape tended to out-perform.

Secondly, and in contrast, the poor showing of a range of manufacturing subsectors is evident. Many of the slowest growing sectors are found in manufacturing.

Thirdly, although the list of poor growing manufacturing sub-sectors is long there are more rapidly growing industries such as professional & scientific equipment and machinery & equipment.

Finally, the performance of two small but critical sectors, i.e. agriculture, forestry & fishing and construction need to be highlighted. As noted earlier both these sectors directly contribute a relatively small share of region-wide GDP, but make a key indirect contribution.

Determining revealed comparative advantage

In order to establish whether the growth of a particular industry within a region reveals a competitive edge, location quotients (LQs) are calculated: the share of a specific industry's value added in the aggregate regional value added is expressed relative to the same industry's share in the value added of a reference region. A ratio larger than unity implies that the industry in the relevant region out-performed that in the reference region. Conversely, a ratio that is smaller than one implies some lack of comparative advantage. LQs can be calculated by expressing the relevant subsectors' contribution to regional real GDP as a ratio of the same subsector's contribution to national real GDP. Also, by expressing the relevant export commodity's share in total regional exports as a ratio of the same commodity's share in world exports, a revealed comparative trade advantage (RCTA) ratio can be calculated.

Table 3.7 Structure, growth and revealed comparative advantage of the Western Cape economy

	Western Cape		South Africa		LQ ratio	
	GDPR % share	Growth	GDP % share	Growth	2000	2011
	2011	2000 - 2011	2011	2000 - 2011		
1 Agriculture, forestry and fishing	3.7	1.8	2.4	2.0	1.57	1.53
2 Mining	0.2	-1.5	5.9	0.0	0.04	0.03
3 Food, beverages and tobacco	4.8	2.2	2.9	2.4	1.78	1.64
4 Textiles, clothing and leather goods	1.2	2.8	0.8	2.8	1.60	1.53
5 Wood and paper; publishing and printing	1.6	1.1	1.5	1.4	1.24	1.14
6 Petroleum products, chemicals, rubber and plastic	3.4	3.0	4.3	3.7	0.90	0.80
7 Other non-metal mineral products	0.6	2.0	0.6	1.6	1.02	1.00
8 Metals, metal products, machinery and equipment	2.3	3.6	3.3	3.5	0.70	0.69
9 Electrical machinery and apparatus	0.3	3.5	0.5	3.5	0.71	0.68
10 Radio, TV, instruments, watches and clocks	0.2	3.9	0.3	4.6	0.98	0.87
11 Transport equipment	1.0	4.5	1.7	5.5	0.65	0.59
12 Furniture; other manufacturing	1.6	2.1	1.4	2.4	1.20	1.11
13 Electricity & water	1.4	2.8	2.0	2.0	0.67	0.69
14 Construction	4.4	7.2	3.4	7.3	1.47	1.29
15 Wholesale & retail trade	13.5	4.2	12.9	3.9	1.10	1.05
16 Catering and accommodation	1.6	5.5	1.0	3.5	1.41	1.64
17 Transport	5.8	4.3	5.5	3.7	1.04	1.05
18 Communication	4.3	6.7	4.6	7.4	1.07	0.92
19 Finance and insurance	10.7	6.9	8.4	6.4	1.31	1.28
20 Business services	22.2	5.6	15.3	5.2	1.49	1.45
21 Community, social and personal services	5.1	3.1	6.1	3.1	0.89	0.83
22 General government	10.1	2.3	15.2	2.5	0.70	0.66
Total	100.0	4.2	100.0	3.6	1.00	1.00

Source: Quantec Research; own calculations

Both the structural change in the regional economy over the 2000s (rapidly growing services juxtaposed with slow growth in a number of manufacturing subsectors) and the nature of Western Cape industry (innovation & niche activities, a strong agro-processing industry, some heavier industries, e.g. petro-chemicals and iron & steel; and flourishing furniture, automotive component manufacturing and boat building industries) are evident from these growth patterns, as well as the key fixed investment contribution of the construction sector. The question is *how do these apparent strengths weigh up to the national growth patterns?* The results of the location quotient ratio analysis are contained in the two rightmost columns of Table 3.7 and Table 3.8.

As a *first* observation, the range of sectors (at the 22 sector aggregated level) that reveal comparative advantage is quite impressive, a factor broadly explaining the outperformance of the Western Cape economy in a national context¹⁷. The LQ's have also remained remarkably stable between 2000 and 2011. But there is some slippage in the Province's competitive edge; only

¹⁷ The subsectors revealing comparative advantage, i.e. with an LQ>1 in 2011, account for no less than 72 per cent of Western Cape GDP.

5 subsectors out of 21 that reveal comparative advantage showed some gain in their competitiveness over the period under consideration.

Secondly, the outperformance of the region's services industries is evident from Table 3.7 and Table 3.8. Finance & insurance, business services and catering & accommodation (linked to tourism) feature prominently. The transport & storage and retail & wholesale subsectors also reveal comparative advantage, albeit marginally so. The services industries listed account for 45 per cent of employment in the Western Cape and 58 per cent of GDP (see Table 3.8; Quantec Research, 2013).

Table 3.8 Sector growth and revealed comparative advantage of the Western Cape economy

Sectors: SIC	Western Cape		South Africa		LQ ratio	
	GDPR % share	Growth	GDPR % share	Growth	2000	2011
	2011	2000 - 2011	2011	2000 - 2011		
Agriculture & agro-processing	8.5%					
1 Beverages & Tobacco	2.33	0.2	0.99	-0.62	2.23	2.35
2 Agriculture, forestry & fishing	3.74	1.8	2.44	2.03	1.57	1.53
3 Food	2.46	5.0	1.93	4.93	1.33	1.27
Manufacturing (ex. Food & beverages)	10.8%					
4 Footwear	0.12	2.0	0.06	-0.07	1.47	1.81
5 Printing, publishing & recorded media	0.88	1.4	0.51	1.54	1.83	1.72
6 Wearing apparel	0.61	2.4	0.36	2.31	1.75	1.69
7 Textiles	0.34	2.4	0.25	2.38	1.42	1.35
8 Plastic products	0.60	0.9	0.45	1.46	1.47	1.31
9 Other transport equipment	0.21	5.1	0.17	5.79	1.43	1.24
10 Other industries	1.36	1.8	1.22	2.06	1.20	1.11
11 Leather & leather products	0.08	30.1	0.08	30.74	1.30	1.11
12 Furniture	0.20	5.4	0.19	5.80	1.20	1.10
13 Professional & scientific equipment	0.10	7.1	0.09	6.73	1.08	1.08
14 Non-metallic minerals	0.47	2.1	0.47	1.29	0.98	1.00
15 Glass & glass products	0.12	2.3	0.12	3.43	1.21	1.00
16 Machinery & equipment	0.98	6.5	1.00	5.55	0.92	0.98
17 Wood & wood products	0.33	0.0	0.38	0.88	1.05	0.88
Construction	4.4%					
18 Construction	4.39	7.2	3.41	7.34	1.47	1.29
Services	58.1%					
19 Catering & accommodation services	1.56	5.5	0.95	3.46	1.41	1.64
20 Business services	22.24	5.6	15.30	5.24	1.49	1.45
21 Finance & insurance	10.68	6.9	8.36	6.41	1.31	1.28
22 Wholesale & retail trade	13.51	4.2	12.89	3.93	1.10	1.05
23 Transport & storage	5.81	4.3	5.54	3.66	1.04	1.05
24 Communication	4.26	6.7	4.60	7.38	1.07	0.92

Source: Quantec Research; own calculations

Thirdly, there is the long list of manufacturing subsectors that reveal a competitive edge over their national counterparts. This list includes 14 subsectors¹⁸ ranging from beverages & tobacco (LQ = 2.35) to non-metallic minerals and glass products (LQ = 1.00). However, as noted, manufacturing's role in the provincial economy has shrunk; 90 per cent of the decline in its contribution to regional GDP is explained by the diminishing role of the 14 competitive industries highlighted in Table 3.8. Furthermore, the share of

¹⁸ This is excluding machinery & equipment with its LQ just below unity in 2011 and wood products, which had a LQ above unity in 2000, however, lost it by 2011.

the Western Cape workforce employed in these industries shrunk from 14 per cent in 1995 to 8.5 per cent in 2011 (see DEDAT, March 2013).

Fourthly, as may be expected the agriculture, forestry & fishing sector reveals strong comparative advantage (LQ = 1.53) and should be seen in conjunction with the comparative advantage of the beverages & tobacco and food processing subsectors.

3.4.2 International trade comparative advantage

Since exports are important as a source of growth the real test for comparative advantage is the ability of domestic producers to compete in international markets. The revealed comparative trade advantages (RCTA), explained in the Box in section 3.4.1) of the Western Cape's goods exports has been calculated to determine competitiveness. International trade comparative advantage is revealed should the RCTA ratio exceed unity; conversely, a value below unity indicates comparative disadvantage. The results from the analysis are contained in Table 3.9 and Table 3.10 (as well as Annexure C).

Table 3.9 Composition, growth and revealed comparative advantage of WC exports (21 commodity groups)

Commodity (HS Code)	Western Cape goods exports		World goods exports		RCTA ratio	
	% share	Average growth	% share	Average growth	2000	2011
	2011	2000 - 2011	2011	2000 - 2011		
1 Live animals, animal products (1-5)	6.1	7.7	1.9	9.9	3.73	3.29
2 Vegetable products (6-14)	27.4	17.0	3.2	13.3	5.54	8.60
3 Animal or vegetable fats & oils (15)	0.8	14.9	0.3	11.1	2.32	3.03
4 Foodstuffs (16-24)	20.1	10.8	2.7	11.0	7.15	7.38
5 Mineral products (25-27)	12.5	8.0	17.4	18.1	1.69	0.72
6 Chemicals & allied industries (28-38)	5.2	11.7	8.9	11.7	0.73	0.58
7 Plastics/rubbers (39-40)	1.3	7.9	4.4	11.8	0.43	0.30
8 Raw hides, skins, leather, & furs (41-43)	0.5	-0.7	0.6	8.3	2.59	0.75
9 Wood & wood products (44-49)	1.2	5.6	2.4	6.2	0.52	0.50
10 Textiles & textile articles (50-63)	1.0	-4.3	4.2	7.3	0.92	0.24
11 Footwear/headgear (64-67)	0.2	10.5	0.8	8.9	0.31	0.21
12 Stone/glass (68-70)	0.2	3.8	0.9	8.6	0.38	0.26
13 Pearls, precious, semi-precious stones/metals (71)	1.5	10.6	3.2	16.1	1.03	0.47
14 Metals (72-83)	6.3	11.8	7.5	13.9	1.14	0.84
15 Machinery/electrical (84-85)	10.6	18.9	23.6	8.1	0.15	0.45
16 Transportation (86-88)	1.1	-3.9	8.5	8.3	0.71	0.13
17 Ships & boats (89)	1.7	17.8	1.1	15.4	2.68	1.61
18 Professional equipment/ instruments, etc. (90-92)	1.1	22.0	3.3	9.5	0.14	0.35
19 Arms & ammunition & miscellaneous (93-96)	0.8	5.1	1.8	8.2	0.56	0.41
20 Works of art, collectors' pieces & antiques (97)	0.1	7.0	0.1	7.4	0.86	0.45
21 Special classifications & Nec (98-99)	0.4	348.4	3.3	11.6	0.55	0.12
Total	100.0	9.2	100.0	10.7	1.00	1.00

Source: UNSD COMTRADE/Quantec Research

From Table 3.9 it seems that the Western Cape is only competitive in the agricultural and agro-processed goods. Apart from live animals and animal products these ratios have also tended to increase between 2000 to 2011, indicating some 'gain' in competitiveness in a global context.

The aggregated data is not the desirable level of analysis, which becomes immediately clear when Table 3.10 (and Annexure C) is considered. This table reflects that close to one third of the 98 commodity groups (i.e. HS 2-digit code)¹⁹ reveal comparative trade advantages. Close to half of these commodity groups are in the agriculture and agro-processing sectors, confirming the competitive edge of this sector in the Western Cape. Agriculture and agro-processing exports that reveal comparative advantage account for 53 per cent of Western Cape exports, which is more than 80 per cent of the total exports of industries with competitive advantage.

Another sector that reveals comparative advantage in international trade is *chemicals*. Six of the 30 commodity groups are in this sector, ranging from products such as explosives & pyrotechnics (RCTA = 7.81) to inorganic chemicals (RCTA = 1.00). However, the contribution of these goods to Western Cape exports is relatively small.

Table 3.10 Growth and revealed comparative advantage of Western Cape goods exports (2-digit HS code)

Commodity (HS Code)	Western Cape goods exports		World goods exports		RCTA ratio	
	% share	Average growth	% share	Average growth	2000	2011
	2011	2000-2011	2011	2000-2011		
Agriculture & agro-processing	53.0%					
8 Edible fruit, nuts, peel of citrus fruit, melons	22.41	16.4	0.50	11.0	26.46	44.90
22 Beverages, spirits and vinegar	11.69	12.3	0.60	10.6	15.33	19.44
20 Vegetable, fruit, nut, etc. food preparations	4.32	5.3	0.33	10.5	24.60	13.25
3 Fish, crustaceans, molluscs, aquatic invertebrates nes	5.54	8.3	0.54	8.4	9.89	10.35
24 Tobacco and manufactured tobacco substitutes	2.01	36.4	0.23	5.6	1.28	8.84
10 Cereals	3.04	194.5	0.68	14.0	0.17	4.49
6 Live trees, plants, bulbs, roots, cut flowers etc.	0.39	12.2	0.12	8.8	2.45	3.27
16 Meat, fish and seafood food preparations nes	0.78	14.9	0.26	11.1	2.32	3.03
5 Products of animal origin, nes	0.15	17.4	0.05	9.7	2.87	2.94
21 Miscellaneous edible preparations	0.81	22.6	0.32	11.7	0.98	2.54
23 Residues, wastes of food industry, animal fodder	0.76	73.7	0.38	12.1	0.23	2.01
12 Oil seed, oleagious fruits, grain, seed, fruit, etc. nes	0.70	18.5	0.48	15.2	1.07	1.48
13 Lac, gums, resins, vegetable saps and extracts nes	0.05	35.3	0.04	13.5	0.38	1.25
7 Edible vegetables and certain roots and tubers	0.37	15.6	0.35	11.0	0.77	1.05

¹⁹ The Harmonised Commodity Description and Coding System (HS) is an internationally standardised classification of trade data system. At the 2-digit level of aggregation, the HS system consists of 99 traded commodity groups.

Commodity (HS Code)	Western Cape goods exports		World goods exports		RCTA ratio	
	% share	Average growth	% share	Average growth	2000	2011
	2011	2000-2011	2011	2000-2011		
Chemicals	3.8%					
36 Explosives, pyrotechnics, matches, pyrophorics, etc.	0.18	85.7	0.02	9.1	47.96	7.81
33 Essential oils, perfumes, cosmetics, toiletries	1.03	18.5	0.59	11.6	0.90	1.74
37 Photographic or cinematographic goods	0.18	74.5	0.11	0.0	0.22	1.69
35 Albuminoids, modified starches, glues, enzymes	0.24	4.4	0.14	9.0	13.35	1.64
38 Miscellaneous chemical products	1.42	44.9	1.04	11.8	0.30	1.36
28 Inorganic chemicals, precious metal compound, isotopes	0.72	41.1	0.73	12.5	0.44	1.00
Other commodities	8.9%					
25 Salt, sulphur, earth, stone, plaster, lime and cement	0.93	35.8	0.25	11.0	1.59	3.72
53 Vegetable textile fibres nes, paper yarn, woven fabric	0.04	-	0.02	3.0	0.01	1.95
67 Bird skin, feathers, artificial flowers, human hair	0.07	36.2	0.04	9.2	0.36	1.93
41 Raw hides and skins (other than furskins) and leather	0.33	-1.9	0.18	5.5	5.98	1.81
89 Ships, boats and other floating structures	1.72	17.8	1.07	15.4	2.68	1.61
74 Copper and articles thereof	1.60	23.8	1.03	18.3	0.98	1.55
72 Iron and steel	3.48	11.8	2.68	17.0	2.28	1.30
49 Printed books, newspapers, pictures etc.	0.37	22.1	0.29	6.7	0.63	1.26
66 Umbrellas, walking-sticks, seat-sticks, whips, etc.	0.03	4.1	0.02	9.9	5.39	1.19
86 Railway, tramway locomotives, rolling stock, equipment	0.30	1.2	0.25	14.4	36.90	1.18

Source: UNSD COMTRADE/Quantec Research

Table 3.9 and Table 3.10 show a list of other commodities with revealed comparative trade advantage. A number of these products are resource-based (or materials intensive), e.g. raw hides & skins, textile fibres, yarn & woven fabrics, bird skin & feathers, iron & steel, copper & related articles, lime & cement etc. Some fully manufactured products are also included, notably boat-building, railway equipment, books & newspapers. However, these products only account for 2.4 per cent of total Western Cape exports, excluding processed food & beverages.

Western Cape manufacturing industry reveals a competitive edge within the country, but has some way to go in order to be internationally competitive. There is no doubt that the Province's agricultural sector and associated processing industries stand out in terms of their national and international competitiveness. The export orientation of both sectors is a great asset and an important source of growth in the region. Furthermore, local opportunities for value-addition and employment creation should be maximised as an additional source of demand for agricultural products.

3.5 The services sector

The services sector remains the leading growth and employment sector in the Western Cape economy. The broad sector grew at 4.6 per cent per annum over the 2000 to 2011 period, substantially faster than 4.1 per cent average growth over the period, and created a cumulative 383 660 job opportunities on a net basis, i.e. at a rate of 2.8 per cent per annum. This time period includes the impact of the 2008 to 2009 recession during which the sector continued to grow at a rate of 2.5 per cent per annum, down from 5.5 per cent during the expansion phase of the business cycle. Growth is estimated to have re-accelerated to 3.2 per cent per annum during the first three calendar years of the general economic recovery, i.e. 2010 to 2012.

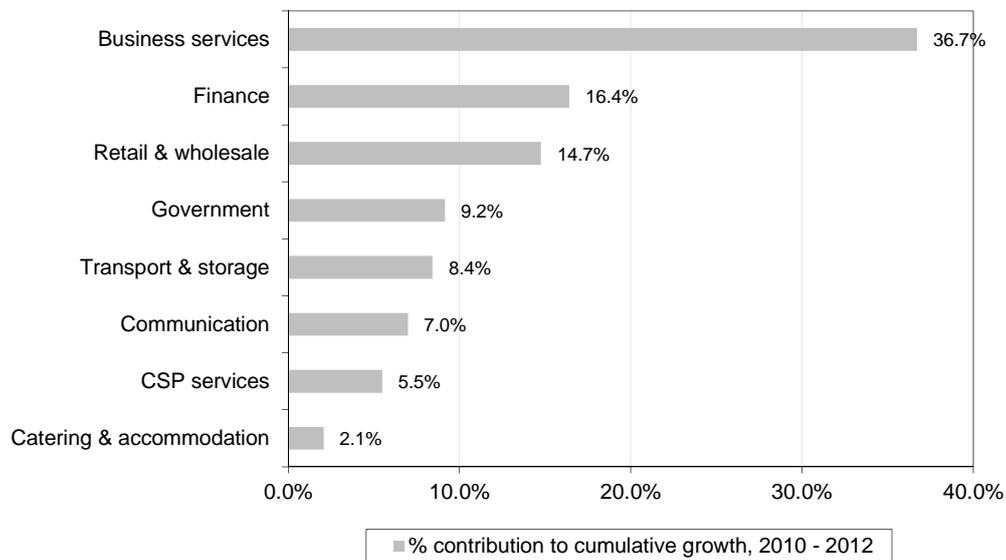
Table 3.11 Western Cape services sector: Growth & employment, 2000 - 2012

Sub-sector	GDP (% share) 2011	Trend: 2000 - 2011		Expansion Yoy% 2000 - 2007	Recession Yoy% 2008 - 2009	Recovery Yoy% 2010 - 2012	Forecast Yoy% 2013 - 2018
		Employment (change)	GDP Yoy%				
Retail & wholesale	18.7	115 774	4.3	5.7	-0.5	3.7	3.0
Catering & accommodation	2.2	12 045	5.6	4.9	-1.3	10.8	3.7
Transport & storage	8.0	18 822	4.3	5.0	-1.0	5.2	4.0
Communication	5.8	-1 389	6.6	9.0	5.8	-0.2	4.6
Finance & insurance	14.4	-2 165	6.6	8.9	0.3	4.4	4.4
Business services	29.9	107 397	5.4	6.1	5.7	2.5	4.7
CSP services	7.0	62 265	3.0	3.9	1.4	1.6	3.0
Government	14.1	70 911	2.4	1.6	4.2	3.8	2.5
Total Services	100.0	383 660	4.6	5.5	2.5	3.2	3.8

Source: Quantec Research; own calculations

Business services²⁰ is the dominant sector and not finance & insurance as is often thought. Business services made by far the largest contribution, at 36.7 per cent, to the recovery growth during 2010 to 2012. It is followed by the finance & insurance sector (16.4 per cent) and retail & wholesale (14.7 per cent). The other large contributors range from CSP services (5.5 per cent) to the general government (9.2 per cent) (see Figure 3.10). While the finance & insurance and communications sectors grew the fastest, both in terms of the trend over the 2000s and the latest economic recovery, they are smaller sectors and hence make a lesser contribution to growth compared to the large business services sector. Business services are also far more successful in generating employment (see Table 3.11).

²⁰ Business services range 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.

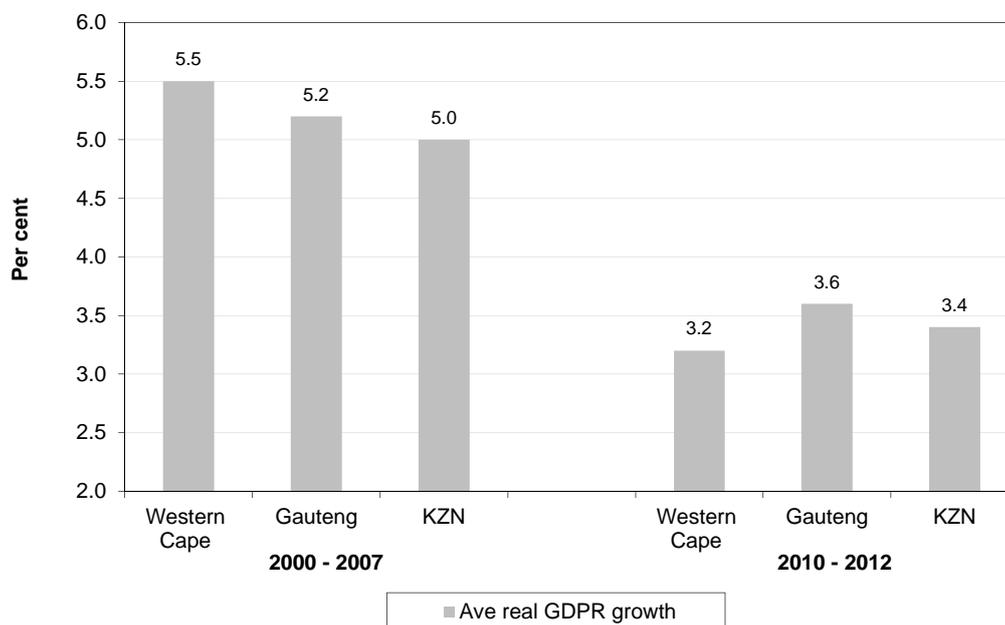
Figure 3.10 Western Cape services sector: contribution to cumulative recovery growth, 2010 – 2012

Source: Quantec Research; own calculations

The 2000s decade was characterised by strong capital inflows on the South African balance of payments (averaging 4 per cent of GDP), and the housing market (at least up to 2007 - 2008), bank credit extension (also up to 2007) and commodity markets were strong during the expansion phase, particularly from 2002 to 2007. This environment was conducive to explosive growth in financial services, with growth in real value added averaging close to 9 per cent per annum. The 2008 to 2009 global financial crisis changed all that. Commodity markets have declined substantially, the housing market has been under pressure and both demand and supply of private sector credit (households and businesses) have been constrained.

On the demand side, lower business and consumer confidence mitigate against credit utilisation. On the supply side banks have been constrained in their lending activities by the National Credit Act of 2007 (particularly in the housing market), while preparations for the planned Basel III financial services regulatory requirements cause banks to be less aggressive in their lending activities through the accumulation of larger capital reserves. Furthermore, the uncertain economic environment is not conducive to keen investment activity, which impacts the asset management and investment banking businesses. Real GDP growth in the financial services sector has halved over the period 2010 to 2012 compared to the 2000s and this may be an indication of the way forward. While some acceleration is projected over the 2013 to 2018 period, it is of some concern that one of the Western Cape's leading economic sectors may underperform its history over the 2000s.

