Western Cape Government
Economic Development and Tourism

BETTER TOGETHER.

Quarterly Economic Bulletin
Quarter 4 2015

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MINISTER'S FOREWORD

I'm pleased to present the very first Economic Bulletin brought to you by the Western Cape Government. In this report, which will be published on a quarterly basis, we will cover key economic indices from across the province. More importantly, to ensure this data is 'useful' to you, our team will provide in-depth analyses of the emerging trends we identify.

The idea for this report arose out of discussions with small businesses, and following requests from investors, for real time information on the state of our economy. Many business people told us that data is often incoherent and too expensive. It is my firm belief that up-to-date, quality data is worth more than its weight in gold: If used strategically, data has the power to lead new thinking, encourage innovation and take businesses to the next level.

With this in mind, we hope the Quarterly Economic Bulletin will become a valued tool which enables businesses and potential investors to grow their market share and create more jobs for the residents of our region. Our aim is also for it to serve as a platform through which we can share our economic policy thinking with you. We value your feedback and contributions, and look forward to engaging with you on trends in our economy.

Alan Winde
Minister of Economic Opportunities

HEAD OF DEPARTMENT'S FOREWORD

The Western Cape economy continue to outperform the national economy in most of the key economic indicators. We have developed deliberate economic strategies and polices to create an enabling climate that accelerates employment and economic growth and we are starting to see the fruits of that labour. This bulletin recognises that communication of our economic performance and progress against our strategic goals could be improved, and this will indeed be so through the promotion of this quarterly provincial economic bulletin.

It is also important to note that as the global, national and provincial economies change, economic strategies and policies must adapt accordingly if economic outcomes are to be maximised. Industry has communicated to us that changes in economic trends and economic strategies must be communicated in a timely manner so that firms can better prepare themselves to respond to these changes. Communication of these changes and the analysis thereof will form a considerable part of this bulletin. The bulletin intends to invite industry to engage in the provincial economic strategic discourse through relating the Western Cape Government's reasoning of its economic strategy development.

We hope you find the analysis and economic intelligence shared in this and future editions of the economic bulletin helpful and profitable to your business and invite you to engage with us on any matters discussed here.

Solly Fourie
Head of Department
Department of Economic Development and Tourism

EDITOR'S NOTES

I am delighted to present the first edition of the Western Cape Economic Bulletin. The intent of the bulletin is to accomplish a number of goals; report on economic performance, describe economic trends which may assist firm-level decision-making, provide economic analyses on prevailing trends, stimulate and introduce economic dialogue, improve the process of economic policy and strategy development, share the Western Cape Government's economic strategy and objectives to provincial economic stakeholders, and lastly, share progress against those objectives. The quarterly bulletin intends to undertake these objectives in a manner that is easily accessible to its readers.

Governments and firms aggressively jostle to best position themselves to profit from emerging trends and new business models. Making sense of these trends and understanding the impact of economic events, however, is complex at best. Business models that would have seemed like something from the pages of fiction are decidedly mainstream today.

This is evidenced by, amongst others, the fact that some of the largest global firms today do not have any sizeable tangible assets; firms that make consumer goods do not own a single factory; and other behemoths that offer services do not expect consumers to pay for it.

Never mind making sense of the long term implications of trends - how does one explain that Google which, in the main, offers only free products and services to its consumers is worth more than the GDP of Denmark, South Africa or Singapore? Who would have predicted that a firm such as Apple that sells effectively one model of cellular phone and applications that run on them for about $1 or so, be worth nearly twice as much as the most diverse firm on the planet, the 125 year old General Electric that has many really big factories making really big things in the transportation, healthcare, aviation, energy, oil, gas and other industries.

Over the past decade, financial events could not have unfolded more dramatically had they been penned by Tolkien, Orwell or Grisham themselves. Adam Smith, the father of modern economics, would have found it difficult to understand how companies such as Uber and AirBnB disrupt their respective industries in the manner that they have, without owning a single cab or accommodation venue. Firms that facilitate these transactions between households, without any physical assets, manage to accumulate staggering amounts of revenue and market capitalisation. The quest for efficiencies has extended beyond production lines. Firms are recognizing and exploiting economic wastage everywhere.

The pace and intrigue of economic developments have not disappointed in this new world of social media with its 160-character attention spans either. The depths of economic swings have been nothing short of biblical proportions, but whereas the forty day flood was a once-off event that would have been analyzed and talked about decades later, economic swings of that magnitude have now become an annual occurrence that barely justifies printing ink. From June to August this year the Chinese equity markets alone lost some $4 trillion, that is an amount larger than the GDP of Germany, in 90 days! On 24 of August, more than double the annual GDP of South Africa just disappeared from Chinese equity markets - yes, in a single day!

How bad must our math skills be when we count 10 trillion instead of 6 trillion? How do the smartest minds miscount value to the tune of more than 10 times the GDP of South Africa? Strangely though, it barely makes page three of mainstream newspapers. Is that how desensitized we have become? I can only think that the reason it doesn't make it into mainstream print is because it makes for such bizarre reading that the average person would find it too outlandish to comprehend.

