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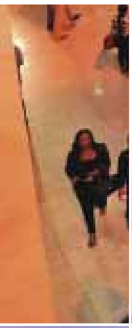
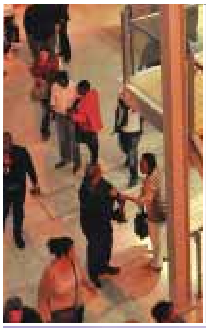



EPIC

Economic Performance Indicators for Cape Town

Quarter 3 (July–September) **2014**

Sector focus: Meetings, Incentives, Conferences and Exhibitions (MICE)

Making progress possible. Together.

Foreword

We live in an age of profound economic challenges and opportunities – the global economy has changed markedly in the last five years and even more so since the advent of democracy in South Africa in 1994. Some notable changes include:

- Growth in developing economies now disproportionately contributes to global economic growth. Mid-sized emerging cities such as Cape Town, as opposed to developed-world cities or emerging megacities, are increasingly the drivers of economic growth.
- Developing countries are now the largest destination for inward Foreign Direct Investment (FDI). However, they continue to constitute a larger proportion of outward FDI, increasing activity in this sector at a time when developed countries saw a decline.
- Africa is no longer a 'bad neighbourhood' and contains some of the fastest-growing economic regions in the world.

In this brave new world, we cannot afford to be passive economic trend-takers, we need to be leaders. The 2008/2009 recession knocked the wind out of global economic growth, and while there is evidence of a global recovery, South Africa remains in the economic doldrums unable to achieve the levels of growth required to create the 11 million jobs targeted by the National Development Plan. Business as usual is clearly not working and we therefore need a new conversation among business leaders, citizens, councillors and officials about our shared economic future.

By providing up-to-date economic information and analysis, the quarterly *EPIC* publication provides a platform for addressing the issues facing our City in a way that has lasting impact. I would encourage you to engage with its contents as the basis for this critical conversation on our City's economic future, enabling us to make progress possible. Together.

P. de Lille

Patricia de Lille
Executive Mayor

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Introduction

This is the sixth edition of the *EPIC* quarterly publication, which presents and analyses economic (and related) trends in Cape Town on a quarterly basis. This edition focuses on the third quarter of 2014, covering the period 1 July to 30 September 2014.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development strategies. In order to know what must be done, it is essential to understand the nature, composition and performance of the local economy. While there is a wealth of economic statistics and information available for Cape Town, it often exists in discrete, isolated parcels customised to serving a specific purpose at a given time. Furthermore, in most cases, relevant economic information is only presented on an annual basis. This period is sometimes simply too long to inform immediate policy decisions or to get a proper grasp of the dynamic nature of economic trends. These factors underpin the need for a consolidated, quarterly economic performance publication for the City of Cape Town.

Aim of publication, and key principles

The principal aim is for the publication to become a credible source of relevant and up-to-date economic information for the City, as well as to provide councillors and officials with critical inputs for their decision-making processes. The publication:

- aims to synthesise various sources of quarterly economic data currently available within the City into a single printed publication;
- will present the latest statistics and data as well as analysis of key economic trends; and
- will act as a measure of the economy's performance by tracking data over time and at regular intervals.

In order for the publication to effectively serve the purpose of promoting a greater understanding of the latest trends in Cape Town's economy by a multiplicity of stakeholders within the city, three key principles were followed. They can be summed up by the acronym 'AIR':

1. **A**ccessible: Making the publication accessible and understandable to a wide range of stakeholders from various disciplines and backgrounds
2. **I**nsightful: Presenting economic intelligence and analysis rather than bland, raw economic information
3. **R**elevant: Focusing on localised (Cape Town-specific, wherever possible) economic performance trends measured by the latest quarter

Acknowledgements

The *EPIC* quarterly publication is a collaborative product of the Economic Development Department of the City of Cape Town, together with Wesgro and, in this quarter, the Cape Town International Convention Centre (CTICC). The publication is authored, consolidated and edited by the Economic Information and Research Unit within the City's Department of Economic Development.

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A multiplicity of other data and information sources were used in the publication, including Statistics South Africa, the Reserve Bank, Quantec, IHS Global Insight and the International Monetary Fund. These, along with other sources, are reflected in the list of references at the end of this publication.

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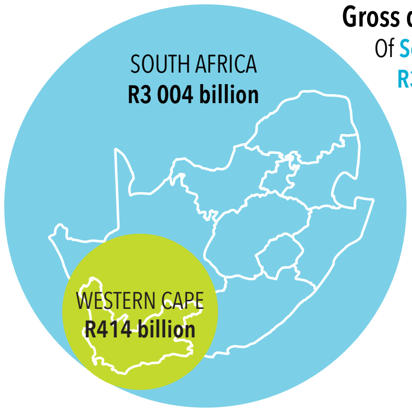
wesgro
cape town & western cape
tourism, trade & investment

CTICC



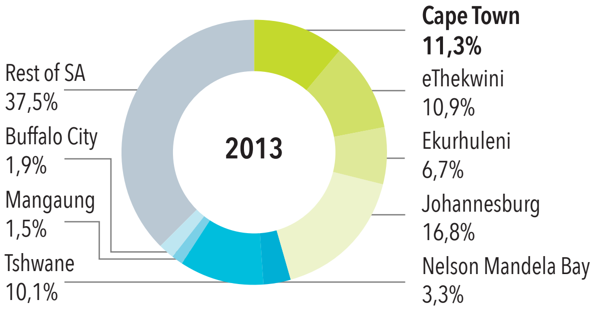
Gross domestic product (GDP)

Of South Africa's R3 004 322 000 000 gross domestic product [1] generated in the third quarter of 2014, the Western Cape accounted for R414 520 000 000.

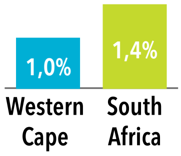
Source: Quantec, November 2014.

13,79%

Gross geographic product (GGP) contributions



Source: Own calculations based on IHS Global Insight ReX regional data 2014.



GDP growth

During the third quarter of 2014, the Western Cape had a quarter-on-quarter GDP growth rate of 1,0%, against a national rate of 1,4%.

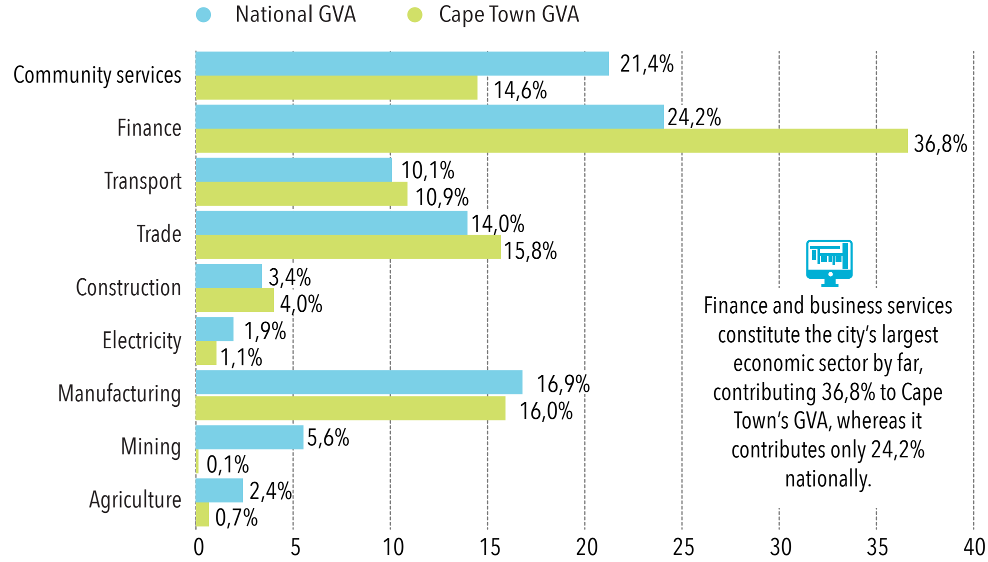
Source: Quantec, November 2014.

Inflation

During the third quarter of 2014, the Western Cape had the same rate of inflation (5,9%) as the rest of the country.

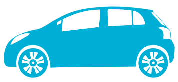
Source: SA Reserve Bank, October 2014.

Cape Town's gross value added (GVA) versus national GVA 2013



Finance and business services constitute the city's largest economic sector by far, contributing 36,8% to Cape Town's GVA, whereas it contributes only 24,2% nationally.

Source: Own calculations based on IHS Global Insight ReX regional data 2014.



Passenger vehicle sales

Of the 117 385 new passenger vehicles sold in South Africa during the third quarter of 2014, 12 321 were sold in the Western Cape.

Source: NAAMSA, November 2014.

Air passenger movements

Of the 8 090 000 passenger movements through South Africa's three international airports[2] during the third quarter of 2014, 2 021 000 were through Cape Town International Airport.

Source: ACSA, November 2014.

24,9%

#1

Cape Town International Airport was voted the best airport in Africa in 2013.

Cargo tonnage handled at ports

During the third quarter of 2014, 54 876 000 tons of cargo were handled at South Africa's ports, of which the Port of Cape Town handled 1 678 000 tons.

Source: Transnet, National Ports Authority, November 2014.

Containers handled at ports

During the third quarter of 2014, 1 278 000 containers were handled at South Africa's ports, of which the Port of Cape Town handled 239 000.

Source: Transnet, National Ports Authority, November 2014.

18,7%

Visitor attractions

In the third quarter of 2014, tourists and residents made 5 964 000 visits to Cape Town's six major attractions.

Source: Wesgro, November 2014.

1. Seasonally adjusted and annualised at constant 2005 prices. 2. The combined total for South Africa's three international airports.

7,29% 11,35%

Population

South Africa has 54 002 000 people:[3] 6 116 300 live in the Western Cape and, of those, 3 861 000 are resident in Cape Town.
Source: Stats SA, City of Cape Town.

Gini coefficient

In 2013, South Africa had a Gini coefficient[4] of 0,62, while Cape Town had a slightly more equitable rate of 0,60.
Source: IHS Global Insight, November 2014.

0,73

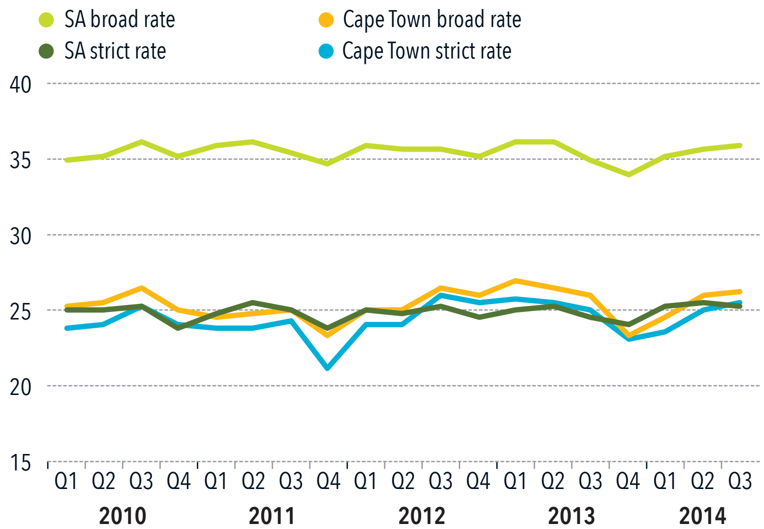
Human development index

In 2013, South Africa had an HDI[5] of 0,63, while Cape Town's was 0,73.
Source: IHS Global Insight, November 2014.

Functional literacy

South Africa has a functional literacy rate of 82,3%, while Cape Town has a rate of 92,0%.
Source: IHS Global Insight, November 2014.

Strict vs broad unemployment rates (Q1, 2010 – Q3, 2014)



Source: Stats SA, November 2014.

8,1%

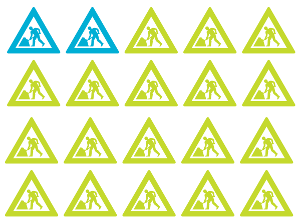
Working-age population

Of the 35 489 000 people aged 15–64 in South Africa, 2 878 000 are resident in Cape Town.
Source: Stats SA, Quarterly Labour Force Survey (QLFS), November 2014.

10,0%

Unemployment

Of the 5 151 000 unemployed people in South Africa in the third quarter of 2014, 519 000 live in Cape Town.
Source: Stats SA, QLFS, November 2014.



9,8%

Labour force

Of South Africa's 20 268 000 labour force participants, 2 005 000 live in Cape Town.
Source: Stats SA, QLFS November 2014.

Expanded unemployment rate

While South Africa had a 35,8% unemployment rate during the third quarter of 2014, Cape Town had a lower rate of 26,3%.
Source: Stats SA, QLFS, November 2014.

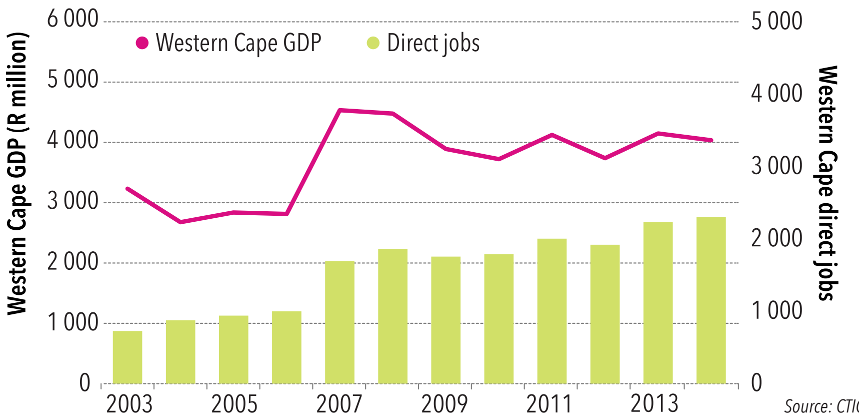
Labour absorption rate

South Africa had a 42,6% absorption rate – the percentage of the working-age population in employment – in the third quarter of 2014, while Cape Town had a higher rate of 51,81%.
Source: Stats SA, QLFS, November 2014.

SECTOR FOCUS – MEETINGS, INCENTIVES, CONFERENCES AND EXHIBITIONS (MICE) SECTOR

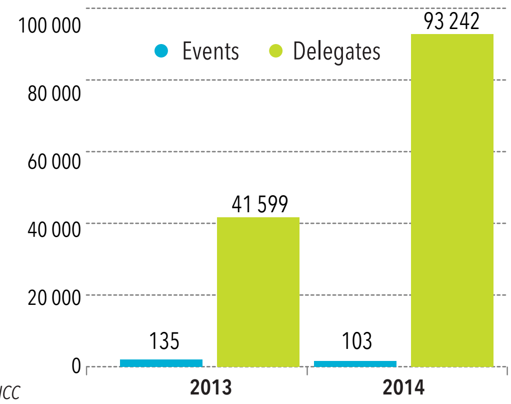
Cape Town is a leading international destination for events, conferencing and exhibitions, with first-class venues. The most prominent of these is the Cape Town International Convention Centre (CTICC), which is jointly owned by the City of Cape Town, the Western Cape Government, and SunWest International.

The CTICC's contribution to Western Cape GDP and direct jobs

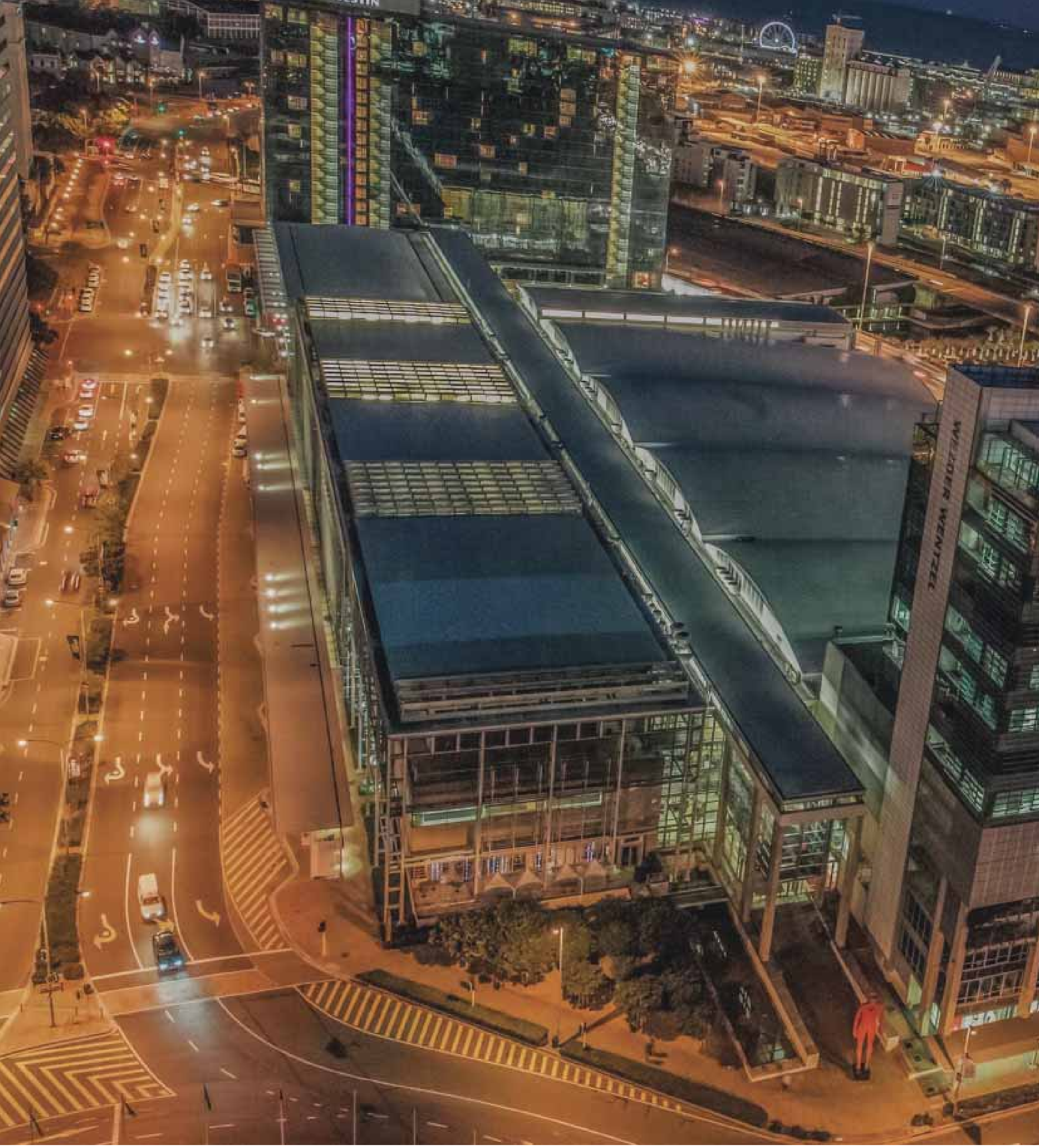


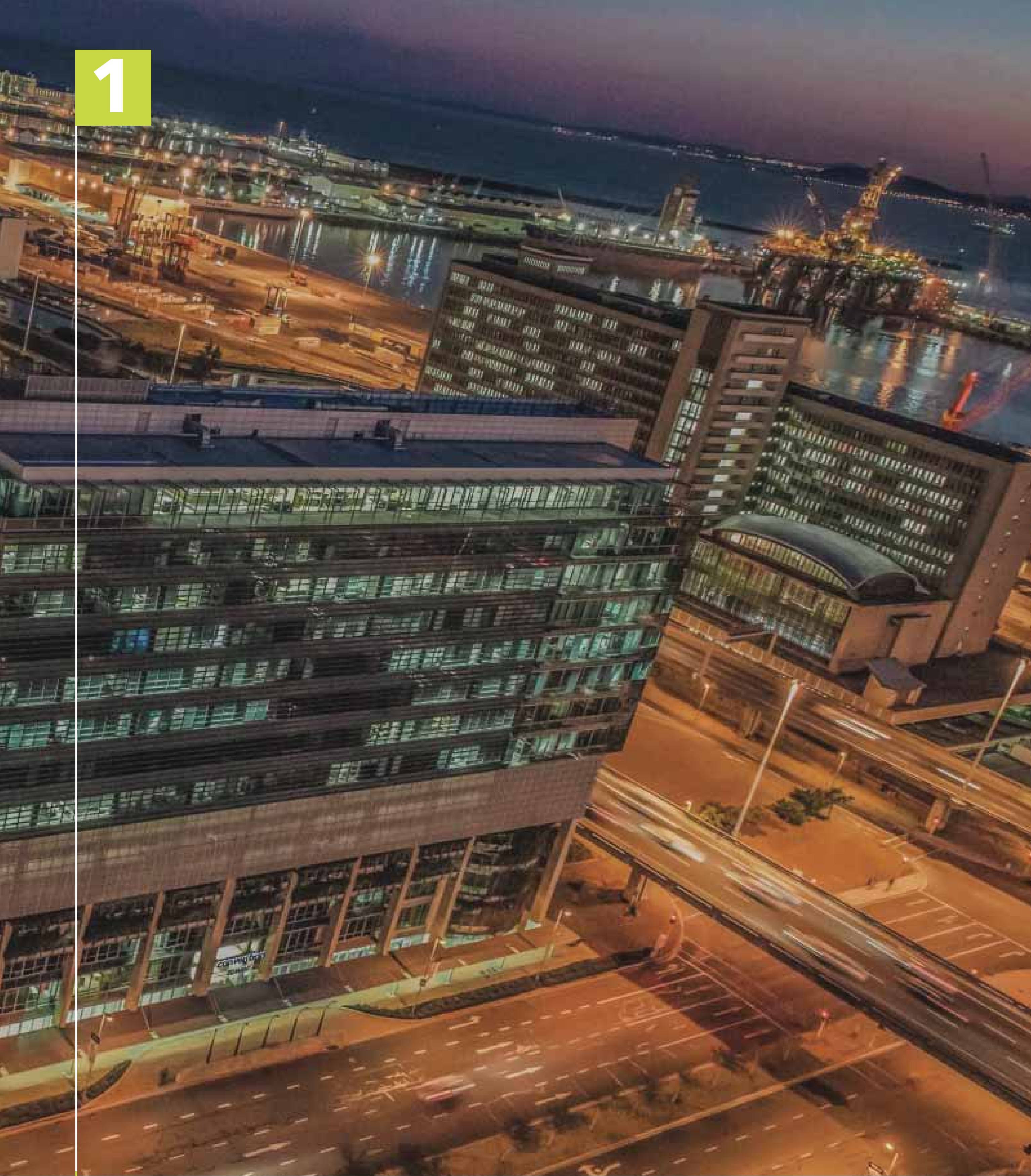
Source: CTICC

Number of events versus number of delegates



3. Mid-year estimates, 2014.
4. The Gini coefficient measures inequality in levels of income. Lower values represent greater equality. Values are for 2013.
5. The Human Development Index (HDI) is a composite statistic of life expectancy, education and income indices. Higher values are better. Values are for 2013.


WENTZEL



1

Overview

Cape Town's economy is the second-largest municipal economy in the country, and second-most-important contributor to national employment. The industries in which Cape Town has the most pronounced comparative advantage compared to the country as a whole are fishing, clothing and textiles, wood product manufacturing, electronics, furniture, hospitality, finance, and business services industries.

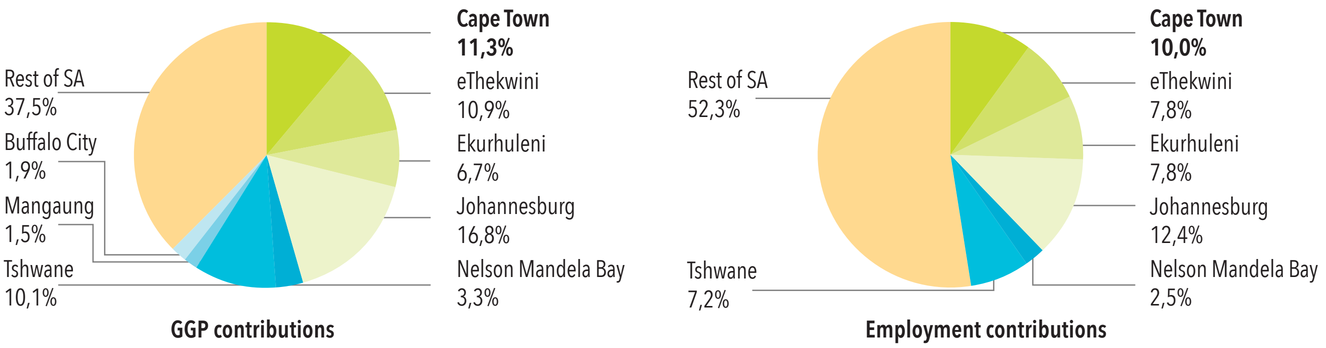
Cape Town's economy is the second-largest municipal economy in the country, and the second-most-important contributor to national employment.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 11,3% to national gross domestic product in 2013) is the second largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 16,8% to national GDP in 2013), while eThekwini (10,9%) and Tshwane (10,1%) closely follow behind Cape Town. Together, these four metropolitan municipalities accounted for almost half (49,2%) of the country's economic output in 2013.

Metropolitan areas are also major employers in the national economy, although they tend to be less labour-intensive than non-metro areas, where activities such as agriculture dominate employment. While the four largest municipalities contribute almost half of the country's output value, they account for only 37,4% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

1 Gross geographic product (GGP) and employment contributions, 2013

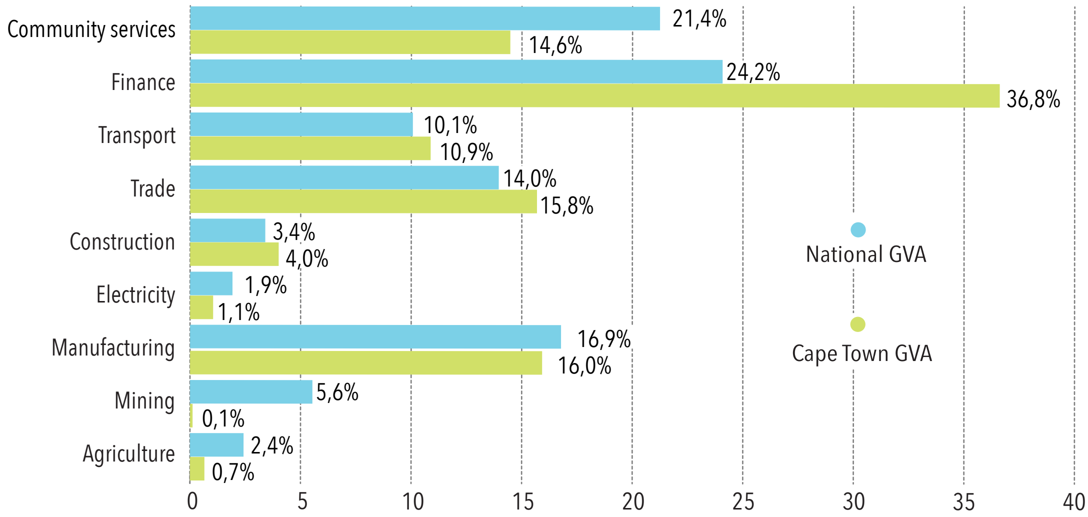


Source: Own calculations based on IHS Global Insight ReX regional data and Stats SA's Quarterly Labour Force Survey data 2014.

THE STRUCTURE OF CAPE TOWN'S ECONOMY

Figure 2 compares the sectoral distribution of gross value added (GVA) for Cape Town's economy to that of the national economy. The distribution differs from the national economy predominantly in terms of the smaller relative size of the primary sector (agriculture and mining) and the greater relative size of the tertiary sector (particularly finance and insurance). Finance and business services constitute the city's largest economic sector by far, contributing 36,8% to Cape Town's GVA, whereas it contributes only 24,2% nationally. At the other end of the scale, mining and quarrying contribute only 0,1% in Cape Town, as compared to 5,6% nationally.

2 Cape Town's GVA versus national GVA, 2013



Source: Own calculations based on IHS Global Insight ReX regional data 2014.

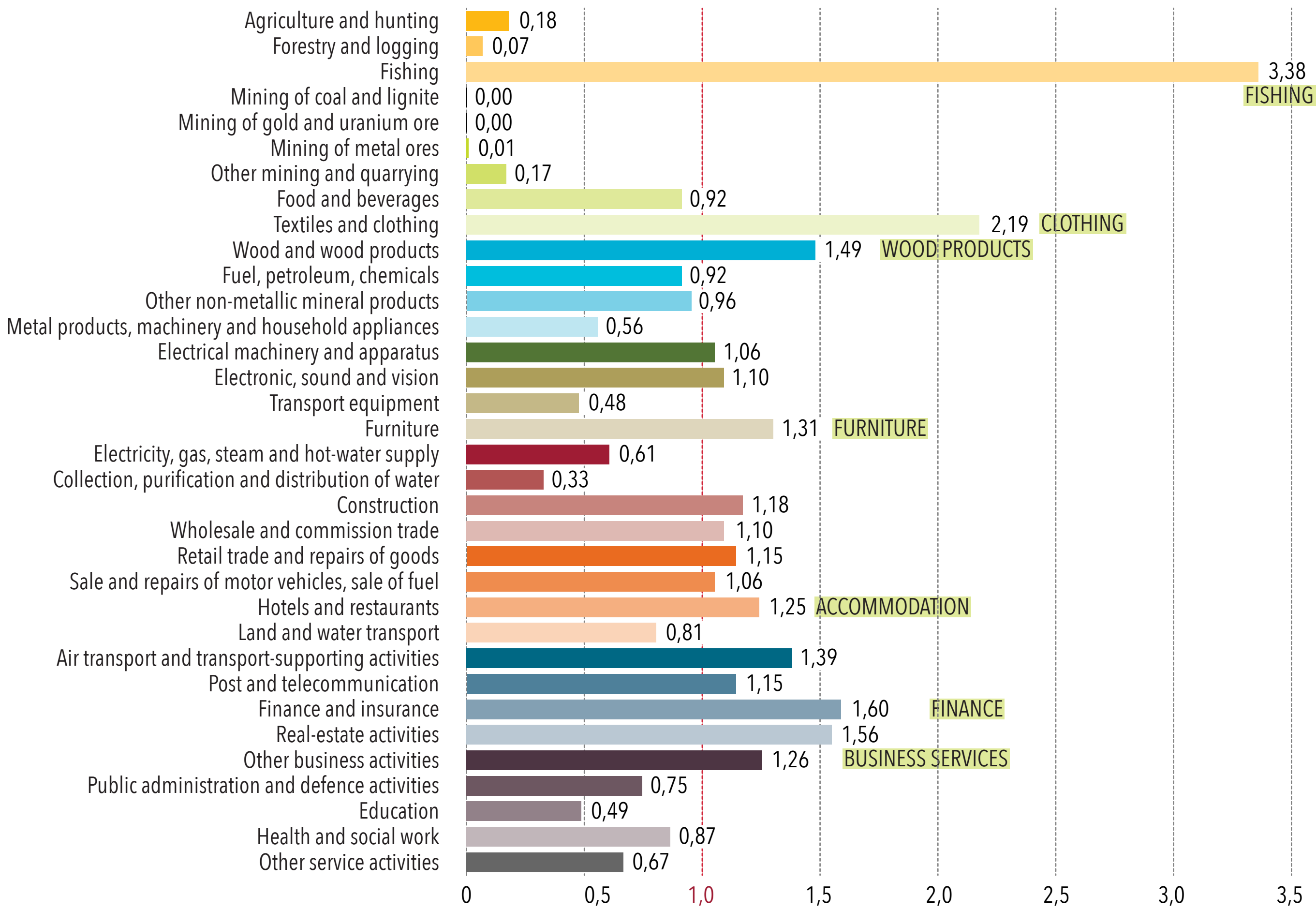
The industries in which Cape Town has the most pronounced comparative advantage are fishing, clothing and textiles, wood-product manufacturing, electronics, furniture, hospitality, finance and business services.