Figure 3.11 Services sector real GDP growth: Western Cape vs Gauteng vs KwaZulu-Natal



Source: Statistics SA

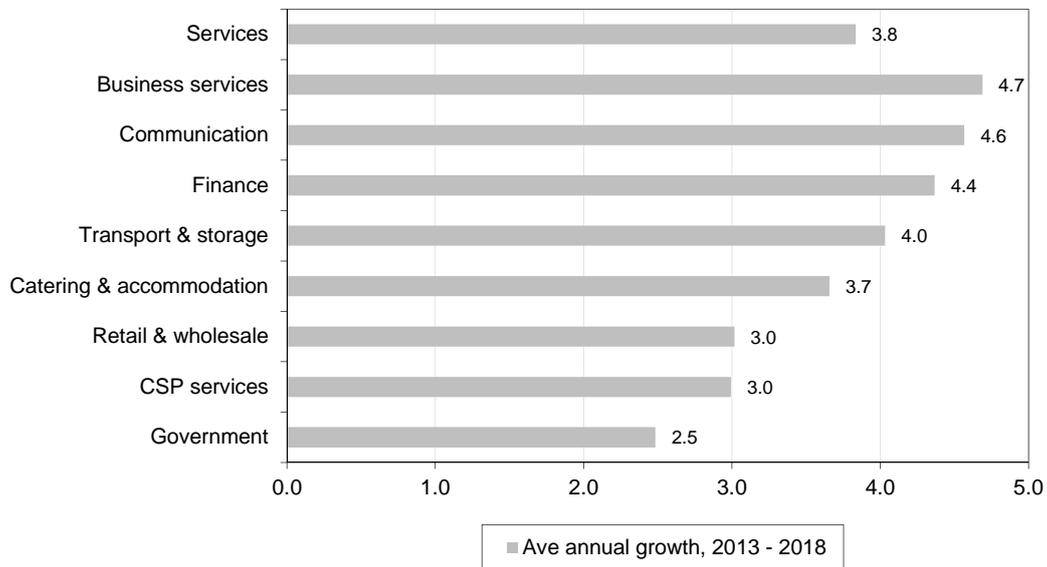
More subdued growth in the broader financial services sector could dampen overall provincial real economic growth particularly in the event of a struggling manufacturing sector. It is already evident that the margin of outperformance in the Western Cape *vis-à-vis* the other provinces has narrowed, mainly due to these factors, i.e. a less robust financial services performance and an embattled manufacturing sector, particularly in the Cape Metro. Even the broad services sector, which outperformed its provincial peers during the previous expansion phase of the business cycle and dominated growth in the Western Cape, has tended to underperform in the initial years of the current economic recovery.

The retail & wholesale sector also flourished during the 2000s, but experienced a sharp slowdown during the recession. Growth has recovered on the back of anti-cyclical fiscal policy and low interest rates, but the improvement has been uneven and characterised by poor job growth overall. Nonetheless, the retail & wholesale sector made a significant contribution to sustainable job growth during the recession and accelerated to 3.7 per cent per annum during the economic recovery (2010 to 2012; see Table 3.11). This sector also has close linkages with the tourism sector, which grew strongly during the recovery.

As far as business outlook is concerned, real value added growth of 3.8 per cent per annum is projected for services over the 2013 to 2018 period, which is significantly below the 2000s average of 4.6 per cent per annum.

The business services sector, including BPO and call centre activity, is projected to be the leading services sector, with growth forecast to average 4.7 per cent per annum over the 2013 to 2018 period.

Figure 3.12 Western Cape services sector: Real GDP growth outlook, 2013 – 2018 (per cent)



Source: Quantec Research; own calculations

While the communication sector has struggled in the economic recovery thus far, growth is bound to pick up again. Telecommunication costs and broadband internet access constraints are noted to be key problem areas across districts and sectors.

While the government was in a position to play a key anti-cyclical role in the recent recession and during the initial phase of the recovery, this is not sustainable and lower growth is projected for this sector.

Tourism will remain a key driver of economic activity in the retail, wholesale, catering & accommodation sector. The 3 per cent per annum growth projected for this sector could be on the conservative side.

3.6 Green economy considerations

Powerful forces are driving a green economic revolution worldwide and the WCG has grasped the opportunity presented by this challenge. It is determined to pioneer a green strategy for the region in the context of South Africa's efforts to embark on a greener economic growth path.

3.6.1 The economic issues

From an economic perspective it is critical that, having identified the region's comparative advantages, these will be secured in the first place by acting rapidly. The provincial economy is resource intensive particularly in view of the important role of agricultural production and related activities. Furthermore, the region's biodiversity and, tied to this, the important role of the tourism industry are key elements of the provincial economy's comparative advantage. While green economic considerations are future oriented, this does not detract from the possibility of early action securing the region's comparative advantage and to align the Province's competitiveness and performance with green economy requirements.

The green economy strives to improve energy and resource efficiencies given the pressures on the natural environment and strives to be in harmony with the natural eco-systems in order to ensure sustainability and resilience. A number of policy interventions exist.

First, improving energy and resource efficiencies include efforts to reduce household and business demand for energy referred to as Demand-Side Management (DSM), e.g. the construction of green buildings, solar water heating, industrial equipment and the migration from private to public transport.

Second, efforts to ensure environmental sustainability include: generating energy from renewable sources (solar, wind power, biomass); emission and pollution control (e.g. emissions regulation; electric vehicles, etc.); and natural resource management (i.e. the restoration of land, water and soil resources).

Going green makes business sense

One area where solar power is beginning to make a meaningful impact is the fitment of office buildings with photovoltaic solar panels as firms seek to replace expensive Eskom power with cost-effective solar power applications. Recently the largest roof-mounted solar panel power system in South Africa – with a generating capacity of 700 kW – was installed on an office building complex in the southern suburbs of Cape Town. The plan is to add an additional 2 050 solar panels by the end of the year, which will increase the capacity to 1 200 kW and generate 1.9 million kWh power annually. According to the MD of the supplying solar company, the system will be operational for 25 years and will be amortised within 7 years. The system is designed to supply all the power requirements of the building with no wastage or necessity to supply surplus energy back to the grid. This system currently exceeds the 620 kW solar project at the KwaZulu-Natal Dube Trade Port and the 500 kW system at the Vodacom office buildings in Century City in the Western Cape, but will soon be exceeded by a 1 MW system on the roofs of a Ceres-based fruit-growing company in the Western Cape. The system will supply 6 per cent of the company's power needs and reduce its carbon footprint – see *Die Burger* (28 August 2013) *Meer ondernemings besef gebruik van sonkrag het suksesin*.

The green economy is not a new economy, but a mixture of old and new. It involves the 're-tooling' of the old economy²¹ and it instils new dynamics, albeit best to be determined/driven by the laws of supply and demand (including the required regulatory interventions).

In the Province securing its comparative advantages, the green economy challenge embodies an opportunity to ensure that the region remains competitive. Agriculture and agro-processing account for a large share of GDP (particularly in the non-metro districts), is labour-intensive, account for more than half of the provincial goods export earnings and face keen demand conditions in industrialising developing country markets longer term. As shown in sections 3.3 and 3.4 the sector is competitive nationally and internationally. Carbon tax regimes could have a major adverse impact on the Province's comparative advantage in agriculture and agro-processing if the industry's carbon footprint is not reduced. It is calculated, for instance, that a R100 per ton carbon tax introduced in Europe will add 22 cents to the cost of fruit from the Overberg while the same tax will increase the price of fruit exports from Chile by only 9 cents (WCG, 2013: 6).

Furthermore, economic performance must be aligned with green economy requirements. Businesses are discovering that investment in 're-tooling' and a switch to renewable energy sources may be positive for the bottom line. Specifically, the DSM initiatives and the high price of Eskom's predominantly coal-fired energy, are moving businesses (and households) to install solar water heating on an increasing scale.

The Western Cape has the best wind and wave energy in South Africa, as well as good solar and bio-energy potential²². Furthermore, the Province has a strong academic and research base, which can play a key catalytic role in developing, designing and commercialising industrial and household green applications (DEDAT, November 2010). There is also a future for developing renewable energy manufacturing capabilities; the Western Cape is already a leading supplier of photovoltaic cells required in solar heating equipment. It is important that the focus will be on local production.

As noted, the move to renewable energy sources is a strategic imperative in view of the natural pressures on non-renewable energy sources. The development of off-shore natural gas resources along the West Coast is another area being considered. Unfortunately, the manufacture of wind turbines is capital intensive, while that of solar energy products less so, thus creating opportunities for the productive employment of labour. Employment opportunities are also available in waste management systems, ranging from

²¹ The re-tooling of the old economy represents new economic activity, but economic statistics will not be able to fully capture these 'green' economic activities.

²² According to the national Integrated Resource Plan (IRP) 1 000 MW renewable energy will ultimately be purchased by Eskom on the grid – 600 MW wind and 400 MW solar (PV). Atlantis, located 40 km outside Cape Town on the northern corridor towards Saldanha Bay is earmarked as a renewable energy manufacturing hub and has already been proposed as a *Special Economic Zone (SEZ)*. (WCG, 2013: 35)

biomass to e-waste disposal and recycling and the protection of our biodiversity (e.g. through the rehabilitation of catchment areas). In view of the objectives of inclusive growth, job creation, re-skilling and training and the associated institutional arrangements are important.

3.6.2 Green strategy

There are already many initiatives across society and a range of strengths in the local economy which support the WCG's efforts and ambition to play a pioneering role in becoming a green economy leader in the country. There are also challenges to be faced. Climate change threatens the future viability of some agricultural crops in the Province due to the likelihood of increasing droughts in water-stressed areas. Furthermore, the region's biodiversity is under threat from climate change and increasing human demands, which in turn, will impact the tourism industry.

All societies face uncharted territory in approaching the green challenge. The foregoing discussion makes it clear that two broad goals exist: *firstly*, to "optimise green economic opportunities" and, *secondly*, to "enhance our environmental performance" (see WCG, 2013: *Green is Smart: Western Cape Green Economy Strategy Framework*: 5).

In developing a green economy strategy trade-offs are required and priorities need to be determined. As a first step, the WCG recently released the *Western Cape Green Economy Strategy Framework*, which gives direction to the Province's learning-by-doing approach. The emphasis is on openness and flexibility. A number of building blocks and some priorities have been identified.

Institutional capacity building. In line with the principle that the private sector drives green economy initiatives, with the government playing a collaborative supporting role, the GreenCape Special Purpose Vehicle (SPV)²³ was established in 2010 and is being expanded. Apart from assisting with strategy, the mandate of GreenCape is to facilitate the development of local manufacturing capability and to facilitate opportunities for local manufacturing. Linked to this is the development of capacity to supply the required skills to manufacture, install and service renewable energy and green technology projects (DEDAT, November 2010). GreenCape also supports the country's efforts in rolling out renewable energy projects.

²³ SPVs have been established in a range of industries since 1998 as public non-profit companies in a collaborative effort from the Western Cape Government and the private sector aimed at developing the respective industries. The SPVs provide a platform for networking and collaboration amongst a representative group of industry players.

Strategy. The WCG is also in the process of developing re-enforcing strategies, e.g. OneCapeVision 2040 (the Province's long-term socio-economic vision), the Western Cape Infrastructure Framework and a Draft Western Cape Climate Change Response Strategy.

Mobilise. With the 110% Green initiative the Premier of the Western Cape is driving the Province's green economy programme seeking to mobilise society around the green economy through *"practical action, partnerships and networks"*.

"The transition ahead represents vast opportunities in developing and maintaining low carbon, zero-waste homes, settlements and businesses. There are opportunities in mobility and infrastructure in managing bio-capacity, ecosystems, livelihoods and lifestyles. Enabling the change will create opportunities in finance, insurance, education, training and ICT. There will be new realities, rules and regulations and partners to engage. Smarter systems, people, designs, businesses and regions will prevail."

WCG: WC Green Economy Strategy Framework

The WCG strives to position the Province as the lowest carbon province in South Africa and the leading green economic hub of the African continent (WCG, 2013: 8). The strategy framework is based on five principles, namely:

- Market focus (allowing the laws of supply and demand to direct investment);
- Private sector-driven (relying on private initiative and risk-taking to invest);
- Public sector-enabled (ensuring, through procurement and appropriate regulation for instance, an environment conducive to investment);
- Collaboration (new forms of partnership between all stakeholders in a more complex 21st century economic, social and natural environment) and, finally; and
- Inclusion (i.e. maximising employment opportunities in order to achieve inclusive green economic growth).

A number of priorities have been identified, including three main high-level priorities.

First, it is foreseen that natural gas and renewable energy (mainly solar and wind power) will be the game changer for the Western Cape to become the lowest carbon province and attract the required manufacturing investment.

Second, the required financial infrastructure needs to be established in order to mobilise capital and facilitate financial innovation given the complexities of risk-taking with green investment.

Third, it is accepted that *"green growth without job growth"* is unsustainable.

The five drivers of the strategy include adapting living and working conditions, transport systems, eco-systems, agri-production and enterprise and the five enablers are infrastructure, capabilities, knowledge management, rules & regulation and finance²⁴.

3.7 Conclusion

This chapter considered the spatial aspects of the pattern and pace of economic growth in the Western Cape.

A large part of the chapter discusses and analyses the Province's revealed comparative advantage, including some dynamic considerations in this regard. A striking result is the competitive edge, both nationally and in merchandise trade, of the agricultural sector and agribusiness in all non-metro districts. This sector is currently subject to intense structural change which should be navigated carefully in the interests of inclusive growth. Furthermore, the impact of climate change and a potential carbon tax regime in future need to be discounted in efforts to develop this sector. Exports and the development of the local agro-processing industries as a source of local demand for agricultural products should be the focus of developmental policies.

The comparative advantage of a range of manufacturing industries has been identified. These industries can be 'revived' to counter the declining contribution to GDP by the manufacturing sector over the past two decades with the objectives of inclusive growth in mind. While provincial industrial policy support is an integral part of national industrial policy efforts (NDP; NIPF and IPAP), the required collaborative balance should exist between the three spheres of government in order to drive strategic initiatives in the Province. The Province's industrial policy of selected sector support complements the national government's efforts to re-industrialise the country.

Finally, the services sector has been the mainstay of the Western Cape economy. However, the post-financial crises era has introduced change. For reasons that require further research, the growth of the Western Cape services sector in general and the finance, insurance, real estate and business services sector in particular, has been below par during the economic recovery thus threatening the margin of out-performance in the region vis-à-vis its provincial peers. Apart from reversing this growth slowdown, the need to develop the region's manufacturing base also becomes more urgent. A vibrant job-creating manufacturing sector will be important in achieving inclusive growth. Furthermore, implementing the Western Cape Green Economy strategy will support the preservation of the Province's comparative advantage.

²⁴ For more detail regarding the various challenges, opportunities and priorities in each department, see WCG (2013): *Green is Smart: Western Cape Green Economy Strategy Framework*: 10-54.

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

ASEAN²⁵

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

²⁵ 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

Annexure B

Structure, growth and revealed comparative advantage of the Western Cape economy (41 sectors)

	Western Cape		South Africa		LQ ratio		
	GDP % share	Growth	GDP % share	Growth	2000	2011	
	2011	2000 - 2011	2011	2000 - 2011			
1	Agriculture, forestry & fishing	3.74	1.8	2.44	2.03	1.57	1.53
2	Mining	0.15	-1.5	5.86	0.00	0.04	0.03
3	Food	2.46	5.0	1.93	4.93	1.33	1.27
4	Beverages & Tobacco	2.33	0.2	0.99	-0.62	2.23	2.35
5	Textiles	0.34	2.4	0.25	2.38	1.42	1.35
6	Wearing apparel	0.61	2.4	0.36	2.31	1.75	1.69
7	Leather & leather products	0.08	30.1	0.08	30.74	1.30	1.11
8	Footwear	0.12	2.0	0.06	-0.07	1.47	1.81
9	Wood & wood products	0.33	0.0	0.38	0.88	1.05	0.88
10	Paper & paper products	0.44	1.8	0.56	1.89	0.81	0.78
11	Printing, publishing & recorded media	0.88	1.4	0.51	1.54	1.83	1.72
12	Coke & refined petroleum products	1.26	2.9	1.83	5.59	0.97	0.69
13	Basic chemicals	0.64	4.3	0.89	3.16	0.65	0.71
14	Other chemicals & man-made fibres	0.88	4.8	1.02	3.69	0.79	0.86
15	Rubber products	0.07	2.8	0.11	-1.22	0.41	0.61
16	Plastic products	0.60	0.9	0.45	1.46	1.47	1.31
17	Glass & glass products	0.12	2.3	0.12	3.43	1.21	1.00
18	Non-metallic minerals	0.47	2.1	0.47	1.29	0.98	1.00
19	Basic iron & steel	0.38	5.8	1.00	6.91	0.47	0.38
20	Basic non-ferrous metals	0.17	-0.5	0.47	0.36	0.42	0.37
21	Metal products excluding machinery	0.75	2.2	0.86	2.10	0.91	0.87
22	Machinery & equipment	0.98	6.5	1.00	5.55	0.92	0.98
23	Electrical machinery	0.34	3.5	0.51	3.52	0.71	0.68
24	Television, radio & communication equipment	0.14	2.4	0.18	3.80	0.94	0.76
25	Professional & scientific equipment	0.10	7.1	0.09	6.73	1.08	1.08
26	Motor vehicles, parts & accessories	0.77	4.9	1.51	5.74	0.58	0.51
27	Other transport equipment	0.21	5.1	0.17	5.79	1.43	1.24
28	Furniture	0.20	5.4	0.19	5.80	1.20	1.10
29	Other industries	1.36	1.8	1.22	2.06	1.20	1.11
30	Electricity, gas & steam	1.18	2.8	1.56	2.00	0.73	0.76
31	Water supply	0.24	2.9	0.49	2.00	0.48	0.48
32	Construction	4.39	7.2	3.41	7.34	1.47	1.29
33	Wholesale & retail trade	13.51	4.2	12.89	3.93	1.10	1.05
34	Catering & accommodation services	1.56	5.5	0.95	3.46	1.41	1.64
35	Transport & storage	5.81	4.3	5.54	3.66	1.04	1.05
36	Communication	4.26	6.7	4.60	7.38	1.07	0.92
37	Finance & insurance	10.68	6.9	8.36	6.41	1.31	1.28
38	Business services	22.24	5.6	15.30	5.24	1.49	1.45
39	Medical, dental & other health & veterinary services	1.70	3.1	2.19	3.45	0.86	0.78
40	Other community, social & personal services	3.39	3.1	3.94	2.94	0.90	0.86
41	Government	10.12	2.3	15.25	2.50	0.70	0.66
	Total	100.0	4.2	100.0	3.62	1.00	1.00

Source: DEDAT: Economic Synthesis Project, April 2013

Annexure C

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

Commodity (HS Code)	Western Cape goods exports		World goods exports		RCA ratio	
	% share	Average growth	% share	Average growth	2000	2011
	2011	2000 - 2011	2011	2000 - 2011		
1 Live animals	0.02	103.0	0.12	8.0	0.13	0.13
2 Meat and edible meat offal	0.28	17.0	0.68	10.8	0.96	0.41
3 Fish, crustaceans, molluscs, aquatic invertebrates nes	5.54	8.3	0.54	8.4	9.89	10.35
4 Dairy products, eggs, honey, edible animal product nes	0.16	20.9	0.48	11.4	0.27	0.33
5 Products of animal origin, nes	0.15	17.4	0.05	9.7	2.87	2.94
6 Live trees, plants, bulbs, roots, cut flowers etc.	0.39	12.2	0.12	8.8	2.45	3.27
7 Edible vegetables and certain roots and tubers	0.37	15.6	0.35	11.0	0.77	1.05
8 Edible fruit, nuts, peel of citrus fruit, melons	22.41	16.4	0.50	11.0	26.46	44.90
9 Coffee, tea, mate and spices	0.23	16.8	0.28	12.5	0.48	0.81
10 Cereals	3.04	194.5	0.68	14.0	0.17	4.49
11 Milling products, malt, starches, inulin, wheat gluten	0.05	46.5	0.10	12.4	0.92	0.45
12 Oil seed, oleagiu fruits, grain, seed, fruit, etc, nes	0.70	18.5	0.48	15.2	1.07	1.48
13 Lac, gums, resins, vegetable saps and extracts nes	0.05	35.3	0.04	13.5	0.38	1.25
14 Vegetable plaiting materials, vegetable products nes	0.00	47.2	0.00	9.2	0.66	0.78
15 Animal, vegetable fats and oils, cleavage products, etc.	0.14	8.4	0.63	19.0	0.95	0.22
16 Meat, fish and seafood food preparations nes	0.78	14.9	0.26	11.1	2.32	3.03
17 Sugars and sugar confectionery	0.12	30.6	0.30	13.0	0.16	0.40
18 Cocoa and cocoa preparations	0.06	12.1	0.25	15.4	0.31	0.23
19 Cereal, flour, starch, milk preparations and products	0.29	18.1	0.32	12.1	0.49	0.91
20 Vegetable, fruit, nut, etc. food preparations	4.32	5.3	0.33	10.5	24.60	13.25
21 Miscellaneous edible preparations	0.81	22.6	0.32	11.7	0.98	2.54
22 Beverages, spirits and vinegar	11.69	12.3	0.60	10.6	15.33	19.44
23 Residues, wastes of food industry, animal fodder	0.76	73.7	0.38	12.1	0.23	2.01
24 Tobacco and manufactured tobacco substitutes	2.01	36.4	0.23	5.6	1.28	8.84
25 Salt, sulphur, earth, stone, plaster, lime and cement	0.93	35.8	0.25	11.0	1.59	3.72
26 Ores, slag and ash	0.07	6.3	1.45	26.4	2.62	0.05
27 Mineral fuels, oils, distillation products, etc.	11.52	8.0	15.70	17.9	1.65	0.73
28 Inorganic chemicals, precious metal compound, isotopes	0.72	41.1	0.73	12.5	0.44	1.00
29 Organic chemicals	0.34	4.4	2.43	10.3	0.27	0.14
30 Pharmaceutical products	0.27	42.7	2.65	15.8	0.08	0.10
31 Fertilizers	0.19	66.7	0.43	21.6	0.10	0.45

Commodity (HS Code)	Western Cape goods exports		World goods exports		RCA ratio	
	% share	Average growth	% share	Average growth	2000	2011
	2011	2000 - 2011	2011	2000 - 2011		
32 Tanning, dyeing extracts, tannins, derivs, pigments etc.	0.44	22.1	0.46	8.1	0.36	0.97
33 Essential oils, perfumes, cosmetics, toiletries	1.03	18.5	0.59	11.6	0.90	1.74
34 Soaps, lubricants, waxes, candles, modelling pastes	0.16	16.4	0.32	11.0	0.37	0.50
35 Albuminoids, modified starches, glues, enzymes	0.24	4.4	0.14	9.0	13.35	1.64
36 Explosives, pyrotechnics, matches, pyrophorics, etc.	0.18	85.7	0.02	9.1	47.96	7.81
37 Photographic or cinematographic goods	0.18	74.5	0.11	0.0	0.22	1.69
38 Miscellaneous chemical products	1.42	44.9	1.04	11.8	0.30	1.36
39 Plastics and articles thereof	1.23	7.5	3.12	10.8	0.55	0.39
40 Rubber and articles thereof	0.08	28.2	1.32	14.8	0.03	0.06
41 Raw hides and skins (other than furskins) and leather	0.33	-1.9	0.18	5.5	5.98	1.81
42 Articles of leather, animal gut, harness, travel goods	0.13	19.5	0.38	10.1	0.18	0.34
43 Furskins and artificial fur, manufactures thereof	0.01	86.1	0.06	11.4	0.01	0.17
44 Wood and articles of wood, wood charcoal	0.38	1.6	0.68	6.0	0.87	0.56
45 Cork and articles of cork	0.00	137.4	0.01	2.2	0.36	0.18
46 Manufactures of plaiting material, basketwork, etc.	0.01	26.1	0.01	8.1	0.67	0.72
47 Pulp of wood, fibrous cellulosic material, waste etc.	0.09	-	0.29	8.4	0.01	0.29
48 Paper & paperboard, articles of pulp, paper and board	0.34	5.0	1.09	6.0	0.38	0.32
49 Printed books, newspapers, pictures etc.	0.37	22.1	0.29	6.7	0.63	1.26
50 Silk	0.00	73.7	0.02	3.6	0.01	0.01
51 Wool, animal hair, horsehair yarn and fabric thereof	0.00	-11.4	0.09	3.7	0.82	0.03
52 Cotton	0.02	-13.8	0.39	8.2	1.10	0.04
53 Vegetable textile fibres nes, paper yarn, woven fabric	0.04	-	0.02	3.0	0.01	1.95
54 Manmade filaments	0.04	-7.6	0.26	4.5	3.52	0.14
55 Manmade staple fibres	0.04	66.2	0.22	5.6	0.18	0.16
56 Wadding, felt, nonwovens, yarns, twine, cordage, etc.	0.07	12.3	0.13	9.0	0.74	0.53
57 Carpets and other textile floor coverings	0.01	25.9	0.09	6.2	0.06	0.13
58 Special woven or tufted fabric, lace, tapestry etc.	0.02	4.4	0.07	4.8	0.95	0.26
59 Impregnated, coated or laminated textile fabric	0.08	13.2	0.14	7.8	0.51	0.54
60 Knitted or crocheted fabric	0.05	0.3	0.17	7.7	0.75	0.28
61 Articles of apparel, accessories, knit or crochet	0.23	-3.6	1.15	9.3	0.86	0.20
62 Articles of apparel, accessories, not knit or crochet	0.18	-1.1	1.09	6.4	0.54	0.17
63 Other made textile articles, sets, worn clothing etc.	0.25	11.0	0.32	11.7	0.79	0.78
64 Footwear, gaiters and the like, parts thereof	0.06	14.4	0.66	8.9	0.16	0.08
65 Headgear and parts thereof	0.01	13.5	0.04	9.7	0.26	0.19
66 Umbrellas, walking-sticks, seat-sticks, whips, etc.	0.03	4.1	0.02	9.9	5.39	1.19
67 Bird skin, feathers, artificial flowers, human hair	0.07	36.2	0.04	9.2	0.36	1.93