This leads me to two important realisations. Firstly, it demonstrates how vulnerable a small, open economy such as South Africa's is, to global events - and, even if we posessed a crystal ball that was in working order, there would not be much we could do to insulate ourselves from such events. This is particularly true since much of our, and other industrial nations', policies are focused on increasing trade. Trade, by its very nature, is subservient to the economic volatilities of our trading partners. If our trading partners do well, they buy more locally produced goods; which leads to increases in employment. Employment increases lead to decreases in government-funded social services, which in turn leads to downward pressures on other social ills, such as violence. Lastly, employment increases lead to an increase in the tax base, which in turn leads to reductions in marginal tax rates for the citizen and business alike.

But when our trading partners miscount by a few trillion USD here and there or when their regulators get it wrong by allowing for the construction of financial instruments of mass economic destruction, we face the cost of abdicating economic control through focusing overly on trade. In response to external events, a very open economy that is overly dependent on trade for growth renders much of the internal economic instruments impotent. Interest rates can only go as low as zero nominally, central bank printing presses can only work overtime for so long before uneasy levels of inflation announce their presence, and governments can only stimulate fiscally for so long before financial markets punish fiscal exuberance.

Trade is a positive sum game and must be an imperative, but if industrial policy is too heavily focused on trade growth, fluctuations in employment and economic growth are equally overly dependent on global economic developments. We ought not to be differentiating between export and non-export related jobs. Over the last 12 month period up to the second quarter of 2015, the bulk of employment was created in the informal economy. These jobs do not export products or services but they reduce the burden on public social spend, they create downward pressures on other social ills such as violence and substance abuse, they may not always increase the direct tax base but they sure increase tax collection through consumption taxes; and my local barber is not directly exposed to any global economic volatility.

The second realisation is that there is no doubt that the discipline of economics is maturing and that economic modelling, vis-à-vis economic prediction is more sophisticated than ever and is resembling applied mathematics more and more. The question then that begs exploration is, why have financial and economic crises become more frequent and deeper? As economists we may offer many explanations, from poor regulation, poor monetary policy, poor corporate governance practices to poor fiscal discipline, but rarely do we explore the shortcomings in the very discipline of economics; or more specifically, where we as economic practitioners have taken economics to.

Economists, it has been argued, suffer mathematics envy. To compensate for this condition, so the narrative goes, we have developed sophisticated mathematical models to describe the behavior of human beings, the very agents of the economy. Now don't get me wrong, models, even the sophisticated ones, contribute very positively to the discipline of economics, but to rely on them to the degree that we have is akin to not only determine the outcome of a Manchester United vs Barcelona football match by using a PlayStation simulator, but to rely on the simulator to know where on the field the players would be and what they would be doing in the 52nd minute of the game.

All economic models, at times, are proved wrong and, depending on the economic conditions, some models are, at times, reasonably accurate. Appreciating this, the human condition and the limitations of economic reporting and analyses, is key in making sense of this sometimes irrational world we live in. After this ever so slightly lengthy editor's foreword, I do hope you enjoy this first edition of the Western Cape's Quarterly Economic Bulletin.

Nezaam Joseph
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INTRODUCTION

Governments have the ability to influence economic outcomes substantially and can leverage economic opportunities by implementing appropriate economic policies and strategies. Maximizing economic outcomes requires effective two-way communication between it and its economic stakeholders, in fact, economic outcomes may not be fully achieved if economic agents are not communicated to effectively, participant and support government economic policy and strategy. This bulletin recognises the importance of effective communication and will provide a platform for communication between Western Cape Government and all of its economic stakeholders.

This bulletin is the only regular economic publication published by the Western Cape Government that communicates its economic strategy, key strategic economic interventions and economic policy directives. This first edition of the Western Cape Quarterly Economic Bulletin (the QEB) will, at length, describe intended outcomes and strategic thrusts of the Provincial Strategic Goal 1 (PSG 1). PSG 1 – Create opportunities for jobs and growth- is one of the five Western Cape Government's provincial strategic goals.

The QEB will analyze economic trends and events that affect the regional and national economy, and discusses economic opportunities for the region and its firms. This edition however will focus on the structure of the Western Cape economy and that of its 29 municipalities. It will describe, at provincial and municipal level, size of sectors (GVA and employment), growth rates and demographics.

Providing the structure of economies at local government level is in response to request by local government and firms about the structure and size of sectors at municipal level. We do recognise that presenting economic structure and performance at municipal level makes for dry reading, nonetheless, we do think that it is important to both local government and business as an aid to decision making.

Finally, this edition of the QEB will examine the performance of the global, national and provincial economies and take a closer look at industry performances as well as the economic outlook for these economies. The next edition of the QEB will focus on inequality, the process of economic decision making and examine one area of PSG 1 in greater detail while also providing a quarterly update on progress against PSG1.