CAPE TOWN'S COMPARATIVE ADVANTAGES

While the previous analysis shows the degree to which Cape Town's economy is structured differently to the national economy, it is not specific in terms of where Cape Town's comparative advantages lie. Using a location quotient analysis, figure 3 provides an indication of Cape Town's comparative advantages as compared to South Africa as a whole. A location quotient value of greater than one indicates that a sector has a comparative advantage.

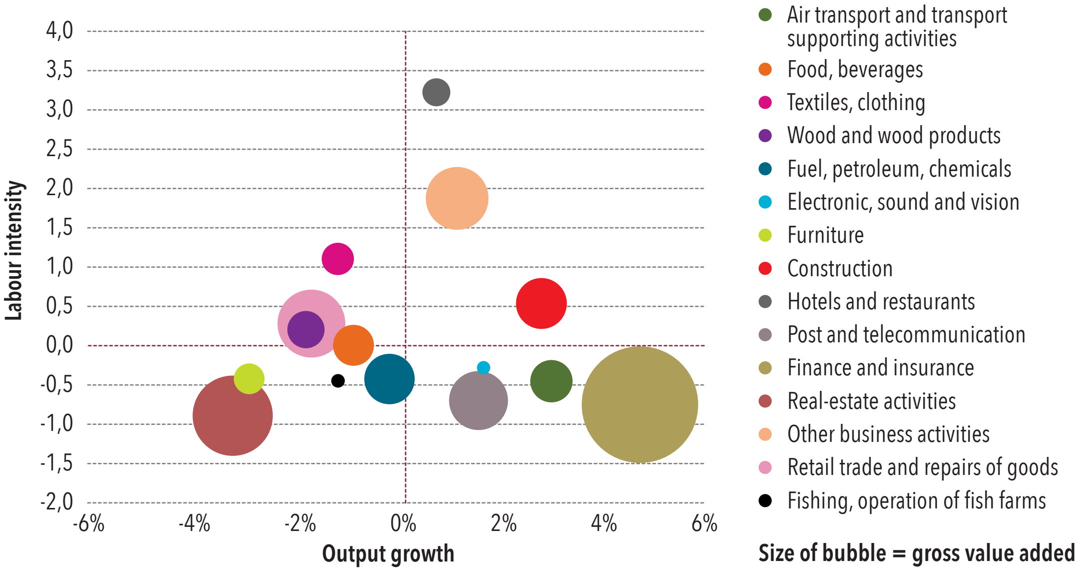
The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, clothing and textiles, wood-product manufacturing, electronics, furniture, hospitality, finance and business services

3 Location quotients for industries in Cape Town



Source: Own calculations based on IHS Global Insight ReX regional data 2014.

4 Industry performance for Cape Town



Source: Own calculations based on IHS Global Insight ReX regional data 2014.

Industries that are growing fast and are labour-intensive and, therefore, offer good opportunities for employment creation are construction, business services, and hotels and restaurants (a good proxy for tourism).

industries. These industries contribute relatively more to the city's economic output than they do at a national level to South Africa's economic output. While this analysis provides some idea of specific industries in which Cape Town has a comparative advantage, it is a static and one-dimensional analysis that fails to take into account the dynamic nature of the city's economy and the extent to which individual sectors contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's sectors with a comparative advantage.

Figure 4 plots the degree of labour intensity on the vertical axis (>0 indicates that a sector is labour-intensive, while <0 indicates a capital-intensive sector). Average economic growth in the sector is plotted on the horizontal axis (>0 implies that the sector is growing at a faster-than-average rate for Cape Town's economy over a 10-year period). The size of the bubble is the relative size of the sector as measured by GVA.

The importance of the tertiary sector is strongly reflected in figure 4, with the four largest bubbles being finance and insurance, business services, retail trade, and real-estate activities. A number of these tertiary sectors are also the fastest-growing industries in the city, with finance, business services, hospitality, and post and telecommunication growing above the average rate. Unfortunately, a number of these industries are below 0 on the y-axis, indicating that they are capital- as opposed to labour-intensive. This is true of post and telecommunication as well as finance and insurance. Industries that are growing fast and are labour-intensive, therefore offering good opportunities for employment creation are construction, business services, and hotels and restaurants (a good proxy for tourism).

Comparative advantages in certain industries are derived from a number of factors that improve the competitiveness of these industries, such as natural, infrastructural, institutional or locational advantages, among others.
Some of Cape Town's comparative-advantage factors are as follows:

- The second-busiest container port in South Africa
- The second-busiest airport in South Africa
- Good public transport linkages in the city
- Strategic positioning on the west coast of Africa
- Servicing a vast agricultural hinterland, acting as a processing, trade and retail hub for agricultural products
- Established business culture and clustering of financial institutions
- Scenic beauty and natural sights that attract international visitors and make Cape Town globally recognisable
- Three major universities within the metro region (among these, the top university in Africa in the form of the University of Cape Town) and another university (Stellenbosch) just outside the metro boundaries

Global economic developments and outlook

As a mid-sized, middle-income city on the international stage, Cape Town is highly interconnected with the rest of the world and strongly affected by developments in the global economy. In a globalised world, understanding the economic performance of an open, international city requires a sound understanding of the current global economic climate.

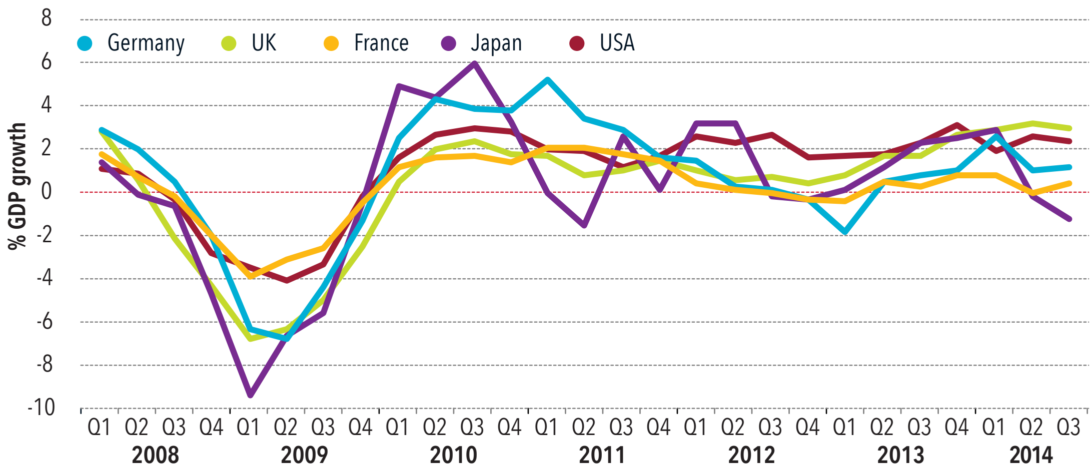
Third quarter GDP growth figures reflect a mixed performance by developed countries. While the German and French economies showed slight improvement in the third quarter of 2014, the United Kingdom, United States and Japan recorded declining year-on-year growth rates.

RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

The third quarter GDP growth figures reflect a mixed performance by developed countries. While the German and French economies showed slight improvement in the third quarter of 2014, the United Kingdom (3,0%), United States (2,4%) and Japan (-1,2%) recorded declining year-on-year growth rates (as compared to the previous quarter). The growth figures were largely in line with the respective local expectations, with the German economy's improved growth rate driven by private and public consumption spending despite low investment levels and the United Kingdom's weaker growth rate underpinned by lower exports volumes. The poor growth performance of the Japanese economy in the third quarter illustrates that it is still feeling the effects of the sales tax hike that took effect in April, and that increases in exports and public demand have not been sufficient to offset the effect of the tax on consumption expenditure.

5 Economic growth trends in developed countries

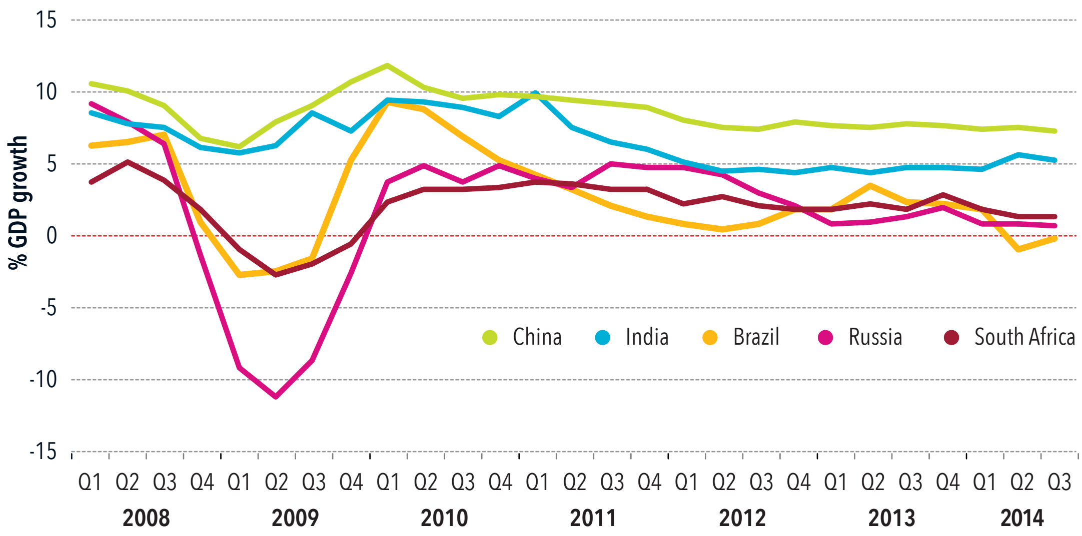


Source: Trading Economics, December 2014.

Emerging economies

Growth trends in emerging economies present a different picture from those in developed economies, as figure 6 indicates. BRICS countries (Brazil, Russia, India, China and South Africa) have achieved much higher growth rates, with an average rate of 4,7% since the beginning of 2010, compared with 1,6% for developed countries in the same period. While emerging economies have largely outperformed developed economies in this period, more recent indications are that economic growth in these countries is beginning to slow. In the third quarter of 2014, Brazil (-0,2%) and South Africa (1,4%) were the only two BRICS countries to experience higher year-on-year economic growth rates than in the previous quarter, albeit off very low bases. Indeed Brazil slipped into a technical recession in the third quarter as government spending and strong exports were insufficient to counter weak consumption and investment levels. In contrast, while economic growth in Russia (0,7%), India (5,3%) and China (7,3%) had declined since the previous quarter, it remained firmly in positive territory. The sluggish performance of these countries may in part be a negative consequence of economic recovery in developed economies, particularly in the light of fiscal tapering in the US and the shifting of capital investment from emerging to developed markets. However, local conditions have also played a large part in the slowing of these economies. In particular, China's economic growth rate was at a five-year low in the third quarter as a result of lower property investment and declining credit growth, alongside weaker industrial production.

6 Economic growth trends in emerging economies



Source: Trading Economics, December 2014.

Global economic outlook

The International Monetary Fund's (IMF) World Economic Outlook Update (2014c), published in October 2014, shows that while global economic activity improved during the second half of 2013, the completed-year global growth rate of 3,3% remained below that of 2012, when a growth rate of 3,4% was recorded. In its October update, the IMF adjusted its previous 2014 global growth forecast of 3,4% down to 3,3%. This was on account of the United States economy's unexpectedly poor first-and second-quarter performance and the weakening growth prospects of some emerging countries. Despite an expected improved performance for both developed and developing countries in 2015, the IMF has revised its 2015 global growth forecast to a more modest 3,8% from its earlier forecast of 4,0%.

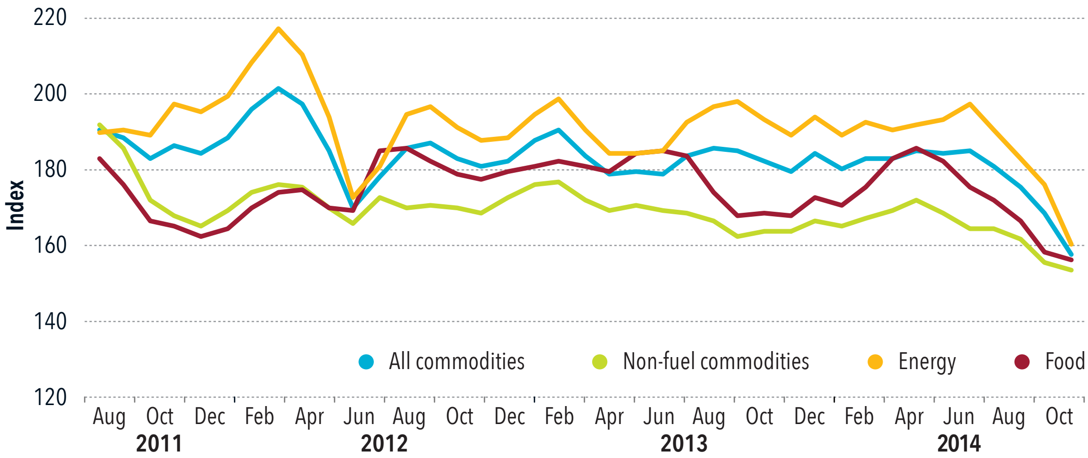
Following an improvement from -0,7% growth in 2012 to -0,4% growth in 2013, the IMF has adopted a more positive outlook for the Eurozone, projecting growth of 0,8% in 2014 and 1,3% in 2015. This recovery is however expected to be uneven, with more modest growth rates expected in countries 'under stress' IMF (2014c:3).

The moderation in the rate of growth of the Chinese economy (7,7%) continued for the completed year 2013, and the IMF has not revised its projected growth rates for China in 2014 and 2015, keeping them at 7,4% and 7,1% respectively. After low growth rates (by its own standards) in 2012, economic growth in India picked up to 5,0% in 2013, and is expected to increase to 5,6% in 2014 and 6,4% in 2015 on the back of investment-supportive policies.

The IMF (2014c) has revised sub-Saharan Africa's economic growth projection for 2014 down to 5,1% from an earlier projection of 5,4%, but has kept its 2015 projection unchanged at 5,8%. The forecasts for South Africa were revised to 1,4% for 2014 and 2,3% for 2015 (from 1,7% and 2,7%, respectively, earlier in the year). This downward revision reflects deteriorating domestic economic conditions in the first half of 2014. The reasons for South Africa's lower growth prospects compared to those in neighbouring countries are unpacked in more detail in chapter 4. In general, developing countries are expected to continue to lead global economic growth, with a rate of 4,4% predicted in these countries for 2014. Developed countries, however, are expected to close this gap slightly in 2014, with an expected growth rate of 1,8%.

The IMF has revised sub-Saharan Africa's economic growth projection for 2014 down to 5,1% from an earlier projection of 5,4%, but has kept its 2015 projection unchanged at 5,8%.

7 World commodity indices (August 2011 to October 2014)



Source: IMF, December 2014a.

The all-commodities index fell sharply in the third quarter. The decline in the index was mainly a result of favourable supply conditions in the agricultural sector and the declining price of fuel.

COMMODITIES

Commodity indices are important indicators for measuring the economic performance of emerging and developing economies. In developing countries such as South Africa, commodities make up a significant proportion of the country's export basket, generating valuable foreign exchange inflows.

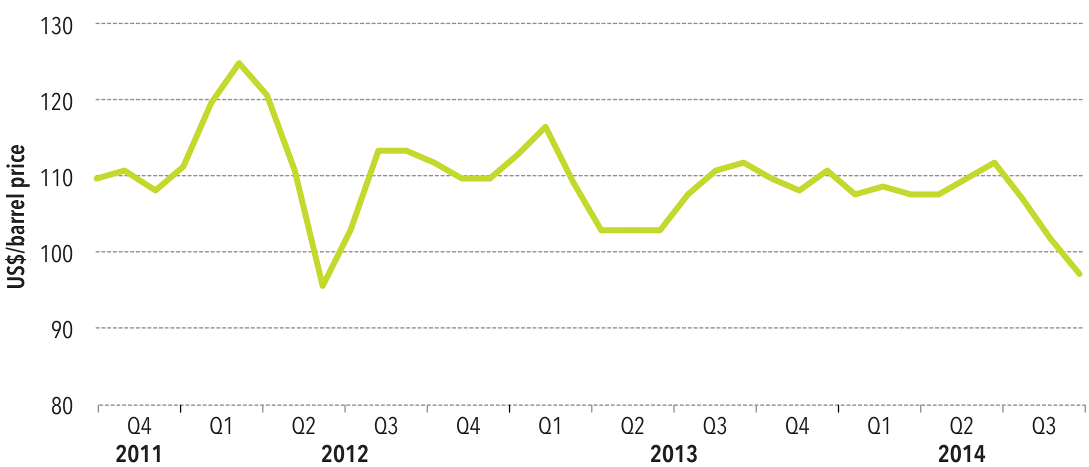
The all-commodities index fell sharply in the third quarter. After opening at 181,08 index points in July, the index fell to 175,15 index points in August and further to 168,45 index points in September. The decline in the index was mainly a result of favourable supply conditions in the agricultural sector and the declining price of fuel.

The removal of the fuel price does not, however, significantly change the gradient of the index points. The non-fuel commodity index experienced a slight increase from June 2014 to July 2014, from 164,60 index points to 164,76 index points. This was due to an increase in metal prices for the first time in three months based on expected 'supply tightening'. However, this trend was short-lived and metal prices resumed their negative trend for the rest of the quarter, declining particularly sharply (4,0%) in September as a result of increased low-cost iron ore production and the continuing economic slowdown in China. Agricultural prices similarly fell sharply in September (3,6%), with lower seafood prices, on the back of a strong harvest, driving the decline in the index. Overall the nonfuel commodities index fell by 6,08 index points between August and September.

Brent crude oil

In the quarter under review the price of Brent crude oil decreased by $9,64 per barrel in total. The price of Brent crude oil closed the previous quarter at $111,87 per barrel and opened lower at $106,98 per barrel in the third quarter. The price per barrel then dropped to $101,92 in August 2014 and further to $97,34 in September 2014. This decrease came despite ongoing geopolitical tension and can be attributed to global supply outpacing demand. Supply increases in the third quarter were driven by recovering oil production in Libya, higher output by OPEC, and 'surging' light oil production from shale deposits in the US (IMF, 2014b).

8 Brent crude oil (October 2011 to September 2014)



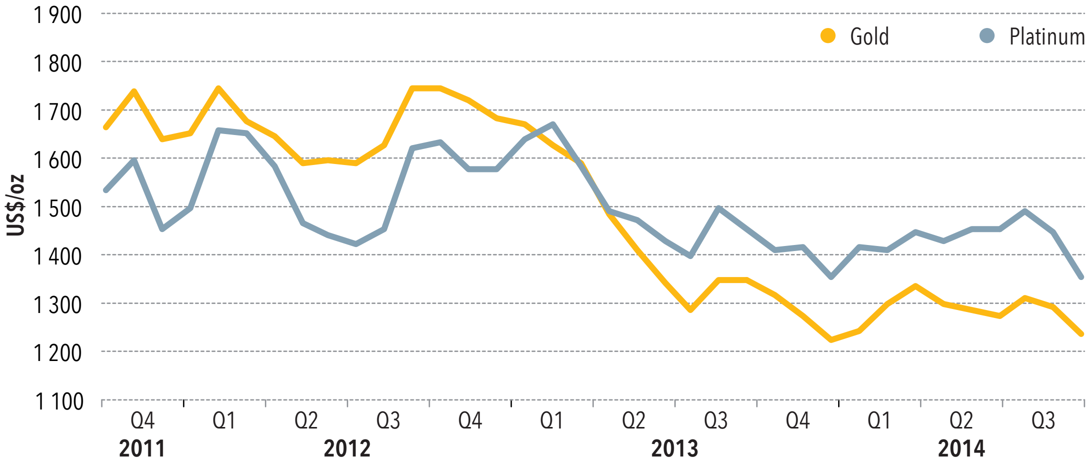
Source: IMF, December 2014a.

OVERVIEW
GLOBAL
EXCHANGE
DOMESTIC
INFLATION
LABOUR
TRADE
SECTOR FOCUS
INFRASTRUCTURE
TOURISM
INDICATORS

Gold and platinum

The gold price was less volatile this quarter. After closing on $1 279,10/oz. in June 2014, the price of gold increased to $1 310,18/oz in July, but thereafter fell to $1 236,55/oz at the end of September 2014. The platinum price lost $132,57/oz of value in the quarter under review, closing at $1 359,48/oz at the end of September 2014. At the end of July 2014, the price of platinum was $1 492,18/oz. The price fell particularly steeply (by $86,85/oz) between August and September, perhaps as a result of the normalisation of platinum mine output after the debilitating strikes earlier in the year.

9 Monthly averaged price of gold and platinum (October 2011 to September 2014)

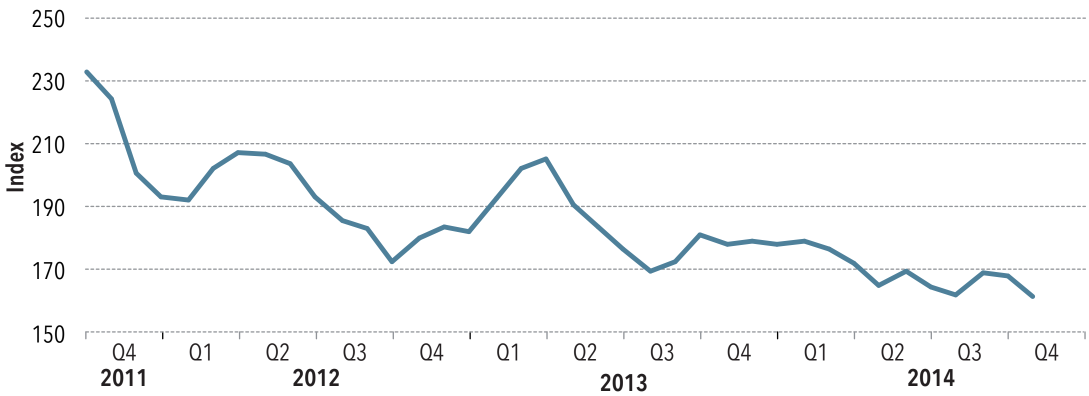


Source: World Bank, December 2014.

Non-precious metals

As revealed in the all commodities index, the metals price index increased to 169,79 at the end of July 2014 after it closed June with 161,85 points. The highest price increases were found to be in zinc, which rose by 9%, aluminium which rose by 6% and copper which rose by 4%. This is partly in response to the imminent closure of a number of zinc mines. However, the metals index resumed its longer term downward trajectory in the remaining months of the quarter, dropping to 168,17 index points in August 2014 and further to 161,45 index points in September 2014. This was due to the declining price of iron ore, which dropped 4% in August 2014 and 11% in September 2014, reaching a five-year low, and losing 32% of its value since the beginning of the year (IMF, 2014b:2). Waning demand for lead, tin and steel also contributed to the decline in the metals index (IMF, 2014b:2).

10 Metals index (October 2011 to October 2014)



Source: IMF, December 2014a.

The price of iron ore reached a five-year low, losing 32% of its value since the beginning of the year, and waning demand for lead, tin and steel also contributed to the decline in the metals index.

3

Exchange rates

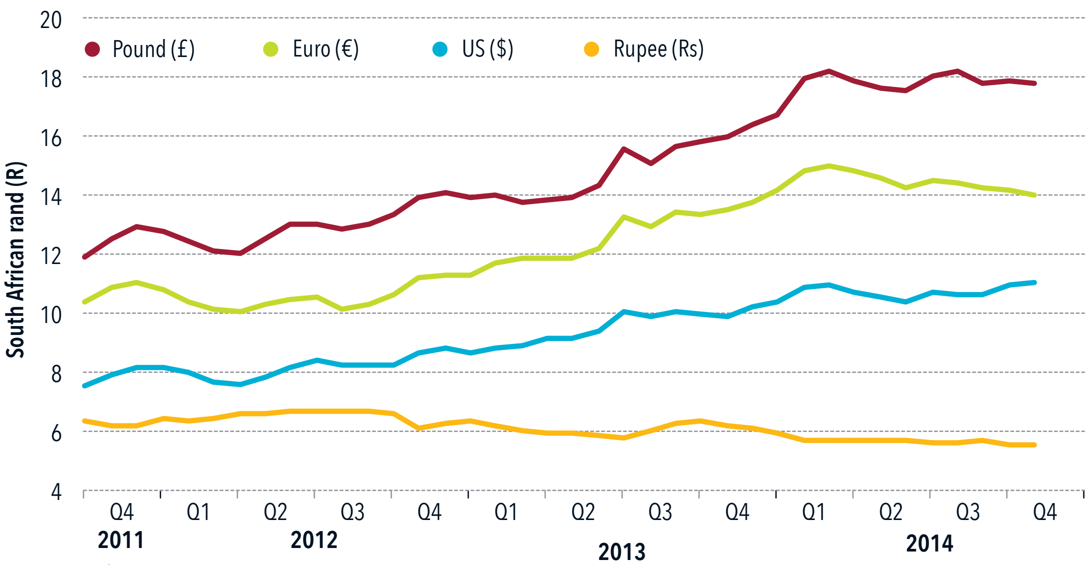
While cities do not directly influence the country's exchange rate, the strength or apparent weakness of the rand has a direct impact on local consumers and exporters. Cape Town's manufacturing sector may benefit from a weak rand as products become more price-competitive on the global market, while consumers may find that a weak rand undermines their buying power.

The rand's weak performance against the dollar is on account of the US economy's sustained growth performance and the Federal Reserve's decision to end quantitative easing.

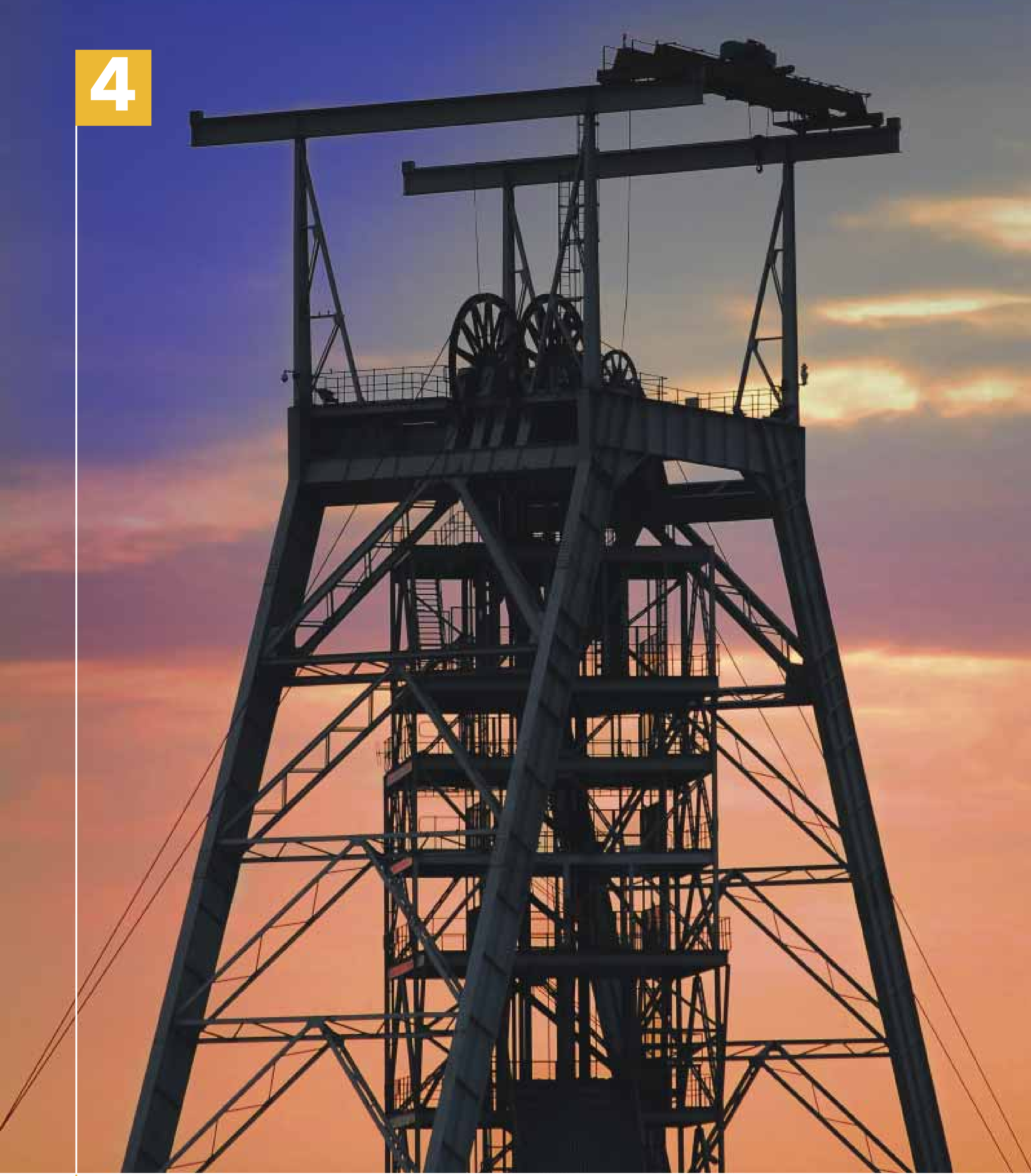
To measure the performance of the South African rand, its exchange rate is compared to four other currencies, namely the United States dollar ($), the British pound (£), the euro (€) and the Indian rupee. Figure 11 illustrates the performance of the rand against these major currencies for the period October 2011 to October 2014. In February 2014, the rand hit a more-than-10-year low against the dollar with a rate of R10,98 against that currency. This eased slightly over the next few months but picked up again in the third quarter, ending September at R10,96 to the dollar. In contrast to the trends in the rand/dollar exchange rate, the rand appreciated against the other three currencies in the third quarter.