Commodity (HS Code)	Western Cape goods exports		World goods exports		RCA ratio	
	% share	Average growth	% share	Average growth	2000	2011
	2011	2000 - 2011	2011	2000 - 2011		
68 Stone, plaster, cement, asbestos, mica, etc. articles	0.07	0.0	0.25	9.9	0.92	0.27
69 Ceramic products	0.08	20.1	0.26	8.0	0.13	0.31
70 Glass and glassware	0.09	9.5	0.40	8.2	0.26	0.23
71 Pearls, precious stones, metals, coins, etc.	1.50	10.6	3.20	16.1	1.03	0.47
72 Iron and steel	3.48	11.8	2.68	17.0	2.28	1.30
73 Articles of iron or steel	0.60	18.6	1.69	13.1	0.21	0.36
74 Copper and articles thereof	1.60	23.8	1.03	18.3	0.98	1.55
75 Nickel and articles thereof	0.00	-	0.18	16.2	0.01	0.00
76 Aluminium and articles thereof	0.39	13.4	0.97	10.7	0.34	0.40
78 Lead and articles thereof	0.03	-	0.04	17.9	0.06	0.63
79 Zinc and articles thereof	0.01	19.5	0.09	14.4	0.10	0.12
80 Tin and articles thereof	0.00	12.2	0.05	19.1	0.19	0.02
81 Other base metals, cermet, articles thereof	0.00	92.9	0.10	13.0	11.38	0.05
82 Tools, implements, cutlery, etc. of base metal	0.10	12.6	0.34	9.1	0.22	0.29
83 Miscellaneous articles of base metal	0.06	16.9	0.33	9.7	0.15	0.19
84 Nuclear reactors, boilers, machinery, etc.	7.50	19.7	11.85	8.5	0.22	0.63
85 Electrical, electronic equipment	3.08	18.6	11.77	7.7	0.09	0.26
86 Railway, tramway locomotives, rolling stock, equipment	0.30	1.2	0.25	14.4	36.90	1.18
87 Vehicles other than railway, tramway	0.77	12.1	7.35	8.9	0.07	0.11
88 Aircraft, spacecraft, and parts thereof	0.06	143.5	0.90	4.1	0.07	0.07
89 Ships, boats and other floating structures	1.72	17.8	1.07	15.4	2.68	1.61
90 Optical, photo, technical, medical, etc. apparatus	1.13	22.1	2.96	9.6	0.15	0.38
91 Clocks and watches and parts thereof	0.01	26.4	0.28	9.1	0.01	0.02
92 Musical instruments, parts and accessories	0.00	34.5	0.04	5.6	0.07	0.06
93 Arms and ammunition, parts and accessories thereof	0.00	-	0.05	5.4	0.64	0.00
94 Furniture, lighting, signs, prefabricated buildings	0.62	4.7	1.10	9.1	0.88	0.56
95 Toys, games, sports requisites	0.06	8.2	0.52	7.3	0.09	0.10
96 Miscellaneous manufactured articles	0.08	15.3	0.17	7.4	0.24	0.49
97 Works of art, collectors pieces and antiques	0.05	7.0	0.12	7.4	0.86	0.45
98 Special classifications provisions	0.00	-	0.00	-	-	-
99 Commodities not elsewhere specified	0.40	-	3.26	11.6	0.55	0.12
Total	100.0	9.2	100.0	10.7	1.00	1.00

Source: UNSD COMTRADE/Quantec Research

4

Labour market dynamics

Key findings

- The Western Cape's population is estimated at approximately 6 million in the 2013 mid-year population estimates, representing roughly 11.4 per cent of the national population. More than three-fifths of the Province's population fall within the working ages of 15 and 65 years.
- Labour force participation rates are higher in the Western Cape than in South Africa as a whole. Out of every 100 working age adults in the province, 67 are active in the narrow labour force, compared to 55 nationally. Participation rates do not differ significantly across race groups in the province, but are relatively low amongst women, amongst the youngest and oldest cohorts, and amongst those with low levels of education. Differences in participation between the province and the country as a whole are particularly pronounced amongst the young and those with low levels of educational attainment.
- Employment remains at around 1.8 million, virtually unchanged over the five year period. Just over half of the employed are Coloured, 28 per cent are African and 19 per cent are White.
- There has been little change in the sectoral composition of employment over the period. While employment in the non-agricultural economy has grown marginally since 2008, the agricultural sector remains under pressure. The largest formal sector employers, accounting for more than 77 per cent of formal sector employment, are community, social and personal services; financial and business services; wholesale and retail trade; and manufacturing.
- Formal sector employees in the Western Cape are more likely to have permanent jobs. They are also more likely to have employers that make Unemployment Insurance Fund (UIF) contributions, and are more likely to have paid leave, sick leave and maternity leave.

- Narrow unemployment has grown by 7 per cent per annum between 2008 and 2013. Growth in unemployment has been particularly rapid amongst males, cohorts aged 35 years or more, and those with complete or incomplete secondary education.

4.1 Introduction

There exists a general consensus that economic growth is a prerequisite for poverty reduction, with one of the key channels of influence being through the labour market. In terms of inclusive growth, it is clear that the labour market is central, linking individuals in the working age population directly to the economic growth processes that are occurring. In this way, the nature of economic growth is key: without broad-based growth across a variety of sectors, requiring a range of skills and across geographical regions, growth processes are unlikely to have sustained impacts on poverty and inequality.

Apart from the economic imperative for employment creation, there are various social benefits related to social cohesion, 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 2013, a period of five years characterised by global economic turmoil, a domestic economic recession and a very gradual labour market recovery. The analysis utilises the Quarterly Labour Force Survey (QLFS) conducted by Statistics South Africa. 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. In the context of the recession and the significant job losses experienced during 2009, this is particularly unfortunate.

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.

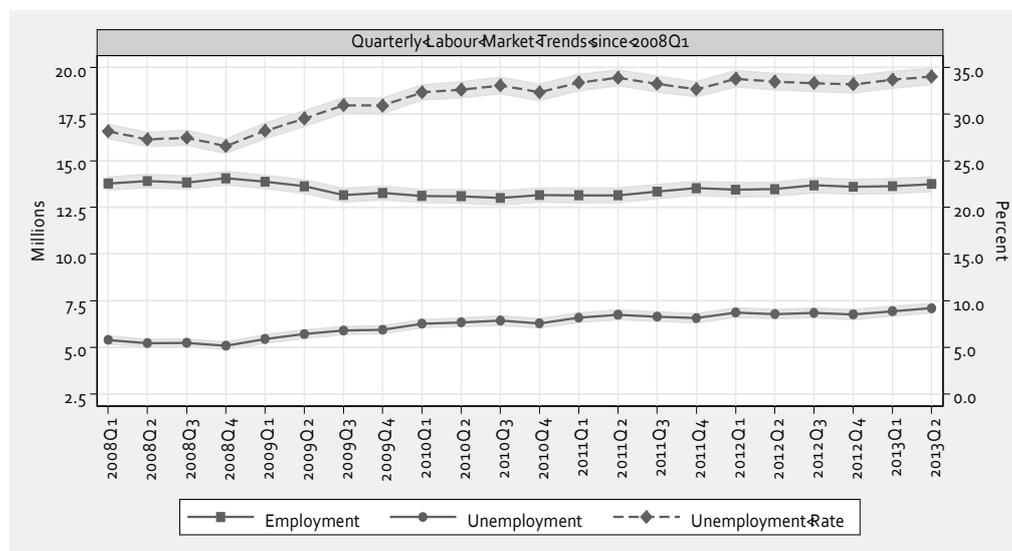
Informal sector: The informal sector is comprised of (1) employees working in establishments that employ fewer than five employees and who do not deduct income tax from their wages; and (2) employers, own account workers and individuals helping unpaid in household businesses that are not registered for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

Formal sector: Statistics South Africa 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: Statistics South Africa (2011: xvii)

4.2 Overview of the labour market

While the past five years has seen significant turmoil in the South African labour market, most of this occurred during 2008 and 2009. The global financial crisis and resultant recession was felt around the world and, while the impact on output locally was relatively benign and shortlived, the impact on the labour market was significant. More than one million jobs were lost in the wake of the recession in less than two years after the fourth quarter of 2008 (Figure 4.1). Output has since recovered to pre-recession levels, but the labour market remains stagnant. Employment nationally is estimated at 13.7 million, slightly lower than, yet not statistically different from the 14.1 million seen in the fourth quarter of 2008.

Figure 4.1 National employment and expanded unemployment trends since 2008Q1


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

Job losses, combined with a growing working age population, saw unemployment rise during the post-recession period. Expanded unemployment increased from 5.1 million to 7.1 million between the fourth quarter of 2008 and the second quarter of 2013, pushing the unemployment rate up 7.5 percentage points to 34 per cent. The most rapid growth occurred amongst the non-searching unemployed, whose numbers have doubled to nearly 2.4 million since the first quarter of 2008. As a result, the rise in the narrow unemployment rate has been muted, as workers lost jobs and went into non-searching unemployment.

Table 4.1 Overview of the Western Cape labour market, 2013Q1

	Working Age Population		Employed		Narrow Unemployed		Narrow Labour Force		Narrow Labour Force Participation Rate	Narrow Unemployment Rate
	Total ('000s)	Share (%)	Total ('000s)	Share (%)	Total ('000s)	Share (%)	Total ('000s)	Share (%)	%	%
Total	3 559	100.0	1 814	100.0	552	100.0	2 366	100.0	66.5	23.3
By Race										
African	984	27.7	512	28.2	245	44.3	756	32.0	66.9	32.3
Coloured	1 884	52.9	959	52.9	281	50.9	1 240	52.4	65.0	22.6
White	568	16.0	338	18.7	25	4.6	364	15.4	71.3	7.0
By Gender										
Male	1 678	47.2	961	53.0	293	53.0	1 254	53.0	75.7	23.3
Female	1 772	49.8	853	47.0	259	47.0	1 112	47.0	58.4	23.3
By Age Group										
15 - 24 years	882	24.8	180	9.9	171	31.0	351	14.8	40.1	48.8
25 - 34 years	957	26.9	611	33.7	206	37.3	817	34.5	81.2	25.2
35 - 44 years	743	20.9	548	30.2	108	19.5	656	27.7	84.1	16.4
45 - 54 years	520	14.6	336	18.5	51	9.2	387	16.4	73.0	13.1
55 - 65 years	348	9.8	139	7.6	17	3.1	156	6.6	42.3	10.9

	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 (%)	%	%
By Education										
No education	44	1.2	23	1.2	1	0.2	24	1.0	47.8	3.8
Grades 0 - 7	479	13.5	187	10.3	58	10.6	246	10.4	54.4	23.7
Grades 8 - 11	1 447	40.7	619	34.1	302	54.8	921	38.9	59.3	32.8
Grade 12	931	26.2	609	33.5	162	29.3	770	32.6	75.3	21.0
Dipl/Cert	292	8.2	166	9.1	12	2.2	187	7.9	84.1	6.4
Degree	198	5.6	184	10.1	13	2.3	197	8.3	88.2	6.5

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, Stats SA (2013)

The Western Cape is home to almost 3.6 million people of working age, i.e. between the ages of 15 and 65 years, and accounts for 10.6 per cent of the national working age population. Employment in the Province is virtually unchanged from five years ago at 1.8 million, representing 13.3 per cent of national employment in the first quarter of 2013. The narrow labour force constitutes almost two-thirds of the working age population, numbering just under 2.4 million people.

Table 4.2 Labour market aggregates, 2008 and 2013

	2008Q1	2013Q1	Change	
	Thousands	Thousands	Thousands	Per cent
Western Cape				
Working Age Population	3 273	3 559	287	1.7 p.a.
Employment	1 816	1 814	-2	0.0 p.a.
Narrow Unemployment	393	552	159	7.0 p.a. *
Narrow Labour Force	2 209	2 366	157	1.4 p.a.
Expanded Unemployment	438	588	150	6.1 p.a. *
Expanded Labour Force	2 254	2 402	148	1.3 p.a.
Non-Searching Unemployed	45	36	-9	-4.4 p.a.
South Africa				
Working Age Population	30 963	33 474	2 511	1.6 p.a.
Employment	13 778	13 644	-134	-0.2 p.a.
Narrow Unemployment	4 222	4 604	382	1.7 p.a. †
Narrow Labour Force	18 000	18 248	248	0.3 p.a.
Expanded Unemployment	5 400	6 934	1 534	5.1 p.a. *
Expanded Labour Force	19 178	20 579	1 400	1.4 p.a. *
Non-Searching Unemployed	1 179	2 330	1 152	14.6 p.a. *

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

Source: Own calculations, Stats SA (2008b, 2013)

The snapshots of the labour market presented in Table 4.2 obscures the often significant movements during the period, hiding the significant job losses and subsequent slow recovery in employment in South Africa over the period. The combination of zero net employment growth and a growing working age population means that unemployment has increased between the first

quarter of 2008 and the first quarter of 2013. Narrow unemployment in the Western Cape increased from 393 000 to 552 000 people between the first quarter of 2008 and the first quarter of 2013, equivalent to a statistically significant 7 per cent per annum over the period. Expanded unemployment also increased, rising by 150 000 or 6.1 per cent per annum over the period.

The changes observed in the provincial labour market reflect those that occurred within the national labour market. Employment nationally has yet to reach pre-recession levels, while both narrow and expanded unemployment have increased. Narrow unemployment grew by an average 1.7 per cent per annum between the first quarter of 2008 and the first quarter of 2013, while expanded unemployment grew by 5.1 per cent per annum. The latter trend is driven by the growth in the number of non-searching unemployed (also referred to as 'discouraged workseekers'). Non-searching unemployment expanded by more than 1.1 million over the period (14.6 per cent per annum), with the result that expanded unemployment grew by 1.5 million.

Confidence intervals

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

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

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

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

Whereas the non-searching unemployed account for a large part of the South African expanded 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, compared to almost 12 per cent nationally. 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, and find, employment.

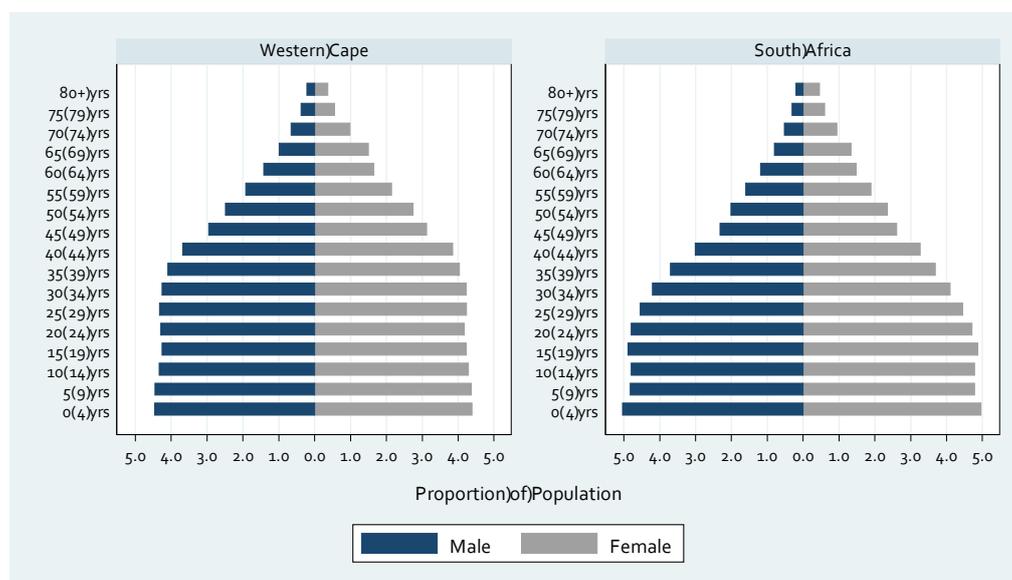
Nevertheless, in spite of the province's relatively advantageous demographic position, for the more than half a million unemployed individuals (and their households) opportunities to benefit from the growth process are limited. They and significant numbers of workers in the informal sector and in marginalised parts of the formal sector are not experiencing productivity growth and sustainable poverty reduction is compromised. They are not participating in the process of inclusive growth.

4.3 The Western Cape population

According to the 2013 mid-year population estimates approximately 6 million people live in the Western Cape, which is 11.4 per cent of the total population. The provincial and national age structures are similar, with the bulk of the population forming part of the working age population aged between 15 and 64 years. The working age population makes up more than 60 per cent of the national population (approximately 35 million individuals). Within the Western Cape, the working age population numbers 3.6 million, representing 11.8 per cent of the South African working age population, and is slightly larger than the estimate from the QLFS data. The provincial working age population is slightly larger as a proportion of the total population than is the case nationally: the working age population constitutes 68.5 per cent of the population in the Western Cape compared to 65.7 per cent of the South African population.

The South African population is relatively younger than the provincial population: 57.4 per cent of the population is younger than 29 years of age, whilst this is true of 51.8 per cent in the Western Cape. As a result, the Western Cape has a slightly larger older population: 5.6 per cent of the population are over 65 years compared to just 5.2 per cent nationally. These differences are reflected in the provincial population pyramid (Figure 4.2) being slightly narrower at the bottom (younger ages) and slightly wider at the top (older ages) relative to the national pyramid.

The dependency ratio is 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. It 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. In the Western Cape, for every 100 working age people, 47 children and elders are supported (a dependency ratio of 0.47). This ratio is somewhat higher in the country as a whole: for every 100 adult South Africans, 52 children and elderly are supported.

Figure 4.2 Age structure of the population, 2013


Source: Statistics South Africa, Mid-year population estimates, 2013, Statistical release P0302. Pretoria: Statistics South Africa

A lower dependency ratio is beneficial for inclusive growth. How that benefit is utilised depends critically on the education system, which is discussed in Chapter 5.

As the relatively younger population begins 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. If the number of economically active workers grows, dependency ratios may fall and result in an improvement in living standards and greater investment in human capital, particularly that of the youth. The challenge lies in the fact that the economy may not be able to grow to the extent that it generates sufficient work opportunities to absorb new labour market entrants into productive work, resulting in rising unemployment, poverty and inequality. As it is, South Africa has been experiencing low levels of growth for the past few years which was just enough to ensure recovery from the recession. This combined opportunity and challenge points to the need for policies that work efficiently and effectively in equipping young people with skills, while at the same time ensuring that an appropriate economic environment is created and maintained to facilitate industrial restructuring that will make the economy more competitive and workers more productive, all contributing to the achievement of inclusive growth. The latter requires strengthening of productive resources and the capacity of individuals in the long run.

The Western Cape's population is growing. Apart from natural population growth, the province is a net recipient of internal migrants. Between 2006 and 2011, it is estimated that the Western Cape received more than 307 000 migrants into the province, while almost 82 000 left the province for

other parts of the country. As a result, the province enjoyed net in-migration of roughly 225 000 migrants. The bulk (45.6 per cent) of migration to the Western Cape is from the Eastern Cape (31.5 per cent) and Gauteng (14.1 per cent). The only other provinces with positive net in-migration during the same period were Gauteng (+801 000), North West (+83 000) and Mpumalanga (+43 000).

Internal migration is driven by a variety of reasons and is experienced in countries around the world. Migration presents both opportunities and challenges to sub-national governments. In-migration may put pressure on regional economies to generate additional employment, but it may also improve the supply of scarce skills. If sufficiently large, net in-migration requires deliberate and careful planning at all levels of government to ensure that in-migrants are able to access housing, education, health and other services. Out-migration, on the other hand, can reduce the local surpluses and, if migrants are employed, may create remittance flows that are vital to support sending households and may benefit economic activity in the sending region.

Migration flows are unlikely to be similar in terms of their skills profiles. It is most likely that out-migrants – who typically leave for Gauteng – are better skilled than in-migrants, such that the Western Cape could be seen to be losing skills. However, it is important to note that previous analyses of the skills profiles of in-migrants to the Western Cape show them to be quite similar to the resident population. This poses an important challenge for achieving inclusive growth as in-migrants are likely to have inferior labour market prospects due to weak networks and an inability to differentiate themselves favourably relative to residents. Moreover, implementing effective policies that ensure the participation of in-migrants in processes of human capital creation, essential for productivity increases and therefore sustainable poverty reduction, will prove challenging. Over the coming years, policymakers will need to find a set of policies that will convert marginalised in-migrants into active participants in a process of inclusive growth.

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 narrow labour force consists of the employed and the narrowly unemployed, but excludes the non-searching unemployed (discouraged workseekers). There were 2.4 million people in the provincial narrow labour force in the first quarter of 2013. As noted earlier, growth in the provincial labour force was slow and the implied narrow labour force participation rate for the net increase in the working population was 55.4 per cent. The average annual growth rate of 1.4 per cent between the first quarter of 2008 and the first quarter of 2013 is not statistically significant.

Owing to demographic differences, the structure of the provincial labour force is very different to that of the country as a whole in that Coloureds, and not Africans, constitute the bulk of the labour force. The Western Cape's narrow labour force includes 1.2 million Coloureds (52.4 per cent); 756 000 Africans (32 per cent); and 364 000 Whites (15.4 per cent). The provincial sample includes very few Asians and their numbers are therefore not detailed here or elsewhere in the chapter.

