

**Western Cape Government  
Provincial Treasury**

# **Provincial Economic Review and Outlook**

**2019**

## **SUMMARY**

## Introduction

The 2019 Provincial Economic Review and Outlook (PERO) is an objective review and analysis of recent and forecasted economic growth, sectoral development, labour market and socio-economic trends in the Province. Where relevant, the publication disaggregates provincial economic information to district level for greater insight into spatial development.

The theme of the 2019 PERO is "Resilient Growth". The economic and socio-economic context presented in the PERO, highlights the complex and dynamic environment within which government operates and needs to respond to. Understanding these complexities, dynamics and opportunities is essential to enhance economic growth and drive socio-economic development in the Province. The PERO provides evidence-based research to inform and guide policy decisions and embed resilience, amid low growth and a subdued outlook.

The 2019 PERO is published together with its companion publication, the 2019 Municipal Economic Review and Outlook (MERO), which presents economic and socio-economic data at a district and municipal level.

## Macroeconomic performance and outlook

The global economic performance slowed to 3.6 per cent in 2018 from 3.8 per cent in 2017. Global growth moderated in both advanced as well as in emerging and developing economies. The pace of economic expansion in advanced economies eased to 2.2 per cent in 2018, with a divergence in the growth trend among the countries within the grouping. Growth in emerging and developing economies moderated to 4.5 per cent in 2018 as momentum slowed in China and India.

Global economic growth has been weighed down by disappointing economic growth in many regions over the first half of 2019, as demand weakened amid increased political and international trade uncertainty. As such, growth is forecast to slowdown in 2019 to 3.2 per cent in 2019 before accelerating to 3.5 per cent in 2020.

The main risks to the global economic outlook are the ongoing trade disputes between the US and its trading partners; global political and geo-political developments such as a "no-deal" Brexit; and continued US sanctions against key oil exporting countries. Furthermore, social unrest has also recently become a global economic concern especially given the prolonged strikes in France.

South Africa's economic growth is forecast to expand by a mere 0.2 per cent in 2019. Despite evading a technical recession in the second quarter of 2019 the rebound is not enough to significantly improve full year growth. Several growth challenges remain for 2019, the most pertinent of which is weak real income growth - despite benign inflation - which will constrain consumer spending. Growth is however forecast to improve to 1.1 per cent in 2020.

The main domestic risks, along with the global risks, include further state intervention in the financial sustainability of state-owned enterprises; tax revenue underperformance, which will put South Africa's fiscal ratios under increased scrutiny from rating agencies; declining

business confidence, which will likely weigh on private fixed investment; and the intensification of global trade tensions which will put additional pressure on the rand.

The economic performance in the Western Cape economy declined to just 0.2 per cent in 2018 from 1.2 per cent in 2017. The slowdown was largely due to the drought-related decline in output in the Agriculture, forestry and fisheries sector, which also weighed on output in the related agri-processing manufacturing sector. The Western Cape economy is forecast to rebound to 0.7 per cent in 2019 with an acceleration to 1.2 per cent expected in 2020.

Over the medium term (2019 to 2023), growth is projected to average 1.6 per cent - lower than the growth recorded between 2013 and 2017 at 1.7 per cent. Over the forecast horizon, the Agriculture, forestry and fisheries sector is expected to rebound in 2019 following the deep contraction in 2018 but the rebound will be moderate. The Wholesale and retail trade, catering and accommodation sector is expected to underperform in 2019 and 2020 but projected to rise more notably over the medium term on the back of better income and employment growth. The construction sector is set to contract in 2019 on the back of softer house price growth, and subsequent weaker residential demand, as well as lower infrastructure spending.

Key risks for the Western Cape economy, in addition to the risks on a national level, include volatile and unpredictable weather patterns, which could make it increasingly difficult to produce what is considered traditional Western Cape produce; and the conditions which affect the consumer will typically be disproportionately reflected in Western Cape GDP growth such as changes in consumer confidence, employment growth, and the interest rate environment.