The rand's weak performance against the dollar is on account of the US economy's sustained growth performance and perhaps even more pertinently, the Federal Reserve's decision to end quantitative easing at the end of October. In contrast, the European Central Bank has shown willingness to adopt quantitative easing due to weak growth in the Eurozone. These contrasting monetary policy positions have resulted in the rand faring better against the euro and pound than against the dollar.

11 South African nominal exchange rates (October 2011 to October 2014)



Source: South African Reserve Bank, November 2014.



Domestic economic performance

Gross domestic product (GDP) growth is one of the most widely used measures of economic performance in a country or region. It provides an indication of the level of value-added production that takes places in an economy during a specific period. Large cities such as Cape Town are typically the loci of economic production, and are often the main drivers of economic growth within a region.

ECONOMIC GROWTH IN SOUTH AFRICA

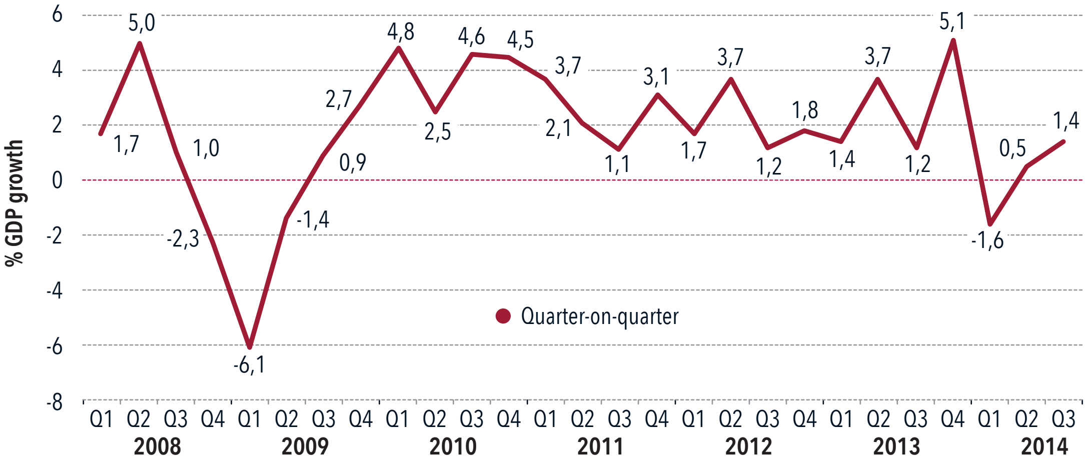
Quarter-on-quarter gross domestic product (GDP) growth rate

Economic growth (as measured by changes in GDP) in South Africa increased to 1,4% quarter on quarter in the third quarter of 2014 – significantly stronger than the 0,6% and -1,6% growth rates recorded in the second and first quarters respectively, but below the market consensus of 1,5%. The improved growth performance of South Africa's economy can be strongly attributed to the resumption of normal operations at the platinum mines after months of strike-related work stoppages. As expected, the extent of the impact of this recovery in the mining industry was partially offset by the impact of strikes in the manufacturing industry in the third quarter.

Despite the improved growth performance from a quarter-on-quarter perspective, the year-on-year growth rate remained unchanged at 1,3%, highlighting the persistent weakness of the economy. The year-on-year growth rate for the first nine months of 2014 was moderately higher, at 1,5%. Considering that the annual growth rate in 2013 was 1,9%, the economy's performance in the first nine months of 2014 points to a sustained drop onto a lower growth path and, in all likelihood, a significantly lower annual growth rate for 2014. In the context of an annual GDP growth target of 5% to 7%, as contained in government's New Growth Path and the National Development Plan (NDP), this relatively low annual growth rate undermines South Africa's ability to meaningfully reduce the country's unemployment rate.

Improved growth performance of South Africa's economy can be strongly attributed to the resumption of normal operations at the platinum mines after months of strike-related work stoppages.

12 Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 3, 2014)[1]



Source: Stats SA, December 2014.

Sectoral determinants of GDP growth in South Africa

The primary sector bounced back after two consecutive quarters of contraction, posting a growth rate of 3,1% in the third quarter. While the mining industry benefitted from the relative lack of industrial action in the third quarter after two quarters of debilitating strikes, its output recovery was more subdued than expected. The industry posted a growth rate of 1,6% quarter-on-quarter but continued to record a decline on a year-on-year basis (-2,9%), suggesting that the industry has yet to shrug off the lingering effects of the strikes in the first half of the year. In contrast agriculture continued its recent positive growth trend, with a growth rate of 8,2% on a quarter-on-quarter basis and 5,9% on a year-on-year basis. The strong performance of the agricultural industry can be attributed to 'high production in field crops and animal products' (StatsSA, 2014).

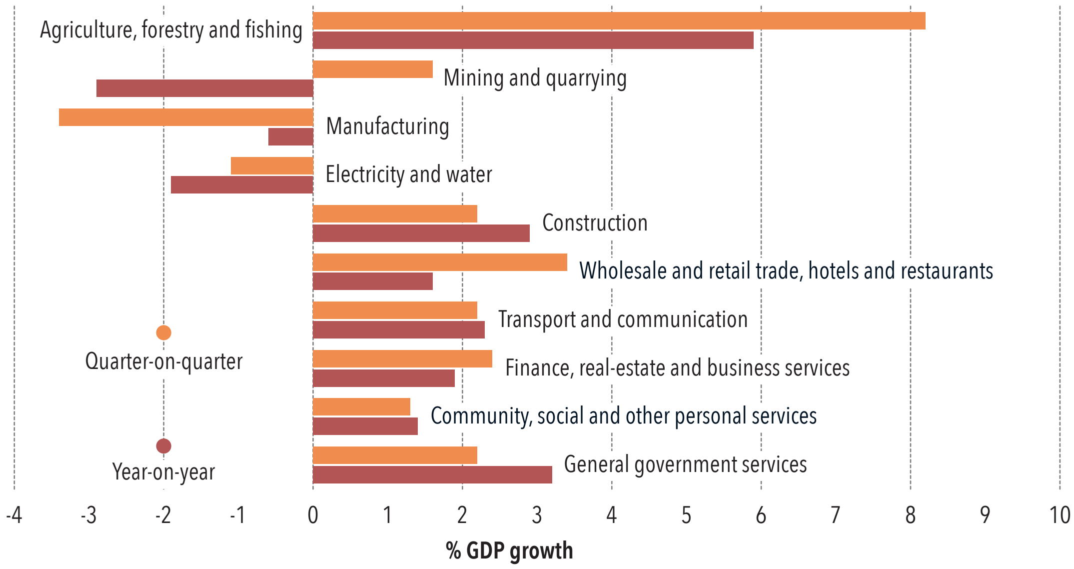
The secondary sector contracted for the third successive quarter. This was driven largely by a 3,4% decline in manufacturing gross value added. While a number of the manufacturing subindustries recorded lower levels of production, the most acute decline was in the metals and engineering division, due to the impact of strike activity in the third quarter. The electricity and water industry also recorded an output contraction of 1,1%, perhaps a portent of the load shedding to be experienced in the fourth quarter. The construction industry, however, grew at 2,2% in the third quarter, improving from the 2,1% in the previous quarter.

Growth in the tertiary sector in the third quarter improved slightly compared with recent quarters but remained well below its long-term average. Buoyed by increased activity in financial markets, the finance and business services industry contributed 0,5 percentage points to overall economic growth in the third quarter based on a growth rate of 2,4%. The retail and wholesale trade industry also contributed 0,5 percentage points to economic growth in the third quarter based on a growth rate of 3,4%. This represented a 3,6% turnaround from the negative 0,2% growth in the second quarter and was attributable to increased turnover in most trade divisions.

Figure 13 shows that the annual growth rates are less variable than their quarterly counterparts. According to year-on-year

1. Historical GDP figures were revised by StatsSA in the third quarter to reflect the change in the reference year from 2005 to 2010.

13 Sectoral GDP growth rates for South Africa (Quarter 3, 2014)



Source: Stats SA, December 2014.

rates, three industries recorded negative growth, namely mining, manufacturing, and electricity and water. The mining industry's positive quarterly performance is put into perspective by its year-on-year decline. Similarly, the lower year-on-year growth in the wholesale and retail trade industry points to a shallower recovery in this industry than what the quarter-on-quarter figures suggest.

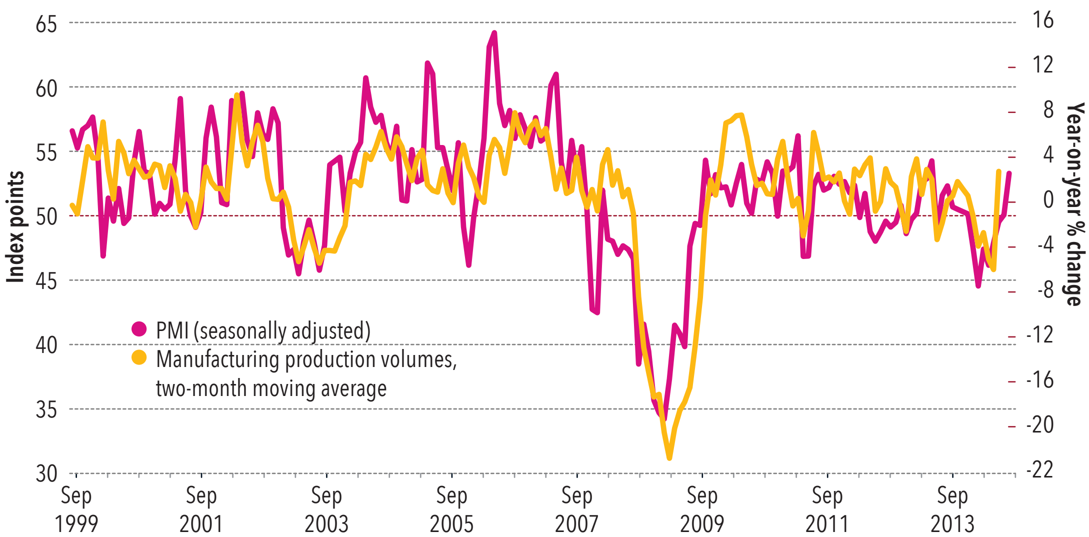
Economic growth outlook for South Africa

The tertiary sector has typically been the main source of growth in the South African economy since 2008, and has often counterbalanced the volatility of the mining and manufacturing sectors. However, the dampened performance of the tertiary sector over the past 18 months has exposed the country to the volatility of both mining and manufacturing's growth performance. In the third quarter, the strike-affected manufacturing industry acted as a drag on overall economic growth. If the tertiary sector had grown at its historical five-year average during this period, however, the poor performance of the manufacturing industry would have been better masked, and a much healthier growth rate would have been achieved. As it is, South Africa's growth performance has become increasingly exposed to the risks emanating from mining and manufacturing. With this in mind, and in light of the continued expected subdued performance of the tertiary sector, it is necessary to pay careful attention to the outlook for these two industries.

Despite the mining industry being relatively free of major disruptions in the third quarter, production remained low. Output normalisation in the industry is, however, expected in the fourth quarter and this should have a fairly large positive effect on the country's quarter-on-quarter economic growth rate in the fourth quarter.

The dampened performance of the tertiary sector over the past 18 months has exposed the country to the volatility of both mining and manufacturing's growth performance.

14 Kagiso Purchasing Managers' Index for South Africa



Source: Kagiso Tiso Holdings/Bureau for Economic Research, December 2014. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

The predicted improved performance of the manufacturing industry in the fourth quarter should be viewed more in terms of a short-term normalisation following previously turbulent quarters, rather than an improved performance in the longer term.

The outlook for the manufacturing sector, as conveyed by the Kagiso Purchasing Managers' Index (PMI), improved dramatically in the third quarter. As a reflection of this, the November 2014 Kagiso PMI rose for the fourth consecutive month to a level of 53,3 points, its best level since August 2013. This improvement in the manufacturing industry's outlook was also reflected by the findings of the BER Manufacturing Survey for the fourth quarter which showed an increase in manufacturing confidence from 28 points to 42 points. The improvement in the outlook for the manufacturing industry in the fourth quarter is largely due to two factors; a recovery in the metals and engineering industry after the NUMSA strike in the third quarter, and increased domestic demand from the mining industry following output normalisation.

The positive outlook for the manufacturing industry suggests that it will be a positive contributor to GDP growth in the fourth quarter. However, despite the positive outlook for the industry in the fourth quarter, the index measuring the expected business conditions in six months' time decreased by almost 10 index points. This suggests that the predicted improved performance of the manufacturing industry in the fourth quarter should be viewed more in terms of a short-term normalisation following previously turbulent quarters, rather than an improved performance in the longer term.

Overall, normalisation in mining and manufacturing output should lead a much improved economic growth performance in the fourth quarter. Lower inflation rates and improved business confidence may also result in a better tertiary sector performance in the fourth quarter, although this is likely to remain moderate. The Bureau of Economic Research (2014:2) forecast a much improved quarter-on-quarter GDP growth rate of 4,5% in the fourth quarter. This would pull the annual growth rate for 2014 up to 1,5% which is, however, still lower than the IMF's prediction for South Africa. A notable downside risk to this forecast is power load shedding in the fourth quarter. Load shedding has the potential to sap the momentum from the expected recovery in industrial activity.

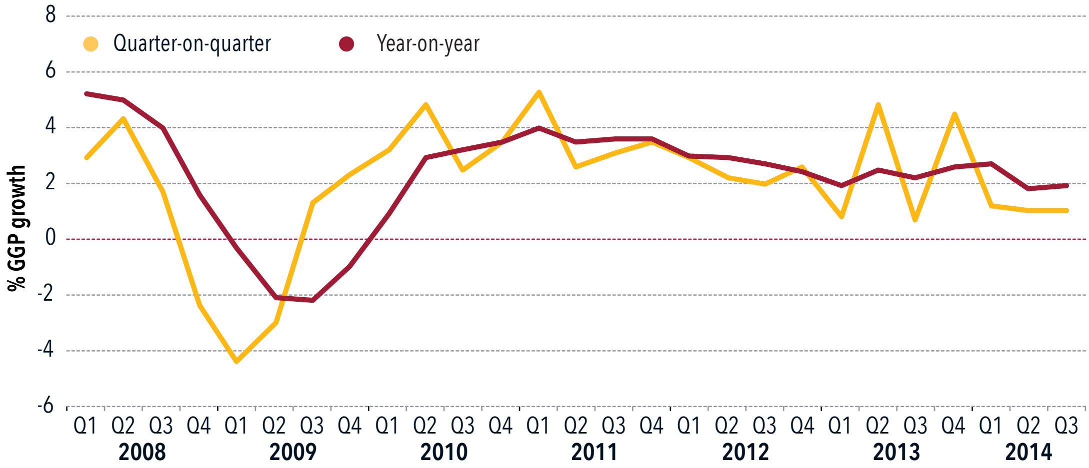
ECONOMIC GROWTH IN THE WESTERN CAPE

Quarter-on-quarter gross geographic product (GGP) growth rate

The Western Cape economy contributes around 15% of national GDP, and is strongly influenced by national economic conditions (Quantec, 2014). As expected (refer to the second quarter edition of EPIC), the Western Cape grew slower than the national economy in the third quarter. While economic growth in the national economy improved from 0,5% to 1,4% on a quarter-on-quarter basis, it remained at 1,0% for the Western Cape. This discrepancy in growth trends is due to the differing structure of the national and provincial economy. While the Western Cape's limited mining industry activity meant that it was able to post higher growth rates than South Africa during the first two quarters, it has also meant that it did not benefit as strongly from the moderate recovery in the industry in the third quarter. On the other end of the spectrum, the Western Cape economy would have been more impacted than the national economy by the weak performance of the manufacturing

2. A PMI value of more than 50 indicates an expected future growth in manufacturing, while a value of less than 50 suggests that the sector is expected to contract.

15 **Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 3, 2014)**



Source: Quantec, December 2014

industry in the third quarter as manufacturing forms a larger part of the provincial economy.

Year-on-year growth rates smooth some of these short-term trends, revealing a positive growth trend for the Western Cape – increasing from 1,8% in the second quarter to 1,9% in the third quarter, while nationally it remained at 1,3% across the two quarters. This is indicative of the degree to which recent economic growth in the national economy is reflective of short-term normalisation rather than long-term improvement.

While GGP statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to largely mirror that of the provincial economy. This is because the metro contributes over 70% of the province's economic output (Quantec, 2014). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate was 0,5 percentage points. If this were to hold in the third quarter of 2014, the city's growth rate would be in the region of 0,5% to 1,5%.

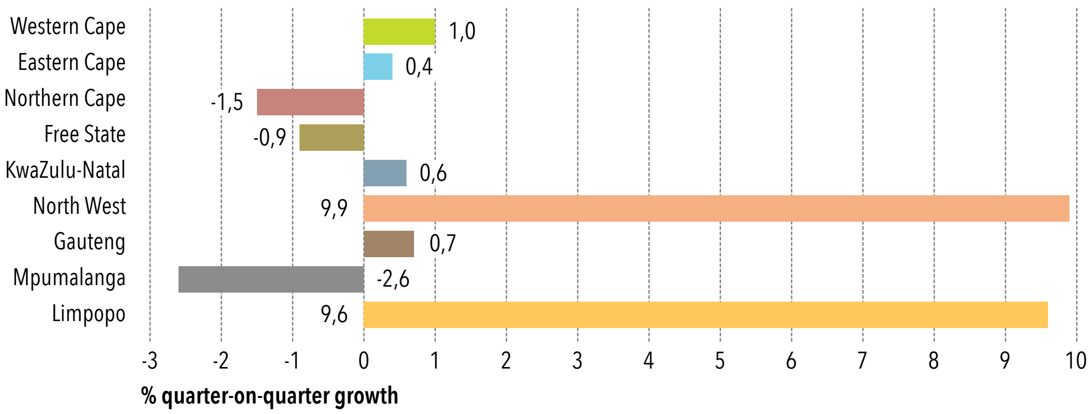
Provincial economic growth comparisons

A comparison of economic growth rates between provinces reveals that the smaller, mining-based economies in the platinum belt experienced the largest growth rates, as mining production started returning to normal. The North West's GGP increased by 9,9% in the third quarter, while Limpopo's increased by 9,6%. In contrast, the larger, more diversified economies of Gauteng, the Western Cape and KwaZulu-Natal, boasting bigger secondary and tertiary sectors, performed relatively poorly in the third quarter. The Western Cape was the best performing of the three largest provincial economies, with Gauteng and KwaZulu-Natal posting growth rates of 0,7% and 0,6% respectively. Despite the weak performance of these three provincial economies, they seem to have recovered more quickly from the previous quarters' declines than the smaller (non-platinum-mining-based) economies have done.

Cape Town would not have benefitted from a platinum mining recovery like the North West and Limpopo did, but the correlation between more urbanised provinces and better economic growth (excluding the platinum economies) would suggest that Cape Town could be expected to have performed better than non-metro, or smaller metro areas in the third quarter.

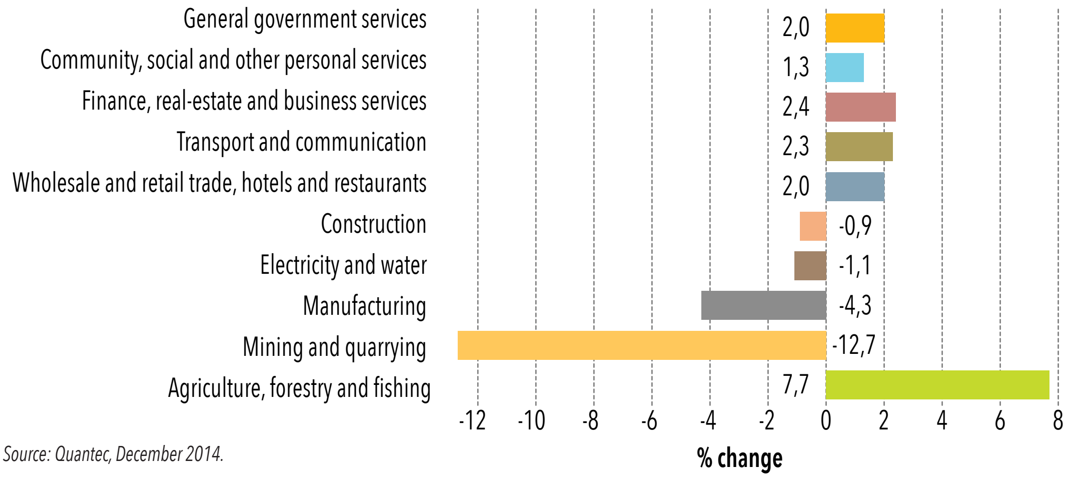
The Western Cape was the best performing of the three largest provincial economies, with Gauteng and KwaZulu-Natal posting growth rates of 0,7% and 0,6% respectively.

16 **Provincial comparisons of real GGP growth rates (Quarter 3, 2014)**



Source: Quantec, December 2014.

17 **Sectoral real GGP growth rates in the Western Cape (Quarter 3, 2014)**



Source: Quantec, December 2014.

Sectoral drivers of economic growth in the Western Cape

The Western Cape's growth performance by sector largely mirrors the trends in the national economy. In line with national trends, agriculture grew strongly at 7,7% in the Western Cape, while the finance industry grew at the same rate as it did in the national economy (2,4%). Wholesale and retail trade, however, grew at a more sedate 2,0% compared to the national rate of 3,4%. This could be because wholesale and retail trade activity in the Western Cape did not grow off as low a base as it did at a national level, perhaps due to the smoothing effects of accommodation and hospitality in the second quarter. As an indication of this, the Western Cape's year-on-year growth rate in the wholesale and retail trade industry in the third quarter was 2,2% compared to 1,6% for South Africa as a whole. The largest sectoral disparity, however, is in the construction industry, which grew by 2,2% quarter-on-quarter nationally in the third quarter compared but declined by 0,9% provincially. This may be reflective of a cooling off of construction activity in the Western Cape after robust growth in the first and second quarters.

In the medium term, a resurgence of consumer confidence, particularly in light of lower oil prices and seemingly decreasing inflation rates, should see Cape Town's economy continue to benefit from economies of scale, posting growth rates that are higher than those for the national economy.

Similar sectoral growth rates can be expected for Cape Town, as the city is the major contributor to most economic sectors in the province. In particular, 80% of the Western Cape's finance and business services, 74% of wholesale and retail trade, and 69% of manufacturing can be attributed to the metropolitan area (Quantec, 2014). As such the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the third quarter. However, the greater contribution of these industries to the city's economy means that they would have a larger effect on the city's economic growth rate.

In contrast to Cape Town's contribution to the tertiary sector output of the province, it contributes only 29% to the province's total primary-sector GGP. Thus, it is difficult to make inferences about the performance of the city's primary sector based on primary-sector GGP growth in the Western Cape. However, even if Cape Town's primary sector (agriculture in particular) did mirror provincial trends, it is unlikely that this would have had a large impact on the overall growth rate, as the primary sector contributes less than 1% to Cape Town's GGP. In short, in the third quarter of 2014 a relatively larger share of Cape Town's output was contributed by weaker-performing sectors (tertiary industries and manufacturing), while a relatively smaller share was contributed by the stronger-performing agricultural sector. This suggests that the metro economy is unlikely to have grown any faster than the provincial economy.

Growth outlook for Cape Town and the Western Cape

While business and consumer confidence levels seem to be picking up mildly, a weak exchange rate, underperforming labour market and stubbornly high inflation rate still serve to threaten short-term economic growth in economies that are dominated by the tertiary sector – such as Cape Town. A strong performance by the manufacturing sector in the fourth quarter should bolster Cape Town's economic growth rate, but the city is unlikely to grow as quickly as the country in the fourth quarter as it will not benefit to the same extent from the normalisation of output in the mining industry. Nevertheless the city and province's completed year growth rate is likely to be higher than the national growth rate for 2014, although still below 2%.

In the medium term, a resurgence of consumer confidence, particularly in light of lower oil prices and seemingly decreasing inflation rates, should see Cape Town's economy continue to benefit from economies of scale, posting growth rates that are higher than those for the national economy. Achieving a suitably higher future growth trajectory for Cape Town, however, will depend on the city's ability to increasingly realise the opportunities associated with the industries where it has some comparative advantages – namely tourism, finance and business services, agro-processing, creative industries, and oil and gas – as well as its ability to effectively attract new investment. In this respect, the weak exchange rate and the city's growing reputation as a major global tourist destination mean that the tourism industry holds significant potential as a strong growth contributor.

5

Inflation

In the third quarter of 2014, headline inflation rate was recorded at 5,9% – the lowest it has been for six months.

SOUTH AFRICA'S INFLATION OVERVIEW

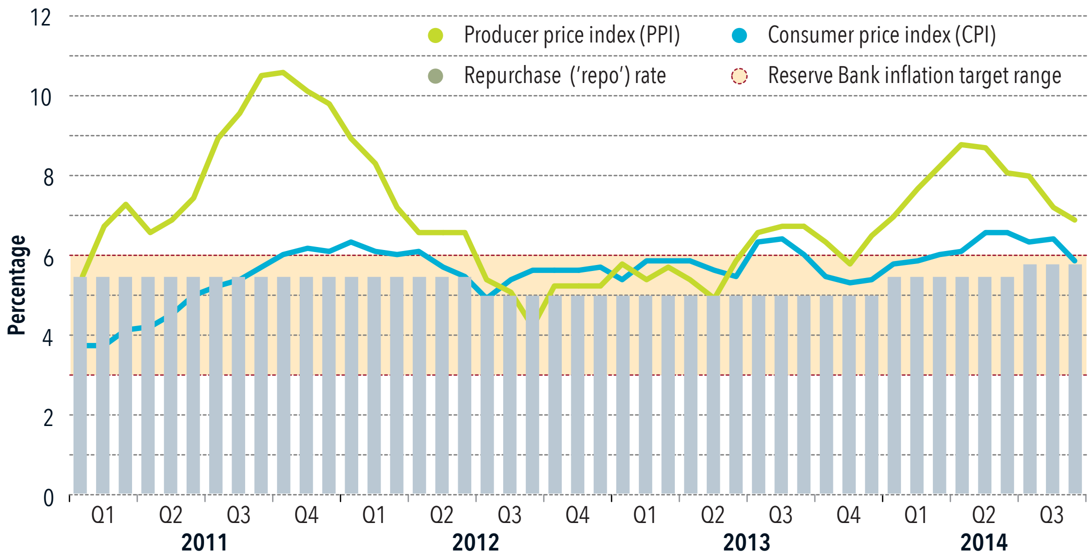
Overall, inflation was lower in the third quarter of 2014 than in the second quarter. The headline consumer price index (CPI) annual inflation rate decreased from a peak rate of 6,6% at the end of the second quarter to 6,3% in July 2014, increasing slightly during August 2014 (6,4%) and thereafter decreasing to below 6% for September 2014.

At the end of September 2014, the headline CPI annual inflation rate was recorded at 5,9%. This recording is the lowest it has been for six months. The decreasing trend in the third quarter is the result of sustained price decreases in food and petrol since May 2014. In particular, the petrol price was directly affected by the strong decline in the oil price, at a time when the exchange rate remained relatively stable. The declining global oil price also had an indirect influence on food prices as it reduced the input costs of food production. The main drivers of the CPI inflation rate in September 2014 were restaurant and hotel inflation (8,8%) as well as food and nonalcoholic beverages (8,5%), while petrol inflation recorded a low rate of 1,7%.

After having breached the target range at the end of December 2013 (6,5%), the producer price index (PPI) escalated to 8,8% in April 2014. After the peak in April 2014, the PPI has reflected a sustained decreasing trend as it recorded 8% in July, 7,2% in August and 6,9% in September 2014. The key contributors to the PPI annual growth rate were food products, beverages and tobacco products (7,5%), metals, machinery, equipment and computing equipment (8,6%), as well as coke, petroleum, chemical, rubber and plastic (5,3%) (Stats SA, 2014). The downward pressure on the PPI in the third quarter mainly reflects the impact of the exchange value of the rand stabilising and the declining oil prices.

The main drivers of the CPI inflation rate in June 2014 were the price of petrol (13,3%) as well as food and nonalcoholic beverages (9,6%).

18 CPI and PPI trends for South Africa (January 2010 to September 2014)



Sources: CPI and PPI extracted from Stats SA, 2014, and repurchase rate extracted from South African Reserve Bank, 2014.