Table 4.3 Composition of the Western Cape narrow labour force, 2008 and 2013

	2008Q1		2013Q1		Change	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)	Number ('000s)	Rate (Per cent)
Narrow Labour Force	2 209	100.0	2 366	100.0	157	1.4 p.a
By Race						
African	640	29.0	756	32.0	117	3.4 p.a
Coloured	1 211	54.8	1 240	52.4	30	0.5 p.a
White	344	15.6	364	15.4	20	1.1 p.a
By Gender						
Male	1 203	54.5	1 254	53.0	51	0.8 p.a
Female	1 006	45.5	1 112	47.0	106	2.0 p.a
By Age Group						
15 to 24 years	403	18.3	351	14.8	-52	-2.7 p.a
25 to 34 years	770	34.9	817	34.5	46	1.2 p.a
35 to 44 years	574	26.0	656	27.7	81	2.7 p.a
45 to 54 years	329	14.9	387	16.4	58	3.3 p.a †
55 to 65 years	132	6.0	156	6.6	24	3.4 p.a
By Educational Attainment						
No education	42	1.9	24	1.0	-18	-10.8 p.a
Grades 0 - 7	337	15.3	246	10.4	-91	-6.1 p.a *
Grades 8 - 11	838	38.0	921	38.9	83	1.9 p.a
Grade 12	630	28.5	770	32.6	141	4.1 p.a *
Diploma/Certificate	207	9.4	187	7.9	-19	-1.9 p.a
Degree	128	5.8	197	8.3	69	9.0 p.a *

Notes: 1. An asterisk (*) denotes a statistically significant change between 2008 and 2013 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

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

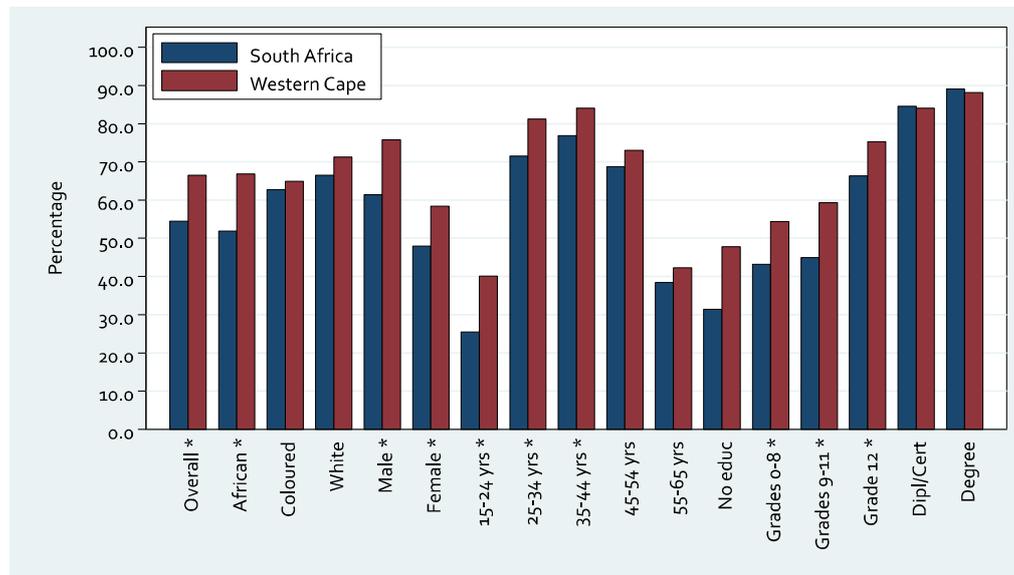
Source: Own calculations, Stats SA (2008b, 2013)

Table 4.3 reveals that there are slightly more males than females in the provincial labour force: at 1.3 million, male labour force members outnumber females by 53 per cent to 47 per cent in the first quarter of 2013. Almost two-thirds of the provincial labour force are between the ages of 25 and 44 years. In the first quarter of 2013, those aged between 25 and 34 years account for 34.5 per cent of the labour force (817 000 people), while those aged between 35 and 44 years account for a further 27.7 per cent. The cohorts between 15 and 24 years and between 45 and 54 years are somewhat smaller, each accounting for between 14 per cent and 17 per cent of the labour force, while the oldest cohort accounts for only 6.6 per cent. While it appears that the sizes of cohorts over 24 years have increased, the only statistically

significant increase occurred for those aged between 45 and 54 years, which grew by almost 60 000 over the five year period.

There are some interesting changes when the provincial labour force is broken down by educational attainment. For example, the evidence shows that between the first quarter of 2008 and the first quarter of 2013 there was a decline in the labour force with complete primary education (a drop of 91 000 people). At the same time, there was a rise in labour force participants with grade 12 (+141 000 individuals) and those with degrees (+69 000 people). This mirrors the gradual improvement observed in educational attainment nationally as older, less educated cohorts age out of the labour market. It also suggests that labour market entrants are responding to labour market signals that entrants with higher levels of education have a greater chance of being employed. A strengthening of this trend is essential if inclusive growth is to become a successful strategy.

Figure 4.3 Labour force participation rates, 2013Q1



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, Stats SA (2013)

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. 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 2013 are presented in Figure 4.3.

In general, the Western Cape has a higher LFPR than South Africa as a whole. Overall, 66.5 per cent of the working age population in the Western Cape participated in the narrow labour force in the first quarter of 2013, compared to 54.5 per cent nationally. This gap is evident across many of the covariates presented. LFPRs are affected by the working age population's view of employment prospects, but is also affected by accessibility. This gap in LFPRs can be explained in the same way as the province's relative lack of discouraged workseekers.

One important aspect of labour force participation in the province is that LFPRs across race groups are quite similar in the Western Cape, while nationally there are wider disparities. This is essentially due to the difference in the labour force participation rate of Africans: at 66.9 per cent, labour force participation amongst Africans in the province is 15 percentage points higher than nationally. This difference is to be expected, given that the urbanisation rate of Africans is much higher in the Western Cape than is the case nationally. While the differences in participation rates between Africans and other race groups are statistically significant nationally, this is not true in the Western Cape. Differences in participation rates for Coloureds and Whites across the two geographical areas are not statistically significant.

Both men and women are more likely to participate in the labour market in the Western Cape than in South Africa as a whole. The provincial LFPR for men is 75.7 per cent, 14.3 percentage points higher than the national figure. Almost six out of ten women are active in the labour force in the province, compared to 48 per cent nationally. Interestingly, the gender gap in participation rates is higher in the province than nationally (17.3 per cent compared to 13.4 per cent) and, although it cannot be said with certainty, this may relate to the fact that incomes in the province are somewhat higher.

The provincial LFPR is statistically significantly higher than that of the national average for cohorts under the age of 45 years. There is a relatively high rate of participation amongst 15 to 24 year olds: at 40.1 per cent, this proportion is 14.7 percentage points higher than the national average. Nevertheless, the participation rate for this age group is substantially lower than all other cohorts except 55 to 65 year olds. Participation amongst the oldest cohort is just 42.3 per cent, related to the progressive exiting of workers from the labour force through early retirement and ill health, amongst other reasons. More than four-fifths of individuals between the ages of 25 and 44 years participate in the labour market provincially.

Education is correlated with labour force participation rates. Nationally, 31.4 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 provincial LFPR's by educational attainment are not much different, with participation rates higher amongst those with higher educational attainment. In terms of educational attainment, 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).

4.5 Employment in the Western Cape

4.5.1 Overview of total employment

Employment remains a concern in South Africa with only 66.3 per cent of the expanded labour force employed in early 2013. While this is an improvement on the previous year (60.2 per cent in 2012), it is still very low. This means that only 39.6 per cent of the national working age population is employed (this is the employment-to-population ratio). South African employment is also low by international standards. According to the International Labour Organisation (ILO), the employment-to-population ratio was 65.1 for Sub-Saharan Africa in 2012, 69.8 in East Asia and 67 per cent in South East Asia and the Pacific (International Labour Office 2013, p37).

The Western Cape fares better than the national average in terms of employment. In the first quarter of 2013, 75.5 per cent of the expanded labour force (or just over half of the working age population) was employed. The low level of employment overall present a challenge in terms of increasing productivity and represent a key constraint on the ability of the province to realize inclusive growth.

After the first quarter of 2008, South African employment declined significantly as a result of the recession. Despite something of a recovery over the past three years, employment in the first quarter of 2013 is still slightly lower than in the first quarter of 2008. In other words, there has been no net expansion in employment in South Africa between the first quarter of 2008 and the first quarter of 2013. Western Cape employment has also experienced no real change over the period. While South Africa's low employment growth over the past few years – growth in 2012 was only 2.6 per cent (International Labour Office 2013, p.90) – has allowed the level of employment to recover, it was insufficient to generate the much needed additional employment.

Table 4.4 Demographic characteristics of employment, 2008 and 2013

	2008Q1		2013Q1		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
Western Cape						
Total Employment	1 816	100.0	1 814	100.0	-2	0.0 p.a.
By Race						
African	479	26.4	512	28.2	33	1.3 p.a.
Coloured	999	55.0	959	52.9	-40	-0.8 p.a.
White	326	18.0	338	18.7	12	0.7 p.a.
By Gender						
Male	1 016	55.9	961	53.0	-54	-1.1 p.a.
Female	800	44.1	853	47.0	53	1.3 p.a.
By Age						
15 to 24 years	259	14.2	180	9.9	-79	-7.0 p.a. *
25 to 34 years	617	34.0	611	33.7	-6	-0.2 p.a.
35 to 44 years	517	28.5	548	30.2	32	1.2 p.a.
45 to 54 years	299	16.5	336	18.5	37	2.4 p.a.
55 to 65 years	124	6.8	139	7.6	14	2.2 p.a.
By Education						
No education	35	1.9	23	1.2	-12	-8.4 p.a.
Grades 0 – 7	276	15.2	187	10.3	-88	-7.4 p.a. *
Grades 8 – 11	640	35.3	619	34.1	-21	-0.7 p.a.
Grade 12	526	29.0	609	33.5	82	2.9 p.a.
Diploma/Certificate	190	10.5	166	9.1	-24	-2.7 p.a.
Degree	124	6.8	184	10.1	60	8.2 p.a. *
South Africa						
Total Employment	13 778	100.0	13 644	100.0	-134	-0.2 p.a.
By Race						
African	9 595	69.6	9 720	71.2	125	0.3 p.a.
Coloured	1 553	11.3	1 497	11.0	-56	-0.7 p.a.
White	2 166	15.7	1 910	14.0	-255	-2.5 p.a.
By Gender						
Male	7 826	56.8	7 667	56.2	-159	-0.4 p.a.
Female	5 952	43.2	5 977	43.8	25	0.1 p.a.
By Age						
15 to 24 years	1 665	12.1	1 169	8.6	-496	-6.8 p.a. *
25 to 34 years	4 688	34.0	4 523	33.2	-165	-0.7 p.a.
35 to 44 years	3 664	26.6	4 087	30.0	423	2.2 p.a. *
45 to 54 years	2 591	18.8	2 579	18.9	-12	-0.1 p.a.
55 to 65 years	1 171	8.5	1 206	8.8	35	0.6 p.a.
By Education						
No education	554	4.0	288	2.1	-266	-12.2 p.a. *
Grades 0 – 7	2 263	16.4	1 642	12.0	-621	-6.2 p.a. *
Grades 8 – 11	4 377	31.8	4 492	32.9	115	0.5 p.a.
Grade 12	3 943	28.6	4 175	30.6	231	1.1 p.a.
Diploma/Certificate	1 601	11.6	1 577	11.6	-24	-0.3 p.a.
Degree	873	6.3	1 190	8.7	317	6.4 p.a. *

Notes: 1. An asterisk (*) denotes a statistically significant change between 2008 and 2013 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

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

Source: Own calculations, Stats SA (2008b, 2013)

Employment performance in South Africa has been weakest for those with low levels of education and for those under the age of 25 years. Amongst those between 15 and 24 years, there has been a decline in employment both nationally and provincially of 5.9 per cent per annum over the aforementioned five year period. Employment for those with no education has also decreased over the five year period, contracting by 7.1 per cent per annum in the Western Cape and 5.3 per cent per annum nationally. While falling employment amongst those with little education may be explained through the aging of poorly educated cohorts out of the labour market, declines amongst those under the age of 25 years indicate weaknesses in the growth process in terms of inclusiveness. Policy innovations promoting greater inclusiveness in the growth process are required if sustained reductions in unemployment and poverty are to be achieved.

One of the obvious differences in the structure of employment between the Western Cape and South Africa as a whole is in terms of race. In the first quarter of 2013, Coloureds made up 52 per cent of the working population in the Western Cape compared to 11 per cent nationally, whereas Africans made up only 28 per cent in the Western Cape but 71 per cent nationally. Over the five year period, the proportions of employment have remained relatively stable.

The gender shares within employment have also remained relatively stable between 2008 and 2013, with men accounting for more than half of the employed population. However, female employment has grown relative to total employment and, over the last five years, has grown at a much faster rate provincially than nationally. The female share of provincial employment rose from 44 per cent in 2008 to 47 per cent in 2013, while it has remained at around 43 per cent nationally.

Nationally, the distribution of employment across age groups is very similar to that observed provincially. The bulk of the workforce is between the ages of 25 and 44 years (approximately 63 per cent). In terms of youth employment, the Western Cape employs a slightly larger proportion of individuals amongst 15 to 24 year olds in the Western Cape (9.9 per cent) than is the case nationally (8.6 per cent).

Educational attainment is similar between the Western Cape and South Africa as a whole. The largest proportion of the employed population has either incomplete secondary education (grades 8 - 11) or a matric certificate: at least two-thirds of the employed, both nationally and provincially, fall within these two groups. The most noticeable change in employment in terms of education over the period is the increase in people with tertiary qualifications that occurred both nationally and provincially. The increase in the Western Cape was approximately 6.8 per cent per annum, although this group still only accounts for around one out of ten jobs in the province. Nevertheless, the Western Cape fared somewhat better than the rest of the country: nationally, employment of people with degrees increased by 5.3 per cent per annum

and accounts for 8.7 per cent of the employed population. In combination with signs of continued weakness in employment for those without any secondary education, it is evident that employment growth has been strongly skills-biased. This underscores the importance of human capital creation in the achievement of inclusive growth. Without improving the quantity and quality of secondary schools output, the foundation will not be there for broad-based productivity growth and poverty reduction.

It is important to consider employment on a more disaggregated level so as to not miss any important differences and industry-specific trends, as well as those that are exhibited by the formal or informal sector. In terms of sectors, total employment includes the formal and the informal sectors, as well as the seasonally volatile agricultural sector and domestic work (private households), which do not fit well in any of these sectors. Stats SA'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" (Stats SA, 2008a: 23). The table below disaggregates total employment into agriculture (formal and informal), non-agriculture (formal and informal) and private households.

Table 4.5 Sector decomposition of total employment, 2008 and 2013

	2008Q1		2013Q1		Change	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)	Number ('000s)	Rate (Per cent)
Western Cape						
Total Employment	1 816	100.0	1 814	100.0	-2	0.0 p.a.
Agriculture	175	9.6	126	6.9	-49	-6.3 p.a.
Formal agriculture	166	9.1	120	6.6	-46	-6.2 p.a.
Informal agriculture	9	0.5	6	0.3	-3	-8.3 p.a.
Non-Agriculture	1 546	85.1	1 591	87.7	45	0.6 p.a.
Formal non-agriculture	1 362	75.0	1 402	77.3	41	0.6 p.a.
Informal non-agriculture	184	10.1	188	10.4	4	0.5 p.a.
Private households	95	5.2	97	5.4	2	0.4 p.a.
South Africa						
Total Employment	13 778	100.0	13 644	100.0	-134	-0.2 p.a.
Agriculture	809	5.9	741	5.4	-68	-1.7 p.a.
Formal agriculture	645	4.7	656	4.8	11	0.4 p.a.
Informal agriculture	164	1.2	85	0.6	-80	-12.4 p.a. *
Non-Agriculture	11 827	85.8	11 796	86.5	-31	-0.1 p.a.
Formal non-agriculture	9 474	68.8	9 599	70.4	125	0.3 p.a.
Informal non-agriculture	2 353	17.1	2 197	16.1	-156	-1.4 p.a.
Private households	1 142	8.3	1 108	8.1	-35	-0.6 p.a.

Notes: 1. An asterisk (*) denotes a statistically significant change between 2008 and 2013 at the 95 per cent level of confidence.

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

Source: Own calculations, Stats SA (2008b, 2013)

The sectoral composition of total employment for the Western Cape is fairly similar to South Africa. In the first quarter of 2013, close to nine out of ten jobs were in the non-agricultural sector both nationally (86.5 per cent) and provincially (87.7 per cent). Within the non-agricultural sector, the majority of employment lies in the formal sector. The agricultural sector in the Western Cape accounts for 6.9 per cent of employment, compared to 5.4 per cent nationally. Private household employment is more prevalent nationally and represents 8.1 per cent of total employment in 2013, compared to 5.4 per cent in the Province. The trends in employment indicate growing non-agricultural employment and declining agricultural employment. Private household employment has remained relatively constant as a share of total employment.

The agricultural sector has seen a drop in employment both nationally (1.7 per cent per annum) and provincially (6.3 per cent per annum) over the five year period. Two possible reasons for the decline in agricultural employment are mechanisation and rising minimum wages within this sector (see Chapter 3, section 3.3.1 and the Box on Mechanisation in Agriculture). While mechanisation may improve productivity, it has also led to job losses. The move to mechanise production may also be accelerated by increased labour costs associated with higher minimum wages in the sector. Policies need to be put in place to attend to the displaced workers in the industry to facilitate movement to other sectors where employment may be growing. This is the challenge of achieving inclusive growth.

4.5.2 Formal sector employment

The formal sector employs 75 per cent of all workers nationally and 83 per cent of those employed in the Western Cape and is therefore the dominant sector. Given the formal sector's dominance, it exhibits a broadly similar structure to total employment. The demographic characteristics, such as race, gender, age and education of the formal sector, are presented in the table below.

One of the main compositional differences in formal sector employment nationally and provincially is delineated by race. The Western Cape has a much larger share of Coloureds (54.5 per cent) and a smaller share of Africans (25.2 per cent) within formal sector employment than is the case nationally, while the slight difference in the share of Whites is not statistically significant.

Women are under-represented in formal sector employment. Various reasons may account for this, such as the fact that women often exit the labour force when having children and are predominantly the ones responsible for childcare; that women may face discrimination in the formal labour market; or that women may be more likely to be employed in the informal sector. Men dominate formal sector employment in South Africa and, while this is also true in the Western Cape, the difference in male and female shares is narrower in the Province. In the Western Cape women account for 44.8 per cent of formal

sector employment, compared to 41.1 per cent nationally. These differences are statistically significant.

Table 4.6 Demographic characteristics of formal sector employment, 2013Q1

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
Total Formal Sector Employment	10 255	100.0	1 523	100.0
By Race				
African	6 725	65.6	383	25.2 *
Coloured	1 293	12.6	830	54.5 *
White	1 775	17.3	306	20.1
By Gender				
Male	6 044	58.9	841	55.2 *
Female	4 212	41.1	682	44.8 *
By Age				
15 to 24 years	955	9.3	162	10.6
25 to 34 years	3 488	34.0	536	35.2
35 to 44 years	3 100	30.2	452	29.7
45 to 54 years	1 870	18.2	265	17.4
55 to 65 years	842	8.2	108	7.1
By Education				
No education	124	1.2	12	0.8
Grades 0 - 7	846	8.3	126	8.3
Grades 9 - 11	2 942	28.7	498	32.7 *
Grade 12	3 502	34.1	539	35.4
Diploma/Certificate	1 472	14.4	149	9.8 *
Degree	1 156	11.3	176	11.6

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

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

Source: Own calculations, Stats SA (2013)

The age structure of formal sector employment in the Western Cape is fairly similar to the South African structure. The bulk of employment lies between 25 and 44 years in both the Western Cape (64.9 per cent) and nationally (64.2 per cent). The Western Cape's working population is somewhat younger than nationally, with 10.6 per cent between the ages of 15 and 24 years and 35.2 per cent between 25 and 34 years (compared to 9.3 per cent and 34 per cent respectively at the national level). Those in formal sector employment in the province are also less likely to be over 45 years compared to the country as a whole (24.5 per cent compared to 26.4 per cent).

Whilst there are very few individuals in formal sector employment in the Western Cape that have no education, there remains a large share that have attained only low levels of education. Both nationally and provincially, 8.3 per cent of the formal sector has only primary schooling. The majority of formal sector employment lies amongst those who have incomplete secondary (32.7 per cent, statistically significantly different to the proportion nationally) and completed secondary education (35.4 per cent). The proportion of

people with incomplete or complete secondary education within provincial formal sector employment is higher than nationally (28.7 per cent and 34.1 per cent respectively). Individuals with diplomas and/or certificates are less common amongst formal sector employment in the Western Cape than is the case nationally (9.8 per cent compared to 14.4 per cent). These numbers highlight the need, already referred to, to invest in human capital in ways that will increase the productivity of workers in general and that will contribute to making sectors across the board more competitive.

The Province exhibits a lower proportion of post-secondary qualified individuals in formal sector employment than nationally. One of the factors that is a constraint on productive employment is the relative scarcity of individuals with advanced qualifications. This is an even more pressing concern for young people who also have little to no work experience, which is an unattractive proposition from a demand perspective.

Table 4.7 Industrial composition of formal sector employment, 2013Q1

	South Africa		Western Cape	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)
Total Formal Sector Employment	10 253.3	100.0	1 523	100.0
Agriculture	656	6.4	76	7.9
Mining and Quarrying	365	3.6	2	0.1 *
Primary Sector	1 021	10.0	122	8.0
Manufacturing	1 533	14.9	270	17.7 †
Utilities	115	1.1	11	0.7
Construction	736	7.2	113	7.4
Secondary Sector	2 384	23.2	394	25.9
Wholesale & Retail Trade	1 895	18.5	289	19.0
Transport, Storage and Communication	601	5.9	99	6.5
Financial & Business Services	1 632	15.9	291	19.1 *
Community, social & personal (CSP) services	2 720	26.5	328	21.5 *
Tertiary Sector	6 849	66.8	1 006	66.1

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

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

3. The QES 2013 suggests that mining is made up of 514 000 formal sector workers. If we use this figure mining for South Africa would make up 5 per cent of total employment.

Source: Own calculations, Stats SA (2013)

The industrial structure of formal employment is dominated by the service sector. In the Western Cape the tertiary sector makes up 66.1 per cent of formal employment, followed by the secondary sector (25.9 per cent) and the primary sector (8 per cent). Compared to national estimates, the secondary sector is slightly larger (23.2 per cent) and smaller primary sector (10 per cent), although these differences are not statistically significant.

Three of the largest employment industries form part of the tertiary sector: Community, Social and Personal (CSP) services (21.5 per cent), financial and business services (19.1 per cent) and wholesale and retail trade (19 per cent). Financial and business services are somewhat larger in employment terms in the Western Cape than it is nationally, while the opposite is true of CSP services.

Manufacturing is the fourth largest industry in the Province, accounting for 17.7 per cent of formal sector employment. It is also a relatively large employer when compared with the rest of the country, where it accounts for 14.9 per cent of formal sector employment. This difference is statistically significant. The final major difference in the industrial structure of formal sector employment is in mining and quarrying, which is virtually non-existent in the province but accounts for 3.6 per cent of formal employment nationally.

Occupationally, the structure of formal sector employment is broadly similar between the Western Cape and South Africa as a whole. 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. The occupational structure of formal sector employment both nationally and provincially comprises of primarily skilled occupations, followed by low skilled and then high skilled occupations. In comparison to national estimates, the Western Cape has a higher proportion of high skilled workers (19.3 per cent compared to 18 per cent nationally), as well as low skilled workers (22.4 per cent compared to 20.1 per cent nationally). The result is that there are relatively fewer skilled workers in the Western Cape's formal sector than is the case nationally, a difference that is found to be statistically significant. The relatively high proportion of low skilled workers in the Western Cape is indicative of the need for policies promoting inclusive growth, such as raising the employment intensity of production, particularly of low-skilled employment.

Table 4.8 Occupation structure of formal sector employment, 2013Q1

	South Africa		Western Cape	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)
Total Formal Employment	10 255.3	100.0	1 523	100.0
Managers	993	9.7	169	11.1
Professionals	850	8.3	125	8.2
High Skilled	1 842	18.0	294	19.3
Technicians	1 382	13.5	189	12.4
Clerical	1 370	13.4	227	14.9
Service and sales	1 450	14.1	186	12.2
Skilled agriculture	49	0.5	12	0.8
Crafts	1 078	10.5	143	9.4
Operators and assemblers	1 019	9.9	132	8.6
Skilled	6 348	61.9	887	58.3 †
Elementary	2 065	20.1	342	22.4
Low Skilled	2 065	20.1	342	22.4

Notes: 1. A dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.
2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: Own calculations, Stats SA (2013)

Within the Western Cape’s formal sector, the most common occupational groupings are elementary workers (22.4 per cent), followed by clerical workers (14.9 per cent), technicians (12.4 per cent) and service and sales workers (12.2 per cent). Nationally, the pattern is similar, although the ordering of the latter three sectors is slightly different.

All jobs are not equal and can differ in terms of remuneration, benefits, working conditions and protections. Some of these differences are explored in Table 4.9 below. Workers can either be employed on a permanent or limited (contract) basis. A greater proportion of Western Cape workers are employed on a permanent basis (78.6 per cent) than at a national level (71.4 per cent). The proportion of workers not employed on a permanent basis in Western Cape and rather on a limited basis is 12.2 per cent. The large majority of national and provincial contracts are written with less than one in ten being verbal. Employing workers on a permanent basis with a written contract creates a sense of security and workers are also likely to get more benefits than they would if they were employed on a limited basis. Improvements in these indicators have occurred nationally and provincially over the past five years. Although this is not sufficient to ensure inclusive growth it is likely to be supportive of it as a secure and stable work force is possibly easier trained in order to increase productivity. On the downside, to the extent that this may indicate increasing rigidity in the labour market and therefore more resistance against restructuring and retraining, it may hamper attempts to increase productivity and make businesses more competitive.