We welcome any feedback, requests or letters to the editor for publication. Please direct them to Nezaam.Joseph@westerncape.gov.za

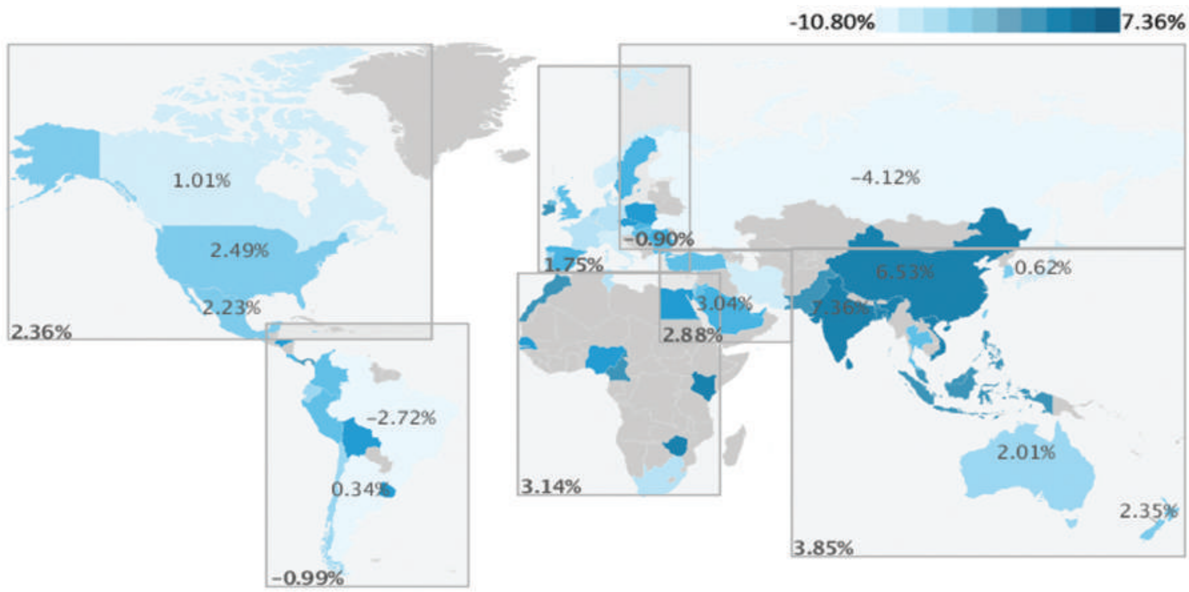
WORLD ECONOMIC PERFORMANCE AND OUTLOOK

WORLD ECONOMIC PERFORMANCE AND OUTLOOK

The global economic outlook is important to both the South African and Western Cape economies in a number of ways. Exports from South Africa and the Western Cape makes up more than 26% and 21% of GDP respectively. The extent of our exports – Western Cape exports are worth more than R114 billion per annum - is dependent on the performance of our trading partners. The price of our exports is dependent on events beyond our control, such as global demand, supply curves of products and currency fluctuations, which in turn are strongly influenced by central banks beyond our shores.

When the global economy do well, and particularly that of our trading partners, we benefit handsomely - as was the case during the super-commodities cycle of the 2000s. But, when global markets turn negative, as they did during the financial crisis, it poses serious risk to the local economy and local jobs. Developing a view of global economic prospects, trends, and risks is paramount for smoothing out local economic volatility and maximising domestic growth.

FIGURE 1: OVERVIEW OF GLOBAL GDP



Source: IHS

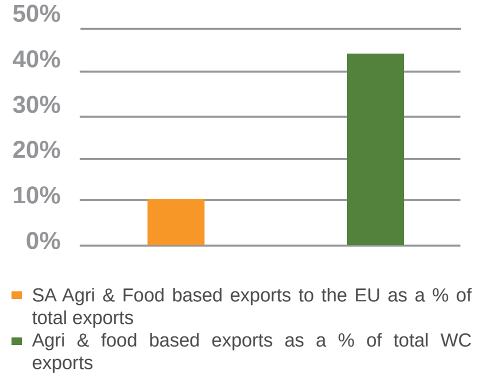
Evidenced by the graphic above, global growth, which is anticipated to reach 3.45% in 2015, is uneven - not only between economic zones but also amongst countries within economic zones. Our most important trading block by virtue of its size is the European Union. Long-term EU growth is not expected to be much higher than 3%, mainly due to its greying population. Current EU growth rates have however, slowed to 0.3% in the third quarter of 2015. While the slowdown is expected to affect South African exports negatively, Western Cape EU exports are not expected to be impacted as much - mainly due to differences in the type of respective exports from South Africa and the Western Cape to the EU. While agriculture and food sectors only account for 13.5% of total SA exports to the EU, 72% of these exports are from the Western Cape. In fact, these two sectors make up more than 64% of Western Cape exports to the EU.

It must be noted that while the Western Cape does indeed dominate food and agricultural based exports to the EU, the extent of Western Cape Agri-activity is exaggerated because Western Cape harbours are export conduits of agri-based goods and commodities to the EU. Because consumption spend in the EU has experienced healthy gains, it is unlikely that Western Cape exports will be significantly impacted by the EU slowdown, not in the short-term anyway.