Figure 18 also illustrates the movement of the repurchase rate (repo rate). As indicated on the graph, the repo rate has remained unchanged at 5,75% since the increase in July 2014. July's increase was influenced by a worsening inflation outlook, the depreciation of the rand as well as rising food prices. In the latest statement of the monetary policy committee (November 2014), it was decided to keep the repo rate unchanged as the inflation outlook was deemed to have improved, on the basis of decreasing petrol prices and a stabilising rand.

Table 1 overleaf indicates how different expenditure groups are affected by inflation. Overall for the third quarter, each expenditure group experienced an inflation rate decrease compared to the end of the second quarter of 2014 with quintile four and five declining to below 6%. The population quintile with the highest level of monthly expenditure was subject to an inflation rate of 5,7% in September 2014, while the population quintile with the lowest monthly expenditure was subject to an inflation rate of 6,4%. The main reason for this is that the highest quintile benefitted more significantly from substantially reduced petrol price inflation, while the lowest quintile was more severely impacted by continued high (albeit reduced) food price inflation.

1 CPI inflation by monthly household expenditure

Quintiles	Level	Monthly expenditure	CPI inflation rate at September 2014
	Average		*5,9%*
1	Very low	R0 to R1 213/month	6,4%
2	Low	R1 214 to R1 939/month	6,3%
3	Middle	R1 940 to R3 062/month	6,3%
4	High	R3 063 to R6 596/month	5,9%
5	Very high	R6 596 and more	5,7%

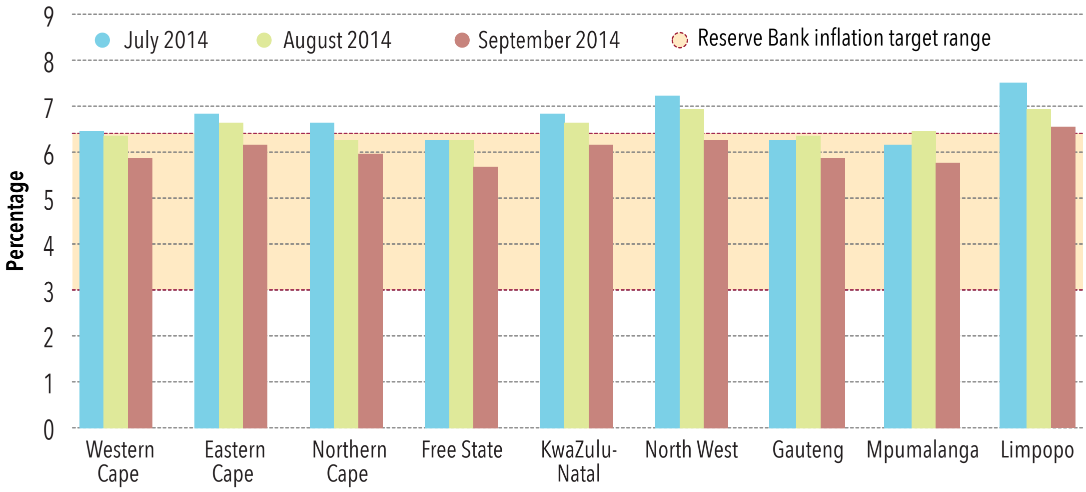
Source: Stats SA, November 2014.

GEOGRAPHICAL INFLATION

In line with national inflation, the Western Cape recorded an inflation rate of 5,9% for the end of the third quarter of 2014. As illustrated by figure 19, the majority of provinces experienced an inflation rate decrease over the three-month period, with four provinces recording inflation rates of below 6%. The Free State recorded the lowest inflation rate at 5,7% for September 2014, reflecting the largest decrease (1,4 percentage points when compared to July 2014), while Limpopo recorded the highest rate at 6,6%. Even though the national economy and the Western Cape's inflation rate were similar, this was as a result of different drivers. Food price inflation in the Western Cape was 8,8% in September 2014 (having decreased from 9,6% in August), while nationally it was 8,7% (decreasing from 9,7% in August). Transport cost inflation (2,8% compared to 4,6%) was significantly lower in the Western Cape but sharper increases were recorded in the price of housing and utilities (6,3% compared to 5,7% nationally), alcoholic beverages (6,4% compared to 6,1% nationally) as well as restaurants and hotels (9% compared to 8,8% nationally).

Transport cost inflation was significantly lower in the Western Cape but sharper increases were recorded in the price of housing and utilities, alcoholic beverages as well as restaurants and hotels.

19 CPI inflation rate at provincial level (July 2014 to September 2014)

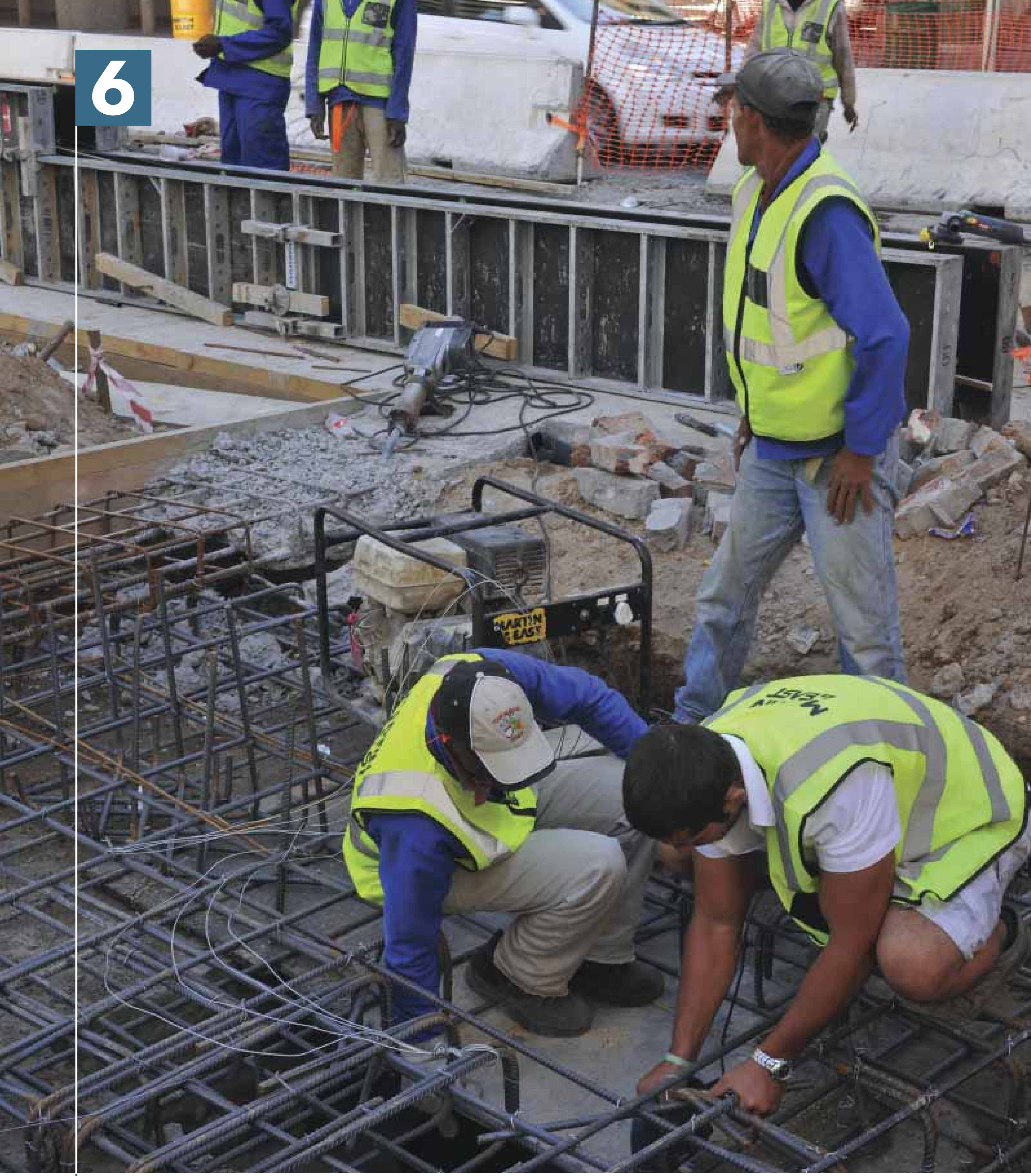


Source: Stats SA, November 2014.

INFLATION OUTLOOK

Inflationary pressure for the third quarter of 2014 decreased compared to the second quarter of 2014. According to the Monetary Policy Committee (MPC), inflation moved to within the inflation target range at the end of the third quarter of 2014, mainly as a result of the decline in oil prices to below US$100 a barrel in September 2014. At its November meeting, the MPC stated that the inflation outlook had improved since the last meeting with inflation remaining unchanged at 5,9% for October (South African Reserve Bank, 2014:13). This is mainly as a result of the continuing moderation in food and petrol prices. The MPC further stated that the Reserve Bank's inflation expectations for the final quarter will be anchored below 6%, which is consistent with surveys conducted by the Bureau of Economic Research at Stellenbosch University.

As a result of the downward movement in inflation and the more optimistic inflation outlook, the Reserve Bank kept the repo rate unchanged at 5,75% at the November meeting. It did caution that it is uncertain whether the decline is a temporary shock or whether inflation will continue to fall in the longer term. If it is indeed a temporary respite in an increasing longer term trend then the Bank may well decide to increase the repo rate early next year. However, if the oil price continues to decline and the exchange rate remains stable while domestic growth remains subdued, then the repo rate will be held at 5,75% in the first quarter.



6

Labour market trends

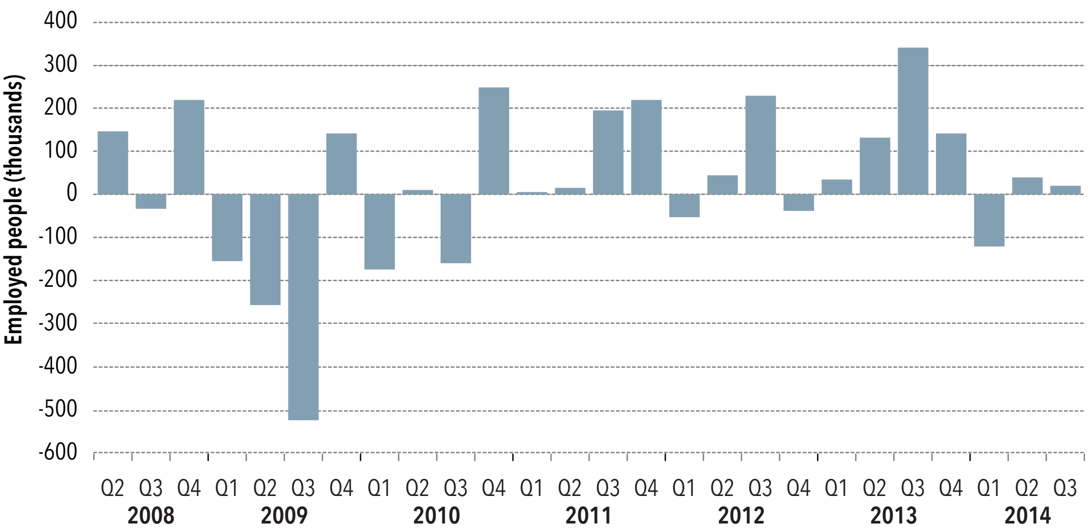
The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic strategies, and are critically important to the country's development.

EMPLOYMENT TRENDS IN SOUTH AFRICA

In the third quarter of 2014, South Africa's labour force increased by 19 000 individuals compared to the previous quarter. The number of employed people increased by 22 000 to 15,12 million in this period. Employment was largely driven by construction (99 000), mining (22 000) as well as agriculture (16 000). While these three industries experienced strong employment growth, others experienced a decline in employment. Employment losses were led by private households (-110 000), community and social services (-17 000) as well as transport (-15 000) – these industries had all experienced positive employment growth in the previous quarter.

Employment losses were led by private households, community and social services as well as transport – industries that had all experienced positive employment growth in the previous quarter.

20 Employment trends in South Africa (Quarter 2, 2008 to Quarter 3, 2014)



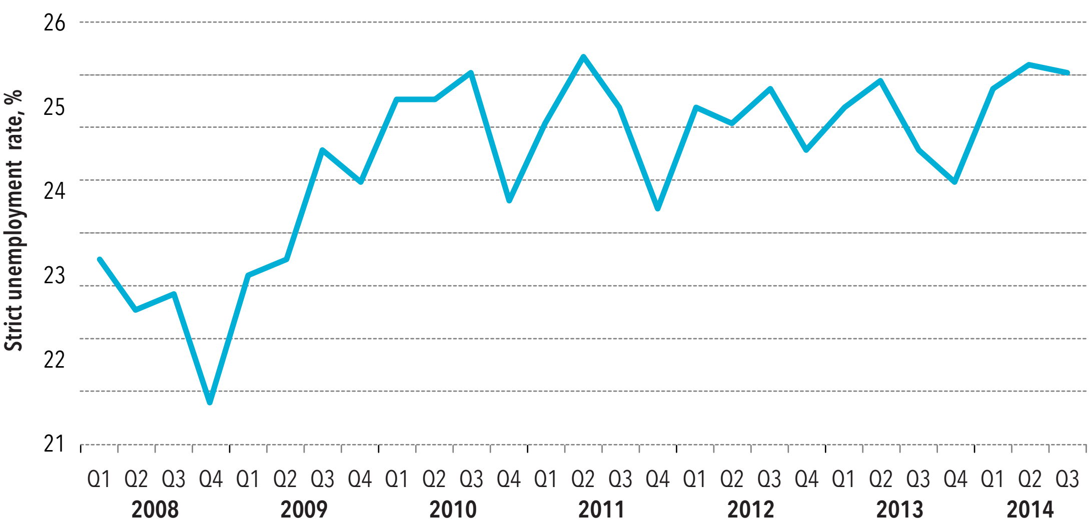
Source: Stats SA, December 2014.

The GDP growth rate in the third quarter was 1,4% and the employment growth rate 0,2%. The disparity between GDP growth and employment growth in the third quarter could be due to the recovery in GDP growth being too shallow and temporary to elicit meaningful employment creation in the third quarter.

A year-on-year analysis reveals a stronger performance in job creation, with employment having increased by 81 000 individuals compared to the third quarter of 2013. The largest contributor to annual employment growth was the community and social services sector (140 000), with the second-largest contributor being the construction sector (135 000). The construction sector experienced strong growth on a quarterly basis, whereas the community and social services sector experienced poor growth. A few sectors performed poorly on a year-on-year basis while experiencing positive growth on a quarterly basis. These sectors included agriculture (-54 000) as well as finance and other business services (-36 000). On the other hand, transport performed poorly on a quarterly basis and positively on a year-on-year basis (6 000).

The disparity between GDP growth and employment growth in the third quarter could be due to the recovery in GDP growth being too shallow and temporary to elicit meaningful employment creation in the third quarter.

21 Official/strict unemployment rate for South Africa (Quarter 1, 2008 to Quarter 3, 2014)



Source: Stats SA, December 2014.

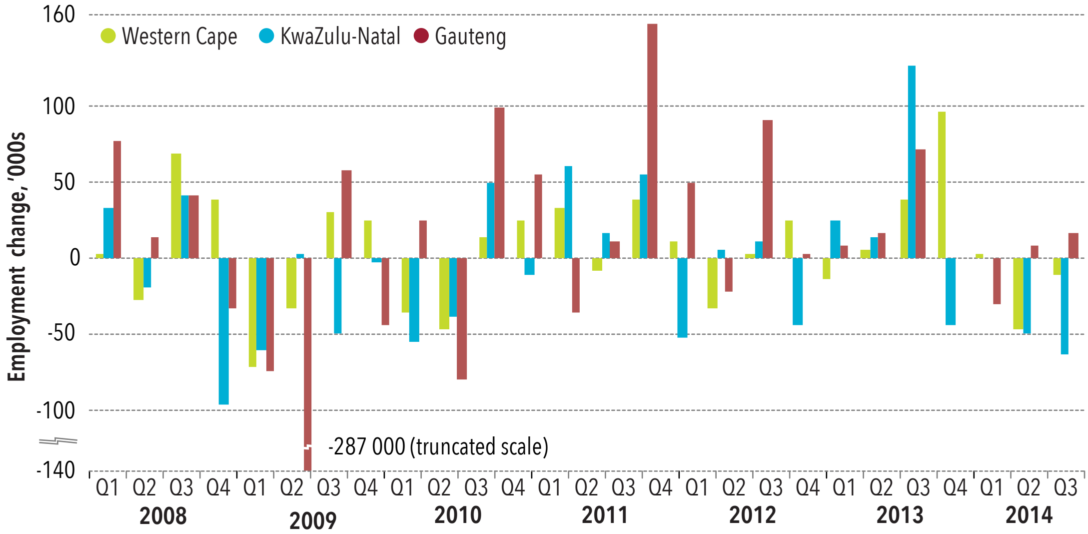
UNEMPLOYMENT TRENDS IN SOUTH AFRICA

In the third quarter of 2014, unemployment decreased by 3 000 quarter-on-quarter to a total of 5 151 million people. This resulted in a 0,1 percentage point decrease in the official unemployment rate to 25,4%. Discouraged work seekers, who are included in the expanded measure of unemployment, increased by 95 000 individuals compared to the second quarter of 2014, to a total of 2,5 million individuals. As illustrated by figure 21, the unemployment rate had been on an upward trend since the fourth quarter of 2013, before declining in the third quarter of 2014.

OVERVIEW OF THE WESTERN CAPE'S LABOUR MARKET

The Western Cape labour force decreased by 10 000 individuals in the third quarter of 2014 compared to the previous quarter, while the number of employed people decreased by 11 000 in the same period. This decrease reduced the size of the labour force to 2,85 million and the number of employed people to 2,18 million. In terms of unemployment, the number of unemployed individuals remained unchanged at 675 000 individuals. The decrease in the number of employed people while unemployment remained unchanged resulted in a 0,1 percentage-point increase in the official unemployment rate for the Western Cape (23,6%). On a year-on-year basis, the Western Cape's level of employment increased by 79 000 compared to the corresponding period in the previous year.

22 Employment change at provincial level (Quarter 2, 2008 to Quarter 3, 2014)



Source: Stats SA, December 2014.

On a year-on-year basis, the Western Cape's level of employment increased by 79 000 compared to the corresponding period in the previous year.

Provincial employment comparisons

To measure the Western Cape's performance in creating employment opportunities, it is helpful to compare it with the country's other two regional economic powerhouses, Gauteng and KwaZulu-Natal. The Western Cape (-11 000) and KwaZulu-Natal (-61 000) reflected decreased employment in the third quarter, while Gauteng recorded an increase of 17 000. Thus far in 2014, the Western Cape and KwaZulu-Natal have struggled to create job opportunities, while Gauteng has experienced positive growth for two consecutive quarters. Other provincial drivers of employment growth in South Africa in the third quarter were the North West (41 000), Eastern Cape (22 000) and the Free State (8 000), with the rest of the country experiencing negative employment growth. The employment growth in the North West could be a reflection of improvement in the mining sector in the province following the strike-affected first six months of the year.

Unemployment trends for the Western Cape

South Africa currently uses the strict unemployment rate as its official definition of unemployment. Stats SA's definition for 'unemployed' is any person aged between 15 and 64 who was without work in the week preceding the interview, but actively looked for work in the previous four weeks and was available to start work or a business in the next week (Stats SA, 2014). The expanded definition of unemployment drops the search criteria and includes people who have stopped looking for work, namely discouraged work seekers, who nevertheless still want to find work (Stats SA, 2014).

According to the official/strict unemployment figures, the Western Cape has remained consistently below the national average unemployment rate. On a comparative provincial basis, the Western Cape (23,6%) had a marginally lower strict unemployment rate than both KwaZulu-Natal (24,1%) and Gauteng (24,6%). With an unchanged rate (15,9%) in the third quarter, Limpopo recorded the lowest strict unemployment rate in the third quarter of 2014. However, the strict unemployment rate can paint a misleading picture, especially when there are high numbers of discouraged work seekers in an economy, as is the case in Limpopo. Table 2 (overleaf) compares the official and expanded unemployment rates for all nine provinces.

2 Official vs expanded unemployment rates (%)

	Official			Expanded		
	Q3:2014	Q2:2014	Q3:2013	Q3:2014	Q2:2014	Q3:2013
Western Cape	23,6	23,5	23,1	25,5	25,4	25,3
Eastern Cape	29,5	30,4	30,4	43,0	44,4	44,2
Northern Cape	29,7	32,3	27,9	39,5	41,7	35,9
Free State	34,6	35,0	33,7	40,9	41,2	40,8
KwaZulu-Natal	24,1	23,7	20,6	40,8	39,7	37,2
North West	26,8	26,0	26,5	41,8	42,3	42,6
Gauteng	24,6	24,6	24,3	29,6	29,0	29,1
Mpumalanga	29,3	29,5	26,5	42,0	42,2	40,2
Limpopo	15,9	15,9	17,2	38,4	36,9	38,9
South Africa	25,4	25,5	24,5	35,8	35,6	34,9

Source: Stats SA, December 2014.

Limpopo's expanded unemployment rate (38,4% in the third quarter) is more than 20 percentage points higher than its strict rate, although a decrease in this rate was recorded in the third quarter. Overall four of the nine provinces experienced increases in their expanded rates of unemployment, and three experienced increases in their strict rates. The Western Cape and KwaZulu-Natal experienced increases in both their strict and expanded rates of unemployment. The Free State recorded the highest official/strict unemployment rate (34,6%) during this period, while the Eastern Cape recorded the highest expanded rate (43,0%). Although the expanded rate increased to 25,5% in the Western Cape in the third quarter, it remained the lowest in the country during this period.

LABOUR MARKET TRENDS FOR CAPE TOWN

Cape Town's labour force decreased by 12 000 individuals to two million and its labour force participation rate increased by 0,3 percentage points to 69,7% in the third quarter – significantly higher than the national rate of 57,1%.

A broad overview of the Cape Town labour market

In the third quarter of 2014, the working-age population of Cape Town decreased by approximately 30 000 individuals compared to the second quarter of 2014, but increased by nearly 120 000 individuals on an annual basis. Cape Town's labour force decreased by 12 000 individuals to a total of two million in the third quarter and its labour force participation rate increased by 0,3 percentage points to 69,7% in the third quarter. This remains significantly higher than the national rate of 57,1%, pointing to the greater inclusiveness of Cape Town's labour market.

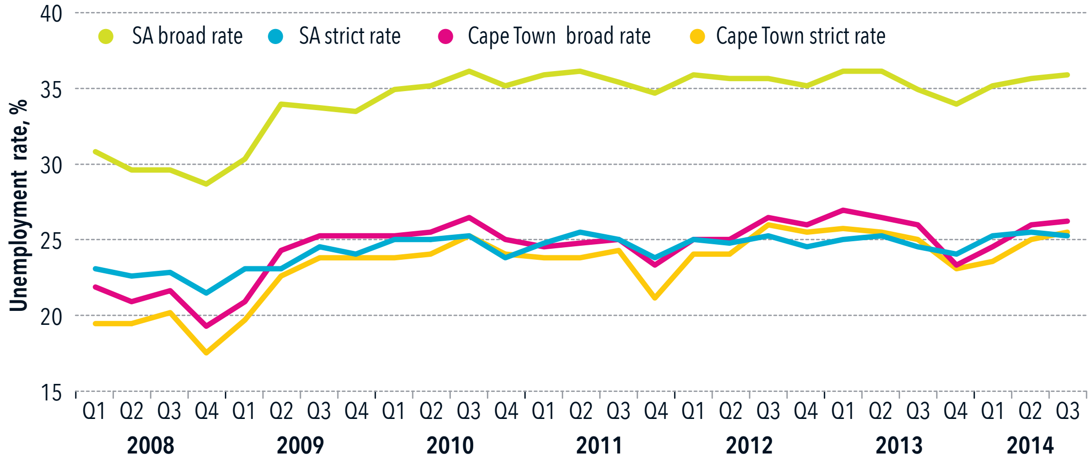
The number of people employed in Cape Town in the third quarter of 2014 decreased by 23 000 individuals on a quarterly basis and increased by 97 000 individuals on an annual basis. The formal sector absorbs the bulk of the individuals who are employed in Cape Town, but reflected decreased employment in the third quarter. The informal sector, however, grew employment by 16 000 in the third quarter, increasing its share of Cape Town's total employment to 10,7%.

3 Labour market indicators: South Africa and Cape Town*

Indicator	South Africa			Cape Town		
	Q3:2014	Q2:2014	Q3:2013	Q3:2014	Q2:2014	Q3:2013
Working age population (000s)	35 489	35 332	34 868	2 878	2 908	2 758
Labour force	20 268	20 248	19 916	2 005	2 017	1 860
Employed	15 117	15 094	15 036	1 491	1 514	1 394
Employed by the formal sector	10 843	10 755	10 709	1 240	1 258	1 174
Employed by the informal sector	2 407	2 379	2 323	159	143	137
Unemployed	5 151	5 154	4 880	519	503	465
Not economically active	15 221	15 084	14 952	873	890	898
Discouraged work-seekers	2 514	2 419	2 297	6	6	6
Other	12 707	12 665	12 655	867	884	892
Unemployment rate (%)	25,4	25,5	24,5	25,6	24,9	25,0
Youth unemployment rate (%)	53,2	51,8	50,3	52,7	52,6	51,4
NEET** as % of working-age population	39,9	40,1	39,5	35,0	35,7	N/A
Absorption rate (%)	42,6	42,7	43,1	51,8	52,1	50,6
Labour force participation rate (%)	57,1	57,3	57,1	69,7	69,4	67,4

*Source: Stats SA, December 2014. * Figures in tables 2 and 3 may not exactly add up due to rounding off. ** Not employed or in education or training.*

23 Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 3, 2014)



Source: Stats SA, December 2014.

Unemployment in Cape Town

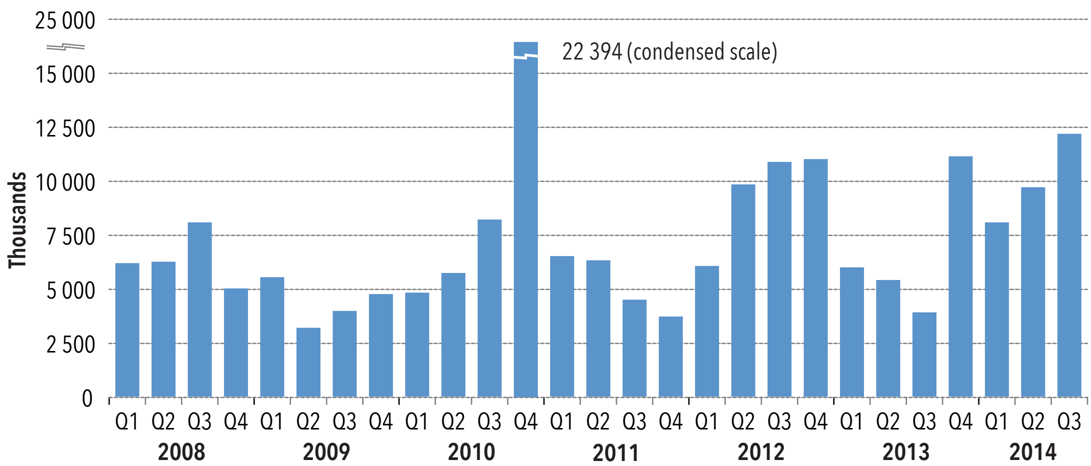
In contrast with the national unemployment trends, Cape Town experienced an increase (16 000) in the number of unemployed people in the third quarter when compared to the second quarter. On a year-on-year basis, the number of unemployed people in the city increased by approximately 54 000 individuals. As a result of increasing unemployment on a quarterly basis, Cape Town's strict unemployment rate increased by 0,7 percentage points to 25,6%. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 52,7% in the third quarter of 2014, having increased from 52,6% in the previous quarter. For the first time this year, the national youth unemployment rate (53,2%) was higher than Cape Town's youth unemployment rate. Although Cape Town's youth unemployment rate is lower than the national youth unemployment rate, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

By excluding discouraged work seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals desiring to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by figure 23, the two rates of unemployment for Cape Town have remained relatively close over the last two years, with the expanded rate on average 1,08% higher than the strict rate. Cape Town's strict unemployment rate increased in the third quarter of 2014, and exceeded the national strict unemployment rate by 0,23 percentage points. However, this disparity is far more pronounced if one uses the expanded rate of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 23). South Africa's expanded unemployment rate in the third quarter of 2014 was 35,8%, compared to Cape Town's expanded rate of 26,3%. On this basis, Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work seekers in Cape Town. According to Stats SA (2014), a discouraged work seeker 'is a person who was not employed during the reference period, wanted to work, was available to work/start a business but did not take active steps to find work during the last four weeks,

The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work seekers in Cape Town.

24 Discouraged work seekers in Cape Town (Quarter 1, 2008 to Quarter 3, 2014)



Source: Stats SA, December 2014.

OVERVIEW GLOBAL EXCHANGE DOMESTIC INFLATION LABOUR TRADE SECTOR FOCUS INFRASTRUCTURE TOURISM INDICATORS

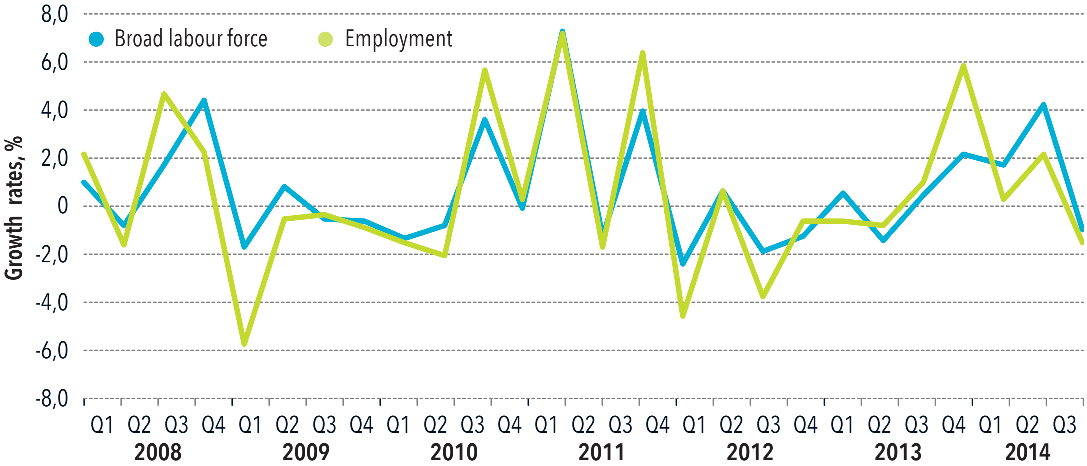
provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work'.