Table 4.9 Characteristics of Formal Sector Employment, 2013

	South Africa 2013	Western Cape 2013
Contract duration		
Limited duration	14.6	12.2
Permanent nature	71.4	78.6 *
Unspecified duration	14.0	9.2 *
Contract type		
Written contract	91.4	92.6
Verbal contract	8.6	7.4
Benefits		
Medical aid	38.3	35.3
UIF contributions	69.1	81.3 *
Pension contributions	57.4	60.1
Paid leave	73.0	84.8 *
Paid sick leave	78.4	86.4 *
Paid maternity leave	66.6	73.3 *
Hours of work		
1 – 19	1.8	0.9 *
20 – 39	6.8	5.5
40 – 44	45.1	48.5
45 – 49	29.1	33.3
50+	17.2	11.8 *
Other		
Trade union membership	35.0	31.7

Note: An asterisk (*) denotes a statistically significant difference at the national and provincial level.

Source: Own calculations, Stats SA (2013)

Employee benefits including UIF, pension funds and medical aid are important from an employer's perspective in terms of retaining employees and from an employee's perspective for their long term welfare. In the Western Cape, formal sector workers are more likely to contribute to UIF (81.3 per cent) than nationally (69.1 per cent). Those whose employers make contributions to medical aid only make up a third of formal sector employment, which is fairly low. The proportion of those in the Western Cape with paid leave, paid sick leave and maternity leave is higher than nationally.

Working hours are similar at a national and provincial level but seemed to have decreased marginally between 2008 and 2013. The majority of employed individuals work 40 - 49 hours a week nationally (74.2 per cent) and provincially (81.8 per cent). Formal sector employees in the Western Cape are less likely than their counterparts nationally to work in excess of 50 hours per week.

Trade unions are particularly influential in the labour market in South African and play a role in determining wages and benefits. Union membership in 2013 was only marginally higher nationally than in the Province.

4.5.3 Informal sector employment

The informal sector in South Africa remains smaller than in other middle income countries. This is despite the country's high level of unemployment. In many countries the informal sector acts as a 'sponge' to absorb the unemployed into work. This has not been the case in South Africa. This raises the important question as to what is preventing the unemployed from being absorbed into informal sector employment in South Africa; this is a key area of research. Various potential constraints on the informal sector have been offered as reasons for its small size, including a lack of entrepreneurial skills, restrictive municipal by-laws, lack of access to capital, spatial dislocations, weak formal-informal sector linkages, crime and high reservation wages. These are all factors that undermine inclusive growth.

Davies and Thurlow (2009) examine South Africa's high unemployment rate and small informal sector by considering the linkages between the formal and informal economies. Their results indicate that trade liberalisation has increased formal employment, hurts informal producers and favours informal traders who benefit from lower import prices. They suggest that past liberalisation may, to some extent, explain South Africa's small informal sector and its concentration amongst traders rather than producers. They also consider the effect that wage subsidies for low-skilled workers and unconditional cash transfers have had and what would be optimal in terms of employment creation. Wage subsidies may increase formal employment, but would also increase competition in the informal producers' market. Unconditional cash transfers stimulate demand for informally-produced products, thereby raising informal employment without undermining formal producers. The point needs to be made that allowing informal sector expansion may be a way of alleviating poverty in the short term, but in the long run, only policies that promote inclusive growth can do so in a sustainable manner. In countries where the informal sector is large the challenge is to find policies that will increase productivity in the informal sector and that will transform more informal sector activities into formal sector businesses. A growing informal sector is also unlikely to be an indication of increasing competitiveness on a broad front.

The International Labour Organisation (ILO) Department of Statistics (2012: 10) 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 exist, 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: 10-11).

While the informal sector's contribution to total employment is small in South Africa as a whole, it is even smaller in the Western Cape. Nationally, the informal sector accounts for 2.2 million of the 13.7 million employed individuals (16.7 per cent). In contrast, in the Western Cape the informal sector accounts for just 11 per cent of provincial employment; the provincial informal sector comprises just 9 per cent of the national informal sector.

Table 4.10 Demographics of informal employment sector, 2013Q1

	South Africa		Western Cape	
	Number ('000s)	Share (Per cent)	Number ('000s)	Share (Per cent)
Total Informal Sector Employment	2 281	100.0	194	100.0
By Race				
African	1 973	86.5	82	42.5 *
Coloured	125	5.5	79	40.8 *
White	131	5.7	32	16.5 *
By Gender				
Male	1 386	60.7	107	55.1
Female	896	39.3	87	44.9
By Age				
15 to 24 years	224	9.8	16	8.1
25 to 34 years	767	33.6	60	30.9
35 to 44 years	624	27.4	59	30.3
45 to 54 years	426	18.7	38	19.7
55 to 65 years	240	10.5	21	11.0
By Education				
No education	100	4.4	10	4.9
Grades 0 – 7	456	20.0	30	15.4
Grades 8 – 11	1 003	43.9	71	36.7 †
Grade 12	538	23.6	57	29.5
Diploma/Certificate	113	4.9	16	8.2
Degree	34	1.5	8	4.0 †

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

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

Source: Own calculations, Stats SA (2013)

In contrast to the formal sector, informal sector employment in the Western Cape is primarily comprised of Africans (42.5 per cent) and Coloureds (40.8 per cent). While Whites are a distant third, accounting for 16.5 per cent of employment in the sector, this proportion is not much different from their share of total employment in the province. This structure is statistically different from the structure of the national informal sector, which overwhelmingly consists of Africans (86.5 per cent), followed by Coloureds (5.5 per cent) and Whites (5.7 per cent).

Men, who account for three in five jobs in the sector, dominate the South African informal sector. Although the same is true in the Western Cape, the gender gap is half the size: 10.2 percentage points compared to 21.4 percentage points nationally. The gender gap in informal sector employment differs on a regional and per country basis. In Morocco, men are twice more frequently employed in informal jobs than women. In other countries, women's employment may dominate the informal sector such as Ethiopia where nearly two-thirds of informal employment is made up of women against one-third for men (International Labour Office 2012, p.26).

The age structure of the informal sector is similar to that of the formal sector. There is also not much difference in age structure between the national and provincial informal sectors. The bulk of informal sector employment is between the ages of 25 and 44 years; individuals in this age category account for 61 per cent of informal sector employment, both nationally and provincially. Those aged 15 to 24 years constitute less than ten per cent of informal sector employment, while those aged 45 years or older represent just under 30 per cent.

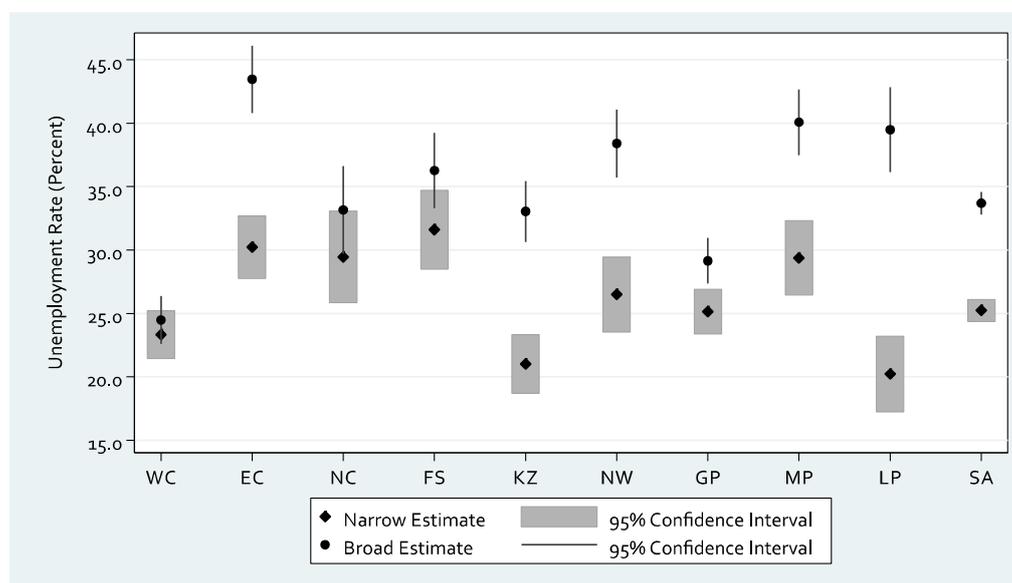
Both nationally and provincially, the majority of informal sector workers have not completed grade 12: 68.3 per cent of those employed in the informal sector nationally have not completed matric, compared to 57 per cent in the Western Cape. The largest educational categories within provincial informal sector employment, though, are incomplete secondary (36.7 per cent) and completed secondary (29.5 per cent). Overall, the educational attainment of Western Cape informal sector workers is somewhat higher than is the case nationally, with a higher proportion having diplomas and/or certificates (8.2 per cent compared to 4.9 per cent) and degrees (4 per cent compared to 1.5 per cent). These percentages demonstrate the articulation between an inadequately educated labour force and limitations on the ability to achieve inclusive growth. Policies aimed at promoting inclusive growth and thus sustainable poverty reduction may well begin with a focus on education.

4.6 Unemployment in the Western Cape

The unemployed comprise individuals who, in the survey week, were not employed 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, 2001). As a result, research on the South African labour market tended to use the expanded definition of unemployment.

Figure 4.4 Provincial and national unemployment rates, 2013



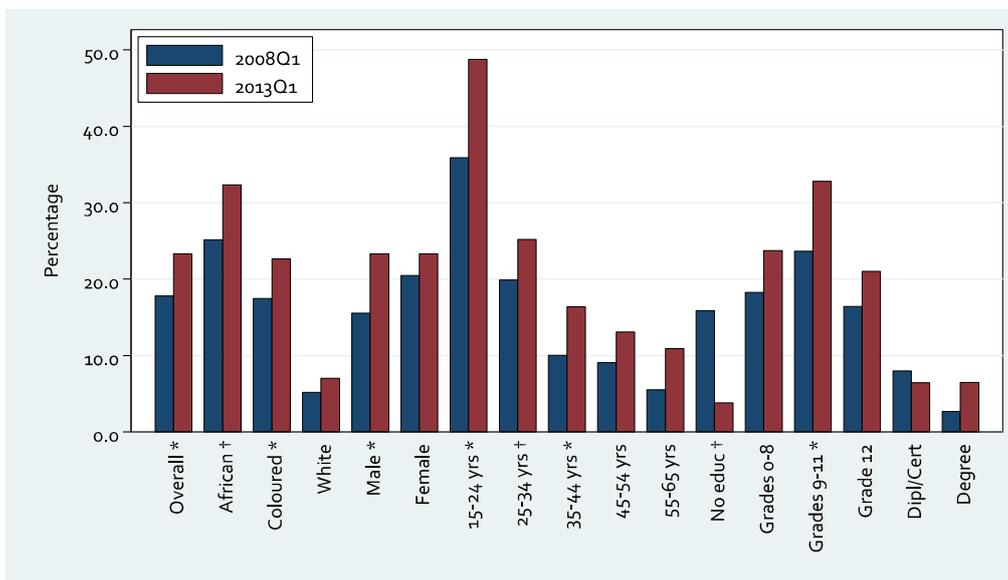
Note: Detailed estimates can be found in Annexure D.

Source: Own calculations, Stats SA (2013)

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. The Western Cape, though, is unique in that both the narrow and expanded unemployment rates are statistically indistinguishable from the national narrow unemployment rate (see Figure 4.5). Three provinces have similar narrow unemployment rates to the Western Cape, namely KwaZulu-Natal, Gauteng and Limpopo. However, once the non-searching unemployed are included in the calculations, the expanded unemployment rates of these provinces rise to levels which statistically are significantly higher than in the Western Cape.

The change in narrow unemployment between 2008 and 2013 in the Western Cape is substantial; for the most part, the provincial unemployment rate increased across cohorts. However, not all the increases are statistically significant. The key feature that emerges is that unemployment rates are estimated to be consistently higher in 2013 than in 2008, even though such differences are not necessarily statistically significant. The provincial unemployment rate increased by a statistically significant 5.5 percentage points to 23.3 per cent. Africans in the province have the highest rate of unemployment (32.3 per cent), followed by Coloureds (22.6 per cent) and then Whites (7 per cent). The unemployment rates rose for both Africans and Coloureds over the five years, by 7.2 and 5.1 percentage points, respectively.

Figure 4.5 Western Cape narrow unemployment rates, 2008 and 2013



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

Source: Own calculations, Stats SA (2008b, 2013)

Male unemployment rates rose substantially between 2008 and 2013, from 15.6 per cent to 23.3 per cent, eliminating previous gender disparities (the unemployment rate for women is also estimated to be 23.3 per cent).

Unemployment rates exhibit a negative relationship with age: as age rises, unemployment rates fall. Thus, younger labour force participants are substantially more likely to be unemployed than their older counterparts. The period has seen unemployment rates rise amongst those under the age of 45 years. For example, the unemployment rate for those aged between 15 and 24 increased from 35.9 per cent to 48.8 per cent over the period, while that of 25 to 34 year olds and 35 to 44 year olds rose by 5.3 percentage points and 6.4 percentage points, respectively.

Table 4.11 Demographic composition of unemployment, 2008 and 2013

	2008Q1		2013Q1		Change	
	Number (‘000s)	Share (Per cent)	Number (‘000s)	Share (Per cent)	Number (‘000s)	Rate (Per cent)
Western Cape						
Total Unemployment	393	100.0	552	100.0	159	7.0 p.a. *
By Race						
African	161	41.0	245	44.3	84	8.7 p.a. *
Coloured	211	53.8	281	50.9	69	5.8 p.a. †
White	18	4.5	25	4.6	8	7.4 p.a.
By Gender						
Male	187	47.6	293	53.0	105	9.3 p.a. *
Female	206	52.4	259	47.0	54	4.7 p.a. †
By Age						
15 - 24 year olds	145	36.9	171	31.0	26	3.4 p.a.
25 - 34 year olds	153	39.0	206	37.3	52	6.0 p.a. †
35 - 44 year olds	58	14.7	108	19.5	50	13.3 p.a. *
45 - 54 year olds	30	7.6	51	9.2	21	11.1 p.a. *
55 - 65 year olds	7	1.8	17	3.1	10	18.5 p.a. †
By Education						
No education	7	1.7	1	0.2	-6	-33.0 p.a. *
Grades 0 – 7	62	15.7	58	10.6	-3	-1.1 p.a.
Grades 8 - 11	198	50.4	302	54.8	104	8.8 p.a. *
Grade 12	103	26.3	162	29.3	58	9.4 p.a. *
Diploma/Certificate	16	4.2	12	2.2	-4	-6.1 p.a.
Degree	3	0.9	13	2.3	9	30.0 p.a.
South Africa						
Total Unemployment	4 222	100.0	4 604	100.0	382	1.7 p.a. †
By Race						
African	3 676	87.1	3 927	85.3	251	1.3 p.a.
Coloured	363	8.6	455	9.9	92	4.6 p.a.
White	121	2.9	149	3.2	29	4.4 p.a.
By Gender						
Male	2 013	47.7	2 344	50.9	331	3.1 p.a. *
Female	2 209	52.3	2 260	49.1	51	0.5 p.a.
By Age						
15 - 24 year olds	1 424	33.7	1 402	30.5	-22	-0.3 p.a.
25 - 34 year olds	1 680	39.8	1 849	40.2	169	1.9 p.a.
35 - 44 year olds	706	16.7	887	19.3	181	4.7 p.a. *
45 - 54 year olds	314	7.4	366	7.9	52	3.1 p.a.
55 - 65 year olds	98	2.3	101	2.2	2	0.5 p.a.
By Education						
No education	99	2.3	60	1.3	-40	-9.7 p.a. *
Grades 0 – 7	664	15.7	464	10.1	-200	-6.9 p.a. *
Grades 8 - 11	1 918	45.4	2 175	47.3	257	2.5 p.a. *
Grade 12	1 266	30.0	1 548	33.6	283	4.1 p.a. *
Diploma/Certificate	195	4.6	261	5.7	66	6.0 p.a. *
Degree	49	1.2	69	1.5	20	7.2 p.a.

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

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

Source: Own calculations, Stats SA (2008b, 2013)

While a similar negative relationship is observed in terms of educational attainment for those with at least some secondary education -- better educated individuals are less likely to be unemployed -- this does not hold for the least educated within the labour force. The unemployment rate falls from

32.8 per cent for those with incomplete secondary education, to 21 per cent for matriculants, to just 6.5 per cent for those with post-secondary education. Unemployment is very low amongst those with no education (3.8 per cent in 2013) and, for those with primary education only, is similar to that of matriculants. This is related to the ongoing process whereby individuals with lower levels of education are 'aging out' of the labour force.

There has been a general rise in the levels of unemployment, both in the Western Cape and South Africa as a whole. Between 2008 and 2013, close to 400 000 additional individuals joined the ranks of the unemployed in South Africa, of which 159 000 were in the Western Cape (Table 4.11). In 2013, the province accounted for 12 per cent of the unemployed nationally. The Western Cape experienced a significantly higher average annual growth rate in the number of unemployed individuals than nationally (7 per cent per annum compared to 1.7 per cent per annum).

Almost half of the unemployed in the Western Cape (50.9 per cent) are Coloured, while unemployed Africans represent 44.3 per cent. Approximately one in 20 unemployed individuals in 2013 was White. The racial breakdown of provincial unemployment is starkly different to that of national, where eight out of ten of the unemployed were African. The number of unemployed Africans grew more rapidly than the provincial average. The average annual growth rate for Coloureds on the other hand was 5.8 per cent per annum. Thus, within the province, Africans have a significantly higher unemployment rate than the other race groups, but also experienced the most rapid rate of increase in unemployment over the period.

There was an increase in both the number of unemployed men and women in the Western Cape. In the past, women outnumbered men amongst the unemployed, but that has since changed. In 2013, men accounted for 53 per cent of unemployment (293 000 males) compared to 47 per cent women (259 000 unemployed females). The rate at which male unemployment grew (9.3 per cent per annum) was higher than that of females (4.7 per cent per annum). A similar trend of relatively rapid growth in male unemployment has occurred nationally, with the number of unemployed men increasing by 330 000 between 2008 and 2013.

While the rise in unemployment after 2008 was unavoidable due to the global recession and disastrous for poverty reduction, it can also be seen to be the price the Western Cape has paid for being a more open economy. This need not be seen as a reason for despair. The Western Cape could only be more open because some of its sectors could become or remain competitive (see Chapter 3, section 3.4.2). That is a requirement for inclusive growth. Promoting inclusive growth therefore comes with this downside risk of being more vulnerable to global shocks. However, rather than an argument against inclusive growth, it highlights the importance of continuously improving productivity and having appropriate safety nets in place for when these unavoidable shocks occur.

Of concern is the substantial number of unemployed young people, both provincially and nationally. These young people account for more than two-thirds of the unemployed in the Western Cape and just over 70 per cent of the unemployed nationally. With the exception of those aged between 15 and 24 years, there was a general rise in unemployment numbers across age groups in the Western Cape. The largest increase in unemployment was seen by those aged between 25 and 34 years (52 000 unemployed workseekers) and 35 and 44 years (50 000 unemployed workseekers). While some of the growth in youth unemployment can probably be attributed to the recession, it is likely that a significant proportion is due to the province's declining ability to sustain a process of inclusive growth.

Even though the bulk of the unemployed is found within younger cohorts, their older counterparts are experiencing higher rates of growth in unemployment. Those aged between 55 and 65 years experienced an average annual growth rate of 18.5 per cent per annum, while those aged between 35 and 44 years, and 45 and 54 years experienced a growth rate of 13.3 per cent and 11.1 per cent per annum. This is related to the small base number of unemployed within these latter age-categories. High youth unemployment represents a significant challenge for government, with negative consequences in a range of areas. The situation is compounded by the many other social challenges that characterise the Western Cape and the country as a whole (including high rates of substance abuse, high levels of poverty and inequality, few employment opportunities).

The bulk of the unemployed in the Western Cape are those with incomplete secondary education (54.8 per cent), matriculants (29.3 per cent) and those with complete primary education (10.6 per cent). The national distribution of the unemployed is very similar in the Western Cape, where the majority of the unemployed are those with incomplete secondary education (47.3 per cent) and grade 12 (33.6 per cent). Those with no education make up a very small (and shrinking) portion of the provincial unemployed. Unemployment in the Western Cape rose for those with incomplete secondary education (+104 000) and those with Matric (+58 000). As with provincial unemployment, national unemployment by educational attainment showed a general rise across cohorts, with the exception of those with lower education levels. Those with incomplete secondary education, matric and diploma/certificate all saw significant increases.

4.7 Conclusion

One of the key avenues through which economic growth is able to benefit all groups is through the labour market. This makes the labour market central to the achievement of inclusive growth. However, the South African and provincial labour markets remain scarred by the effects of apartheid and access to employment opportunities remains skewed along various markers of disadvantage: race, gender, age and education.

Through a lack of access to job opportunities or through concentration in activities with poor pay, marginalised groups are unable to fully access opportunities to participate in productivity enhancing processes and share in the benefits of growth. Within the context of provincial demographics, therefore, inclusive growth requires relatively rapid growth in the employment of Africans, the young and those with relatively little education. From a supply-side perspective, and given the country's economic growth trajectory, rapid growth in the employment of these groups will only come about through human capital creation. Without this, increased employment and reduced poverty that is not based on increased productivity and income growth will not be sustainable.

The Western Cape finds itself in a relatively fortunate position in terms of various labour market indicators compared to the rest of the country. Participation is higher, discouraged workseekers are fewer, expanded unemployment is generally lower and employment has generally been more resilient in the face of the recession. The provincial formal sector is relatively large compared with the rest of the country and formal sector employees are in no discernible way worse off than those in the rest of the country in terms of benefits and job security. In a variety of facets – permanent contracts, access to UIF, and paid annual, sick and maternity leave – workers in the province enjoy superior benefits.

However, within these aggregates, labour market disadvantage remains evident amongst Africans, women, the young and the old, and those with poor educational attainment. As a consequence, these types of individuals are marginalised from the process of economic growth and find it difficult to access employment opportunities. In-migrants represent a particularly vulnerable and disadvantaged group. They often fall into the abovementioned categories but, perhaps more importantly, they lack the established social networks possessed by those with longer residency in the province that are so crucial in many cases to finding employment.

Inclusive growth is not simply about increasing employment, but rather about creating opportunities where people can be productively employed. At the same time, individuals need to be equipped, through the process of education and training, to take hold of these opportunities. Creating these opportunities is therefore a necessary characteristic of and a central challenge in generating inclusive growth.