FIGURE 2: SA AND WC AGRI-EXPORTS TO THE EU

Source: IHS

FIGURE 3: WESTERN CAPE EXPORTS TO THE EU

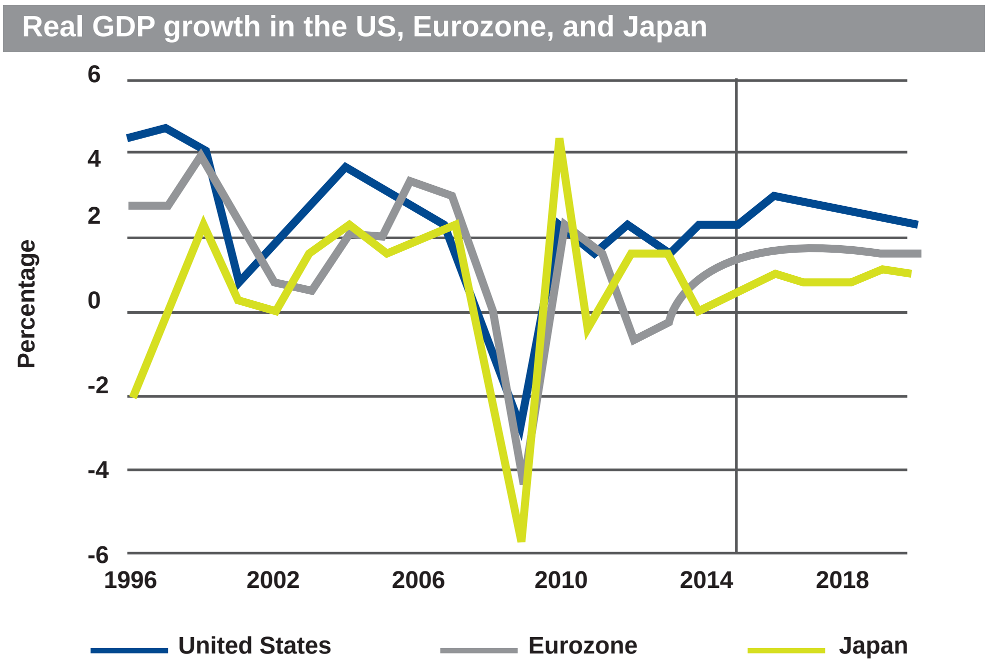


Source: IHS

The US economy experienced what is anticipated to be a temporary slowdown from 3.9% in quarter 2 to 1.5% in quarter 3, but economic fundamentals remain strong. US productivity (2.2% in quarter 3) again outgrew unit labour costs increases (1.8%). The US economy has on average consistently added more than 200 000 jobs per month, holding unemployment constant at 5 percent. The slowdown was due to a correction in high levels of inventory but, as the inventory cycle plays out, it is expected that factory activity will accelerate. US household spending is holding up well at 3.2%, which is smoothing the temporary factory slowdown.

Notwithstanding historically low interest rates, U.S. inflation remains subdued and very little evidence exists that indicates that the US economy is in an upward inflationary cycle. The market is however pricing in an increase in the the interest rates. A tightening US monetary stance will likely hasten tightening of the domestic interest rate stance, in an attempt to pre-empt offshore exits from financial markets. A financial market selloff will put further pressure on the local currency, which will likely lead to a second round of inflationary effects. It could also be argued that because the market has already priced in a US Fed interest rate increase, should the Fed increase its base rates, it would not have an affect on South Africa financial markets.

FIGURE 4: GDP: US, EU AND JAPAN



Source: IHS

Developing economies' fortunes are mixed. The Chinese economy has been slowing, ever since the financial crisis of 2008 and is expected to plateau at 6.3% during 2016. Over recent times, the Chinese authorities have used a broad range of instruments to stimulate economic activity, such as currency devaluation, reducing the price of money and fiscal stimulation.

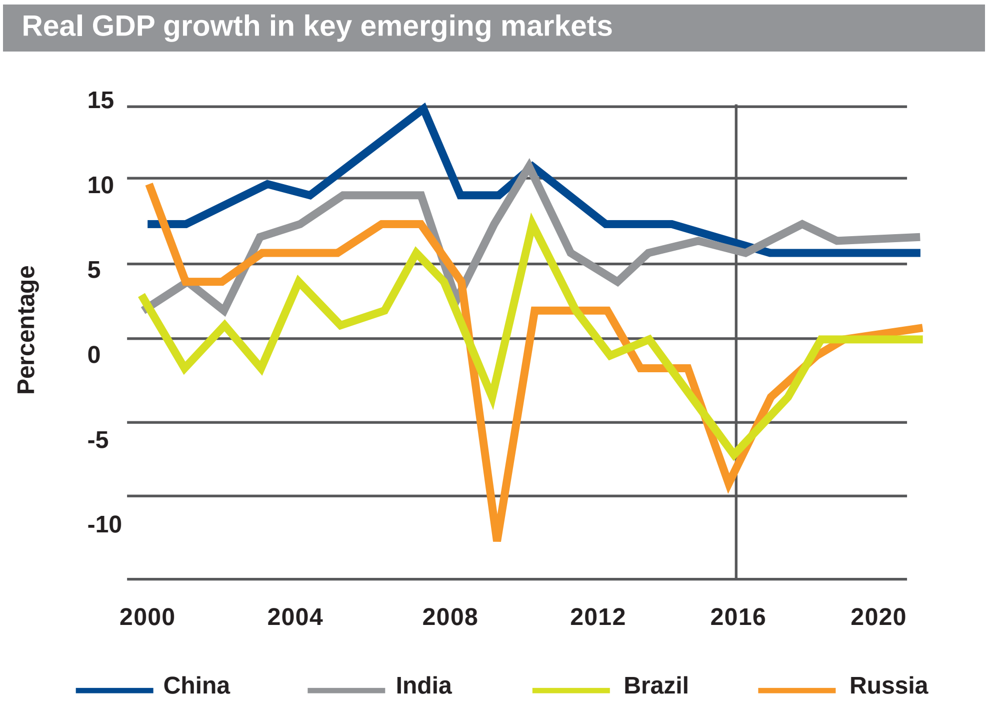
Like many other economies, in part due to low interest rates, China too is experiencing two-speed growth. The industrial and construction industries have slowed down to 5.8% whereas the services sectors continue to show robust growth rates at 8.8%. The industrial slowdown does not bode well for commodity prices, on which thousands of South African jobs depend. Robust Chinese consumer spending bodes well for the Western Cape as nearly 50% of all Western Cape exports to Asia are agriculture and food-related. The Western Cape accounts for about 50% of all food and agricultural exports to the APEC region from South Africa.