Discouraged work seekers are included in the expanded unemployment figure, which explains why this figure is slightly higher than the strict unemployment figure. The number of discouraged work seekers in Cape Town decreased from 6 275 individuals in the second quarter to 6 171 in the third quarter.

Figure 24 (on previous page) shows that the number of discouraged work seekers has (except for the outlier of the fourth quarter of 2011) consistently been below 10 000 individuals. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,24%) of the country's total number of discouraged work seekers. The reasons for this remain largely unclear and require further research.

Labour force and employment

25 Broad labour force and employment growth rates for Cape Town (Quarter 1, 2008 to Quarter 3, 2014)

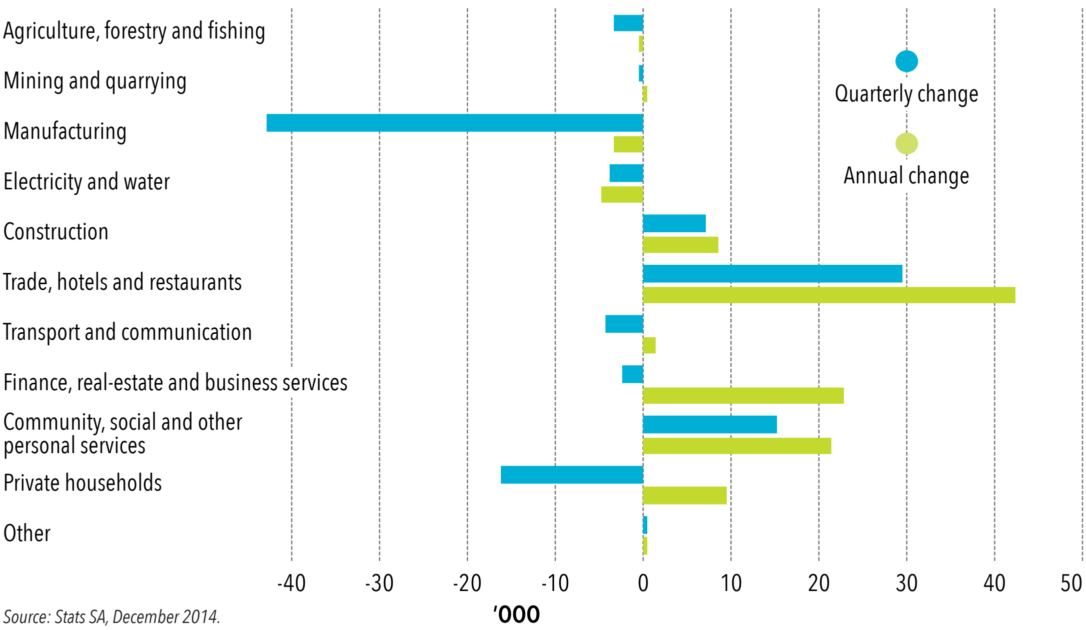


Source: Stats SA, December 2014.

For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage of the country's total number of discouraged work seekers.

There are two factors that can lead to an increasing expanded rate of unemployment: the first is a decrease in employment; the second, an increase in labour force participation. When the rate of employment growth is exceeded by the rate at which the expanded labour force grows, the expanded unemployment rate increases. Figure 25 shows that employment growth in the third quarter of 2014 decreased at a faster rate than the expanded labour force. This, then, led to an increase in the expanded unemployment rate for the period under review. The negative growth in employment creation in the third quarter of 2014 is the primary cause of the increase in the broad unemployment rate in Cape Town during this period.

26 Quarterly and annual change per sector for Cape Town (Quarter 3, 2014)



Source: Stats SA, December 2014.

Sector employment trends for Cape Town

Figure 26 opposite displays the level of employment by industry/sector within Cape Town. Overall, most sectors reflected negative growth for the third quarter of 2014 when compared to the previous quarter. Trade was the largest contributor to total employment growth in the third quarter, with employment growth of 29 244 jobs. It was followed by community and social services, which contributed 14 891 jobs. Construction also added positively to employment, contributing 6 942 jobs. Overall, the performance of the construction sector was positive for both Cape Town and for the country. This is in contradiction to the GDP figures for the Western Cape in the third quarter which indicated that the construction sector contracted by 0,9%. Employment growth in the sector may, however, be a delayed response to strong economic growth in the sector in previous quarters, noting that the sector was still one of the fastest growing on a year-on-year basis. Mining also fared better in the third quarter of 2014 after a poor showing in the previous quarter. The sectors with the biggest job losses were manufacturing (-43 081), private households (-16 204) and transport (-4 317).

On an annual basis, employment grew more strongly, with the majority of the sectors contributing to employment creation. The strongest contributing sector in respect of year-on-year employment growth was trade, which grew employment by 41 920 jobs. The finance sector was also a strong employment creator on an annual basis and created 22 606 jobs. Further contributions came from private households as well as transport.

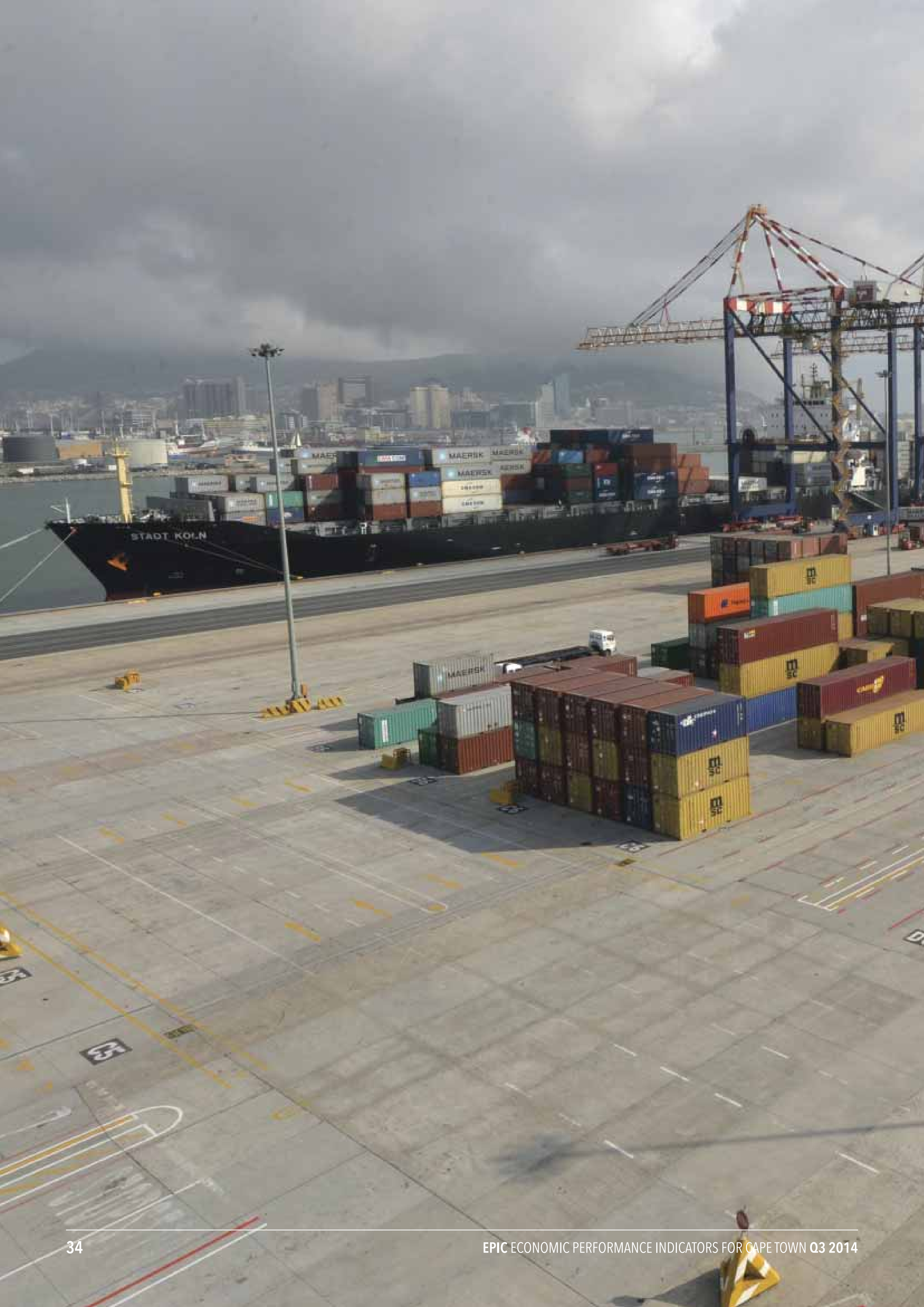
The sector that experienced the most year-on-year job losses in the third quarter of 2014 was utilities (-4 671), followed by manufacturing (-3 469).

Despite the negative trends in Cape Town's labour indicators in the third quarter, they remained stronger than those reflected at a national level.

Labour market outlook

In the third quarter of 2014, the performance of Cape Town's labour market weakened as employment declined, and the unemployment rate increased. Nationally the labour market performed a bit better in the third quarter but this may be due to the recovery of employment in the North West, following previous strike disruptions. Despite the negative trends in Cape Town's labour indicators in the third quarter, they remained stronger than those reflected at a national level. In particular Cape Town has a substantially lower expanded rate of unemployment than the rest of the country. The labour force participation rate and the absorption rates are also higher than their respective national averages. This would suggest that Cape Town's labour market is on the whole more inclusive than the national labour market. However, if Cape Town is to achieve its objective of being an opportunity city, employment growth exceeding labour force growth must be at the forefront of improving labour market outcomes.

Cape Town's economy cannot expect to sustain the relatively strong job creation of 2013 if the metro economy continues to grow at less than 2%. Positively, a higher economic growth rate for the city is expected in the fourth quarter. Growth in manufacturing output is expected to constitute a significant portion of this growth and, considering that the manufacturing sector was the largest job-shedding sector, this should have a positive impact on overall employment levels in Cape Town. Strengthening consumer and business confidence, amid decreasing inflation and a relatively stable exchange rate, may also lead to opportunities for job creation in the tertiary sector in the medium term.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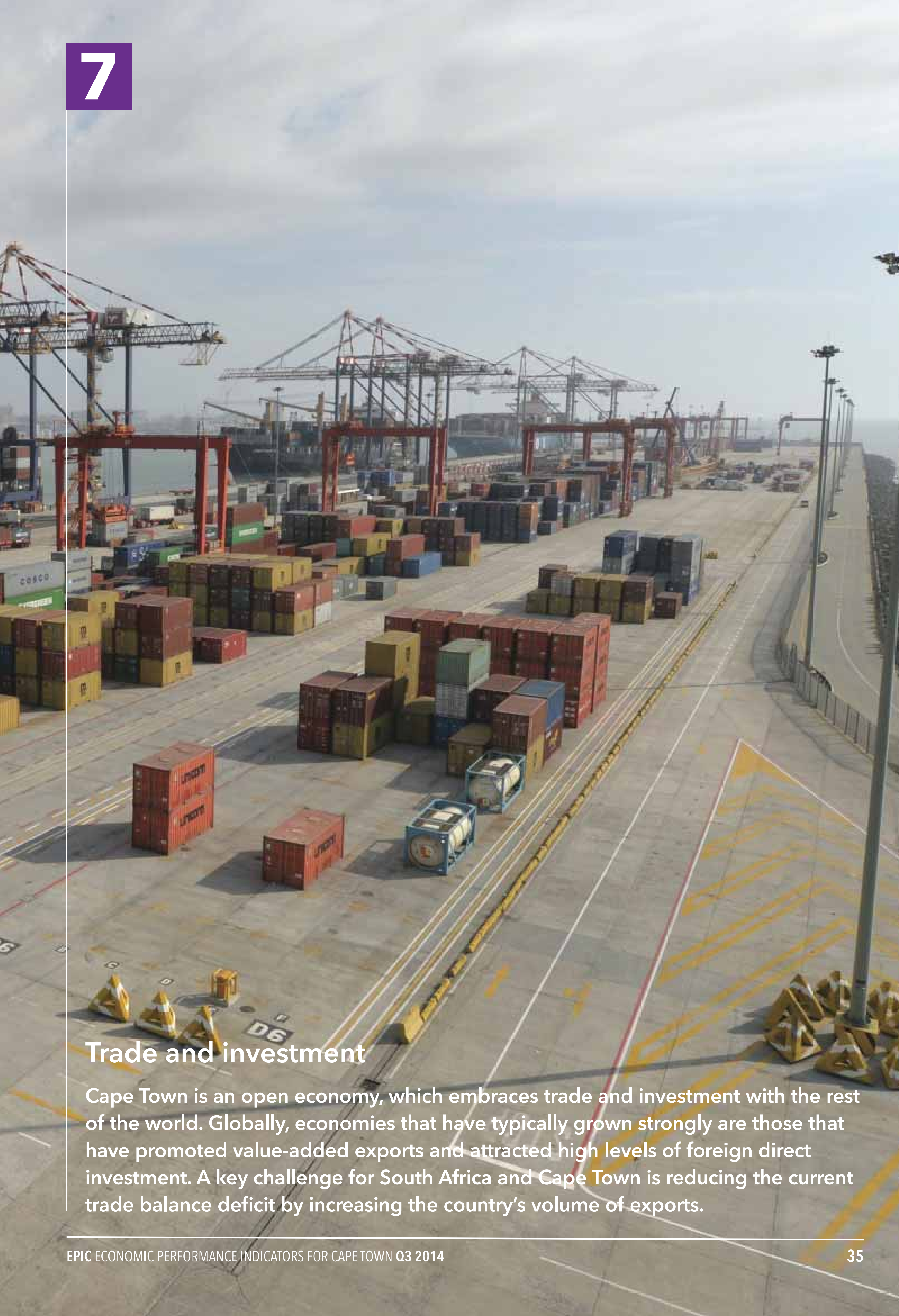


7

Trade and investment

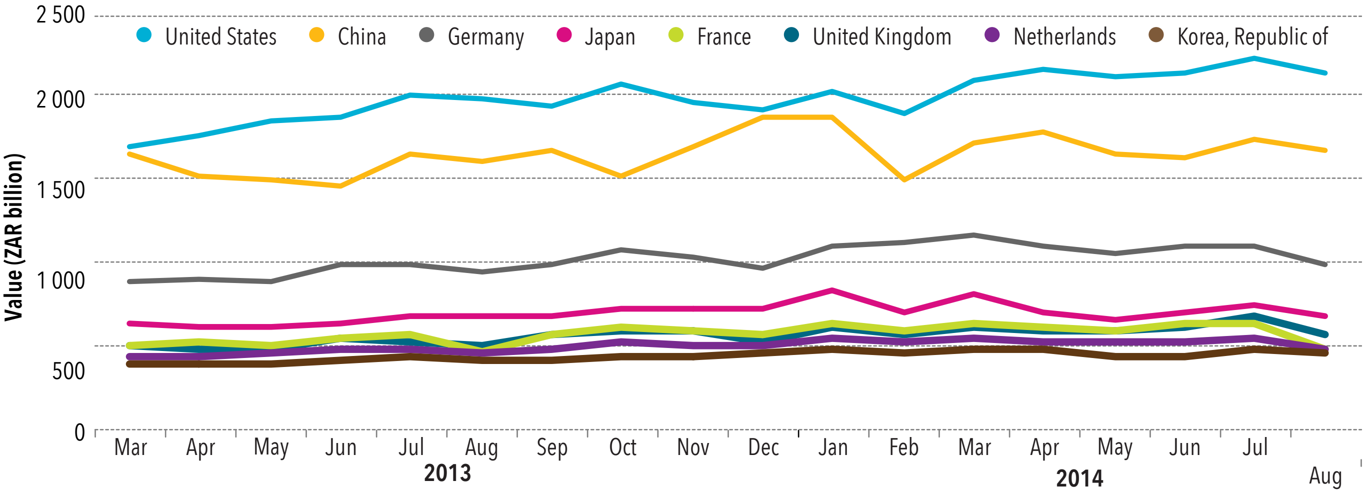
Cape Town is an open economy, which embraces trade and investment with the rest of the world. Globally, economies that have typically grown strongly are those that have promoted value-added exports and attracted high levels of foreign direct investment. A key challenge for South Africa and Cape Town is reducing the current trade balance deficit by increasing the country's volume of exports.

TRADE

Global trade

The world's largest importers of goods are the United States and China with imports reaching ZAR22,4 trillion and ZAR18,7 trillion respectively in 2013. All of the top eight import markets shown in the figure below (available data) demonstrated import growth rates in excess of 10% in 2013. For the completed year 2014, global trade is forecast to increase by 4% and further to 5% in 2015 driven by trade flows from both developing and developed economies (IMF, 2014). One of the most important changes in the nature of international trade has been the growing interconnectedness of production processes or global supply chains. This has led to a decline of local materials in exported goods and increased imports to global manufacturing economies. Another important feature has been the growing number of trade agreements entered into by countries, which is seen as a catalyst for increasing trade.

27 Global imports of goods (March 2013 to August 2014)



Values in ZARbn	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
United States	1 708,2	1 788,0	1 876,5	1 897,8	2 020,3	1 996,8	1 956,5	2 096,2	1 970,3	1 937,3	2 053,0	1 921,9	2 124,7	2 173,2	2 136,6	2 159,2	2 238,0	2 150,0
China	1 678,0	1 538,1	1 505,3	1 473,9	1 667,5	1 626,7	1 701,4	1 527,3	1 714,6	1 883,5	1 893,9	1 502,5	1 743,0	1 791,6	1 658,9	1 653,9	1 763,6	1 689,6
Germany	895,5	899,8	897,4	993,1	995,0	957,8	988,9	1 095,3	1 037,3	965,1	1 113,2	1 138,5	1 176,4	1 111,8	1 059,5	1 113,7	1 118,1	993,1
Japan	642,7	620,8	622,1	640,9	695,1	692,6	696,0	728,8	733,9	741,3	836,5	710,1	823,0	707,8	665,6	706,3	750,0	689,6
United Kingdom	503,3	477,5	483,5	542,5	539,5	513,1	575,8	598,4	607,3	533,7	615,0	581,0	618,8	596,4	597,3	616,1	689,5	569,5
France	517,5	526,1	512,6	558,3	584,1	470,3	579,6	626,6	587,2	576,3	641,6	607,1	645,4	617,0	589,6	632,7	649,3	487,0
Netherlands	446,8	431,0	454,6	484,4	483,5	468,1	491,6	528,0	517,1	516,8	544,8	526,0	563,1	536,4	531,8	525,5	546,1	477,9
Korea, Republic of	403,4	397,5	392,9	407,7	430,1	417,3	409,8	451,4	438,9	458,9	483,9	461,8	489,2	483,2	442,1	451,7	488,6	456,7

Source: International Trade Centre, August 2014.

The most imported product in the world is petroleum oil accounting for 13,9% of global imports in 2013. Global import growth in 2013 was led by a 16% growth in electronic integrated circuits and micro-assemblies, as well as an 11% growth in the import of electrical appliances and line telephony. This shows the importance of the growing ICT as well as the consumer electronics sector in global imports. Investment into this sector also enables a larger number of companies to participate in the expanding trade of international services and the cross-border movement of human capital and knowledge.

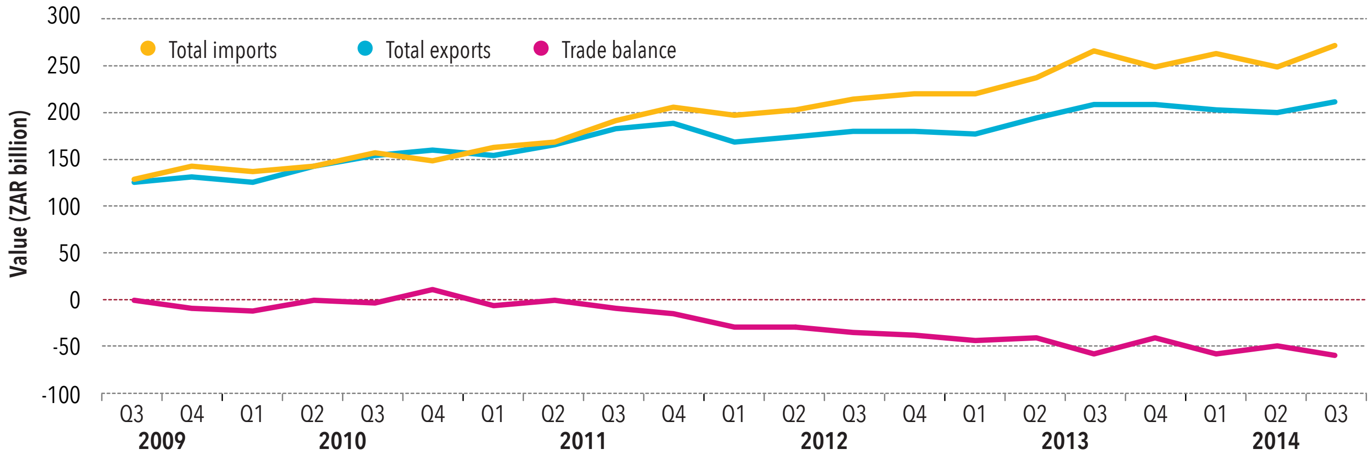
Global import growth in 2013 was led by a 16% growth in electronic integrated circuits and micro-assemblies, as well as an 11% growth in the import of electrical appliances and telephony.

South African trade

South African trade has experienced strong and consistent growth since the third quarter of 2009, with an average quarterly growth rate reaching 2,8% for exports and 4,1% for imports. In the third quarter of 2014, exports and imports increased by 6,5% and 9,0% respectively.

In 2013, exports and imports increased by 12,4% and 16,6% respectively. The total value of exports in 2013 was R788,1 billion, while the total value of imports was R971,2 billion. Despite the growth in exports, South Africa's dependence on petroleum imports, coupled with the demand for other imports stemming from an expanding economy, has continued to fuel the annual increase in the trade deficit. The increasing trade deficit is putting enormous pressure on the country's already large current account deficit. This deficit needs to be funded but the South African economy has been experiencing slower than anticipated growth, reducing tax revenue and prompting National Treasury to implement fiscal tightening measures. This has caused international ratings agencies to place South Africa on a watch list after previous downgrades, a move that has negatively impacted on investor sentiment. In this context of weak investor sentiment, it is important to try and limit the trade deficit by stimulating export growth.

28 South Africa's exports, imports and trade balance (Quarter 3, 2009 to Quarter 3, 2014)

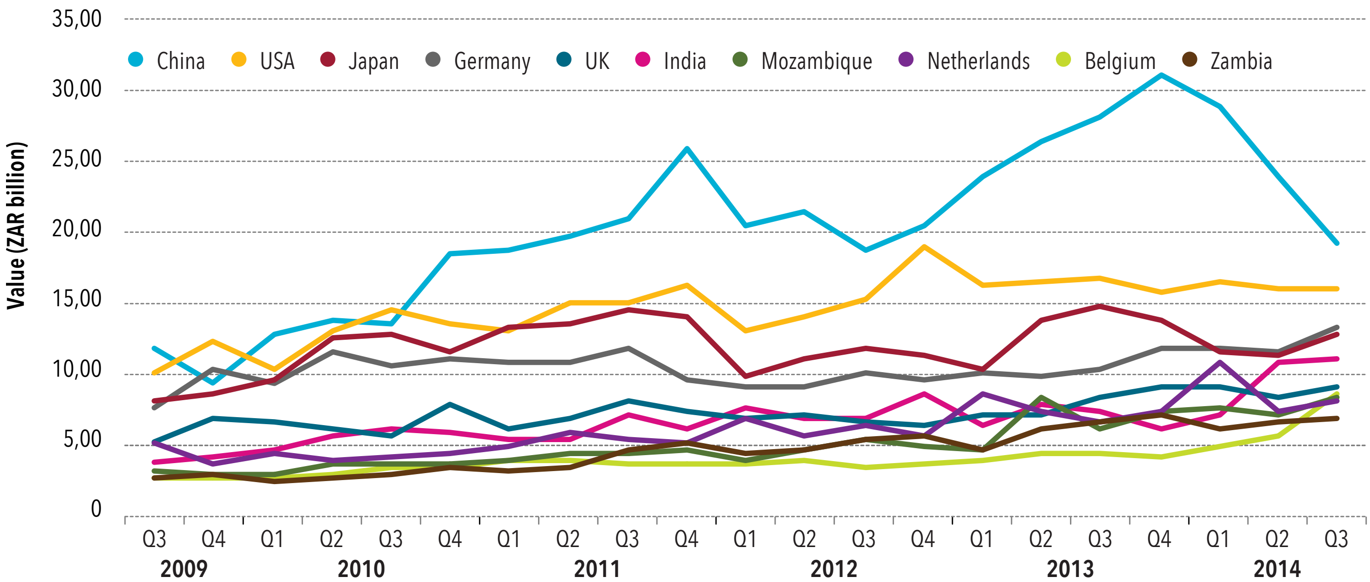


	2009		2010				2011				2012				2013				2014		
Values in ZARbn	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
• Total exports	126,4	131,5	125,3	143,1	152,6	159,1	155,0	165,9	181,6	189,0	168,5	173,3	178,7	180,4	176,9	195,1	208,3	207,7	203,9	199,5	212,3
• Total imports	128,5	141,3	136,8	143,6	156,9	148,8	161,9	168,0	190,9	205,4	198,3	201,7	214,8	218,5	221,2	237,0	265,3	247,7	262,2	249,6	271,9
• Trade balance	-2,1	-9,7	-11,6	-0,5	-4,2	10,3	-6,8	-2,1	-9,3	-16,5	-29,7	-28,4	-36,1	-38,1	-44,3	-41,8	-57,0	-40,0	-58,3	-50,2	-59,6

Source: Quantec, September 2014.

China is South Africa's largest export destination, with exports reaching R19 billion in the third quarter of 2014. South Africa's exports to China are influenced by the Chinese appetite for South African mineral commodities. There was a strong decline in exports during Quarter 3, 2014, which is a trend that has been observed for all global exports to China during this time as domestic demand in China slowed. It is important to continue to stimulate the Chinese demand for South African manufactured products so as to limit the impact on exports when the Chinese demand for mineral commodities declines.

29 South Africa's export markets (Quarter 3, 2009 to Quarter 3, 2014)



	2009		2010				2011				2012				2013				2014		
Values in ZARbn	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
• China	11,81	9,40	12,79	13,69	13,63	18,44	18,83	19,66	20,85	25,95	20,52	21,44	18,83	20,35	23,90	26,32	28,02	31,12	28,80	23,94	19,18
• United States	10,00	12,38	10,45	12,97	14,43	13,65	13,10	15,05	15,15	16,33	13,09	14,06	15,38	19,02	16,27	16,54	16,82	15,71	16,47	16,11	16,06
• Japan	8,13	8,55	9,56	12,49	12,79	11,49	13,38	13,46	14,52	13,93	9,84	11,12	11,92	11,38	10,31	13,82	14,87	13,87	11,64	11,45	12,70
• Germany	7,65	10,26	9,26	11,67	10,65	11,14	10,75	10,81	11,90	9,71	9,19	9,11	10,02	9,67	10,07	9,87	10,27	11,79	11,95	11,65	13,19
• United Kingdom	5,25	6,85	6,71	6,15	5,71	7,86	6,25	7,02	8,09	7,33	7,00	7,06	6,64	6,44	7,22	7,05	8,32	9,09	9,20	8,50	9,20
• India	3,82	4,09	4,65	5,66	6,07	5,83	5,50	5,52	7,10	6,21	7,70	6,97	6,88	8,52	6,48	7,91	7,48	6,13	7,26	10,96	10,99
• Mozambique	3,26	2,99	2,84	3,62	3,61	3,78	3,89	4,35	4,37	4,57	4,02	4,61	5,33	4,94	4,68	8,30	6,16	7,49	7,55	7,12	8,32
• Netherlands	5,20	3,66	4,50	4,06	4,23	4,36	5,05	5,84	5,38	5,23	6,85	5,76	6,42	5,62	8,56	7,39	6,61	7,41	10,82	7,42	8,23
• Belgium	2,69	2,77	2,76	2,90	3,41	3,38	3,86	3,89	3,58	3,73	3,79	3,97	3,53	3,67	3,86	4,38	4,54	4,31	4,95	5,77	8,53
• Zambia	2,67	3,02	2,36	2,75	3,00	3,33	3,11	3,39	4,63	5,08	4,39	4,62	5,45	5,62	4,79	6,08	6,63	7,11	6,25	6,75	6,82

Source: Quantec, September 2014.

South Africa's second-largest export market is the United States, followed by Germany and Japan, with these countries also featuring prominently as source markets for South African imports. Mozambique has emerged as South Africa's top export market in Africa and the country's eighth-largest global export market in the third quarter of 2014 (eighth-largest export market for 2013 as a whole at R26,6 billion), followed by Zambia, (ninth-largest export market in 2013). This highlights the importance of SADC and intra-African trade for South African exporters.

In 2013, South Africa's global export products were dominated by minerals and metals (including precious metals/stones), which accounted for approximately 60% of total exports. This was due to the rise in commodity prices in 2013, incentivising the growth in the export of these products. The export of motor vehicles also showed consistent growth.

The import of petroleum oils has been prominent, and continues to dominate the import product list, accounting for more than 22% of total South African imports in 2013. This is a challenge considering the depreciation of the rand and inflationary pressures, although the more recent weakening of the oil price will relieve some of the pressure on the trade balance. Capital equipment and electronic goods make up the rest of the top imports into South Africa, and are critical in developing the extraction and ICT industries.