Annexure D

Detailed estimates

Annexure D1 Narrow labour force participation rates, 2013

	South Africa		Western Cape	
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>
Overall	54.5	[53.785; 55.244]	66.5	[64.952; 68.007] *
By Race				
African	51.9	[51.017; 52.760]	66.9	[63.648; 70.070] *
Coloured	62.7	[61.204; 64.194]	65.0	[63.331; 66.585]
Asian	61.2	[56.816; 65.544]	70.3	[30.781; 109.881]
White	66.5	[64.338; 68.708]	71.3	[66.778; 75.759]
By Gender				
Male	61.4	[60.485; 62.362]	75.7	[73.957; 77.528] *
Female	48.0	[47.060; 48.855]	58.4	[56.369; 60.476] *
By Age Group				
15 to 24 years	25.5	[24.467; 26.488]	40.1	[36.230; 44.038] *
25 to 34 years	71.5	[70.314; 72.639]	81.2	[78.791; 83.550] *
35 to 44 years	76.9	[75.769; 77.998]	84.1	[81.825; 86.308] *
45 to 54 years	68.8	[67.466; 70.090]	73.0	[69.928; 76.128]
55 to 65 years	38.4	[36.802; 39.996]	42.3	[38.516; 46.029]
By Educational Attainment				
No education	31.4	[28.563; 34.274]	47.8	[28.904; 66.671]
Grades 0 – 7	43.2	[41.702; 44.657]	54.4	[49.859; 59.020] *
Grades 8 – 11	45.0	[43.970; 45.948]	59.3	[57.183; 61.514] *
Grade 12	66.3	[65.118; 67.516]	75.3	[72.597; 78.048] *
Diploma/Certificate	84.6	[82.900; 86.298]	84.1	[79.660; 88.472]
Degree	89.1	[87.354; 90.846]	88.2	[84.433; 91.911]

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

Source: Own calculations, Statistics South Africa (2013)

Annexure D2 Provincial unemployment rates, 2013

	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	23.3	[21.435; 25.222]	24.5	[22.593; 26.357]	1.05
Eastern Cape	30.2	[27.760; 32.706]	43.5	[40.801; 46.122]	1.44
Northern Cape	29.4	[25.835; 33.058]	33.2	[29.682; 36.636]	1.13
Free State	31.6	[28.500; 34.692]	36.3	[33.308; 39.229]	1.15
KwaZulu-Natal	21.0	[18.708; 23.330]	33.0	[30.639; 35.448]	1.57
North West	26.5	[23.529; 29.452]	38.4	[35.718; 41.088]	1.45
Gauteng	25.1	[23.367; 26.902]	29.1	[27.344; 30.941]	1.16
Mpumalanga	29.4	[26.445; 32.310]	40.1	[37.481; 42.677]	1.36
Limpopo	20.2	[17.236; 23.198]	39.5	[36.143; 42.823]	1.95
South Africa	25.2	[24.362; 26.096]	33.7	[32.802; 34.591]	1.34

Source: Own calculations, Statistics South Africa (2013)

Annexure D3 Narrow unemployment rates, 2008 and 2013

	2008Q1		2013Q1	
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>
Western Cape	17.8	[16.186; 19.400]	23.3	[21.429; 25.228] *
By Race				
African	25.2	[21.680; 28.662]	32.3	[28.129; 36.548] †
Coloured	17.5	[15.250; 19.668]	22.6	[20.160; 25.130] *
Asian	19.2	[0.340; 37.986]	19.0	[-5.683; 43.650]
White	5.2	[3.147; 7.224]	7.0	[4.571; 9.424]
By Gender				
Male	15.6	[13.728; 17.391]	23.3	[20.967; 25.694] *
Female	20.5	[18.242; 22.689]	23.3	[20.822; 25.832]
By Age Group				
15 to 24 years	35.9	[31.727; 40.088]	48.8	[44.143; 53.377] *
25 to 34 years	19.9	[17.082; 22.723]	25.2	[21.863; 28.503] †
35 to 44 years	10.0	[7.881; 12.208]	16.4	[13.489; 19.304] *
45 to 54 years	9.1	[6.780; 11.378]	13.1	[10.319; 15.836]
55 to 65 years	5.5	[2.439; 8.605]	10.9	[7.263; 14.560]
By Educational Attainment				
No education	15.9	[7.486; 24.309]	3.8	[-2.116; 9.722] †
Grades 0 – 7	18.3	[14.023; 22.493]	23.7	[18.000; 29.458]
Grades 8 – 11	23.6	[21.209; 26.076]	32.8	[29.615; 36.028] *
Grade 12	16.4	[13.811; 19.030]	21.0	[18.100; 23.927]
Diploma/Certificate	8.0	[4.637; 11.322]	6.4	[4.016; 8.853]
Degree	2.7	[0.404; 4.984]	6.5	[2.584; 10.391]
South Africa	23.5	[22.680; 24.229]	24.9	[24.067; 25.794] †
By Race				
African	27.7	[26.776; 28.622]	29.0	[27.929; 30.017]
Coloured	19.0	[17.033; 20.887]	22.5	[20.402; 24.673] †
Asian	11.7	[9.004; 14.471]	11.7	[6.593; 16.737]
White	5.3	[4.093; 6.466]	5.9	[4.592; 7.243]
By Gender				
Male	20.5	[19.602; 21.318]	22.2	[21.220; 23.186] †
Female	27.1	[25.973; 28.157]	28.2	[26.975; 29.470]
By Age Group				
15 to 24 years	46.1	[44.347; 47.848]	49.7	[47.561; 51.883] †
25 to 34 years	26.4	[25.180; 27.583]	30.1	[28.736; 31.514] *
35 to 44 years	16.2	[15.149; 17.159]	16.9	[15.628; 18.086]
45 to 54 years	10.8	[9.767; 11.838]	12.4	[11.123; 13.632]
55 to 65 years	7.7	[6.464; 9.025]	5.9	[4.657; 7.202]
By Educational Attainment				
No education	15.2	[12.881; 17.487]	16.3	[12.643; 20.009]
Grades 0 – 7	22.7	[21.102; 24.276]	23.5	[21.553; 25.441]
Grades 8 – 11	30.5	[29.140; 31.795]	31.7	[30.332; 33.005]
Grade 12	24.3	[23.149; 25.445]	27.5	[25.980; 29.019] *
Diploma/Certificate	10.9	[9.531; 12.191]	11.6	[10.101; 13.183]
Degree	5.3	[3.807; 6.813]	4.4	[3.192; 5.567]

Notes: 1. An asterisk (*) denotes a statistically significant change between 2008 and 2013 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: Own calculations, Statistics South Africa (2008, 2013)

5

Socio-economic developments in the Western Cape

Key findings

- Generally, living standards and socio-economic conditions in the Western Cape are the highest in the country and comparable only to that of Gauteng. The latter has higher incomes and higher levels of educational attainment than the Western Cape.
- Despite relatively high educational attainment, the Western Cape experiences a surprisingly high level of school drop-out between grades 10 and 12, affecting boys more than girls. Educational quality is still far behind that of developed countries and also lags some developing countries. Most primary school children do not reach national performance norms in the Annual National Assessment. Weak education quality impedes the attainment of inclusive growth in the Province.
- HIV and TB remains the leading causes of death and premature mortality, with large amounts of government resources directed at halting the spread of and managing persons with these diseases. In 2012/13 126 727 adults and 7 485 children received ART from the Western Cape government. Chronic or lifestyle diseases are responsible for the largest proportion of female and male deaths. The Western Cape is the province with the largest percentage of people who say they have been diagnosed with diabetes and hypertension.
- A well-functioning primary health care system is important for the attainment of inclusive growth. The Western Cape fares well in providing access to healthcare as measured by travel time to healthcare provider. Access was further expanded by the opening of the Khayelitsha District Hospital in 2012. Statistics on early first contact with the public health services during pregnancy and on child immunisation coverage indicate that there remains room for improvement in reaching vulnerable users with important health services.

- Housing and municipal services are important measures of living conditions and also have important implications for productivity. They are thus important for inclusive growth. It is thus pertinent that the prevalence of informal housing in the City of Cape Town is relatively low for a metropolitan area that experiences much in-migration. However, since 2001 growth of the housing stock did not keep up with population growth, leading to a rise in informal housing. The high levels of municipal service provision also place the Western Cape ahead of all other provinces: 83 per cent of households have all four the main municipal services of water, sanitation, electricity and refuse removal.
- Despite its relative economic affluence, the Province is plagued by a number of social problems. These include the highest levels of violent crime and housebreaking in the country, and also widespread alcohol and substance abuse, abuse of women and of children, and high levels of gang activity. As a consequence, many respondents in this Province have safety fears regarding the use of public transport and public places for themselves and their children.

5.1 Introduction

The socio-economic conditions discussed in this chapter – relating to education, health, migration, housing conditions, municipal services, and social ills such as inter-personal violence – provide a context within which the Western Cape economy operates, but also reflect the extent to which past growth has been inclusive. Service delivery by the provincial government and local authorities has a great bearing on many of the socio-economic conditions discussed here. These services are not discussed directly; rather, the chapter presents a broad canvass of the socio-economic conditions prevailing in the Province, often compared with those in Gauteng, the most similar province. New data such as censuses that provide information on socio-economic conditions do not generally become available frequently. Thus many of the conditions discussed in this chapter have not changed from last year's PERO. In this year's review, special focus is placed on the health wellness of the Western Cape population.

In the context of socio-economic indicators in the Western Cape, the focus throughout this year's review on inclusive growth requires particular emphasis on two aspects of this growth. Firstly, since the inclusive growth process necessitates broad-based and non-discriminating access to human capital development that will contribute to productivity improvements, the effectiveness of the education system becomes an area of interest. (See Klasen, 2010.) Secondly, inclusive growth, with its emphasis on participation, also implies that there must be a broad-based sharing of the benefits of growth (Kakwani and Pernia, 2000). Outcomes are important; therefore, this chapter will give attention to whether the benefits of growth reach marginalised groups, e.g. the poor, women and children. In particular, we explicitly consider the quality of public services as poor users of public services are unable to opt-out to private services. We also consider factors

that influence productivity and that affect the younger, more productive population, e.g. early childhood development, education and, for the area of health, years of life lost (YLL).

5.2 The provincial population

According to the 2013 mid-year population estimates of Stats SA (2013), the Western Cape population was 6 016 900, i.e. 11.4 per cent of the national total. For historical reasons, the Western Cape's population composition is dissimilar from that of most other provinces in South Africa. A provincial and regional breakdown of the 2011 population and its composition by population group from the census is presented in Table 5.1. Census data are used here because this also allows a breakdown of population between regions within the Province. The black African population, that constitutes 79.2 per cent of the national population, has only a 32.8 per cent share in the Western Cape (just more than 1.9 million people). The coloured population (more than 2.8 million or 48.6 per cent of the provincial total) is the largest population group. The white population at just over 15.7 per cent (900 000) also have a substantial population share. Afrikaans is the home language of half the population, with 25 per cent having isiXhosa as language and 20 per cent English.

Virtually two-thirds of the provincial population resided in the City of Cape Town, 13.5 per cent in the Cape Winelands and 9.9 per cent in Eden. The Central Karoo, although covering a very large area, is sparsely populated and has a population of barely 51 000, just 1.2 per cent of the provincial population. In all regions the coloured population group constitutes the largest group, and only in the City of Cape Town is the coloured population group smaller than that of the combined total of the other groups.

Table 5.1 Population of provinces and of district councils within the Western Cape, 2011

	Black African	Coloured	Indian or Asian	White	Other	Total	% of SA total
Provinces within SA total							
Gauteng	9 493 684	423 594	356 574	1 913 884	84 527	12 272 263	23.7%
KwaZulu-Natal	8 912 921	141 376	756 991	428 842	27 170	10 267 300	19.8%
Limpopo	5 224 754	14 415	17 881	139 359	8 459	5 404 868	10.4%
Mpumalanga	3 662 219	36 611	27 917	303 595	9 597	4 039 939	7.8%
North West	3 152 063	71 409	20 652	255 385	10 444	3 509 953	6.8%
Northern Cape	576 986	461 899	7 827	81 246	17 903	1 145 861	2.2%
Eastern Cape	5 660 230	541 850	27 929	310 450	21 595	6 562 054	12.7%
Free State	2 405 533	83 844	10 398	239 026	6 790	2 745 591	5.3%
Western Cape	1 912 547	2 840 404	60 762	915 052	93 970	5 822 735	11.2%
Total SA	41 000 937	4 615 402	1 286 931	4 586 839	280 455	51 770 564	100.0%

	Black African	Coloured	Indian or Asian	White	Other	Total	% of SA total
District Councils within Western Cape Total							
DC1: West Coast	64 110	260 850	2 181	61 527	3 098	391 766	6.7%
DC2: Cape Winelands	186 472	489 189	3 153	101 491	7 184	787 489	13.5%
DC3: Overberg	66 151	139 825	816	48 692	2 692	258 176	4.4%
DC4: Eden	141 830	311 178	2 526	110 314	8 418	574 266	9.9%
DC5: Central Karoo	9 045	54 076	300	7 197	394	71 012	1.2%
CPT: City of Cape Town	1 444 939	1 585 286	51 786	585 831	72 184	3 740 026	64.2%
Total Western Cape	1 912 547	2 840 404	60 762	915 052	93 970	5 822 735	100.0%

Source: Stats SA Census 2011 (calculated using Supercross)

According to the census, the major difference between the Western Cape and South Africa in terms of type of enumeration area is that the Province has no population residing in traditional areas, as against 30 per cent nationally. In contrast, 81 per cent of the provincial population resides in formal residential areas, much more than the national average. A further 7 per cent live in informal residential areas, and almost 8 per cent on farms, double the national average. The high percentage of the Western Cape population living in urban areas and in formal residential areas makes it potentially easier to pursue inclusive growth strategies than in most other provinces. McKinley (2010) argues that inclusive growth extends development to non-income dimensions of well-being, particularly health and education. It is more cost-effective and operationally more feasible to deliver these crucial development services in more stable urban areas.

Stats SA now estimates the total fertility rate – the number of children that would be born to each woman if the fertility pattern in each age group remained at current levels – at 2.14 for the period 2011 – 2016, a considerable decline from earlier levels and just above replacement level (see Table 5.2). Such low levels of fertility imply that future population growth would come largely from in-migration. It also 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 45, which is low compared to the national rate of 53, but above Gauteng's 39. The number of non-workers (dependants) per 100 employed workers is much lower in the Western Cape (190) and Gauteng (175) than in the other provinces (402), reflecting better economic conditions.

Table 5.2 Total fertility rate and dependency ratios

	Western Cape	Gauteng	Other provinces	South Africa
Total fertility rate (children born per woman given prevailing age-specific fertility), 2011 - 2016 (2013 for SA figure)	2.14	1.87		2.34
Dependency Ratio (population other ages per 100 working age 15 - 64), 2011	45	39	60	53
Employed dependency ratio (non-working population per 100 employed), 2011	190	175	402	293

Sources: *Own calculations from Stats SA Census 2011 (Supercross version)*
Stats SA 2013 mid-year population estimates

By affecting the size of the population to be served, as well as their geographic and age distribution, migration has important implications for service needs. It will also impact on the effectiveness of an inclusive growth strategy. This section expands on the discussion of labour migration in Chapter 4.

In the Stats SA 2013 mid-year estimates it is noted that 307 411 people migrated to the Western Cape in the period 2006 – 2011, of which 107 015 from outside South Africa's borders (mainly other African countries), 96 898 from the Eastern Cape and 43 306 from Gauteng. Out migration was estimated to be 81 753, of which 30 259 was to Gauteng. This implies a net gain from migration of 225 657 over this five year period, while over the ten years between the two censuses, the net gain from migration was estimated to be around 430 000, one-third of the population growth of 1.3 million people over this period.

The Education Management Information System (EMIS) offers an alternative perspective on migration. Of the 918 835 children recorded at school in 2010, those who transferred in from other provinces or abroad in the current year across all grades constituted 25 956, or 2.82 per cent. Transfers in were particularly large in grades 1, 8 and 10, the beginning of important school phases. The larger migration in these grades reflects the fact that children from other provinces are sent to school in the Western Cape because of the latter's perceived good quality schools. This puts pressure on service delivery, leading to crowding in schools and under-provisioning.

5.3 Inequality perspective on living standards and affluence

The 2008/09 Living Conditions Survey provides an average income estimate of R42 155 per member of the population in the Western Cape, which is slightly higher than in Gauteng, but far above the national average (see Table 5.3). The income of the most affluent may greatly affect the average, but the median income (that of the middle person in the distribution) reflects similar patterns. The Western Cape has much less poverty than other provinces, though poverty is still wide-spread: Almost a quarter of the Western Cape population falls below a poverty line set at a relatively low level.

Table 5.3 Selected income and poverty indicators

	Western Cape	Gauteng	Other provinces	South Africa
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

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

Source: Own Calculations, Stats SA Living Conditions Survey 2008/09

Census 2011 data shown in Table 5.4 reflects the percentage of households in different provinces possessing certain household goods. It is evident that a higher proportion of households own a motor car in the Western Cape (44 per cent) than even in Gauteng (38 per cent).

Table 5.4 Possession of certain items in household by province, 2011 (%)

	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	North West	Northern Cape	Western Cape	South Africa
Motor car	20	26	38	25	20	26	23	28	44	30
Computer	12	18	31	16	12	16	14	17	34	21
Satellite TV	17	25	33	23	23	25	19	27	31	26
Washing machine	20	29	42	19	15	27	27	42	58	32
Refrigerator	54	73	73	63	68	71	65	68	81	68
TV	63	78	81	67	71	75	72	72	86	74
Electric or gas stove	67	84	83	71	65	75	76	82	90	77
Internet access: Total	24	31	46	34	24	31	26	26	44	35
Internet at home	5	6	12	7	3	5	4	6	16	9
Internet on cell phone	13	17	18	18	15	18	15	15	15	16
Internet at work	3	3	8	3	2	3	3	3	6	5
Internet elsewhere	4	5	8	5	4	5	4	2	6	6

Source: Stats SA Census 2011 (calculated using Supercross)

The Western Cape has a similar advantage relative to Gauteng with regard to ownership of a computer in the home (34 as against 31 per cent), washing machines (58 as against 42 per cent), TV (86 as against 81 per cent) and electric or gas stoves (90 as against 83 per cent). Although there are proportionately more households with internet in the home in the Western Cape than in Gauteng, overall access to the internet is higher in Gauteng, largely through greater access to the internet through cell phones.

Access to the internet by poor and marginalised communities could make a significant contribution to the attainment of inclusive growth. It could facilitate the acquisition of skills and knowledge among the youth from communities that will enable them to participate in the growth process, in terms of both increasing productivity and making possible economic restructuring that will make more sectors competitive nationally and globally.

Unemployment trends have been discussed in Chapter 4 and the comparatively fast growth in Western Cape unemployment has been identified as a problem. Although dated, the large size of the Community Survey of 2007 allows discussion of the regional dimension of unemployment, whilst this information cannot yet be obtained from the available versions of Census 2011. The rate of unemployment varied greatly between the City of Cape Town, with a relatively high narrow unemployment rate of 24.5 per cent in 2007, and most other regions, where it ranged between 15.6 per cent in the West Coast to 18.5 per cent in Eden. The generally poor Central Karoo region had an even higher unemployment rate than Cape Town. Demographic and living standard differences by region from the 2007 Community Survey were discussed in more detail in PERO 2012.

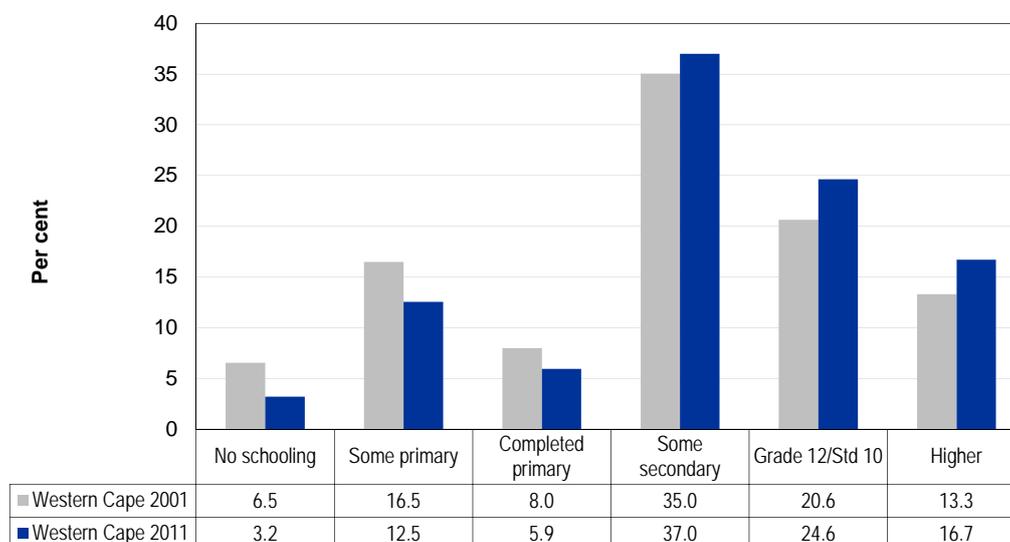
5.4 Education

In this review, the focus falls on education's role in the context of the economy, e.g. on the education levels of the population and the labour force and on the quality of education, which is also a good indication when assessing inclusive growth.

5.4.1 Education level of household head

Figure 5.1 depicts the education level achieved by the household head within the Province. It shows that the majority of household heads have attained some secondary level of education, at 35 per cent in 2001 and 37 per cent in 2011. Over the 10 year period there were increases in the education level for some secondary, grade 12 and Higher while decreases were recorded for No Schooling, Some primary and Completed primary. Some secondary and grade 12 experienced the largest change, decreasing and increasing by 4 percentage points respectively.

Figure 5.1 Education level of household head in the Western Cape Province (percentage of total)



Source: Population Census 2001 and Population Census 2011

5.4.2 Educational attainment, schools and the labour market

The level of education of the Western Cape adult population is second only to that of Gauteng. Western Cape adults have completed an average of 9.99 years of education, about 0.5 years less than in Gauteng and 0.7 years more than the South African average. Table 5.5 shows that a larger share of adults have matriculated in Gauteng than in the Western Cape (51 per cent versus 41 per cent), while the proportion with degrees is also higher in Gauteng at 7.3 per cent as against Western Cape's 6.2 per cent. The almost 1.6 million Western Cape adults with matric and the almost 232 000 with degrees constitute 12.7 per cent and 16.5 per cent of the national stock of adults with such qualifications. The Western Cape thus possesses a relatively well educated population by South African standards.

These achievements in educational attainment indicate, on the one hand, that the Western Cape has been relatively successful in the past, and in a South African context, of making education more inclusive. On the other hand, even if this could be argued to have been the case in the past, it is questionable whether education in the Western Cape is still as supportive of inclusive growth as new and global economic challenges demand. It can be argued that these challenges require a more effective attainment of higher levels of education than is generally the case in the Western Cape or in Gauteng.

Unlike in many other developing countries, school enrolment in South Africa is quite high, even amongst girls; nationally, more than 95 per cent of children below 16 are enrolled in school (Department of Education, 2008). A concern in the Western Cape is that drop-out remains high in national perspective among children after age 15 while in good academic standing.

Table 5.5 Educational attainment of the South African adult population (20 years or more) by province, 2011

Province	Mean years of education of adults	Number with matric or more (incl. degrees)	Number with degrees	As % of adult population	
				Matric	Degrees
Western Cape	9.99	1 554 982	231 597	41.4	6.16
Eastern Cape	8.29	991 458	109 028	27.7	3.05
Northern Cape	8.25	196 777	14 723	29.0	2.17
Free State	8.97	573 762	55 380	35.3	3.40
KwaZulu-Natal	8.90	2 272 548	182 580	39.3	3.16
North West	8.37	673 298	54 943	31.9	2.61
Gauteng	10.51	4 198 735	604 296	50.7	7.30
Mpumalanga	8.65	858 914	59 900	37.0	2.58
Limpopo	8.21	886 391	87 852	30.6	3.04
South Africa	9.26	12 206 865	1 400 299	39.3	4.51

Source: Own calculations, Stats SA Census 2011 (Supercross version)

The 2011 Census confirms the early drop out amongst Western Cape youths, a serious concern which was highlighted in the 2012 PERO. Despite reduced drop-out in recent years, only 75 per cent of youths aged 17 - 19 years were in schools in the Western Cape compared to 84 per cent in Gauteng and the country as a whole. It is worrying that education appears to be less valued than it should be amongst many youths and parents in the Western Cape. It should be a serious concern for the achievement of a high pace of sustainable economic growth in the future as these drop-outs are facing the risk of becoming excluded from participation in a productivity enhancing and competition-inducing growth process. This failing will not promote inclusive growth in the Western Cape.

By far the majority of Western Cape schools are public schools, with learners in independent schools constituting less than 5 per cent of the total. Learner numbers in grades 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.

In Gauteng and the Western Cape, fewer than half the schools are classified as belonging to quintiles 1 to 3 on the national list, the poorest schools, compared to above three-quarters of schools in most other provinces (Department of Basic Education, 2012a). Despite having less poverty in schools than other provinces, more respondents in this Province indicated in the 2008 Living Conditions Survey that they were in schools with school feeding schemes than in any other province. The number of children benefiting from the National School Nutrition Programme (NSNP) expanded considerably to 427 000 children in 1 020 schools benefiting in 2011, compared to only 335 000 two years earlier. This is positive growth from an inclusive growth perspective.

5.4.3 Education quality

Educational quality in the Western Cape is the highest of all provinces in all international assessments, as summarised in the Department of Basic Education's Annual National Assessment report of 2011 (Department of Basic Education, 2011). The Western Cape's performance lies between 1.5 and 2 standard deviations above the South African average, which is equivalent to at least a three to four year learning advantage on the average South African learner.