India is the only BRICS economy that is forecast to show robust and accelerating growth, in fact it is now the fastest growing major economy, expected to grow at 7.5% over the medium term and its economic fundamentals are solid. Inflation is at record low levels, investment is picking up, and evidence of stronger capital goods imports exists. Due to low commodity prices, producer gate prices are experiencing deflation, which has resulted in four interest rate cuts during 2015.

Exports, however, have been disappointing. In response to export weakness, Modi's "Made in India" campaign is intended to diversify the economy from the technology-related sector by stimulating manufacturing activity. India's low interest rates and low inflation provides further monetary space to simulate the economy if needed.

The remaining BRIC countries, Brazil and Russia, are in recessions and will likely remain so over the next few quarters. Fortunately, South Africa and the Western Cape are not overly exposed to these countries in terms of exports.

FIGURE 5: GDP: BRIC



Source: IHS

WORLD INDUSTRY OUTLOOK

A look at sector performance across major economies is probably more interesting than looking at overall country performance, particularly from the perspective of trade and investment. A closer look at sector performance at a country level, it becomes evident that most countries, even those with poor growth, have certain sectors that are growing quickly.

TABLE 1: EU AND REST OF THE WORLD GDP GROWTH

	Western Europe				Rest of world				
	Industry share	1994-2014	2015-2019	2020-2029	Industry share	1994-2014	2015-2019	Rank of 2015-2019	2020-2029
GDP		1.7	1.9	1.7		2.7	3.1		3.0
Business Services	8.6	3.5	3.6	2.3	5.7	3.4	4.7	8	3.6
IT Services and R&D	2.7	5.1	3.4	2.6	2.1	5.8	4.1	12	3.8
Computers and Electronics	0.4	1.9	3.2	2.6	1.2	8.6	6.1	2	5.1
Communication Services	2.0	4.8	3.2	2.7	2.4	7.2	6.2	1	4.7
Motor vehicles, parts, motorcycles	1.2	2.8	3.0	1.4	1.5	4.7	3.8	14	2.1
Financial intermediation	7.3	2.6	3.0	2.2	7.0	4.3	4.7	7	3.8
Transportation & Logistics	10.3	2.2	2.6	1.9	11.2	3.4	4.5	10	3.9
Real Estate	11.0	2.1	2.4	1.9	8.1	2.8	3.1	18	2.9
Construction,Cement & Glass	6.0	0.2	2.4	1.6	6.4	2.9	4.9	6	3.4
Media & Entertainment	5.5	1.3	2.0	1.6	4.1	2.2	3.4	16	3.2
Chemicals, Plastics & Rubber	1.7	1.3	1.8	1.3	2.3	3.9	5.0	3	3.3
Consumer Orientated Sectors	7.9	0.4	1.7	1.3	7.8	3.0	4.5	11	3.7
Water Utilities & Recycling	0.3	2.2	1.7	1.4	0.3	2.4	4.0	13	3.5
Agriculture, Food, Wood, Paper	4.4	0.7	1.5	1.0	8.3	2.7	3.7	15	3.0
Machinery for Industry	2.3	1.4	1.3	1.6	2.0	5.5	4.6	9	3.2
Government, Defence, Education	14.0	1.3	1.3	1.4	12.1	2.3	3.2	17	3.6
Metals & Metals mining	2.1	0.9	1.1	0.9	3.9	4.3	4.9	5	3.7
Medical & Health Care	8.8	2.5	1.1	1.8	5.7	3.6	5.0	4	4.4
Energy Complex	3.6	-0.1	-0.1	0.5	8.0	2.3	2.4	19	1.8

Source: IHS

It is interesting to note that, while aggregated EU and Rest of the World growth rates are soft, the tertiary economy appears to be holding up relatively well - not only in the EU, our largest trading partner, but also across most of the globe. Over the next four years business services, IT and financial services are expected experience robust growth of over 3% per annum, while the rest of EU is expected to grow at less than 1%.