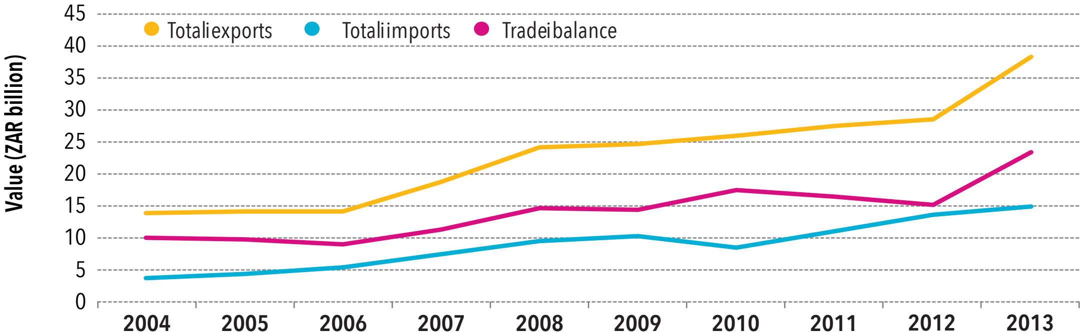
Western Cape trade: food and beverages

The Western Cape's global exports of food and beverages accounted for 51,3% of the total provincial exports in 2013 and constituted 56,5% of South Africa's total exports of food and beverages

In the absence of quarterly trade data for the Western Cape, this section will focus on different selected trade and investment themes as they pertain to the Western Cape and Cape Town each quarter. In this particular edition, the section focuses on the Western Cape and Cape Town's trade of food and beverages products, according to 2013 figures.

The Western Cape's trade of food and beverages increased by 26,4% in 2013 to reach ZAR53,3 billion from ZAR42,2 billion in 2012. The province's global exports of food and beverages accounted for 51,3% of the total provincial exports in 2013 and constituted 56,5% of South Africa's total exports of food and beverages. The province's exports of food and beverages grew by 34% in 2013 to reach ZAR38,4 billion from ZAR28,6 billion in 2012.

30 Western Cape food and beverages trade (2004 to 2013)

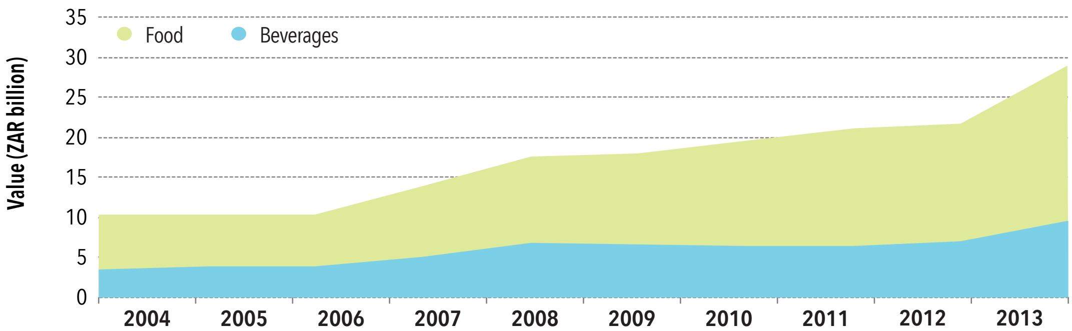


ValuesiiniZARbn	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
• Exports i	13,8i	14,2i	14,2i	18,9i	24,3i	24,7i	26,0i	27,5i	28,6i	38,4
• Imports i	3,7i	4,4i	5,3i	7,6i	9,6i	10,3i	8,4i	11,0i	13,6i	15,0
• Tradeibalance i i i	10,1i	9,8i	9,0i	11,3i	14,7i	14,3i	17,6i	16,5i	15,1i	23,4

Source: Quantec, 2014.

The Western Cape's global imports of food and beverages accounted for 8% of total provincial imports in 2013. Imports of food and beverages into the province increased by 10,5% in 2013 to reach ZAR15 billion. Over the period 2004 to 2013 imports reached their highest levels in 2013. However the trade surplus also increased from ZAR10 billion in 2004 to ZAR23 billion in 2013 (its highest level over this period) as export growth continued to exceed import growth. As shown below,

31 Western Cape food and beverages trade (2004 to 2013, HS Level)



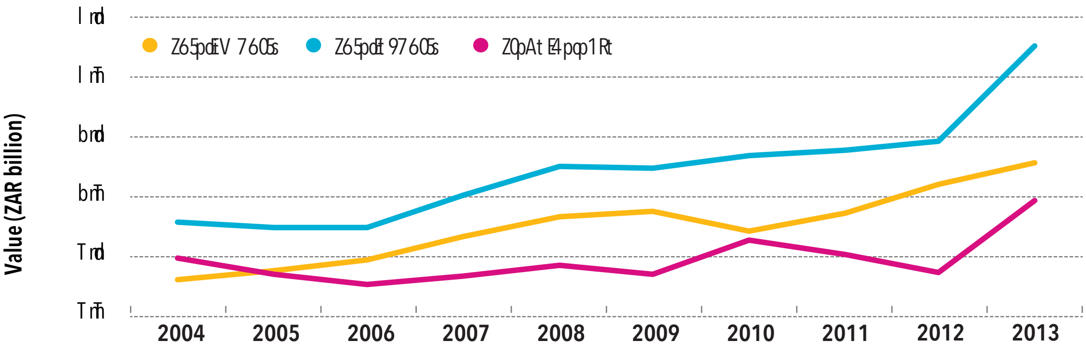
Source: Quantec, 2014.

Western Cape's exports of food (on HS level) constituted the largest share of food and beverages exports in 2013. Food exports accounted for 75% of food and beverages exports in 2013, with beverages accounting for the remaining 25%.

Cape Town trade: food and beverages

Cape Town accounted for 58,6% of the total Western Cape exports of food and beverages in 2013 and 85,3% of imports. Export growth in the regional municipality has been strong and consistent, with 53,3% export growth recorded in 2013. Imports have also been growing very rapidly with 17% growth in 2013, however, a trade surplus is observed for Cape Town during the period analysed.

32 Cape Town food and beverages trade (2004 to 2013)



E xport sE1E3, 841E	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
• E297605sE	I mE	ardE	ameE	bT rhE	bl mE	bl meE	bc rdE	bc rhE	bemaE	I I rd
• EiV 7605sE	crbE	c rhE	emaE	nrhE	I rcE	I raE	arbE	I rnE	bbmE	bl rh
• EZ0pAt E4pqp1Rt E	emaE	c rnE	I maE	c reE	emcE	c rnE	nreE	drcE	c raE	ura

Source: Quantec, August 2014.

European markets constituted the largest destination market for food and beverage exports from Cape Town in 2013, accounting for 48,7% of all exports. The United Kingdom was the city's largest export market for food and beverage exports in 2013, accounting for ZAR3,1 billion or 14% of total food and beverage exports, followed by the Netherlands and Russia accounting for 13,2% and 6,1% respectively. The United Kingdom is also the top source market for Cape Town's food and beverages imports, with imports from the United Kingdom valued at ZAR2 billion and accounting for 15,9% of total imports.

The United Kingdom was the city's largest export market for food and beverage exports in 2013, followed by the Netherlands and Russia.

4 Top 10 trade markets for food and beverages exports and imports for Cape Town (2013)

	Destination country	Value 2013 (ZARm)	% share, 2013	% growth, 2013	% share of W Cape exports, 2013		Source country	Value 2013 (ZARm)	% share, 2013	% growth, 2013	% share of W Cape imports, 2013
1	United Kingdom	3 086,9	13,69%	77,14%	59,56%	1	United Kingdom	2 042,5	15,90%	10,26%	84,12%
2	Netherlands	2 976,9	13,20%	57,17%	58,92%	2	Thailand	2 028,7	15,79%	5,21%	98,79%
3	Russian	1 373,3	6,09%	60,09%	82,10%	3	China	1 001,0	7,79%	15,44%	71,32%
4	Germany	994,2	4,41%	166,56%	50,94%	4	Brazil	998,1	7,77%	28,74%	89,39%
5	UAE	857,5	3,80%	27,50%	59,99%	5	Italy	881,9	6,87%	72,27%	92,70%
6	United States	819,7	3,64%	98,71%	58,46%	6	India	730,5	5,69%	23,18%	99,69%
7	Angola	813,9	3,61%	11,08%	54,86%	7	Netherlands	455,2	3,54%	4,56%	84,01%
8	Italy	794,5	3,52%	25,83%	84,70%	8	Argentina	424,4	3,30%	25,79%	70,05%
9	Malaysia	662,0	2,94%	55,60%	77,09%	9	Germany	369,3	2,88%	-4,51%	81,27%
10	Hong Kong	629,3	2,79%	-6,72%	54,56%	10	United States	355,4	2,77%	-6,34%	83,18%
	Total exports	**22 545,6**	**100,00%**	**53,32%**	**58,76%**		**Total imports**	**12 845,1**	**100,00%**	**16,74%**	**85,77%**

Source: Quantec, 2014.

An analysis of Cape Town's export products shows that food constitutes the largest share of food and beverage exports (on HS level), accounting for 83% of exports in 2013, while beverages accounted for 17%. In 2013, fresh and dried citrus fruit was the most exported food and beverage product from Cape Town (ZAR5 billion or 22% of food and beverage exports). However, fruit and vegetable juices was the fastest growing food and beverage export growing by 301%, followed by grape wines growing by 277%.

In 2013, liqueur, spirits and undenatured ethyl alcohol <80% was the largest food and beverage import into Cape Town valued at ZAR2,1 billion (16% share), followed by prepared or preserved fish accounting for ZAR1,1 billion.

OVERVIEW GLOBAL EXCHANGE DOMESTIC INFLATION LABOUR TRADE SECTOR FOCUS INFRASTRUCTURE TOURISM INDICATORS

5 Top 10 food and beverage export and import products for Cape Town (2013)

Top 10 exports from Cape Town, 2013

Rank	product	Value 2013 (ZARm)	% growth 2013
1	Citrus fruit, fresh or dried	5 011,1	29,57%
2	Apples, pears and quinces, fresh	3 845,6	66,02%
3	Grape wines (including fortified), alcoholic grape must	3 692,9	277,06%
4	Grapes, fresh or dried	3 094,6	44,62%
5	Fish fillets, fish meat, mince except liver, roe	960,6	21,78%
6	Fish, frozen, whole	894,3	16,63%
7	Crustaceans	766,9	21,96%
8	Fruit and vegetable juices, not fermented or spirited	739,2	301,41%
9	Stone fruit, fresh (apricot, cherry, plum, peach, etc)	497,1	34,34%
10	Prepared or preserved fish, fish eggs, caviar	363,2	21,34%
	TOTAL	**22 545,6**	**53,32%**

Top 10 imports to Cape Town, 2013

Rank	product	Value 2013 (ZARm)	% growth 2013
1	Liqueur, spirits and undenatured ethyl alcohol <80%	2 088,9	12,45%
2	Prepared or preserved fish, fish eggs, caviar	1 672,8	14,42%
3	Wheat and meslin	880,0	543,11%
4	Rice	775,4	-11,85%
5	Meat, edible offal of domestic poultry	743,9	-7,11%
6	Solid cane or beet sugar and chemically pure sucrose	481,9	7,82%
7	Crustaceans	446,8	49,37%
8	Fruit and vegetable juices, not fermented or spirited	407,8	43,19%
9	Guts, bladders and stomachs of animals except fish	349,0	-0,02%
10	Waters, nonalcoholic sweetened or flavoured beverages	334,3	-8,51%
	TOTAL	**12 845,1**	**16,74%**

Source: Quantec, 2014.

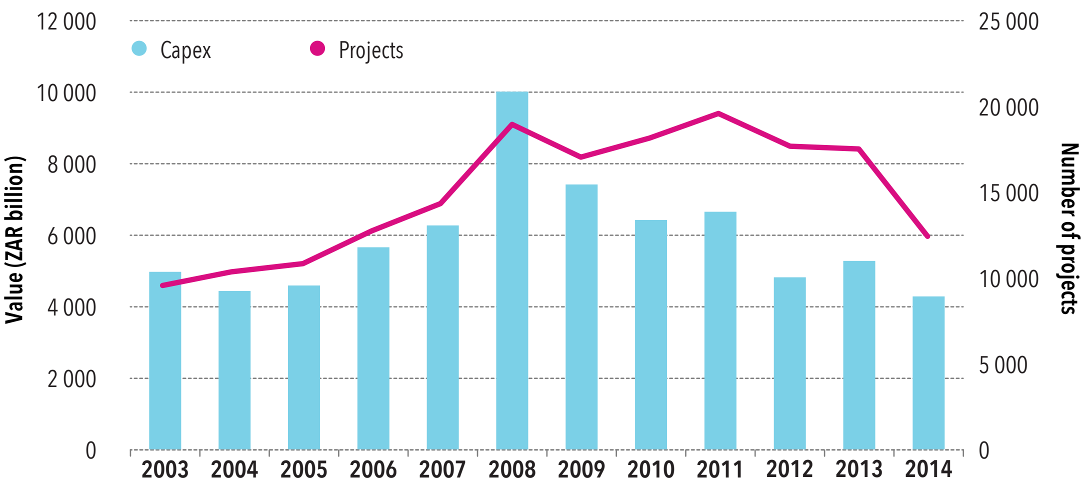
INVESTMENT

Global foreign direct investment

Global FDI increased by 11% in 2013 to reach R5,3 trillion, up from R4,9 trillion in 2012. According to the United Nations Conference on Trade and Development (UNCTAD, 2014), FDI inflows increased in all major economic groupings, including developed, developing and transition economies in 2013. Developing economies had the largest global share of FDI inflows in 2013, accounting for 54% and growing by 7%. Developed economies ranked second, accounting for 39% of FDI inflows and growing by 9%.

The top subsectors globally for FDI (in terms of projects) in the third quarter of 2014 were software publishing with a 13% share of total projects, followed by business services (11%) as well as financial services (10%).

33 Global FDI (2003 to September 2014)[3]



Values in ZARbn	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Capex	4 949,0	4 471,9	4 583,6	5 696,5	6 305,7	10 002,9	7 436,9	6 407,5	6 664,8	4 863,4	5 319,6	4 292,7
Projects	9 514	10 413	10 826	12 837	14 301	18 979	17 131	18 129	19 667	17 751	17 564	12 525

Source: Financial Times, August 2014.

3. Please note that global FDI figures in this edition may differ from previous editions as some figures have been revised.

Between July 2014 and September 2014 a total of 3 759 global FDI projects were recorded, representing a total capital investment of R1,2 trillion. Global FDI has struggled, however, to achieve pre-crisis levels in capital investment, with the 2013 figure just over half of the 2008 figure of R10 trillion. As global economic growth gains momentum, FDI flows should rise gradually to USD1,6 trillion in 2014, USD1,7 trillion in 2015 and further to USD1,8 trillion in 2016, with relatively larger increases in developed countries (FDI Intelligence 2014 and UNCTAD, 2014). However, greenfield FDI is expected to be slow to gain momentum and investors are expected to prefer brownfield FDI.

The top subsectors globally for FDI (in terms of projects) in the third quarter of 2014 were software publishing with a 13% share of total projects, followed by business services (11%) as well as financial services (10%). The services sector has dominated global FDI in the third quarter of 2014 with software and IT services, business and financial services making up 34,4% of all FDI projects.

In terms of capital investment, real estate accounted for the highest investment in the third quarter of 2014 with R139 billion, followed by coal, oil and natural gas (R323 billion) and communications with R297 billion.

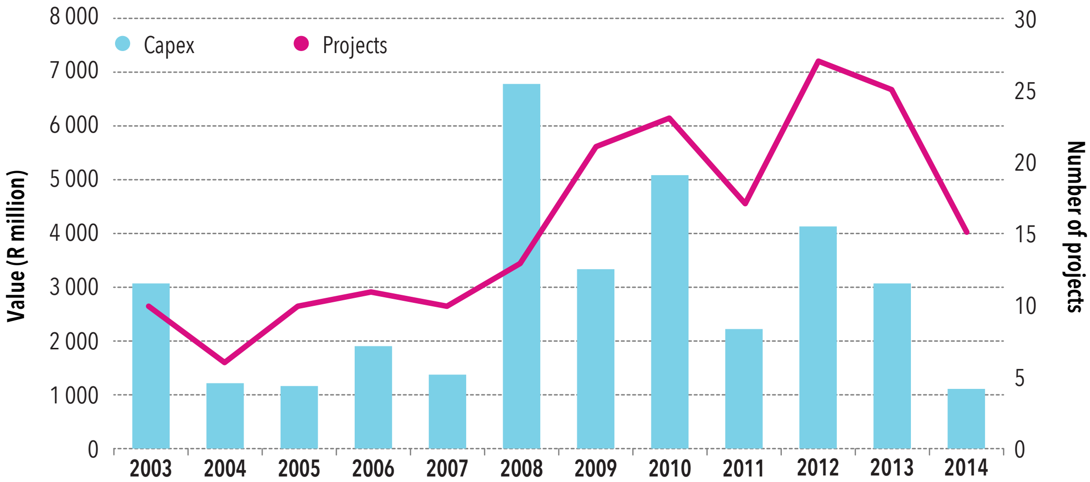
Cape Town foreign direct investment

FDI flows into Cape Town in terms of capital investment have not recovered to the pre-crisis levels attained in 2008, although capital investments from 2009 to 2013 far exceeded investments from 2003 to 2007. The number of FDI projects received into Cape Town increased from 10 projects in 2003 to 25 projects in 2013. The growth in project numbers is very significant, indicating that more companies are investing into Cape Town than previous years, despite lower levels of capital investment.

From January 2014 to June 2014, Cape Town attracted 15 investment projects, exceeding the investments received in the same period in 2013. Should this trend continue it is expected that the number of projects in 2014 will exceed the amount received in 2013. However, the value of Cape Town's inward capital investments (ZAR1,1 billion) was slightly lower than the amount received in the same period in 2013. This is expected as the world economy experienced weaker than expected global economic activity in the first half of 2014.

The number of FDI projects received into Cape Town increased from 10 projects in 2003 to 25 projects in 2013. This growth is very significant, indicating that more companies are investing into Cape Town than previous years, despite lower levels of capital investment.

34 FDI flows into Cape Town (2003 to December 2014)



Values in ZARm	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Value	3 069,3	1 234,0	1 173,2	1 880,4	1 373,4	6 782,3	3 331,7	5 069,3	2 219,3	4 146,9	3 076,2	1 084,4
Projects	10	6	10	11	10	13	21	23	17	27	25	15

Source: Financial Times, August 2014.

The largest number of projects receiving FDI in Cape Town from 2003 to 2013 were in business services, and software and information technology services – 34 projects each (valued at R1,7 billion and R2,4 billion respectively). Communications received the highest value of investment at R7 billion, followed by real estate at R6,5 billion.

In terms of outward FDI, Cape Town companies committed R22 billion to 109 FDI projects globally between 2003 and December 2013. Most projects have been in food and beverage stores (25 projects; R3,2 billion) as well as advertising and public relations services (12 projects; R347 million).

Investment facilitation

Between April and September 2014, of the projects facilitated by Wesgro, one expansion project in Cape Town was recorded. The project was a R46 million manufacturing project, creating an estimated 10 jobs in the medical, marine and aerospace subsector.

Sector focus:

Meetings, incentives, conferences and exhibitions

Cape Town has an enviable reputation as a leading international destination for business and leisure tourists. The many first-class facilities and attractions the city offers are a key contributing factor to this position, as are the world-class events, conferencing and exhibition venues. The most prominent of these is the Cape Town International Convention Centre (CTICC), which is jointly owned by the City of Cape Town, the Western Cape Government, and SunWest International (Pty) Ltd. This chapter uses the CTICC as a lens through which to better understand the meeting, incentives, conferences and exhibitions (MICE) sector in Cape Town.

8


WESTIN
International Convention Centre
N2
Cape Town
International
Somerset West
(M3) Muizenberg
WALTER SISULU AVE
CTICC

Of the 535 events hosted by the CTICC in the 2013/14 financial year, 33 were international conferences.

THE IMPORTANCE OF THE MICE SECTOR FOR CAPE TOWN

The appeal of Cape Town's breathtaking natural beauty, cultural diversity and warm hospitality is enhanced by the world-class meetings, incentives, conferences and exhibitions (MICE) facilities it offers to national and international businesses and organisations. The MICE sector is a vital source of economic growth and development through employment creation, skills transfer, enterprise development and social upliftment.

The MICE sector is strategically important as an enabler of the development of the knowledge economy. The MICE sector is a key driver of knowledge development and transfer, making convention centres like the Cape Town International Convention Centre (CTICC) integral to the evolution of a knowledge economy in South Africa. Of the 535 events hosted by the CTICC in the 2013/14 financial year, 33 were international conferences covering a broad spectrum of sectors, including agro-processing, the green economy, ICT, property, mining and medical industries. These are all sectors that align closely to the City of Cape Town's economic growth strategies and, by attracting global associations to the city for these events, the CTICC, and other conferencing and events facilities, are making a vital contribution towards growing the city's expertise, knowledge and skills in all these areas.

7 649
jobs created and sustained in 2013/14

3 376
direct jobs

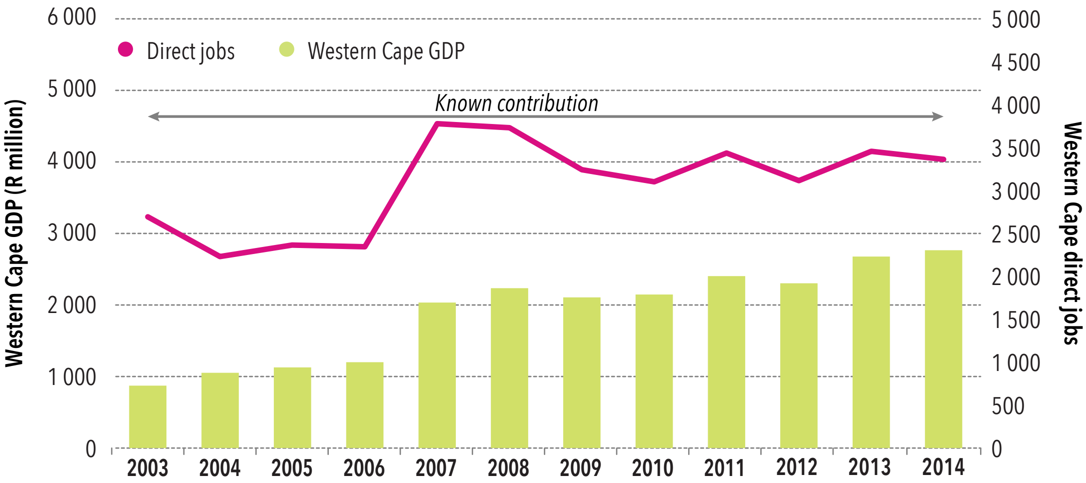
4 273
indirect jobs

83 000
full-time equivalent jobs created since inception

SOCIO-ECONOMIC IMPACT OF THE MICE SECTOR AS CAPTURED BY THE CTICC

While comprehensive statistics pertaining to the total economic contribution of the entire MICE sector in Cape Town are not readily available, the performance of the CTICC – as a key role player in this sector in Cape Town – offers good insights into the immense value that the MICE sector contributes to the city and broader Western Cape region.

35 Contribution to Western Cape GDP



Source: CTICC, Stratecon, 2014

The CTICC is a significant asset of the City of Cape Town and, as such, plays a leading role in ensuring consistent delivery of the social and economic benefits of the MICE sector for the city and its people. In the 2013/14 financial year, the CTICC grew its contribution to the city's economy, spurring job creation and economic growth, while also significantly advancing the meetings and events industry and promoting business tourism in the city.

The CTICC has made a cumulative contribution of R25,4 billion to GDP and R22,5 billion to GGP since it opened in 2003.

Job creation impact

The CTICC has created over 83 000 full-time equivalent jobs since it opened in 2003. In the 2013/2014 financial year the CTICC created and sustained 3 376 direct and 4 273 indirect jobs.

Boosting economic growth

The most important macroeconomic impact of the CTICC, and the entire MICE sector, is the contribution made to gross domestic product (GDP), gross geographic product (GGP) and the creation of jobs in the city, region and country. The CTICC has made a cumulative contribution of R25,4 billion to GDP and R22,5 billion to GGP since it opened in 2003. In the past financial year the operations of the CTICC contributed R3,1 billion to national GDP and R2,8 billion to Western Cape GGP.

Other economic benefits

Apart from the key economic and employment creation benefits, the MICE sector also contributes revenue to the city via various other channels. As a key representative of the sector, the CTICC has generated R1,13 billion in foreign exchange (cumulative: R5,2 billion), R291 million in tax revenue, and R1,55 billion in indirect household income in the 2013/14 financial year alone (see table below).

6 Summary of the CTICC's economic contribution for the 2013/2014 financial year

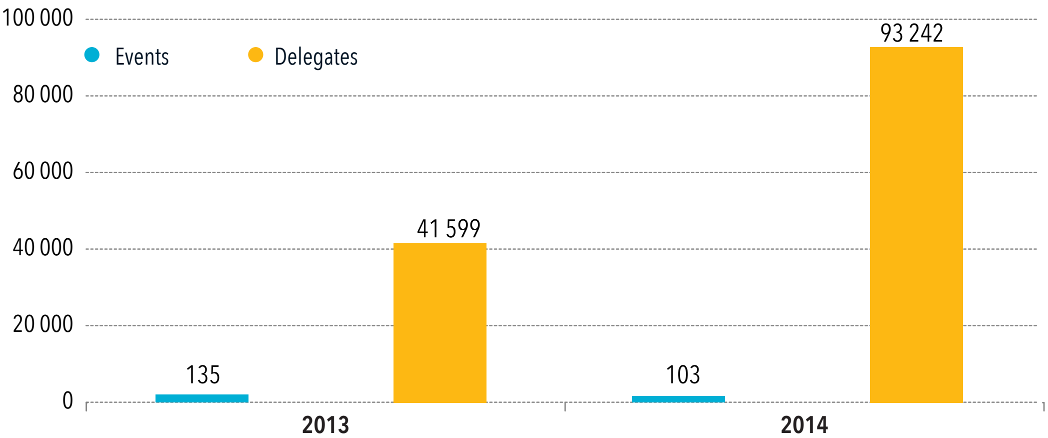
Expenditure categories	GDP (Rm)	GGP (Rm)	Direct Western Cape jobs	Indirect SA jobs	Total taxes (Rm)	Indirect household income (Rm)
CTICC capital xpenditure	29	19	38	43	3	16
CTICC operational expenditure	72	123	71	94	17	36
Host/organiser expenditure	80	25	37	112	9	44
Exhibitor expenditure	226	157	104	272	22	113
Delegate expenditure	1 690	1 594	2 098	2 432	150	855
Subtotal	2 097	1 918	2 348	2 953	201	1 064
Induced tourism	974	853	1 028	1 320	90	490
Total contribution 2014	3 071	2 771	3 376	4 273	291	1 554

Source: CTICC, Stratecon, 2014

RECENT PERFORMANCE OF MICE SECTOR

During the third quarter of 2013 the CTICC hosted 135 events, which attracted 41 600 delegates. In the same quarter of 2014 the CTICC hosted 103 events, six of which were international events and five of these had delegate numbers in excess of 1 200. This resulted in delegate numbers in the third quarter of 2014 being more than double those in 2013.

36 Number of events versus number of delegates



KEY SECTOR TRENDS AND CHALLENGES

Given the strong interest already shown in Cape Town and the CTICC as an international conference destination for 2015, the coming year is expected to further strengthen the city's position as the leading local, national and global events and exhibitions destination.

Technological advances

Given the strong interest already shown in Cape Town and the CTICC as an international conference destination for 2015, the coming year is expected to further strengthen the city's position as the leading local, national and global events and exhibitions destination. This continued global appeal also serves to allay any concerns that may have existed about the possibility that technological advances might see a decline in demand for physical meetings, conferences, exhibitions and other events. Rather than posing a threat to the MICE sector, technology is likely to play a vital role in growing the industry and helping it to evolve by facilitating meaningful engagement and interaction between event organisers and their attendees. While this means that event organisers will be under increased pressure to provide content that is relevant, interactive and more visual than was the case in the past, it in no way implies that physical gatherings are at any risk of being phased out in favour of less personal technological engagements. Social media has also transformed the way the MICE sector operates, and will undoubtedly continue to do so, particularly in terms of presenting excellent additional marketing channels and providing opportunities for organisers and their guests to engage in instant and highly meaningful ways.

Environmental sustainability

The sustainability imperative also remains a key factor in the choices of events destinations made by clients and visitors. As the general public becomes increasingly aware of the need to minimise the negative effects of events and conferences on the environment, and maximise the positive spinoff they have on society, the MICE sector will need to respond quickly and appropriately. To this end, the CTICC and its like-minded partners in the Cape Town MICE sector will continue to play a leading role in promoting environmental and social sustainability as a strategic imperative across the events industry.

Seasonality

At an events level, the growth in short-term bookings is a good sign of the ability of the sector to address its historical seasonality challenges. This is particularly evidenced in the steady increase in CTICC bookings for banquets, weddings, matric dances and film shoots, all of which raise the ability of the CTICC and MICE sector to deliver sustainable and continual social and economic benefits for the city.

Despite this positive MICE landscape, some potential barriers to the growth of the industry remain in place. These include restrictive amendments to SA visa regulations as well as the introduction of challenging international Pharmacodes requirements[4]. Given Cape Town's location at the foot of Africa, global health concerns and misperceptions regarding the continent as a whole will continue to present a threat to industry growth. For example, despite the South African National Department of Health declaring that there are no cases of Ebola in South Africa, concerns by largely ill-informed international communities pose a threat to Cape Town's ability to compete equally with other cities and international convention centres for global events.

STRATEGIC INTERVENTIONS

As a city, Cape Town needs to be able to respond to these trends and challenges by providing appropriate technologies and meeting spaces that facilitate both formal and informal face-to-face interactions. The design of the new CTICC East building, which will result from the expansion project, will provide these appealing spaces that will encourage networking, collaboration and the exchange of knowledge among delegates.