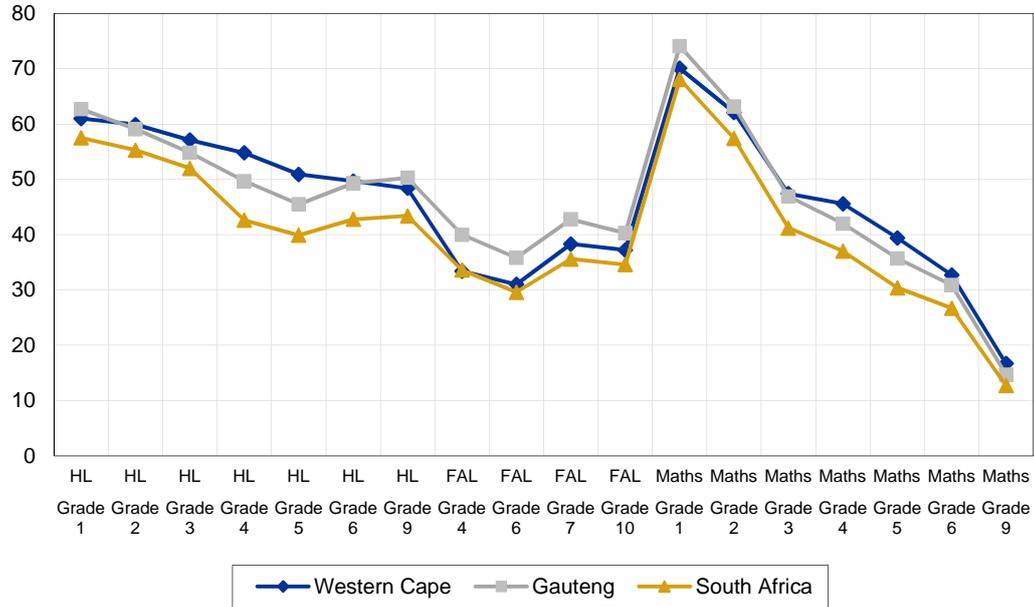
This does not provide ground for complacency about education quality in the Western Cape. The Province performs well below developed country standards and the performance levels of other middle income countries in international tests. Western Cape learners performed above the national average in all the 2012 Annual National Assessment (ANA) tests. One limitation of the ANA tests is that they are administered and assessed by schools themselves, thus this may limit full comparability. Nevertheless, they are informative. As Table 5.6 and Figure 5.2 show, large proportions of learners still do not achieve the implied national norm of 50 per cent performance in mathematics or language. In a number of instances the Western Cape performed at a level below that achieved by Gauteng. The failure to increase the quality of education to international standards undermines growth as it places skilled-labour constraints on the restructuring of all sectors in the economy to increase productivity and become more competitive.

Table 5.6 Western Cape, Gauteng and national performance in the 2012 National Annual Assessment tests

Grade	Subject	% average achievement			% of learners achieving 50% or above		
		Western Cape	Gauteng	South Africa	Western Cape	Gauteng	South Africa
Grade 1	Home language	61.0	62.7	57.5	68.5	72.1	63.7
Grade 2	Home language	59.9	59.1	55.3	71.6	69.9	64.0
Grade 3	Home language	57.1	54.8	52.0	67.4	61.7	56.6
Grade 4	Home language	54.8	49.7	42.6	63.0	53.2	41.3
Grade 5	Home language	50.9	45.5	39.9	55.2	46.4	36.5
Grade 6	Home language	49.7	49.3	42.8	50.4	51.6	38.7
Grade 9	Home language	48.4	50.3	43.4	47.4	54.1	38.9
Grade 4	First add. language	33.4	40.0	33.6	24.2	36.9	25.2
Grade 5	First add. language	31.0	35.8	29.6	16.0	25.7	15.9
Grade 6	First add. language	38.3	42.8	35.6	28.7	38.9	24.4
Grade 9	First add. language	37.2	40.3	34.6	22.9	31.0	20.8
Grade 1	Mathematics	70.1	74.1	68.1	80.3	85.7	77.4
Grade 2	Mathematics	62.1	63.2	57.4	76.8	78.3	67.8
Grade 3	Mathematics	47.4	46.9	41.2	48.0	47.9	36.3
Grade 4	Mathematics	45.6	42.0	37.0	42.2	35.9	26.3
Grade 5	Mathematics	39.4	35.7	30.4	30.9	24.3	16.1
Grade 6	Mathematics	32.7	30.9	26.7	19.9	16.4	10.6
Grade 9	Mathematics	16.7	14.7	12.7	5.0	3.7	2.3

Source: Department of Basic Education, Annual National Assessment 2012: Tables 4.6 to 4.19

Figure 5.2 Western Cape, Gauteng and national performance in the 2012 National Annual Assessment tests



A more robust proxy utilised by the Western Cape Education Department (WCED) to measure education quality is the WCED Learner Systemic Tests conducted annually at public ordinary schools for grades 3, 6 and 9. In 2011 the WCED decided to increase the level of cognitive challenge in the tests, in particular the language tests, in order to set new minimum benchmarks for the Province. Specifically, longer and more complex texts were included in the tests, in order to make the test items comparable with items used in international benchmarking at these levels.

Table 5.7 Grades 3, 6 & 9 Systemic Results for Public Ordinary Schools, 2011 - 2012

	Grade 3				Grade 6				Grade 9			
	Numeracy		Literacy		Maths		Language		Maths		Language	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Wrote	75 725	77 621	75 714	77 623	74 211	74 422	74 180	74 407	73 184	78 825	73 102	78 677
Passed	35 742	39 975	23 017	30 195	17 365	19 647	23 367	27 456	7 611	10 957	32 311	37 922
Pass %	47.2	51.5	30.4	38.9	23.4	26.4	31.5	36.9	10.4	13.9	44.2	48.2
Mean	46.3	48.9	38.7	43.7	37.6	39.5	40.9	45.1	24.9	29.2	48.9	50.7

Source: WCED, 2013

The 2011 and 2012 test scores are illustrated in Table 5.7 and show improvements across all three grades in both subjects. The biggest improvement is noted in the grade 3 Language test scores, which increased from a 30.4 per cent pass rate in 2011 to a 38.9 per cent pass rate in 2012.

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 82.8 per cent in 2012. Matric candidates who achieved access to degree studies have increased substantially to 36.5 per cent. The overall performance, however, still shows some important weaknesses. In particular, results in gateway subjects that determine access to further studies at university level in some important fields for economic progress, such as engineering, health, sciences, and commerce, remain weak. Only about 11 300 matriculation candidates wrote and passed mathematics, and fewer than 8 000 passed physical science, out of a cohort of around 87 000 of matriculation age.¹ This is of concern for an economy which requires far greater numbers of skilled workers in technical fields to provide the foundation for inclusive growth.

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 international terms and to meet the needs of the economy or to make growth more inclusive by allowing a larger proportion of the population to participate in remunerative economic activities. (This is confirmed by the international educational assessment discussed in the Box.)

Western Cape performance in the trends in International Mathematics and Science Study

The Trends in International Mathematics and Science Study (TIMSS) tests the Mathematics and Science knowledge of grade 8 students in a variety of countries. As South Africa has participated in the 1995, 1999, 2002, and 2011 rounds of TIMSS, this study provides the best opportunity to compare educational outcomes over this period. Between TIMSS 1995, 1999 and 2002 there was no discernible improvement in either Mathematics or Science performance for grade 8 students in any province or for the country as a whole. From 2002 onwards South Africa decided to test students in grade 9 rather than grade 8. In 2002 the Western Cape was the best performing province, performing approximately one and a half grade levels higher than Gauteng and almost three grade levels higher than the national average. Between TIMSS 2002 and 2011 the average performance of South African grade 9 students improved by the equivalent of one and half grade levels in both Mathematics and Science. Although the Western Cape was still the best performing province in 2011, it was also one of only two provinces that did not improve over the 2002 - 2011 period. Gauteng recorded the largest improvement of two grade levels in both Mathematics and Science over this period. (Reddy et al., 2012) Although the Western Cape is still the best performing province in South Africa in 2011, the average grade 9 student from the Province still lags almost one grade level behind the average grade 8 student from other middle-income countries that participated in the TIMSS 2011 study.

¹ Independent schools contribute only a small additional number.

In the longer term inclusiveness is also undermined by the constraints imposed by poor quality education on the restructuring of stagnant or declining industries to become more dynamic and competitive through productivity growth. It will also hamper the development of new industries.

5.5 Health

The burden of disease (BOD) provides a good starting point when assessing the health of the Western Cape's citizens and the performance of its health system. Ultimately the health system manages and improves the impact of the burden of disease amongst its citizens. By providing appropriate access and high quality services the health system should over the medium to longer term assist in improving health outcomes and reducing or, at the least, managing the burden of disease. Certain health indicators can serve as proxies of the performance of the health system and it is thus important to examine the trends in these indicators.

Access to and the provision of health services of an adequate standard will also enhance the probability of all citizens to participate in a process of inclusive growth.

Social determinants are the root causes of much of the burden of disease. These include unemployment, poverty and inequity. Even though the health system is mandated to provide services, these factors remain critical in determining the citizen's state of well-being and the trajectory for the burden of disease for the Province.

5.5.1 Burden of disease

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. Despite the potentially limited ability of the health system to directly improve a wide range of root causes for health outcomes, life expectancy continues to be used as a summary performance measure of health systems internationally.

The Western Cape life expectancy at birth of 70.1 years for females and 64.2 years for males for the period 2011 - 2016. These figures are almost five years above the female life expectancy in Gauteng (see Table 5.8 below) and even further above the national average of 56.2 and 52.1 for females and males respectively. It remains high above the national averages of 61.4 years and 57.7 years for females and males respectively.

Table 5.8 Life expectancy at birth, 2011 – 2016

	Western Cape	Gauteng	South Africa
Life expectancy at birth, 2011 - 2016: Females (years) (2013 for SA figure)	70.1	61.7	61.4
Life expectancy at birth, 2011 - 2016: Males (years) (2013 for SA figure)	64.2	63.3	57.7

Source: Stats SA 2013 mid-year population estimate: 2011 population data and fertility rates and life expectancy for 2011 - 2016

Fertility and life expectancy estimates from: Stats SA 2013. Mid-year population estimates 2013. Statistical release P0302. Pretoria

Female and male life expectancies have slowly been improving. Women in the Western Cape reached an estimated life expectancy of 70 years for the period 2011 to 2016, which is in line with the average life expectancy of the global population (both sexes) in 2011 (WHO, 2013). However, both female and male life expectancies are still below the life expectancies being achieved in comparator groups of countries or individual countries. Male life expectancy at birth in the World Bank's group of upper middle income countries, of which South Africa forms part, was 72 years in 2011, while the similar figure for females was 76 years (WHO, 2013). In the same year men born in Brazil had a life expectancy of 71 years while women had a life expectancy of 78 years (WHO, 2013). Men and women born in 2011 in Brazil thus have a life expectancy almost seven years longer than men and women in the Western Cape. While relatively well-off compared with the rest of South Africa, the Western Cape's lagging life expectancy compared with its peers is indicative of a growth process of which the benefits have not been shared as widely as it could have been, mainly due to the impact of HIV and AIDS. Growth in the Western Cape could therefore have been more inclusive compared with the rest of South Africa, but was not as inclusive as was the case in other upper middle income countries.

Life expectancy in the Western Cape continues to be heavily influenced by what has been termed the "quadruple burden of disease". Factors associated with high mortality include diseases related to poverty (e.g. TB and diarrhoea), those typically associated with a more affluent lifestyle (e.g. stroke, heart disease, diabetes), HIV and AIDS, and high levels of deaths due to trauma (e.g. homicides, road accidents, drowning and death from fires).

The most recent and comprehensively available data on the number and causes of deaths in the Western Cape is for 2010 (Groenewald et al., 2013). The data was collected through a mortality surveillance system that captures data on natural and unnatural deaths from respectively death notifications at the Department of Home Affairs and from Forensic Pathology Services. When assessed against Stats SA 2010 data on total deaths per district, the Western Cape mortality surveillance System was found to have captured 92.2 per cent of total deaths. (Groenewald et al., 2013)

Table 5.9 Top ten causes of death for males and females in the Western Cape, 2010

Male deaths	% of deaths	Female deaths	% of deaths
Interpersonal violence	9.3	HIV and AIDS	11.5
Tuberculosis	8.4	Cerebrovascular disease	8.2
HIV and AIDS	8.2	Diabetes mellitus	8.2
Ischaemic heart disease	8.1	Ischaemic heart disease	7.7
Cerebrovascular disease	5.1	Tuberculosis	5.8
Trachae/bronchi/lung	5.1	Hypertensive heart disease	5.5
Road injuries	5.0	Lower respiratory infections	4.1
COPD	4.9	Breast	3.7
Diabetes mellitus	4.7	COPD	3.4
Lower respiratory infections	3.3	Trachae/bronchi/lung	3.3

Source: Groenewald *et al.*, 2013

More deaths of men than of women were recorded. Injuries are responsible for a much higher proportion of male than female deaths, having a disproportionately high impact on males aged 15 to 35 years. The mortality burden of injuries on males is evident from interpersonal violence being the leading cause (9.3 per cent) of male deaths in 2010 (see Table 5.9). The years of life lost (YLL) measure takes into account the number of deaths as well as the age at which death took place, thus being an indicator of premature death. When we consider this measure rather than simply the number of deaths, inter-personal violence continues to dominate as the leading cause of premature mortality, contributing 12.8 per cent of YLL. HIV and AIDS and TB account for the second and third largest proportion of male deaths, responsible for 8.4 per cent and 8.2 per cent of deaths, respectively (Table 5.9). Other injuries, such as road injuries, are also responsible for a large proportion of male deaths.

In contrast to the position among men, death due to injury does not feature amongst the top ten causes of female deaths (Table 5.9). Rather, a large proportion of female deaths reflect the increasing prevalence of chronic or so-called "lifestyle" diseases. After HIV and AIDS, which is responsible for the largest proportion of female deaths (11.5 per cent), and premature female mortality (16.9 per cent of YLL), the leading causes of deaths amongst women are cerebrovascular disease, commonly known as stroke (8.2 per cent), diabetes (8.2 per cent) and ischaemic heart disease (7.7 per cent). Hypertensive heart disease is the sixth largest cause of death amongst females, being responsible for 5.5 per cent of deaths, an only slightly lower proportion than deaths from tuberculosis. It is important to note that five of the top ten causes of death are from chronic diseases (in both sexes) and constitute a similar, if not larger, burden than HIV and AIDS and TB.

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

while others may be unaware they are suffering from a chronic disease. Of the Western Cape population aged 25 and older, 6.8 per cent report they have been diagnosed with diabetes while 16.6 per cent indicate they have hypertension. These figures are higher than similar figures for both Gauteng and the average for other provinces (see Table 5.10 below).

Table 5.10 Chronic disease diagnosis incidence, 2011

	Western Cape	Gauteng	Other provinces	South Africa
% of population diagnosed with a chronic illness, 2011	17.41	13.32	12.70	13.36
% of population aged 60+ diagnosed with a chronic illness, 2011	64.95	54.78	47.83	54.39
% of population with diabetes (age 25+), 2011	6.81	3.48	4.70	4.65
% of population with hypertension (age 25+), 2011	16.57	12.81	13.91	13.97

Source: Stats SA General Household Survey 2011

When one considers the prevalence of any chronic disease, including HIV, prevalence figures are much higher. 17.4 per cent of the Western Cape population indicate they have been diagnosed with at least one chronic disease, while 65 per cent of the population aged 65 and older do. Similar to diabetes and hypertension, these figures are higher than those for Gauteng and the national average. Some of these figures may be higher than in other provinces simply due to better access to healthcare services and therefore higher diagnosis rates. However, the high levels of these numbers should be considered indicators of the longer term disease burden, with implications for both the financing and provision of services. The heavy burden of chronic diseases on the health system is already evident from estimates that 12 per cent of the Western Cape population are responsible for 50 per cent of visits at primary healthcare facilities, with the majority of these individuals having chronic diseases (Western Cape Government: Health, 2012).

In order to systematically analyse the causes of injury in the Western Cape, a rapid assessment of injuries in three high-violence communities, Nyanga, Khayelitsha and Elsies River, was undertaken in 2012 (Mureithi, Van Schaik, Matzopoulos, Misra, Naledi, & English, 2013). Data on injuries necessitating a visit to the emergency centres of six health facilities in these communities were collected over the period of a full week at end-September 2012. The time period was purposefully selected to include a full weekend and month-end. 38.5 per cent of total visits (2 725) to emergency centres were due to injuries. The number of injury cases at emergency centres increased towards the end of the week and peaked on Sunday, when injuries constituted 60.8 per cent of all cases. The majority of injured patients were male (64.2 per cent of 1 048 cases), with injuries displaying clear gender patterns (see Table 5.11 below). Altogether 65.5 per cent of male injuries were due to violence compared to 51.2 per cent of female injuries. A large proportion of female injuries, 30.4 per cent, were unintentional. Probable alcohol consumption

played a role in many injuries, particularly in injuries due to violence, where alcohol consumption was observed in 45.5 per cent of cases. It is important to note that while deaths due to injuries (see Table 5.11) do not feature in the top ten causes of death for women, it is a large contributor to morbidity or the burden of disease that affects women. Intimate partner violence is likely to be responsible for many female injuries due to violence.

Table 5.11 Injury type by gender and alcohol consumption in three high violence communities in the Western Cape, 2012

	Male	Female	Consumed alcohol
Violence	441 (65.5%)	192 (51.2%)	288 (45.5%)
Transport	72 (10.7%)	45 (12%)	27 (23.1%)
Unintentional	126 (18.7%)	114 (30.4%)	15 (6.3%)
Self-harm	12 (1.8%)	12 (3.2%)	3 (12.5%)
Unknown	22 (33.3%)	12 (3.2%)	0 (0%)
Total	673 (100%)	375 (100%)	333 (31.8%)

Source: Mureithi, Van Schaik, Matzopoulos, Misra, Naledi, & English, 2013

5.5.2 Healthcare access

The category of healthcare provider consulted if in need of medical care can be considered an outcome of both preference and access to particular categories of healthcare providers. The Western Cape is the Province where the most people, 36.2 per cent, indicated they would consult a private sector doctor or specialist. In Gauteng only 28.1 per cent of people would do the same (see Table 5.12 below). Similarly, the Western Cape Province also has the highest percentages of people who indicated they would seek help from a hospital, while it has the lowest percentage of people who indicated their first port-of-call would be a public clinic. This may reflect a preference to consult a doctor or specialist rather than a nurse, while also capturing the population's greater access to higher level healthcare facilities and staff in this Province. In 2011, only 6.8 per cent of the Western Cape population indicated they lived 30 or more minutes away from their healthcare provider, compared to the national average of 20.7 per cent.

Table 5.12 Selected healthcare access indicators, 2011

	Western Cape	Gauteng	Other provinces	South Africa
Public clinic (%)	37.67	53.86	72.37	64.51
Public hospital (%)	20.18	8.90	7.57	9.25
Private doctor/specialist (%)	36.21	28.05	15.17	20.3
Private hospital/clinic (%)	3.98	6.96	1.39	2.88
% of population who live at least 30 minutes from usual healthcare provider, 2011	6.80	9.88	26.60	20.71

Source: Own Calculations, Living Conditions Survey 2008/09

Primary healthcare consists of primary-based care accessed at primary healthcare facilities (PBC) and home-based care (HBC) delivered at the homes of patients. All of the six healthcare districts experienced decreases in primary-based care utilisation at primary health facilities since 2009/10 (see Table 5.13). At the same time, utilisation of home-based care, an extension of primary care, has been increasing. While there were marginal decreases in total primary care utilised in four of the six districts, the utilisation of total primary healthcare has remained relatively stable.

Table 5.13 Primary healthcare utilisation* by Western Cape district

	Cape Winelands		Central Karoo		City of Cape Town		Eden		Overberg		West Coast	
	PBC	HBC	PBC	HBC	PBC	HBC	PBC	HBC	PBC	HBC	PBC	HBC
2009 - 2010	2.73	0.51	4.57	2.13	2.44	0.52	3.54	0.94	3.61	1.35	3.28	1.95
2010 - 2011	2.62	0.64	3.9	2.39	2.65	0.64	3.29	0.99	3.54	1.76	3.07	2.41
2011 - 2012	2.24	0.72	3.26	2.41	2.69	0.77	2.84	1.05	3.22	2.00	2.61	2.54
2012 - 2013	2.18	0.89	3.33	3.76	2.45	0.74	2.61	1.11	2.85	2.16	2.67	2.14

* The average number of visits per population member.

PBC: Primary-based care

HBC: Hospital-based care

Source: Data extracted from the SINJANI system

Access to hospital care was significantly expanded by the opening of the Khayelitsha District Hospital in 2012. It was anticipated that the opening of the 240-bed medical facility would alleviate the patient burden on the G.F. Jooste and Tygerberg Hospitals (Rossouw, 2012). Data on hospital admissions from the Khayelitsha sub-district, part of the City of Cape Town district, indicates that 16 976 patients from Khayelitsha were treated at the hospital in the 2012/13 financial year. While access has been expanded and the patient load from Khayelitsha on G.F. Jooste decreased by 92 per cent between the financial years of 2011/12 and 2012/13, the patient load from Khayelitsha on Tygerberg Hospital has increased. Total admissions from Khayelitsha to Tygerberg Hospital increased by 51 per cent from 4 724 patients in the financial year of 2011/12 financial year to 7 140 patients in the 2012/13 financial year. The increased admissions may reflect increased access to diagnostic services and therefore increased access to appropriate treatment.

5.5.3 Healthcare performance and outcomes

While a minimum level of access and an appropriate mix of healthcare services are required to influence health outcomes, a myriad other factors in the health system also influence the quality of services provided, including availability of medication and healthcare workers, staff knowledge and attitudes and accountability. Monitoring of health outcomes is essential to identify and rectify any quality problems.

The Western Cape government has been conducting an annual chronic disease audit since 2009. The purpose of the audit is to measure three different indicators related to the quality of chronic disease healthcare, namely structural indicators (e.g. facilities and equipment), process indicators (e.g. services offered to patients) and intermediate health outcomes measures (e.g. cholesterol level of patients who are receiving diabetes care). While the first 2009 audit was only done in the Cape Town Metro, by 2013 the audit been rolled out to cover all districts and audited 168 facilities (Western Cape Government: Health, 2013). It collected data on healthcare for five chronic diseases: diabetes, hypertension, asthma, Chronic Obstructive Pulmonary Disease (COPD) and epilepsy.

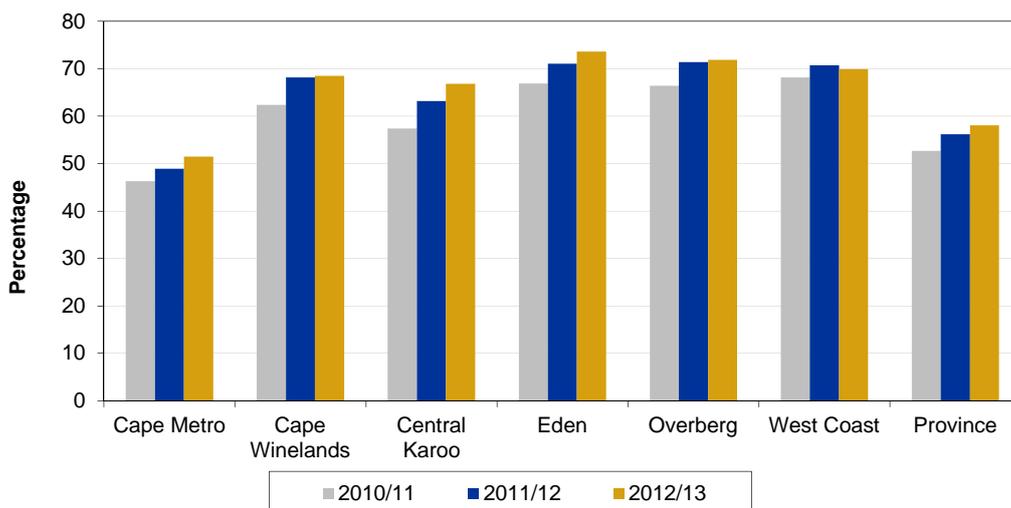
While it is difficult to make generalisations about the level of care provided for different diseases, one of the conclusions of the last audit is that the level of chronic disease care in audited facilities is improving (Western Cape Government: Health, 2013). However, for many of the diseases minimum standards of care are still not being adhered to at appropriate levels. For example, patient files drawn for audit in audited facilities indicate that only 34 per cent of diabetes patients had their feet examined for organ damage, while only 8 per cent of asthmatic patients had received an influenza vaccine. Much room for improvement therefore remains. The potentially debilitating effects of chronic diseases will have to be carefully managed if the goal of inclusive growth is to be achieved.

Maternal health is one of South Africa's top four health priorities as South Africa is amongst the forty worst performing countries in the world in terms of maternal mortality (WHO, 2013). In the Western Cape, only 103.4 per cent of pregnant women accessed the public healthcare sector at least once during pregnancy in 2011 (SINJANI as reported in Western Cape Government: Health, 2013). This compares well to the national average of more than 100 per cent (DHIS, as reported in Day & Gray, 2013). It is important to keep in mind that figures in excess of 100 per cent are most likely the result of under-estimation of the population, especially in areas with high mobility, or of double counting of visits, or both.