Business Processing Outsourcing (BPO) growth, a component of business services, is evident in the Western Cape. The regional BPO industry has shown reasonably strong growth by adding more than 5000 jobs that service offshore markets.

BPO growth is predominantly a skills play. Double digit annual growth experienced in India is primarily due to an abundance of quality business service skills, stimulated by deliberate government interventions. India is taking full advantage of their decades-long investment in the development of technology and business related skills, which in turn has positioned the country as a services sector global hub.

Local and OECD-domiciled firms continue to import Information Technology competencies through offshoring because of skills shortages in these countries and price differentials relative to that of Far East countries. It is further estimated that, notwithstanding relatively high unemployment in much of Europe, up to one million vacant ICT posts will exist in that region due to skills shortages. As depicted below, medical and health services to are experiencing accelerated growth as the Indian economy increases in affluence and as more foreigners take advantage of low cost quality private health services.

TABLE 2: INDIAN GDP GROWTH

	India				Rest of world				
	Industry share	1994-2014	2015-2019	2020-2029	Industry share	1994-2014	2015-2019	Rank of 2015-2019	2020-2029
GDP		6.9	7.9	6.8		2.7	3.1		3.0
Communication Services	0.8	21.6	15.1	8.5	2.4	6.3	5.1	2	4.0
Real Estate	5.4	9.0	13.3	7.9	8.9	2.5	2.7	17	2.5
Financial intermediation	7.3	9.9	12.6	7.9	7.1	3.7	4.0	7	3.2
IT Services and R&D	2.8	8.8	12.5	7.9	2.2	5.5	3.7	8	2.9
Business Services	4.4	8.1	12.2	7.7	6.4	3.4	4.2	4	3.0
Transportation & Logistics	15.6	9.4	11.5	7.1	10.9	2.8	3.6	11	3.1
Government, Defence, Education	10.6	7.1	10.9	7.1	12.6	1.9	2.5	18	2.9
Medical & Health Care	4.6	7.9	9.9	6.8	6.4	3.2	3.7	9	3.7
Machinery for Industry	0.9	12.9	9.4	6.9	2.1	3.9	3.5	13	2.7
Media & Entertainment	1.3	8.6	9.4	7.3	4.4	1.8	2.9	16	2.6
Motor vehicles, parts, motorcycles	1.1	13.2	8.8	7.6	1.4	4.1	3.5	12	1.7
Consumer Orientated Sectors	8.2	7.0	8.8	6.7	7.8	2.1	3.6	10	3.0
Construction,Cement & Glass	8.4	6.4	8.7	7.3	6.3	1.9	4.1	6	2.7
Metals & Metals mining	2.1	7.3	8.2	7.1	3.5	3.4	4.1	5	3.1
Water Utilities & Recycling	0.3	5.0	7.1	4.3	0.3	2.3	3.3	14	2.9
Chemicals, Plastics & Rubber	1.4	7.2	6.4	6.0	2.2	3.1	4.3	3	2.9
Energy Complex	5.0	4.8	6.3	4.1	7.0	1.8	1.9	19	1.5
Agriculture, Food, Wood, Paper	18.8	3.9	4.7	4.0	7.1	2.1	3.2	15	2.6
Computers and Electronics	0.1	11.2	3.1	8.0	1.0	7.3	5.5	1	4.8

Source: IHS

Lastly, business services has and continues to hold up very well. Because global firms have become comfortable not only with outsourcing as a business model but also offshoring, which presents opportunities for South African firms to service OECD countries. Unlike many other industries, input factors in business or IT services are nearly all domestic.

CRUDE OIL PRICES

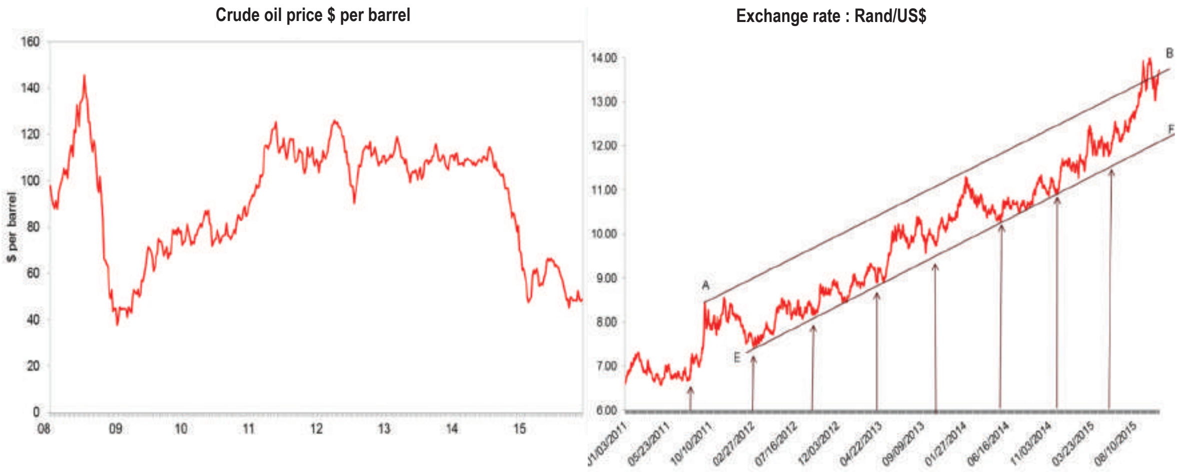
Brent, the benchmark used to determine South African fuel prices plunged by more 60% since mid-2014 to just over $40 per barrel. The cause of sharp drop in prices in 2008 was due to concerns about demand. This time, however, crude prices are soft because of excess supply, which bodes well for an oil importer such as South Africa.