Another key aspect of Cape Town's ability to remain globally competitive lies in its capacity to fully embrace sustainability in all its aspects. As clients becoming increasingly aware of the need to minimise the negative effects of their events on the environment and society, the CTICC is leading the way in delivering on these sustainability requirements. The CTICC was the first convention centre in the world to report on its sustainable practices in line with Global Reporting Initiative (GRI) standards, achieving B+ compliance with G3.1 guidelines for its 2013/14 Integrated Annual Report.

The CTICC was the first convention centre in the world to report on its sustainable practices in line with Global Reporting Initiative (GRI) standards.

In 2014, the CTICC's keen focus on social and environmental sustainability enabled it to add the following titles to an already impressive list of industry accolades:

- The Global Association of the Exhibition Industry (UFI) Award for the Best Sustainability Reporting
- The Imvelo Responsible Tourism Award
- EXSA – Best Exhibition Venue of the Year Award

4. Legislation enacted in Europe and the USA that limits the amount of sponsorship that can be provided to doctors to attend conferences or for the funding of conferences. There are also strict guidelines in terms of the conference programme, with gala dinners no longer being permitted.

The CTICC expansion, scheduled for completion in 2017, will add an additional 10 000m^2 of flexible, multipurpose space.

CTICC

Skills development

The CTICC places a particular emphasis on the development and transfer of skills within its own workforce, the MICE sector and society as a whole. To this end, it invests significantly in training permanent and temporary staff. In addition, the CTICC leverages its CSI support to transfer valuable skills to many of the beneficiaries of its community partner organisations. For example, in 2013/14, the CTICC extended its support of the Mitchells Plain School of Skills by opening its kitchens to students from the school in order to give them valuable industry exposure and on-the-job training. The CTICC also continues to offer various training interventions to its temporary staff and, in the 2013/14 financial year, 359 contract employees attended training courses. This not only helped to raise the standards of the CTICC, but also helped to deepen the talent pool available to South Africa's MICE sector as a whole, while raising the employability and employment prospects of the recipients.

Preferential procurement and enterprise development

The CTICC is committed to creating opportunities for all. One of the primary ways it delivers on this objective is by supporting and investing in the development of small and medium enterprises as well as BBBEE firms. BBBEE procurement accounted for almost 80% of the CTICC's total procurement spend during the 2014 financial year. The promotion and support of local and small businesses is also a priority focus, with R136 million (67% of total spend) channelled to SMMEs and R180 million (90% of total spend) to locally based suppliers.

CTICC: the future

The CTICC expansion currently underway is central to the ability of the CTICC and, indeed, the MICE sector as a whole, to be able to compete for a growing share of increasing demand for local and international events and conferencing, as evidenced by the steady increase in short-term bookings experienced by the CTICC over the past year. The expansion became necessary as the CTICC faced increasing capacity constraints due to rising global demand. The CTICC expansion is scheduled for completion in 2017 and, once completed, will add an additional 10 000m^2 of flexible, multipurpose space to the existing footprint of the CTICC. This will allow the CTICC to capitalise on the steadily growing global demand it is experiencing, and allow the venue to offer its clients a more compelling value proposition in that its clients will now be able to host concurrent events and exhibitions in a single facility.

In addition to raising the appeal of Cape Town as a global business tourism destination, the expansion will raise the CTICC's economic contribution through higher economic injections to GGP and GDP, increased employment creation, and enhanced development opportunities for small, medium and micro enterprises. The expansion also holds significant importance for the Cape Town foreshore and is set to serve as a catalyst for the continued growth and development of this vitally important and economically relevant part of the city. Already, this catalytic effect has been evidenced by the initial plans for the future development of the foreshore precinct via the construction of commercial and retail space, hotels and a world-class hospital. The presence of the CTICC has contributed directly to the growth of business tourism as a whole in the city and region, as well as serving to underpin the steady development of the knowledge economy in South Africa.

Looking forward, the strategic importance of the CTICC as a key pillar of Cape Town's MICE sector will continue to be felt; and the expansion of the CTICC, as well as the sector, can be expected to add significantly to the economic and social development of the city and region for many years to come.

Infrastructure

Cape Town is home to South Africa's second-busiest airport as well as its second-busiest container-handling seaport, and is connected to the rest of the country by two major highways and an extensive railway network. These crucial transport infrastructure assets enable Cape Town to act as a gateway to South Africa, and to the west coast of Africa more broadly.

Cape Town is often promoted as the gateway to South Africa, and to Africa more generally. This status is in part historically derived from the use of Cape Town as a refreshment station for ships embarking on long voyages to the East, but is currently sustained by the quality of the transport infrastructure that exists within the city, ensuring that it is both globally and locally connected. Cape Town is home to South Africa's second-busiest airport as well as the second-busiest container port in the country. The city also benefits from two major national highways connecting it to the rest of the country, as well as an extensive rail network. This section provides statistics relating to the performance of these crucial transport infrastructure facilities on a quarterly basis.

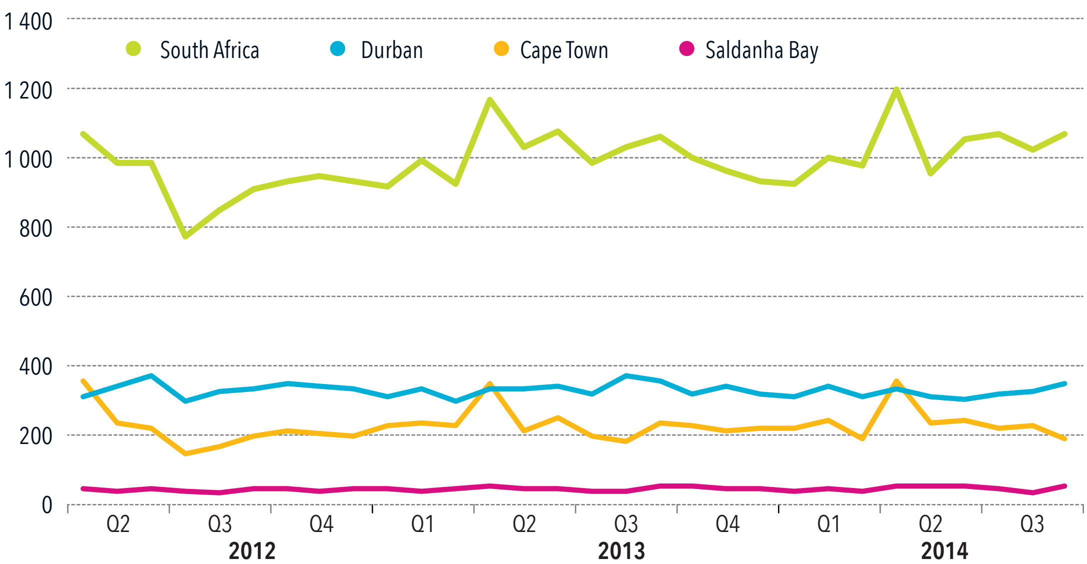
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports decreased by 48 vessels from 3 197 in the second quarter of 2014 to 3 149 in the third quarter. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the third quarter of 2014 was 633 vessels (accounting for 20% of total vessels). This represented a substantial decrease on the previous quarter's figure of 832 vessels (26% share), but was an increase from the 613 vessels recorded in the third quarter of 2013. Despite this absolute increase, there was no increase in the annual share of national vessel movements which remained at 20%. The large decrease in vessel arrivals in the third quarter should be viewed in the context of higher than normal vessel arrivals in the second quarter due to an increase in the number of fishing vessels (both South African and international) arriving in the port in April.

The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the third quarter of 2014 was 633 vessels (accounting for 20% of total vessels) – a substantial decrease on the previous quarter's figure.

37 Total number of vessels (April 2012 to September 2014)



Source: Transnet National Ports Authority, November 2014.

The Port of Saldanha, the closest port to the Port of Cape Town, sees far fewer vessel arrivals per month. This is because the Port of Saldanha currently focuses on the shipment of bulk cargo, predominantly steel and iron ore, and does not have container-handling facilities, which limits the volume of vessels utilising the port. The average tonnage per vessel handled at Saldanha, however, is substantially higher than that handled at the Port of Cape Town. On average, the Port of Durban has more vessel movements than the Port of Cape Town, with the exception being the peak fishing month of April.

Cargo (gross tonnage) and container handling

In the third quarter of 2014, South African ports handled 54,9 million metric tonnes of cargo. This is against 53,6 million in the second quarter of 2014, and 55,5 million in the corresponding period in 2013.

Cape Town experienced a substantial decrease in cargo-handling activity, from 1,01 million tonnes in the second quarter of 2014 to 0,68 million tonnes in the third quarter. Similarly, there was a decrease of 28% from the 0,94 million tonnes handled in the corresponding period in 2013. Cape Town does not have extensive cargo-handling facilities, and it is not considered a cargo-handling hub (unlike Saldanha or Richards Bay) therefore it does not have a significant impact on the national cargo handling performance. The Port of Cape Town concentrates more on container handling than cargo handling. The ports of Durban and Saldanha, which are much larger cargo handlers than the Port of Cape Town, experienced mixed quarter-on-quarter results. Cargo handling at the Port of Durban increased by 6%, while it decreased by 7,1% at the Port of Saldanha. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, saw decreases for

both the ports of Durban and Saldanha (-10,2% and -1,3% respectively) in cargo handling in the third quarter of 2014.

The Port of Durban is South Africa's main container-handling port and contributed more than half (58%) of the total containers handled in South African ports in the third quarter of 2014. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 19% of all containers handled in South African ports in the third quarter of 2014.

Container traffic is very seasonal, as figure 38 indicates, so it is more meaningful to compare total containers handled over the period of a year. In the third quarter the number of containers handled at the Port of Cape Town increased from 218 049 containers handled in 2013 to 239 158 containers handled in 2014 – an increase of 9,7%.

In 2013, the Port of Cape Town appeared to be losing ground to the Port of Ngqura in terms of container handling, as the latter port recorded a large increase in containers handled in that year. However, the first two quarters of 2014 revealed a decrease in year-on-year container handling by the Port of Ngqura. This negative trend was reversed in the third quarter as the number of containers handled at the port increased from 165 125 containers in the third quarter of 2013 to 195 731 containers handled in 2014, reflecting a substantial increase of 18,5% in total containers handled. While the Port of Ngqura still remains behind Cape Town, in terms of container handling, the recent increase points to the possibility that it may, in the future, overtake the Port of Cape Town as the country's second largest container handling port due to the capacity constraints experienced by the latter. This said, Transnet has recently approved plans for a multibillion rand upgrade to the Port of Cape Town's container handling facilities, which should alleviate congestion problems in the medium term.

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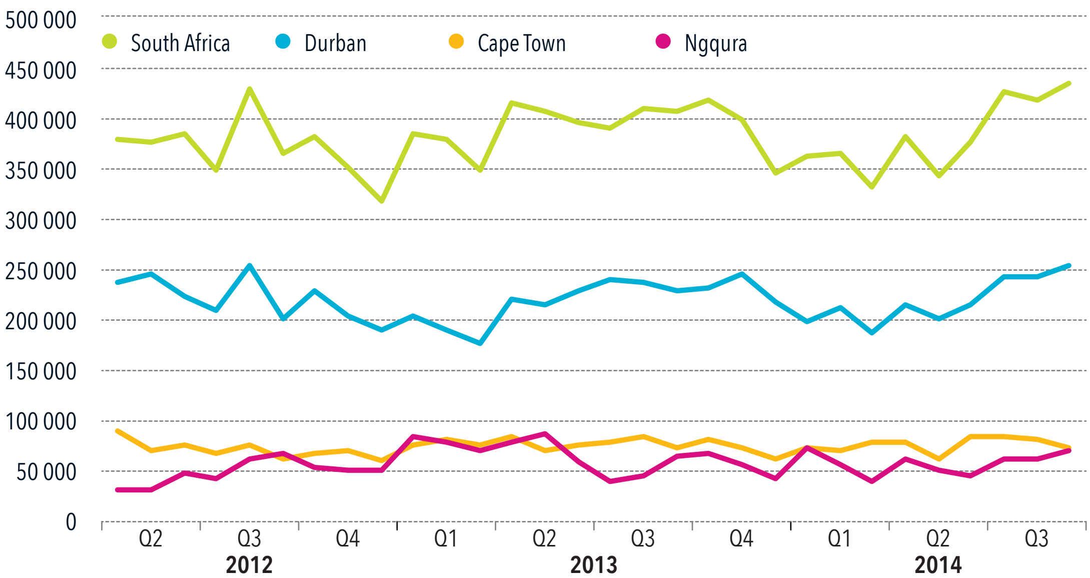
38 Total containers handled (TEUs)[5] (April 2012 to September 2014)

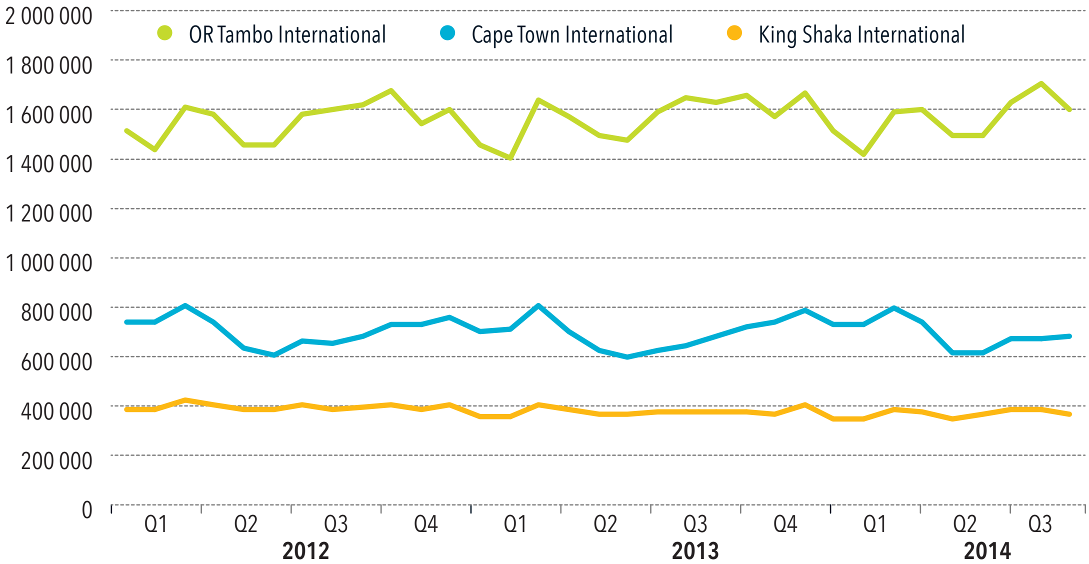


Source: Transnet National Ports Authority, November 2014.

5. A TEU (twenty-foot equivalent unit) is an inexact unit of cargo capacity, based on the volume of a 20-foot-long (6,1 m) container. There is a lack of standardisation with regard to height, ranging between 4 feet 3 inches (1,30 m) and 9 feet 6 inches (2,90 m), with the most common height being 8 feet 6 inches (2,59 m). The 40-foot (12,2 m) or 45-foot (13,7 m) containers – the sizes most frequently used – are both defined as two TEU.

CAPE TOWN AIRPORT STATISTICS

39 Total passenger movements at South Africa's major airports (January 2012 to September 2014)



Source: ACSA, November 2014.

While Cape Town International hosts 15 international airlines with 89 international flights a week, the figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many international tourists take advantage of the greater number of flight options to Johannesburg.

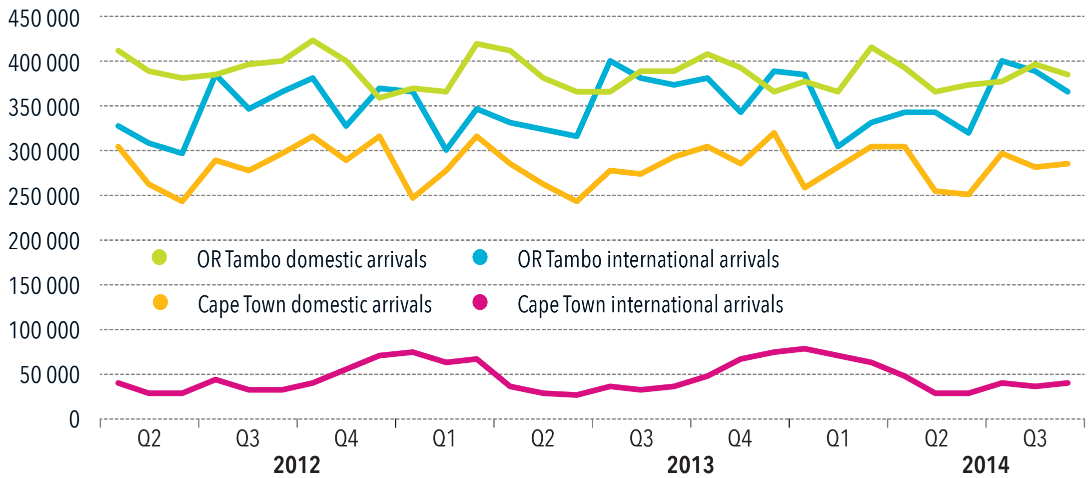
Total passenger movements

Cape Town International Airport, voted the best airport in Africa in 2013 (SKYTRAX, 2013), is South Africa's second busiest airport. It recorded 2,02 million total passenger movements in the third quarter of 2014, compared to 4,93 million passenger movements at OR Tambo and 1,13 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International for the third quarter of 2014 were slightly higher than in the third quarter of 2013, when 1,95 million passenger movements were recorded. Similarly, OR Tambo International Airport and King Shaka International recorded increases in passenger numbers in the third quarter. A quick glance at figure 39 indicates a pronounced degree of seasonality in Cape Town's passenger movements, while OR Tambo shows a more erratic distribution. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

International versus domestic arrivals for South Africa's two busiest airports

The direct international proportion of passenger arrivals to Cape Town International for the third quarter of 2014 constituted 13% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 50% of its total passenger arrivals. This reflects the fact that the Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. While Cape Town International hosts 15 international airlines with 89 international flights a week, the figure for direct international arrivals highly underestimates

40 International and domestic passenger arrivals for Cape Town and OR Tambo international airports



Source: ACSA, November 2014.

total international tourist arrivals to the city, as many international tourists take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight.

Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with the summer months of December to March being the peak period for travel to the city. Cape Town's domestic arrivals, however, show far more variation, with peaks and troughs dispersed throughout the year (clearly visible in figure 40). The total number of passenger arrivals to Cape Town International in the third quarter of 2014 increased by 3,2% year on year, with international arrivals increasing by 8,3%.

While Cape Town International remains behind OR Tambo International in terms of passenger movements and number of flights available, Cape Town is an increasingly popular tourist destination. In order to respond to increasing tourist visits, the airport needs to expand its capacity. In line with this, ACSA has proposed to realign the runway at Cape Town International to make room for larger aircraft and accommodate greater passenger numbers. The proposal, which includes extending the runway length by 300 m, would allow between 10 and 14 additional aircraft to land and take off each hour, as well as enable larger aircraft to land at the airport (SRK Consulting, 2014). The project is critical to Cape Town's strategic goals of attracting multinational investment and enhancing its global business and tourist appeal.

ELECTRICITY

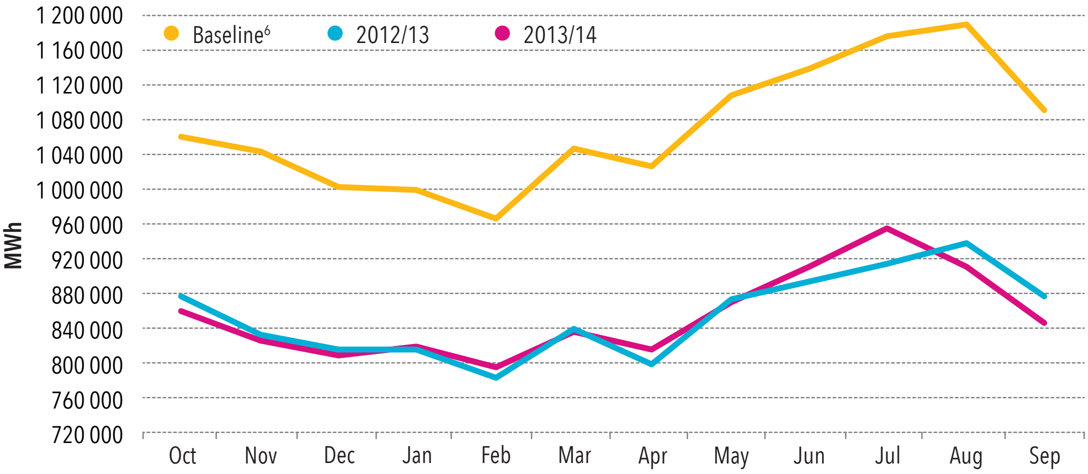
Electricity is an important aspect of economic infrastructure. The availability, reliability and affordability of electricity supply are key considerations in the location decisions of major investors. In recent years, however, the electricity sector has been plagued with volatility as a result of increased pressure on electricity suppliers to meet growing electricity demand. This has resulted in load shedding and price increases, affecting not only households but businesses as well.

Figure 41 depicts the City's baseline consumption forecast as well as the actual consumption of electricity over the past two years. A clear peak in electricity consumption can be observed in July this year (as compared to August in the previous year and in the baseline forecast) as residences make greater use of heating appliances during winter. Despite the increased month-on-month consumption in July and August (as compared to previous months), more efficient energy saving practices resulted in an 18,8% saving in electricity consumption (over the baseline forecast) in July and 23,4% in August.

The relatively large increase in electricity savings during August (23,4%) and September (22,5%) 2014 can be attributed to the delayed response to a NERSA-approved increase in electricity prices on 1 July 2014 making consumers more prudent in their consumption of electricity. The price increase is in line with the 8% year-on-year increase announced on 28 February 2013 for the period 2013/14 to 2017/18. Eskom reports that the scheduled completion date for the Medupi power station remains on track and that it is expected to come online at the end of 2014. However, current infrastructure faults at a number of the country's power plants have resulted in Eskom implementing scheduled load shedding in the fourth quarter. This is likely to decrease electricity consumption in the coming months, but may also have the negative consequence of stalling the recovery in the manufacturing sector and undermining resurgent business confidence.

The relatively large increase in electricity savings during August and September 2014 can be attributed to the delayed response to an increase in electricity prices on 1 July 2014 making consumers more prudent in their consumption of electricity.

41 City of Cape Town electricity consumption (October 2012 to September 2014)



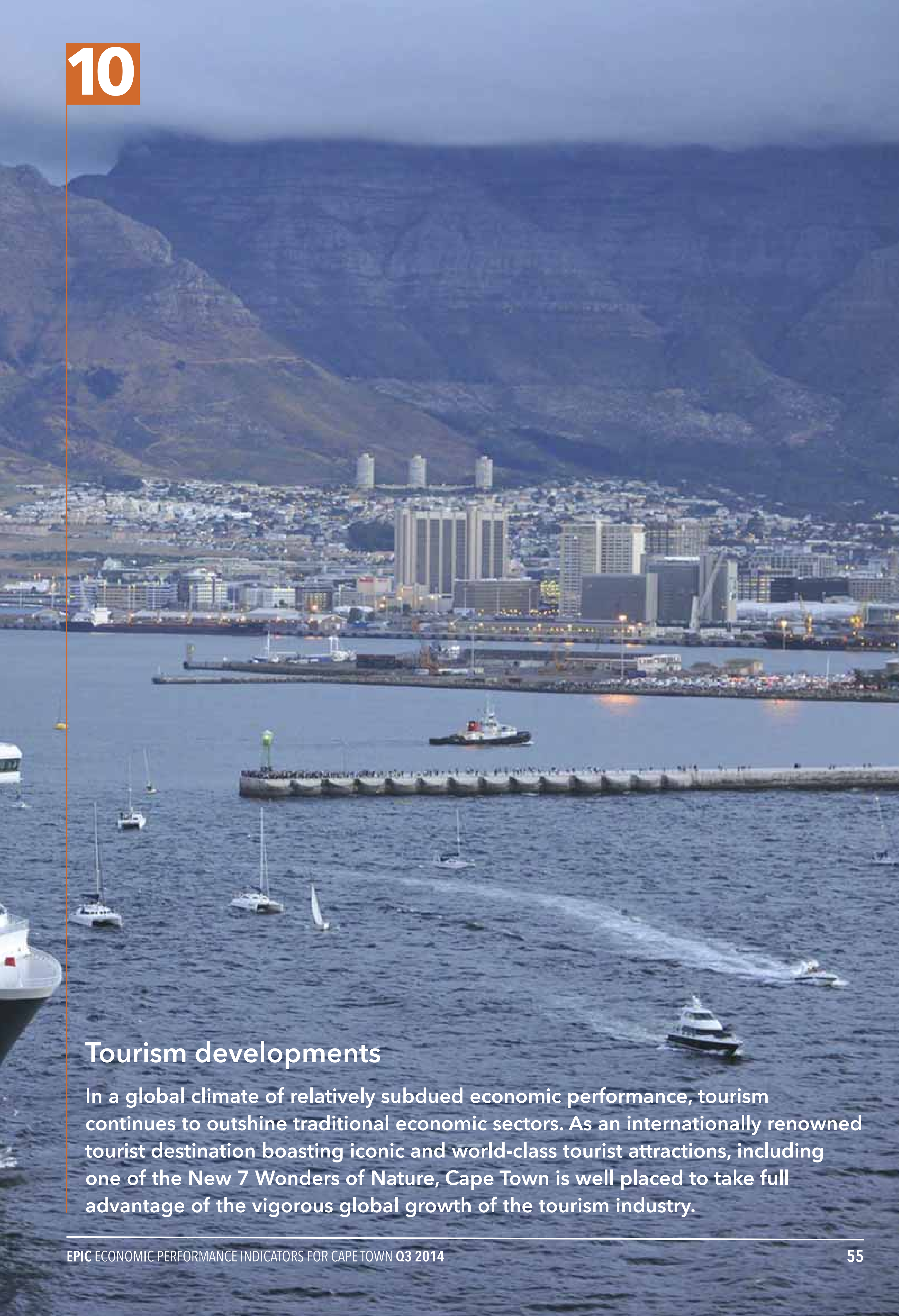
	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14
2013/14	859 576	826 290	808 577	816 455	793 615	835 221	814 455	870 434	908 680	954 516	910 378	845 071
Baseline	1 060 491	1 043 029	1 000 899	997 035	965 624	1 045 712	1 024 522	1 108 118	1 138 988	1 174 803	1 188 468	1 090 406
2012/13	874 370	831 314	813 926	813 183	782 243	838 550	798 873	871 055	893 739	913 866	937 494	876 547
% Saving	18,9%	20,8%	19,2%	18,1%	17,8%	20,1%	20,5%	21,4%	20,2%	18,8%	23,4%	22,5%

Source: City of Cape Town, Electricity Services Department, November 2014.

6. The baseline is the amount of electricity the City makes provision for based on historical trends.


CUNARD

10



Tourism developments

In a global climate of relatively subdued economic performance, tourism continues to outshine traditional economic sectors. As an internationally renowned tourist destination boasting iconic and world-class tourist attractions, including one of the New 7 Wonders of Nature, Cape Town is well placed to take full advantage of the vigorous global growth of the tourism industry.

INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) *World Tourism Barometer* for October 2014, 781 million global tourist arrivals were recorded in the first eight months of 2014. This constituted an increase of 36 million (or 5%) tourist arrivals compared to the same period in 2013, and remained above the long-term projected trend rate of 3,8% for the period 2010 to 2020. The peak tourist months of June to August saw an annual increase of over 4%, with growth peaking at 4,7% in June.

International arrivals in the first eight months of 2014 were led by strong arrivals growth of 8% in the Americas and 5% in the Asia and the Pacific region. Within the Americas region, the leading sub-region in terms of arrivals growth was North America (8,8%), while within Asia and the Pacific the leading sub-region was South Asia (8,0%). Europe, the world's leading tourist destination region, continued to enjoy robust growth of 4,2% in tourist arrivals in the first eight months of the year, with the sub-regions of Southern Mediterranean Europe and Northern Europe recording growth rates in excess of 7%. Africa's international tourist arrivals for the first eight months of 2014, however, increased by a disappointing 3,1%, and only by 2,6% in sub-Saharan Africa. This follows respective growth rates of -2,9%; 0,3% and 1,0% for June, July and August. These low growth rates are likely to be linked to the outbreak of Ebola in West Africa at the beginning of 2014, and the subsequent misconceptions surrounding the safety of travel to other African countries. While the UNWTO (2014:1) reports that there have not been any significant cancellations as a result of the outbreak, they do acknowledge that there has been a 'certain slowdown in bookings'.

Following on the healthy tourist figures achieved in 2013 and in the first eight months of 2014, the UNWTO predicts that for the full year 2014, global tourist arrivals growth will be between 4% and 4,5%.

China, with a growth rate of 16%, remained the fastest growing of the world's top 10 tourist source markets in the first eight months of 2014, followed by France (10%), Italy (8%), the United States (6%) and Brazil (5%). Following on the healthy tourist figures achieved in 2013 and in the first eight months of 2014, the UNWTO predicts that for the full year 2014, global tourist arrivals growth will be between 4% and 4,5% — above the UNWTO's long-term forecast of 3,8% for 2010-2020 and also higher than the 3,3% global economic growth rate predicted by the IMF for 2014.

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS TO SOUTH AFRICA[7]

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. In March 2014, 801 666 foreign tourists visited the country. Tourist arrivals decreased by 1,6% year on year for the period. Tourist arrivals from Africa (South Africa's largest tourist source market) decreased by 1% year on year, arrivals from Europe decreased by 4,9%, and arrivals from Asia decreased by 5,5%. The only regions from which tourist arrivals to South Africa increased in March 2014 were the Middle East and North America. While the Middle East market's growth (4,7%) comes off a very small base, the strong growth in arrivals (8,8%) from North America, as South Africa's second-largest overseas tourist market, is encouraging. The negative trend in tourist numbers in March 2014 is seemingly in sync with the decrease in total arrivals recorded at Cape Town International during the same period, with international and total arrivals having decreased by 1,71% and 3,15% respectively. A large contributing factor to the decline in tourist arrivals was the shifting of the Easter holidays in 2014 to April as compared to March in the previous year. The longer-term tourism trends, namely January to March 2014 compared to January to March 2013, reveals a robust tourist arrival growth rate of 4,9%, which is well above economic growth during the same period.