An even more important indicator of maternal health is the number of antenatal visits that take place before 20 weeks of pregnancy. Early first contact with the health system during pregnancy enables the identification of any underlying health problems which may affect pregnancy and birth. Also, early attendance of antenatal care is important as the prevention-of-mother-to-child-transmission (PMCT) guidelines recommend the initiation of ART at 14 weeks of pregnancy (Bamford, 2013). For 2012/13, 58.1 per cent of pregnant women in the Western Cape had their first visit before 20 weeks of pregnancy (SINJANI as reported in Western Cape Government: Health, 2013). Although low, this is much higher than the 34.4 per cent of women in Gauteng and 39.9 per cent of women nationally who accessed antenatal care before 20 weeks of pregnancy (DHIS as reported in Bamford, 2013). There is large

variation between health districts in achieving early first contact during pregnancy (Figure 5.3). The percentage of early contact in the Western Cape has, however, slowly been increasing, with the districts Eden, the Overberg and the West Coast achieving the highest levels of early antenatal care attendance of about 70 per cent during the 2011/12 and 2012/13 financial years.

Figure 5.3 Antenatal visits before 20 weeks of pregnancy by Western Cape district



Source: *SINJANI* as reported in *Annual Performance Plan 2013 - 2014*, Western Cape Department of Health

The Western Cape has the lowest HIV prevalence rate in South Africa. The Actuarial Society of South Africa's (ASSA) 2008 model predicts stabilisation of the HIV prevalence rate in the Western Cape by 2013 (Day & Gray, 2013). The decreasing prevalence of HIV amongst pregnant women supports this prediction. The percentage of women who tested positive for HIV at their first test at antenatal clinics decreased from 14 per cent in 2009 to 10.6 per cent 2011 (DHIS as reported in Day & Gray, 2013). This is in keeping with the same decreasing trend for Gauteng and the other provinces, though from much higher prevalence rates.

While unable to stem the transmission of HIV, Anti-Retroviral Treatment (ART) is able to significantly extend the lives of people living with HIV and AIDS. In 2012/13, 126 727 adults and 7 485 children received ART from the Western Cape government with the Cape Town Metro alone providing ART to 93 782 adults and 5 441 children.

Globally the TB pandemic is slowly being stopped in its tracks. New cases of TB have been falling for several years (WHO, 2012). However, South Africa is one of only five of the twenty two high-burden TB countries where the number of new TB cases continues to exceed the number of existing TB cases (WHO, 2012). After KwaZulu-Natal and the Eastern Cape, the Western Cape has the highest number of new TB infections at 909 cases per 100 000 of the population (Western Cape Government: Health, 2013). However, despite the

heavy TB burden, it is managing to achieve the highest TB cure rate in South Africa (Western Cape Government: Health, 2013).

Similar to maternal health coverage statistics, national immunisation coverage statistics often exceed 100 per cent due to under-estimation of the relevant population and misreporting or double counting of data on immunisations. In the Western Cape, immunisation coverage of children younger than one year has decreased from 96.7 per cent in 2009 to 88.2 per cent in 2011 (SINJANI as reported in Western Cape Government: Health, 2013). The 2011/12 level is lower than the 95.2 per cent national average for the same year (DHIS as reported in Day & Gray, 2013).

Similarly, the Western Cape also fares relatively poorly compared to other provinces at coverage levels for the second rotavirus immunisation. This specific immunisation was rolled out in 2009 for the first time and coverage levels have therefore been increasing. The rotavirus is the leading cause of diarrheal disease in babies and young children globally (WHO, 2011). Children should receive the first dose at 6 weeks and the second dose at 14 weeks. A child cannot receive the second dose if the first dose has not been administered. In 2011/12, 82.3 per cent of children in the Western Cape had been immunised against the virus (SINJANI as reported in Western Cape Government: Health, 2013). Coverage in Gauteng and nationally were 111.8 per cent and 98.2 per cent respectively (DHIS as reported in Day & Gray, 2013).

Given the data difficulties described above, in the absence of nationally representative survey data it is difficult to know how well the Western Cape is actually performing at immunisation. A community survey conducted in the Western Cape during 2010, targeting hard to reach areas in particular, following the mass measles immunisation campaign found that before the mass campaign, 33 per cent of children aged 9 - 17 months and 30 per cent of children aged 18 months and older had not received a dose of the measles vaccine (Bernhardt, Cameron, Willems, Boule & Coetzee, 2013). This points towards the difficulty of reaching all areas and age groups with immunisations and does support a tentative conclusion that more effort is required to ensure high immunisation rates.

Like immunisation, the identification of health problems at school level also forms an important approach in ensuring the health of children. Data obtained from the school health programme coordinators across districts (excluding Central Karoo) for 2012 identifies dental health as the biggest untreated health problem (of those assessed) facing learners. Of the 26 per cent of learners assessed in the Cape Town Metro, 37 per cent had some dental health problem. Learners being over-weight (13.7 per cent) or under-weight (4.3 per cent) were identified as the next two biggest health problems in the Cape Town Metro. This was not identified as a particularly concerning issue in districts outside the metropolitan area. In a sample of 100 urban and rural disadvantaged schools from two school districts in the Western Cape in

2007, 50 per cent of primary school principals identified an unhealthy diet as the top health priority for their learners (De Villiers et al., 2012). Given the high and increasing burden of chronic disease, it will become increasingly important to consider the role of unhealthy diets and take preventative measures to rectify unhealthy eating habits already at school level.

The investment in future members of the labour force is essential for their participation in productivity enhancing growth processes. Anything that undermines the potential effectiveness of human capital investment also undermines inclusive growth. A learner that has received sub-optimal schooling inputs because of avoidable health problems may be excluded from the growth process. The situation is exacerbated if the health system also fails to support inclusive growth.

5.5.4 Conclusion on health

The preceding analysis has shown that the Western Cape is subject to a heavy burden of disease. Although HIV prevalence rates are low compared to other provinces, the Province is subject to high TB prevalence and incidence rates, high prevalence of chronic diseases and high injury morbidity and mortality rates, especially injuries due to interpersonal violence.

Despite this burden, the Province performs well at providing access to healthcare services to its population. The concept of quality in healthcare is not yet as well established as is desired. Certain health indicators, e.g. early access to the health system during pregnancy, can serve as health system performance monitors and need to be monitored to trigger the identification of quality problems. It will be important, however, to ensure that the best possible data is used to ensure that an accurate picture of the delivery of health services is obtained, as measurement in the area of health seems to be particularly prone to suffer from inaccurate population estimates.

5.6 Housing and municipal services

Housing and municipal services should not only be seen as outcome measures of the success of inclusive growth, but also as important policy components of participatory growth. Adequate housing coupled with basic municipal services are likely to contribute to an environment in which more people can productively contribute to the economy and in which inequality in the access to productivity-enhancing opportunities is reduced.

Table 5.14 Percentage of households with formal housing, 2001, 2007 and 2011

	2001	2007	2011
Western Cape	81.0	83.4	78.9
Eastern Cape	50.7	53.7	59.9
Northern Cape	82.9	81.4	81.1
Free State	65.9	71.0	79.4
KwaZulu-Natal	61.0	61.4	69.7
North West	72.1	69.8	73.5
Gauteng	74.2	72.6	74.2
Mpumalanga	70.6	74.8	82.5
Limpopo	73.3	84.4	88.6
South Africa	68.4	70.6	74.7

Sources: Census 2001, Community Survey 2007 and Census 2011

According to census data, formal housing provision has not kept up with the needs as reflected in the number of households. As a consequence, the percentage of households resident in formal housing declined slightly from 81.0 per cent to 78.9 per cent between 2001 and 2011 (Table 5.14). Nationally, this proportion has risen substantially, by about 6 percentage points to 74.7 per cent, while in Gauteng it remained unchanged at 74.2 per cent. This probably reflects greater pressure on keeping up with population migration in the Western Cape (see section 5.7 on migration).

Overcrowding and informal backyard housing are major issues in the Western Cape. These consequences of population dynamics in the Western Cape certainly pose severe challenges to the implementation of an effective strategy of inclusive growth in the Province.

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 units.

This is evident when considering the current housing backlog, which is estimated at estimated at 525 648² by the Western Cape Department of Human Settlements. The housing backlog is concentrated in the City of Cape Town, with 54 per cent of the backlog located in this district. Table 5.15 below illustrates the estimated backlogs in district municipalities and the City of Cape Town in 2013.

² As at August 2013

Table 5.15 Western Cape housing backlog estimate, 2013³

Municipality	2012	2013
City of Cape Town (as at 17 September 2013)	361 835	283 867
Cape Winelands District Municipality	87 881	86 895
Overberg District Municipality	29 198	29 698
Central Karoo District Municipality	8 046	8 314
Eden District Municipality	67 375	74 341
West Coast District Municipality	40 050	42 533
Total	594 385	525 648

Source: Department of Human Settlements (2013)

Census 2011 data show that only 52 per cent of all South African households were served by the four main municipal services of piped water (in the dwelling or on site), sanitation (a flush toilet, septic tank or chemical toilet), electricity, and refuse removal at least once a week (Table 5.16).

Table 5.16 Percentage of households with access to four main municipal services and with all four services by province, 2011

	Electricity for lighting	Running water	Flush or chemical toilet or septic tank	Refuse removal once a week	All four services
Western Cape	93.4	92.5	90.5	89.9	79.6
Eastern Cape	75.0	62.2	46.0	41.0	34.4
Northern Cape	85.4	83.1	66.5	64.0	52.3
Free State	89.9	90.1	67.7	71.0	57.1
KwaZulu-Natal	77.9	71.6	53.2	51.5	39.7
North West	84.0	74.3	46.2	48.7	33.1
Gauteng	87.4	93.9	86.5	88.3	77.7
Mpumalanga	86.4	74.3	45.2	42.4	35.6
Limpopo	87.3	62.7	22.7	21.1	15.6
South Africa	84.7	79.7	62.6	62.1	52.0

Source: Stats SA Census 2011

For the Western Cape it was a high 79.6 per cent, even slightly higher than Gauteng's level of coverage. Although all four individual services are close to serving almost or even more than 9 out of 10 households, more than 20 per cent of all households still do not have all four services.

It is not yet possible to obtain census data in micro form, so not all tabulations are possible at the District Council level. Table 5.17 offers a perspective on regional differences within the Western Cape based on earlier datasets, however, but the new data for 2011 (in the final column) are only thus far available at provincial level. The proportion of households in the Western

³ The housing backlog estimates are based on estimates provided by each municipality as captured in the WC Housing Demand Database and on the City of Cape Town's housing database. Given the dynamic nature of the Databases the figures provided here are subject to continuous update and sanitisation exercises. At the end of 2012 the City undertook an extensive data cleaning exercise. A similar exercise was undertaken by the WCDHS during 2013 and the results, after data cleaning by the Western Cape municipalities, will only become apparent during the remainder of 2013 and 2014.

Cape with all four services has increased from 74 per cent in 2001 to 79.6 per cent in 2011. Amongst District Municipalities in the Province, Eden performs best.

Table 5.17 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	Census 2011
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	
Western Cape	91.3	93.9	94.3	90.5	74.0	82.6	83.3	79.6
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	
South Africa	70.4	59.8	83.1	58.7	41.7	49.1	50.2	52.0

Source: *The 2001 Census; the Community Survey 2007; for 2007 - 2009, the General Household Surveys, the 2011 Census*

5.7 Social ills

As indicated earlier, the relatively favourable socio-economic conditions in the Western Cape do not extend to all areas. In particular, there are major problems related to violence and abuse of both persons and substances. These are of great concern for inclusive economic growth and development. Some of these social problems are discussed below.

5.7.1 Crime and inter-personal violence

Crime remains a key concern for the Western Cape and South Africa. According to the latest statistics released by the South African Police Service on 19 September 2013, murder has increased by 12.2 per cent between 2011/12 and 2012/13 to 2 580 murders per year in the Western Cape. The increase is significantly higher than the increase experienced by South Africa (4.2 per cent), Gauteng (-0.5 per cent) and KwaZulu-Natal (6 per cent). If measured by the number of crimes per 100 000 people, as per the 2001 Census data, the Western Cape has a murder ratio of 44 compared to a murder ratio for 31 South Africa, 24 for Gauteng and 35 for KwaZulu-Natal.

The crime categories in the Western Cape that experienced the largest increases between 2011/12 and 2012/13 includes Attempted murder (40.9 per cent), robbery with aggravating circumstances (21.4 per cent), robbery at residential premises (22.5 per cent), carjacking (45.6 per cent), robbery of cash in transit (114.3 per cent) and robbery at non-residential premises (23.4 per cent). In all of the above-mentioned crime categories the increases was significantly higher than for South Africa.

There are a few crime categories where the Western Cape fared better than South Africa, Gauteng and KwaZulu-Natal over the 2011/12 to 2012/13 period. These categories include Total sexual offences (-4.1 per cent), Driving under the influence of alcohol and drugs (-13.5 per cent) and Shoplifting (-6.8 per cent).

Table 5.18 Selected crime statistics, 2012/13

	Western Cape	Gauteng	KwaZulu-Natal	South Africa	Western Cape	Gauteng	KwaZulu-Natal	South Africa
	Percentage change between 2011/12 and 2012/13				2012/13			
Homicide	12.2%	4.2%	-0.5%	6.0%	2 580	16 259	2 997	3 629
Total sexual offences	-4.1%	2.9%	-1.1%	1.0%	8 776	66 387	12 288	12 405
Attempted murder	40.9%	10.1%	3.9%	5.2%	3 280	16 363	3 609	3 855
Robbery with aggravating circumstances	21.4%	4.6%	1.5%	8.1%	16 738	105 888	35 869	19 972
Burglary at non-residential premises	12.1%	5.1%	-2.7%	9.2%	13 184	73 630	15 582	11 971
Burglary at residential premises	11.2%	6.8%	5.9%	10.6%	49 599	262 113	68 544	45 483
Driving under the influence of alcohol or drugs	-13.5%	2.3%	4.9%	17.4%	15 167	71 065	21 778	15 112
Shoplifting	-6.8%	-0.8%	-0.5%	5.0%	15 834	71 309	22 313	13 017
Carjacking	45.6%	5.4%	-1.0%	8.9%	789	9 990	4 952	2 427
Robbery of cash in transit	114.3%	-20.3%	-39.8%	-20.0%	30	145	50	20

Source: SAPS, *National Crime Statistics, 2013*

The 43.7 murders per 100 000 population is the second highest in the country. Such homicides often occur where victim and perpetrator know each other. In addition, gang warfare is also pervasive. The South African Police Services crime analysis revealed that 13.1 per cent of murders and 22.2 per cent of attempted murders in the Western Cape during 2011/12 were gang-related (South African Police Service, 2012: 12).

Table 5.19 Perceptions of crime and safety, 2011

	Western Cape	Gauteng	Other provinces	South Africa
Perceptions of changes in violent crimes, 2009 - 2011:				
% believing it had increased	44.1	20.1		33.1
% believing it had decreased	34.6	30.8		28.8
Perceptions of changes in property crimes, 2009 - 2011:				
% believing it had increased	46.6	22.2		35.2
% believing it had decreased	33.0	30.1		27.9
% of households prevented from engaging certain activities due to crime in their area, 2011:				
Using public transport	22.3	12.4		11.6
Walking to shops	18.1	12.9		11.6
Allowing children to play in area	30.3	30.6		23.2
Allowing children to walk to school	26.2	23.7		15.7
Victims of housebreaking, 2011:				
Numbers of households (thousands)	93	194	443	730
% of households	6.49	5.62	5.19	5.44
Number of home robberies	22	52	136	200
% of households	1.53	1.51	1.48	1.49
Numbers of adults assaulted (age 16 or more) (thousands)	137	233	488	858
% of adults	3.72	2.83	2.19	2.51

Source: Stats SA Victims of Crime Survey, 2012

From Table 5.19 above, it is apparent that perceptions in the Western Cape are that both violent and property crime rates have increased, while in Gauteng there is a perception that they have improved, albeit from very high levels. The 137 000 individuals reporting that they have been assaulted in 2011 is, at 3.7 per cent of the population, by far the highest in the country. Housebreaking affected 93 000 households, again the highest proportion nationally, though home robberies are not much more common than in most other provinces.

It is no wonder that there is a feeling of insecurity amongst substantial parts of the population. Table 5.19 above shows that more Western Cape residents do not use public transport or walk to shops because of fears of violence than in any other province, and that similarly high proportions in the Western Cape and Gauteng do now allow their children to play in the area of their home or to walk to school for the same reason. Violence in the community has also affected schools; in 2013, 14 schools in the Manenberg suburb of Cape Town had to be closed for several days because of concerns for the safety of children and staff due to gang activity in the neighbourhood. Additional money from the education budget also had to be allocated to provide protection. Schools that must operate while exposed to gang violence in their immediate areas function in an environment that is not learner friendly. Consequently, learning outcomes and investment in the education of future

workers and adult members of the community are affected negatively. According to the 2008 Living Conditions Survey, 12.3 per cent of respondents in the Western Cape viewed crime as a major problem at school, more than twice the national average.

Many vulnerable children and youths are from marginalised groups where they are the children of broken families, live in gang-infested neighbourhoods, have no adult role models, display low achievement rates at school and are often victimised (Sloth-Nielsen & Gallinetti, 2011: 83). High exposure to crime and victimisation can increase children's susceptibility to engaging in criminal behaviour (Pelser, 2008: 1; Leoschut & Burton, 2005: 22; Steyn, 2005: 1). Approximately 88 per cent of the children in conflict with the law come from broken or dysfunctional families and have been exposed to some form of domestic violence (Restorative Justice Centre, 2009: 2). The increasing availability of drugs and alcohol and the resulting substance abuse among children, as well as a rise in gang-related activities in the Western Cape, is often linked to youth violence (Ward, 2007: 28).

5.7.2 Alcohol and substance abuse

High levels of alcohol and substance abuse are found in the Province. According to the Stats SA Victims of Crime Survey (2012), in 2011 82 per cent of Western Cape respondents thought that drug related needs may be a motive behind property crimes; in Gauteng, 71 per cent thought the same, and nationally only 46 per cent. Clearly, residents of this Province have a greater experience of the social evil of drugs.

A key indicator highlighting the escalating trend of substance abuse is the increase in the number of persons arrested for drug related crime in the Province from 19 940 in 2002/03 to 82 062 in 2012/13 (SAPS National Crime Statistics, 2013).

Recent research⁴ in the Western Cape has shown that on average, grade 8 to 10 learners use substances for the first time between the ages of 13 and 15 years (Medical Research Council, 2012). The majority of learners, 66 per cent, have tried alcohol in their lifetimes and 23 per cent in the 30 days preceding the survey. With regard to dagga use, 23 per cent indicated they have used it before and 8 per cent indicated they used it in the past 30 days. For each of mandrax and tik, 2 per cent of learners (roughly 3 400 children) indicated they have tried the drugs in their lifetime. Less than 1 per cent (between 700 and a 1 000 children) indicated they used these drugs in the past 30 days (DSD, 2012).

⁴ Medical Research Council (2012). Survey on Substance Use, Risk Behaviour and Mental Health among grade 8 – 10 learners in Western Cape provincial schools.

The Western and Northern Cape have the highest reported incidence of Foetal Alcohol Syndrome (FAS) worldwide. In certain rural areas FAS has been diagnosed in amongst 5 to 12 out of every 100 children. Research undertaken in 2011 by the University of Stellenbosch FAS Prevention Study in Robertson, Bonnievale, Montagu and Ashton areas shows a FAS prevalence rate of 9.4 per cent to 12.9 per cent. The prevalence of FAS in developed countries such as the USA and Europe varies between 0.1 per cent and 0.8 per cent of the population.

5.7.3 Abuse of women and of children

Data on abuse of women are scarce. But it is known to be a problem in the country as a whole. Old data from the Demographic and Health Survey of 1998 show that this problem is especially acute in the Western Cape, with 8 per cent of women having been abused by a partner in the preceding year. Of female respondents aged 15 to 49, 6.6 per cent acknowledged that they had ever been raped. As for women, the abuse of children is known to be high in the Western Cape. Contributory factors include general neglect of children, alcohol problems and family break-up.

5.8 Conclusion

The broad background of the conditions of the Western Cape population discussed in this chapter shows that poverty is lower than in other provinces and that there is slightly less inequality of income experienced in this Province; that health, educational and municipal services generally function better; and that there has been no reduction in the formal housing backlog since 2001. It seems as if the Province's population has in the past benefited more from inclusive growth than in other parts of South Africa. But high unemployment has had a negative effect on welfare.

The information in this chapter also points to many specific challenges that remain. Even though the Province fares well in national comparison, the quality of education still remains weak by international standards. This acts as a barrier to inclusive economic growth. Added to this, the Western Cape experiences some social problems to a greater extent than most other provinces. This includes interpersonal violence, abuse of women and children, and substance abuse. A growing economy can help to improve living standards, but some of these problems require more direct efforts. Success in these fields appears difficult to achieve. Moreover, in order to achieve sustained inclusive growth, characterised by poverty reduction as a result of broad-based productivity improvements, urgent policy consideration will have to be given to the matrix of policies that will contribute to an environment conducive of inclusive growth. Education provided to learners in poor areas, certain aspects of public health, and housing and municipal services to informal settlements are likely to be important components of such a policy matrix.

Annexure E

Selected socio-economic indicators

	Western Cape	Gauteng	Other provinces	South Africa
Demography				
Population 2011	5 822 735	12 272 263	33 675 563	51 770 564
Population aged 15 - 64, 2011	4 016 702	8 830 724	21 057 054	33 904 480
% of children 0 - 15 living with:				
* Both biological parents	58.7	57.4	41.6	46.0
* Neither biological parent	6.8	7.0	13.0	11.3
* Biological mother, not father	31.7	31.5	43.4	40.2
* Biological father, not mother	2.9	4.1	2.1	2.5
Education & skills				
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
Health and disability				
Life expectancy at birth, 2011 - 2016: Females (years) (2013 for SA figure)	70.1	61.7		61.4
Life expectancy at birth, 2011 - 2016: Males (years) (2013 for SA figure)	64.2	63.3		57.7
% of households who find their health care inadequate, 2011	15.8	18.8	22.6	20.9
% of population who consider themselves to be in poor health, 2008	3.8	4.6	6.7	6.0
% have disability, 2011	13.91	14.25	16.66	15.83
% have severe disability, 2011	7.15	4.63	7.85	7.07

Sources: Own calculations from Stats SA Census 2011 (Supercross version)

Stats SA 2013 mid-year population estimates

2011 population data and fertility rates and life expectancy for 2011 - 2016: Stats SA 2013 mid-year population estimates

Fertility and life expectancy estimates from: Stats SA 2013. Mid-year population estimates 2013. Statistical release P0302. Pretoria

2011 health services and other health data: Own calculations, General Household Survey 2011 2007 data: Own calculations, Community Survey 2007

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

Appendix

Western Cape statistics

Indicator	GDP – Total R million	GDP – Agriculture R million	GDP – Mining R million
2006	216 711	8 370	443
2007	230 567	8 503	446
2008	241 132	10 004	415
2009	238 281	9 879	382
2010	244 416	9 696	394
2011	252 957	9 722	390
Average annual growth	3.2	3.3	-2.4

Indicator	GDP - Manufacturing R million	GDP - Electricity R million	GDP - Construction R million
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	42 412	3 564	10 961
2011	43 879	3 599	11 051
Average annual growth	1.4	0.3	5.4

Indicator	GDP – Wholesale and retail trade R million	GDP – Transport, storage and communication R million	GDP – Finance, real estate and business services R million
2006	33 926	21 775	66 090
2007	35 758	23 292	71 511
2008	35 855	23 956	76 889
2009	35 329	24 241	77 080
2010	36 716	24 704	78 536
2011	38 405	25 486	81 577
Average annual growth	2.5	3.2	4.3

Indicator	GDP – Community and social services R million	GDP – General government R million
2006	11 596	21 295
2007	12 228	22 099
2008	12 732	23 084
2009	12 569	24 016
2010	12 606	24 827
2011	12 906	25 941
Average annual growth	2.2	4.0

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
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
2012	16 281 016	6 777 787	3 691 964
Average annual growth	0.2	-0.7	4.9

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
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
2012	5 811 265	11 011 674	5 061 196
Average annual growth	-0.1	1.5	-3.3

Indicator	Building completed: Province - Western Cape: Non-residential buildings R'000	Building completed: Province - Western Cape: Additions and alterations R'000
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
2012	2 470 693	3 479 785
Average annual growth	15.0	5.6

Indicator	Electricity consumption	Air traffic (Arrivals)	Air traffic (Departures)
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
2012	22 975	4 511 830	4 549 110
Average annual growth	0.5	2.7	2.7

Indicator	Crop estimates (Wheat)	Vehicle sales
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	710 000	36 932
2012	897 600	41 395
Average annual growth	5.8	-2.5

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