The energy industry, in response to record oil prices leading up to the financial crisis, invested heavily in crude oil exploration. New global oil fields where discovered and shale gas production came online in massive quantities, which has and still is driving oil prices down. Furthermore, the imminent lifting of Iranian sanctions will see a further 600 000 barrels per day added to global supply in 2016 and US crude storage infrastructure is nearing full capacity.

It is clear that from the December OPEC meeting that low oil prices will not change OPEC's policy of unconstrained oil output in the short-term. It appears that member countries are more concerned about market share than price at this point.

Low oil prices have affected capital investment and exploration in the industry, which could negatively affect oil exploration and production on the East and West coasts of Africa. Current price levels may affect the viability of shale gas exploration in the Karoo area. Declining interest in shale gas in the Karoo basin by large oil multi-nationals companies may be less to do with the South Africa government's insistence on the 20% carry and more to do with lower global oil prices.

FIGURE 6: CRUDE OIL PRICES AND RAND/US$ EXCHANGE RATE



Source: Econometrix

The impact of the decline in oil prices was offset by sustained devaluation of the Rand. Notwithstanding sharp declines in crude prices, year-on-year consumer fuel prices increased slightly, due to sustained rand weakness. Because petrol prices contribute 5.68% to the overall Consumer Price Index, consumer fuel price increases will naturally exert upward pressure on inflation.

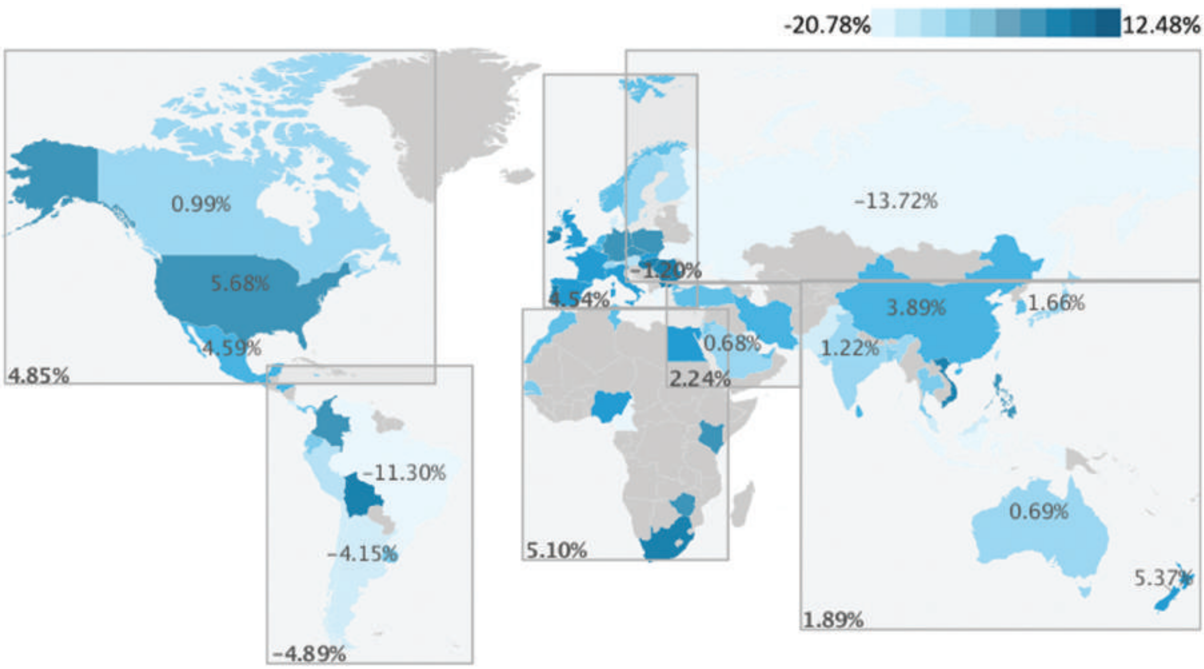
WORLD IMPORTS

The figure below is interesting in that, even though EU economic growth is flat, the EU experienced one of the fastest import growth rates (4.54%) during 2015. Increase in EU imports is driven more by consumer than investment spending, which bodes well for Western Cape exports.

One would have expected that Indian imports to have increased by more than they have (1.22%), given that it is the fastest growing economy. Because Indian GDP growth was concentrated amongst services related sectors, which is not heavily import dependant, GDP growth did not cause any significant growth in imports.