7 International tourist arrivals to South Africa

Region	March 2014	March 2013	% change	% change Jan–Mar 2013 to Jan-Mar 2014
Europe	143 863	151 202	-4,90%	4,30%
Russia	1 280	1 296	-1,20%	-3,40%
North America	39 633	36 431	8,80%	8,40%
Central and South America	10 090	10 642	-5,20%	-3,60%
Brazil	5 861	6 434	-8,90%	-6,90%
Australasia	10 320	10 991	-6,10%	3,10%
Middle East	6 043	5 773	4,70%	-0,10%
Asia	32 103	33 970	-5,50%	-3,00%
China	12 102	13 021	-7,10%	-0,40%
India	7 540	8 508	-11,40%	-5,10%
Overseas total	242 052	249 009	-2,80%	3,20%
Africa	558 351	564 173	-1,00%	5,80%
Total	**801 666**	**815 075**	**-1,60%**	**4,90%**

Source: South African Tourism, September 2014.

7. This section could not be updated due to the delayed release of tourist arrival figures by SA Tourism and StatsSA and therefore contains the same information as the previous edition of EPIC.

Examining arrivals from the overseas market, Europe remains South Africa's biggest overseas tourist market, despite negative growth, and accounted for 143 863 tourist arrivals in March 2014. Within the European region, the United Kingdom, Germany and France were South Africa's largest European source markets. While arrivals from France grew positively by 16%, arrivals from Germany and the United Kingdom decreased by 3,2% and 15,1% respectively.

Despite the large decrease in tourist numbers in March 2014, the United Kingdom remained South Africa's largest overseas tourist source market. Tourist arrivals from the United States, South Africa's third-largest overseas source market in March 2014, amounted to 32 564 with a growth rate of 11%, and was the driver of the nearly 9% increase in tourist arrivals from North America.

Tourist arrivals from emerging-country markets followed the broader negative trend in March 2014. Although these countries had been the key contributors to arrivals growth in South Africa, with China, India and Brazil leading the way, arrivals from all three dropped significantly in March 2014. However, even though arrivals growth from these countries may have dipped in March and, to a lesser extent, over the three months up to March, South Africa needs to continue to target these countries in the future, as they remain the world's fastest-growing tourist source markets – a trend that is likely to continue as sustained high economic growth rates, albeit at a more moderate pace, raise income levels in these countries. At the same time, tourism promotion is a balancing act, as the country's traditional tourist markets, such as the United Kingdom, need to be maintained, while the African leisure-tourism market needs to be more intentionally exploited.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourism accommodation in Cape Town

8 Income derived from tourist accommodation – South Africa

Indicator	July		August		September		Third-quarter average	
	2014	2013	2014	2013	2014	2013	2014	2013
Occupancy rate	52,80%	50,50%	51,70%	49,70%	63,00%	60,60%	55,83%	53,60%
Average room rate	R 1 002	R 934	R 1 017	R 848	R 1 231	R 1 096	R 1 083	R 959
Revenue per room	R 529	R 472	R 526	R 422	R 776	R 665	R 610	R 520

Source: Cape Town Tourism, November 2014.

Accommodation spend typically constitutes the largest portion of total visitor spend at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in Table 8 were derived from a survey of 65 tourism accommodation establishments in the Cape Town metro area.

Dissecting the statistics presented in Table 8 in greater detail, occupancy rates at city accommodation establishments increased by an average of 2,2 percentage points in the third quarter of 2014. It is clear that occupancy rates tend to rise as the city emerges from winter – with September having a 10,2 percentage points higher occupancy rate than July. The average room rate for the third quarter increased substantially from R959 in 2013 to R1 083 in 2014, and the average revenue per room increased from R520 to R610. The combination of increased room rates and increased occupancy rates points to the continued health of the tourism industry in Cape Town.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in September were achieved by backpackers (68,6%). The type of establishments that experienced the greatest increase in occupancy rates, however, were self-catering establishments (6,4%). The establishments with the largest increase in revenue per room were guesthouses, which grew by 25,2%. Spatially, the highest occupancy rates in the city in the third quarter were found on the Atlantic Seaboard (75,2%).

The combination of increased room rates and increased occupancy rates points to the continued health of the tourism industry in Cape Town.

Performance of Cape Town's top visitor attractions

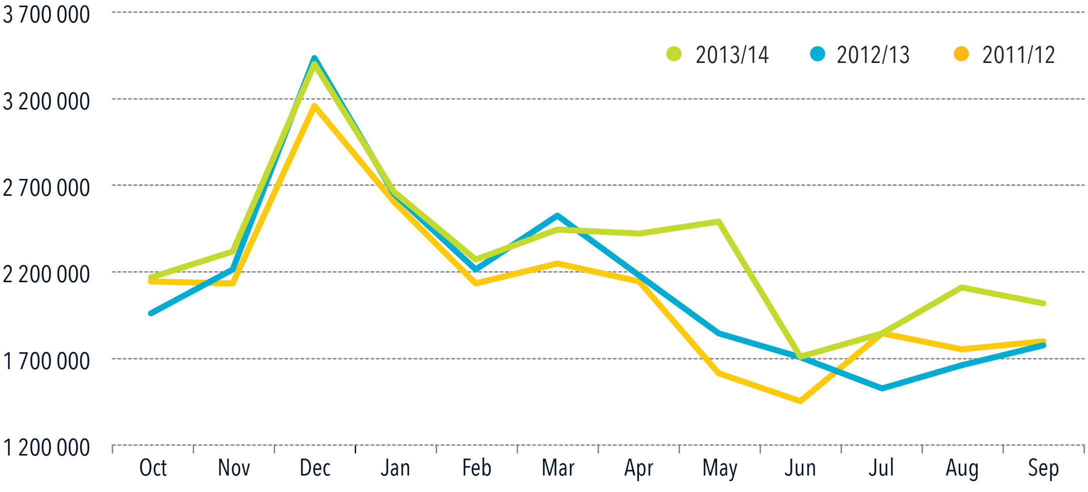
For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These six attractions include the city's most popular tourist attractions for which visitor information is available, and encompass a diverse set of sights and sounds. The six attractions are the world-famous Table Mountain (specifically the cableway), Kirstenbosch National Botanical Garden, Table Mountain National Park: Boulders Beach, Table Mountain National Park: Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 42 indicates the cumulative number of visits by tourists to these six tourist attractions since October 2011. While all of these attractions are open to everyone – resident or non-resident, domestic or international – they attract large proportions of tourists and, as such, are used in this section as a proxy for tourism demand in Cape Town.

The V&A Waterfront contributes more than 85% of the total number of visits to the six attractions analysed for the period under review. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends.

From figure 42, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality. The third quarter of 2014 showed a 9,7% quarter-on-quarter decrease in the number of visits to these attractions. This typifies the seasonal nature of tourism activity in Cape Town, as higher tourist volumes are experienced in the summer months of December to March. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, the third quarter of 2014 yielded a 7,0% increase in visits compared to the corresponding period of 2013.

It is important to note, however, that the visitor attraction data are strongly skewed by the V&A Waterfront. The V&A contributes more than 85% of the total number of visits to the six attractions analysed for the period under review. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends. If the V&A is removed, the number of visits to the five attractions decreases to 767 870 in the third quarter of 2014. However, the year-on-year growth rate for these five attractions, at 24%, was stronger when the V&A figures were removed. The growth in visits to these attractions corroborates the positive findings of the accommodation occupancy results and the air passenger arrivals figures, and is further evidence of the increasing popularity of Cape Town as a world-class tourist destination.

42 Total visits to Cape Town's major (top six) tourist destinations (2013 to 2014)



Source: Derived from Wesgro data, November 2014; Robben Island Museum, November 2014.

9 Ranking of the most-visited tourist attractions in Cape Town

Rank	Q3 2014	Q2 2014	Q3 2013	Year-on-year growth rate % (Q3 2013–Q3 2014)
V&A Waterfront	5 195 904	5 843 355	4 955 513	4,85%
Table Mountain National Park: Cape of Good Hope	187 125	180 635	183 169	2,16%
Table Mountain Aerial Cableway	162 870	202 493	112 548	44,71%
Kirstenbosch National Botanical Garden	215 826	175 205	129 649	66,47%
Table Mountain National Park: Boulders Beach	134 451	136 422	127 253	5,66%
Robben Island Museum	67 598	66 576	66 451	1,73%
Total	**5 963 774**	**6 604 686**	**5 574 583**	**6,98%**
Total (excluding V&A Waterfront)	**767 870**	**761 331**	**619 070**	**24,04%**

** Most-visited tourist destination in green; second-most-visited tourist destination in blue.*

Source: Wesgro, November 2014; Robben Island Museum, November 2014.

Most-visited tourist attractions

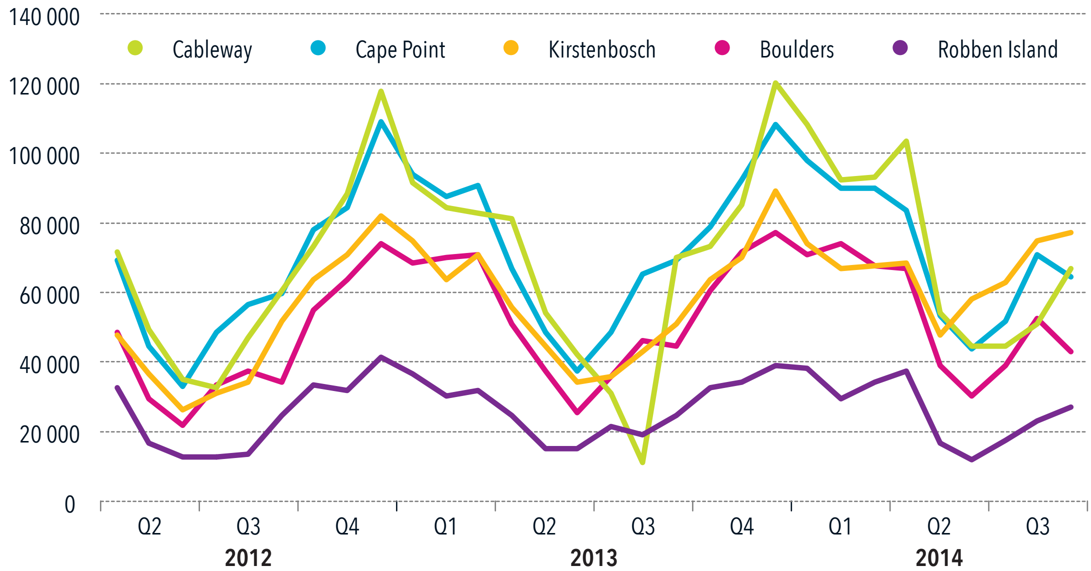
Table 9 indicates that, in terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town. However, for reasons described above, a more accurate reflection of the performance of major tourist attractions in Cape Town can be derived from the performance of the other five attractions. In this respect, the Kirstenbosch National Botanical Garden managed to record the second-highest visitor numbers for the third quarter of 2014, with 215 826 visits, while Table Mountain National Park: Cape of Good Hope recorded the third-highest number of visits (187 125).

Positive annual growth rates for the number of visits in the third quarter were recorded for all the major attractions, with visits to Kirstenbosch National Botanical Garden having grown robustly at 66,47%, those to Table Mountain Aerial Cableway at 44,71%%, Boulders Beach more moderately at 5,66%, Table Mountain National Park: Cape of Good Hope at 2,16% and Robben Island at 1,73%. The strong increase in visits to Kirstenbosch National Botanical Garden can be attributed to the 'Boomslang' aerial boardwalk that opened on 17 May 2014, and continues to attract healthy visitor numbers. The popularity of this new attraction contributed strongly to Kirstenbosch achieving record visit numbers for all three months in the third quarter. The Table Mountain Aerial Cableway grew substantially in the third quarter, but this growth can partly be attributed to the five-week long maintenance work which took place in the comparable period in the previous year. Robben Island Museum seems to be running at normal capacity following continuous fluctuations in visitor numbers due to ferries that were out of order. More reliable ferry services should help the museum to take better advantage of the expected increase in demand for visits to the island during the peak holiday season.

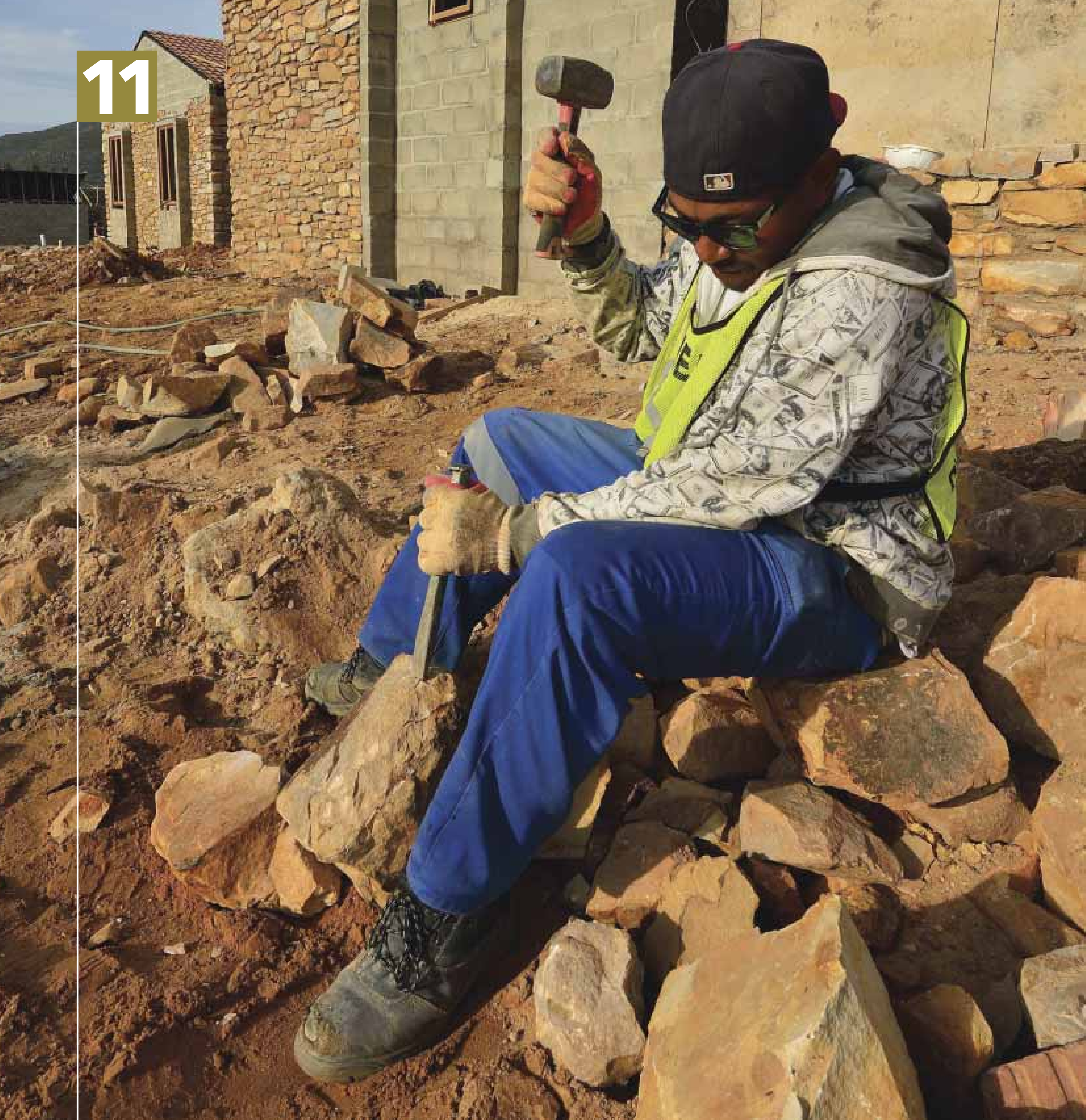
All attractions are subject to strong seasonality, with peak visitor activity occurring in the period November to March. The lowest visitor numbers are seen during the period May to July, which are the Cape Town winter months.

Robben Island Museum seems to be running at normal capacity following continuous fluctuations in visitor numbers due to ferries that were out of order.

43 Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Derived from Wesgro data, November 2014.



11

Other indicators

In addition to macroeconomic indicators which provide overall estimates of economic activity, administrative data, capturing specific consumer trends, provide strong indications of the performance of a local economy. Building plan developments and passenger vehicle sales are two such sources of data. Building plans submitted and completed are key indicators of the level of economic development in Cape Town, and passenger vehicle sales mirror trends in the business cycle and are regarded as a leading indicator for GGP growth.

BUILDING DEVELOPMENTS

This section focuses on building developments recorded by the City of Cape Town for the third quarter of 2014. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, building plan submissions and building plans completed are key indicators of the level of economic development occurring within the city.

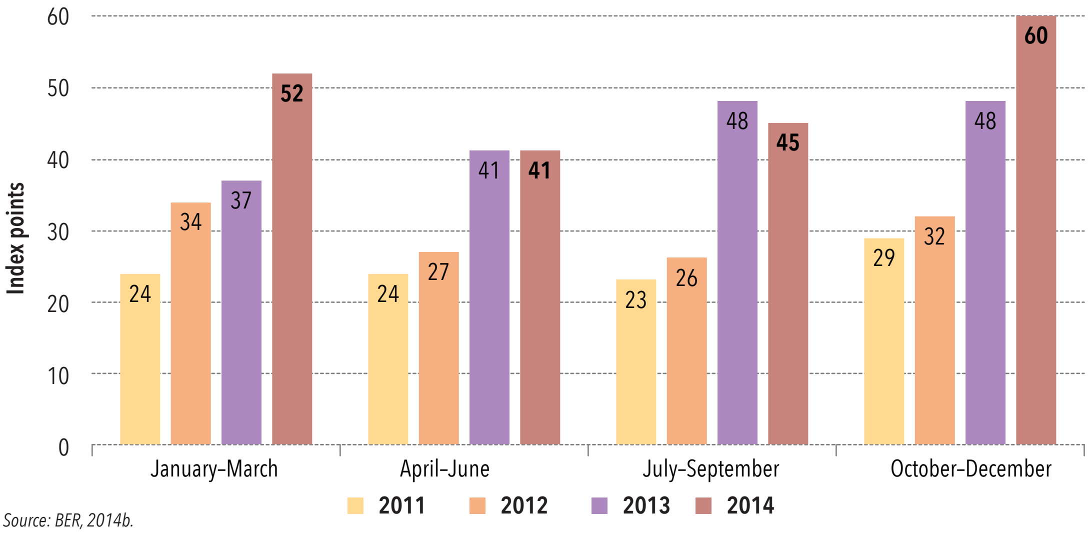
CONSTRUCTION INDUSTRY OVERVIEW

Chapter 4 showed that output in the national construction industry grew by 2,2% quarter on quarter in the third quarter of 2014. The industry recorded a year-on-year growth rate of 2,9%, making it the third-fastest-growing industry in South Africa on a year-on-year basis. In contrast the Western Cape recorded a 0,9% contraction in the construction industry (%) in the third quarter. The disparity in the growth of the industry in the Western Cape compared to nationally is smaller on a year-on-year basis and is reversed – with the Western Cape construction industry growing at 3,3% and South Africa at 2,9%.

The First National Bank (FNB)/BER (2014b) composite building confidence index reveals the percentage of respondents, namely architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied or wary of the prevailing business conditions. The building confidence index rose to 45 points in the third quarter of 2014, after slumping to 41 in the second quarter. The latest findings of the index have revealed an even sharper increase in confidence in the fourth quarter (60 points). This was a result of increased confidence by residential contractors and quantity surveyors. The findings of this building confidence index indicate that 'the recovery in the building sector has gained noticeable momentum' (FNB/BER (2014b).

The building confidence index rose to 45 points in the third quarter of 2014, after slumping to 41 in the second quarter. The latest findings of the index have revealed an even sharper increase in confidence in the fourth quarter (60 points).

44 Building confidence index (2011–2014)

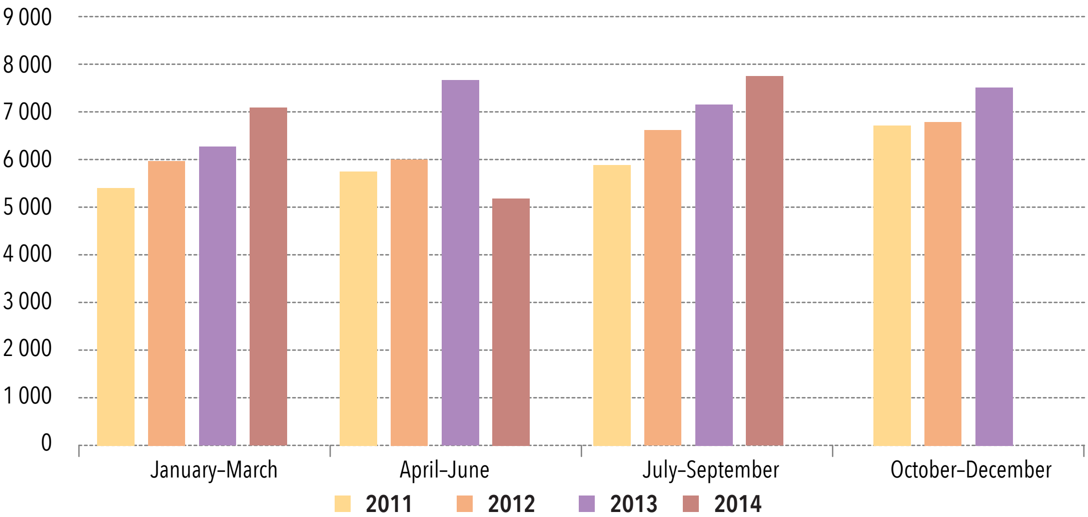


Source: BER, 2014b.

BUILDING PLAN APPLICATIONS IN CAPE TOWN

Building plans submitted to the City of Cape Town in the third quarter of 2014 increased by 49,4% compared to the previous quarter. Figure 45, however, provides an annual comparison of the number of building plans submitted in each of the quarters over the past three years, thereby accounting for seasonal trends in the building and construction industry. It clearly depicts the increase in the number of building plans submitted to the City in the third quarter of 2014 compared to the corresponding period in 2013 and 2012, corroborating the record level of building confidence. The year-on-year growth rate in the number of building plans submitted in the third quarter of 2014 is 8,1%.

45 Building plans submitted



Source: City of Cape Town, Planning and Building Development Management, December 2014.

BUILDING PLANS COMPLETED

While the number of building plans submitted is certainly an indicator of the level of confidence in the construction industry, and points to its future performance, it does not measure the current actual output of the industry. The better indicator of actual growth in the industry is the number of building plans completed. Building plans completed represent actual construction activity, as opposed to building plans submitted, which represent the anticipated level of construction activity in the future. While building plan approvals must have a turnaround time of 30 to 60 days after submission, the completion of building work can take up to five years after approval. The completion of building plans reflects the current economic climate within a region. By measuring the actual work undertaken to complete a building plan, actual economic activity – including employment and remuneration as well as spending on materials – is captured.

The year-on-year growth rate in the number of building plans submitted in the third quarter of 2014 is 8,1%.

Table 10 compares the number of completed building plans in Cape Town in the third quarter of 2014 to the number of completed building plans in South Africa over the same period. The statistics presented in the table for Cape Town and South Africa stand in stark contrast to the record level of building confidence indicated by the FNB/BER building confidence survey.

The value of building plans completed in Cape Town in the third quarter amounted to R2,2 billion, which accounted for 16,4% of the total value (R13,6 billion) of building plans completed in South Africa's larger municipalities. Both Cape Town (-41,9%) and South Africa as a whole (-3,9%) recorded a year-on-year decline in the value of building plans completed. In Cape Town, this decline was largely driven by a 66,1% reduction in non-residential building as well as a 48,6% reduction in additions and alterations. The decline in these categories is perhaps reflective of the impact that low business confidence in previous quarters had on building work in the current quarter.

The substantial decline in the value of building plans completed in Cape Town is nevertheless seemingly at odds with the finding that the construction industry grew at 3,3% year-on-year in the Western Cape. However, the construction sector as a whole comprises more than just building developments, and it may be that other activities, such as civil engineering projects, are growing more strongly. Additionally, the impetus for growth in the provincial construction sector may be coming from other Western Cape localities.

10 Building plans completed in the third quarter of 2014

	Cape Town		South Africa	
Measure	**Number/value**	**Year-on-year change**	**Number/value**	**Year-on-year change**
Building plans completed	4 266	-45,3%	N/A	N/A
Value of building plans completed	R2 233 million	-41,9%	R13 606 million	-3,9%

Source: City of Cape Town, Planning and Building Development Management, September 2014; Stats SA, December 2014.

NEW VEHICLE SALES

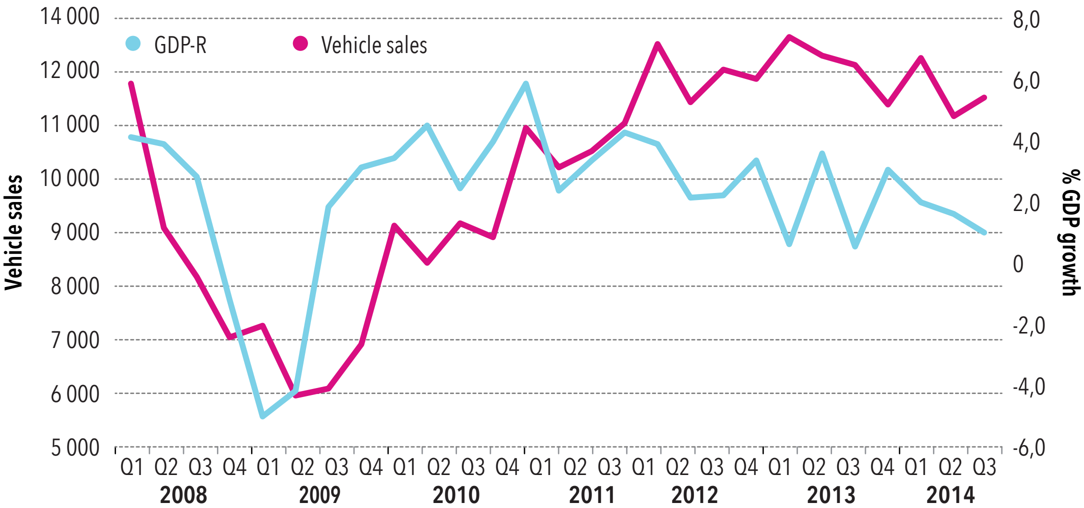
This section will track new vehicle sales in the province on a quarterly basis. Typically vehicle sales, especially passenger vehicle sales are considered to mirror trends in the business cycle and, in particular, are often regarded as a leading indicator for GDP growth. New vehicle sales are sensitive to changes in economic indicators like the interest rate, inflation, disposable income and consumer and business confidence levels. As such an analysis of vehicle sales can provide an indication of the current stage or health of the business cycle. If sales decrease consistently, the economy is more than likely in a contraction phase while if sales reflect a sustained growth trend then the economy may be entering an expansion phase.

In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (Naamsa). The total vehicle sales in the Western Cape increased from 17 282 vehicles sold in the second quarter of 2014 to 17 665 in the third quarter. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw a decrease of 351 from the 18 016 total vehicle sales sold in the corresponding period in 2013. Passenger vehicle sales, which is the private consumer segment of the market, saw an increase from 11 951 in the second quarter of 2014 to 12 321 in the third quarter for the Western Cape. However, there was a 5,4% decrease in passenger vehicles sold as compared to the corresponding period in 2013. Nationally there was a 0,9% increase in the number of passenger vehicles sold in the third quarter of 2014 compared to the corresponding period in 2013. The subdued and, to an extent stagnating, vehicle sales compared to 2013 should be viewed in light of a year-on-year economic growth rate of below 2%, and a 0,75 percentage point increase in the interest rate, both of which would have had a negative impact on consumer confidence and their willingness to make large purchases.

Figure 46 plots the total passenger vehicle sales per quarter alongside the regional gross domestic product (GDP) for the Western Cape. The South African Reserve Bank (SARB) includes new passenger vehicle sales as one of the variables in its leading indicator for GDP growth, with the assumption that new passenger vehicle sales and GDP growth are positively correlated, and that passenger vehicle sales 'leads' GDP growth. This assumption is not unique to the SARB as passenger vehicle sales have been used as a leading variable in a number of leading indicator models. Looking at figure 46, however, it would appear that in the Western Cape GDP growth seems to lead passenger vehicle sales growth and not vice versa. This said, the actual nature of this relationship can only be fully appreciated when one isolates the impact that passenger vehicle sales have on GDP through the use of regression analysis. The City of Cape Town is currently working on a composite leading indicator for GDP growth, which will analyse these relationships in more detail.

The subdued and, to an extent stagnating, vehicle sales compared to 2013 should be viewed in light of a year-on-year economic growth rate of below 2%, and a 0,75 percentage point increase in the interest rate.

46 Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1 2008 to Quarter 3 2014)



Source: Quantec, Vehicle Sales (Naamsa) November 2014.

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List of abbreviations

ACSA	Airports Company South Africa
BER	Bureau of Economic Research
BRICS	Brazil, Russia, India, China, South Africa
CPI	consumer price index
FDI	foreign direct investment
GDP	gross domestic product
GGP	gross geographic product
GVA	gross value added
HDI	human development index
IMF	International Monetary Fund
MICE	meetings, incentives, conferences and exhibitions
MPC	Monetary Policy Committee
NAAMSA	National Association of Automobile Manufacturers of South Africa
NERSA	National Energy Regulator of South Africa
NPA	National Ports Authority
PMI	purchasing managers' index
PPI	producer price index
QLFS	Quarterly Labour Force Survey
SADC	Southern African Development Community
SARB	South African Reserve Bank
SETA	sector education and training authority
Stats SA	Statistics South Africa
UNWTO	United Nations World Tourism Organisation
WTO	World Trade Organisation

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