## **Sectoral developments**

The Western Cape economy continued to expand over the last decade, but, on average, the growth rate more than halved to 2.0 per cent for the period of 2008 to 2017 compared to the previous ten years' rate of 4.1 per cent. The slowdown was in part due to the full-year contraction recorded in 2009, which was triggered by the global financial crisis. The Western Cape economy was about 18 per cent larger in 2017 than in 2008, a significantly smaller expansion than the 51 per cent enlargement recorded from 1998 to 2007.

In 2018, the Western Cape is estimated to have recorded its first annual decline (of 2.6 per cent) in employment since 2008. This comes on the back of a fall in employment in all major sectors, except Manufacturing which is estimated to have expanded by 0.9 per cent in 2018. Private services, the biggest employer in the province accounting for 61.7 per cent of all workers, saw the fastest job growth over this period (1.7 per cent).

The West Coast recorded the highest economic growth rate (3.2 per cent) in 2017, followed by the Overberg (2.6 per cent) and Cape Winelands (2.3 per cent). Growth in the West Coast resulted mainly from the expansion of the Agriculture, forestry and fishing. While the Cape Metro recorded the lowest growth rate (0.9 per cent) for that year, it made the largest contribution to economic growth (49.9 per cent) due to its relative size in the provincial economy. The Western Cape economy's average annual growth in gross fixed capital formation is estimated at 0.7 per cent from 2014 to 2018. This is slightly faster than the

0.4 growth rate recorded in the preceding five years, but well below the long-term average rate of 4.1 per cent (1996 to 2018).

Namibia is still the biggest export destination, receiving 8.7 per cent of exports, followed by the United Kingdom with 7.5 per cent of exports. Exports to the US have seen strong growth in 2018 with the country now taking up the third place among the top ten export destinations. The Western Cape export picture is dominated by agricultural and agri-processed goods, which made up 36.1 per cent of exports in 2018. In contrast, the agriculture value chain makes up just 7.7 per cent of national exports. The Cape Metro was responsible for 65.1 per cent of exports in 2018, up by 1.8 per cent year-on-year from 2017. The Cape Winelands was the source for a further 23.5 per cent of exports, up by 6.2 per cent from the previous year, with the West Coast responsible for 6.5 per cent of exports.

Growth in several alternative crops planted, as farmers diversify the agricultural product mix, has increased substantially between 2013 and 2017. Some of the most notable is that of blueberries, cherries, and prickly pears. Blueberry export growth outperformed almost every other fruit crop in the country over the past ten years. Since 2008, exported volumes have grown from 175 tons to more than 8 000 tons in 2018, growing the export in value higher than R1 billion in 2018.

Between 2015 and 2018 halal relevant exports, consumed by both Muslim and non-Muslim consumers, grew with 21 per cent. Within this category, halal exports, consumed by Muslims, grew by 12 per cent over the same period.

The tourism sector grew by 3.5 per cent in 2018, albeit lower than the annual average growth over the past five years (5.7 per cent). The tourism sector contracted by 2.2 per cent since 2016, accompanied by a decline in sector employment by 23 524 or 11.9 per cent.

The Construction sector, estimated at R16.9 billion, declined by 1.2 per cent in 2018. Despite the contraction, the industry created an estimated 3 541 jobs, a 2.3 per cent growth from the previous year. As a result, the sector sustained R14 billion in nominal salaries.

## Labour market dynamics

Employment in the Western Cape increased to 2.5 million in the first quarter of 2019, up from 2.2 million five years earlier. Employment increased at a marginally higher rate (2.4 per cent) than the working-age population (2.1 per cent). The majority of net new jobs added to the provincial economy over the five-year period were located in the non-agricultural sector, growing annually by 2.2 per cent on average. Agricultural employment grew rapidly over the period, averaging 7.1 per cent per annum.

Total employment in the formal sector was estimated at just under 2.1 million in the first quarter of 2019, representing 82.8 per cent of total employment in the Province. At a more disaggregated level, Community, Social and Personal (CSP) services (20.4 per cent), financial and business services (19.8 per cent), and wholesale and retail trade (19.3 per cent) each account for around one-fifth of formal sector jobs in the Province. Manufacturing follows with 15.3 per cent of formal sector employment while the agriculture, forestry and fishing sector employed 10.3 per cent of formal sector employment in the Province. Employment in the Western Cape is concentrated amongst skilled occupations at 56.9 per cent of formal sector

employment. In terms of informal sector employment, just under 300 000 individuals were employed in the informal sector in the first quarter of 2019 - 11.4 per cent of provincial employment.

In terms of unemployment trends, overall, the provincial unemployment rate of 19.5 per cent in the first quarter of 2019 is marginally lower than five years earlier. Although the narrow unemployment rate has declined, non-searching employment has increased rapidly at 16.6 per cent per annum on average over the 5-year period, albeit off a small base. Youth unemployment trends remains a critical challenge, especially concentrated amongst younger cohorts and those with lower levels of education. Youth accounted for 63.4 per cent of the unemployed in the Province in the first quarter of 2019. Of these, the majority were aged 25 to 34 years (39.7 per cent of provincial unemployment).

In terms of spatial considerations, the City of Cape Town is home to 63.7 per cent of the population and an almost identical proportion of the working-age population (62.8 per cent). Unemployment is also concentrated in the City, with 69.8 per cent of the narrow unemployed and 63.7 per cent of youth not in employment, education or training residing there. Only 44.0 per cent of the non-searching unemployed reside the City, with the majority located within urban areas in the rest of the Province.

## **Socio-economic developments in the Western Cape**

The Western Cape population is estimated at 6.884 million people in 2019 - 11.6 per cent of the national population of 58.7 million people. The Western Cape has a larger proportion of persons aged 65 years and older (6.5 per cent) than the national average and a relatively smaller proportion of persons under 15 years (24.8 per cent). The Provincial age profile is directly linked to the dependency ratio, which is estimated to be 45.7 per cent which is lower than the South African estimate of 53.2 per cent for 2019.

There have been mixed results in respect of improvement in living conditions in the Province. Inequality has continued to increase in the Province, however the Human Development Index has gradually improved across all districts in the Province. It is possible that the improvement on HDI, given the high rates of unemployment and low economic growth, may be partly attributed to the efficacy of government services in protecting the most vulnerable cohorts of society from poverty's harshest effects.

Population growth has impacted on the number of learners registered in the Province, as learner enrolment in public ordinary schools in the Province expanded by 15.3 per cent between 2013 and 2019. Performance in respect the provincial systemic tests has been encouraging since inception in 2012, however declines in performance have become more frequent in 2017 and 2018. The pass rate of the National Senior Certificate (NSC) has declined between 2017 and 2018. This however been accompanied in improvement in Mathematics, Physical Science, Business Science and Accounting results.

Life expectancy at birth in the Western Cape has continued to improve year-on-year. Average life expectancy at birth of males in the Western Cape is currently estimated at 65.7 years and females at 71.1 years. Interpersonal violence, HIV/AIDS and Tuberculosis were the leading causes of premature mortality in the Province in 2016. Amongst men, interpersonal

violence was the leading cause of death and premature mortality, while HIV/AIDS was the leading cause of premature mortality amongst women. Encouragingly, the expansion of HIV testing and treatment has resulted in consistent improvement in the proportion of HIV positive people knowing their status, receiving their treatment and achieving viral suppression. The successful treatment of multiple drug resistant TB cases in the Western Cape has also continued to improve.

Population growth and the pace of urbanisation are key contributing factors in the increasing demand for housing and municipal services in the Province. Despite increasing pressure, access to basic services has remained high in the Western Cape. Social ills such as substance abuse and crime have continued to impact on both the economic prospects and socio-economic development of the Province.

The abuse of substances inflicts substantial harm to the state of public health, social cohesion and safety on communities, jeopardising and impeding development in many communities. The prevalence of crime also has the same erosive effect on communities and the economy. During the first 6 months of 2018, 3 182 patients were admitted for substance abuse at 35 in the Province. The most prevalent drugs of abuse amongst admissions at state-owned or subsidised specialist treatment centres were Tik, followed by cannabis and alcohol. While the reported crime has reduced by 6.6 per cent in the province from 2017/18, murder has increased by 6.6 per cent in 2018/19 compared to the previous year. The average murders reported the past five years exceeds the average number of murders reported the past ten years, indicating a general long-term increase in the crime category.