A slowdown in Russian imports is expected as the recession deepens (-4.12%), but the speed of the import slowdown (-13.72) was sharper than what most expected. Low oil revenues severely impacted government finances and investment projects.

FIGURE 7: WORLD IMPORT GROWTH



Source: IHS

NATIONAL PERFORMANCE AND OUTLOOK

South Africa's short-term growth prospects remain very weak. While the economy managed to avoid a technical recession by posting a modest Q3 growth of 0,7% after a protraction of 1.3% the preceding quarter, the South African Reserve Bank composite leading business indicator (which is comprised of key business indicators showing movements in the business cycle) reached its lowest level in six years, a further indication that the economy is expected to remain weak over the next twelve months at least. The biggest drags on the economy, as depicted by the table below, are, the agriculture, mining, and electricity sectors.

All three of these sectors have much wider economic consequences. Low agricultural output impacts inflation through food prices. Mining is one of the key sources of foreign reserves, which provides support to the currency and electricity is critical for all economic activities.

TABLE 3: ANNUALIZED QUARTERLY GROWTH

Quarter on Quarter annulised (%)	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Agriculture	4.8	5.6	9.5	7.5	-18	-19.7	-12.6
Mining	-22.8	-3	3.9	15.2	10.2	-6.4	-9.8
Manufacturing	-6.4	-4	-1	9.5	-2.4	-6.3	6.2
Electricity	0.4	2	0.8	3.1	2.5	-7.5	-8
Construction	3.7	2.1	2.2	3.5	2	0.8	0.5
Trade and Catering	1.5	-0.2	3.4	-0.3	2.7	-0.6	2.5
Transport	1.4	3.9	2.2	2.9	1.2	0.2	0.1
Finance	1.4	1.2	2.4	3.5	3.3	2.6	2.8
General government	2.3	3.9	2.2	1.2	-0.8	0.6	1.2
Personal services	1.5	1.5	1.3	0.8	0.9	1.3	1.7
Total	-1.7	0.7	2.2	4.1	1.3	-1.5	0.7
GDP @ Market Price	**-1.5**	**0.5**	**2.1**	**4.2**	**1.4**	**-1.3**	**0.7**

Source: StatsSA and Econometrix

The graphic below is of particular concern, particularly within the context of the weak state of the economy and low productivity growth. Annualised quarterly growth in compensation of employees has sustained a consistent growth rate of between 7.6% and 8.4% over the last seven quarters. Increased labour costs aggressively drives up unit production costs, which negatively impacts competitiveness.

The current rates of labour price increases will price South African exports out of global trade and may lead to increases in imports as locally produced goods become more expensive relative to that of imports. Not even the rapidly depreciating currency is sufficient to counter the current rate of labour increases.

TABLE 4: ANNUALISED QUARTERLY COMPENSATION OF EMPLOYEES

Quarterly compensation of employees % change year on year	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Agriculture	6.2	7.7	7.3	6.8	6.3	5.3	6.5
Mining & quarrying	-4.3	-4.5	7.1	6.3	10.8	9.4	6.3
Manufacturing	6.7	8.4	8.1	9.2	8.9	9.3	9.2
Electricity	8.5	7.9	7.3	7.1	7.2	8.4	6.1
Construction	5	5	5.3	5.6	5.7	5.9	5.5
Trade and Catering	6.9	6.6	7.4	7.1	7.7	6.9	7.1
Transport & communication	6.9	7.9	7.5	8.1	8.5	8.6	8.3
Finance & Real Estate	8.5	9	9.2	11.5	11.7	9.6	8.4
Personal services	5.9	6.9	6.4	5.7	6.2	8.3	6.1
General government	9.9	9.2	7.2	7.2	4.8	5.8	8.2
Total	**7.4**	**7.3**	**7.6**	**8**	**7.7**	**7.8**	**7.9**
Total excl. Agriculture and mining	**8.4**	**6.2**	**7.6**	**8.2**	**7.6**	**7.7**	**8**

Source: Econometrix

AGRICULTURE AND THE IMPACT OF THE 2014/2015 DROUGHT

Agriculture disappointed again by posting its third consecutive quarter of substantial negative growth rates, as most of the country experience the worst drought in nearly thirty years. Agricultural output for the first three quarters of the year declined by more than 42%. The 1982, 1992 and 1995 droughts, of similar proportions to the current drought, negatively impacted the agricultural production by -35%, -60% and -35% respectively. Unlike the 1992 drought when National Treasury earmarked over R3 billion in support of farmers and food security, which in today's terms would equate to more than R10 billion, in disaster support to farmers. Because of the protracted counter-cyclical fiscal stance of National Treasury and financial support to state owned enterprise, National Treasury does not appear to have the fiscal space to support farmers and food security.

Droughts of this proportion do not only negatively influence agricultural production, but have wider economic implications. Because profits and salaries to farm workers are severely depressed, farm workers and farm owners purchase fewer goods.

In a normal season the country typically exports just over 3 million tons of maize per annum. Because of the drought, Econometrix estimates that the country would have to import 750 000 tons of maize. At current maize prices (of R3300 per ton) this would mean a trade loss of more than R2.4 billion. The impact of the drought extends beyond that of maize imports and affects other farming production lines too.

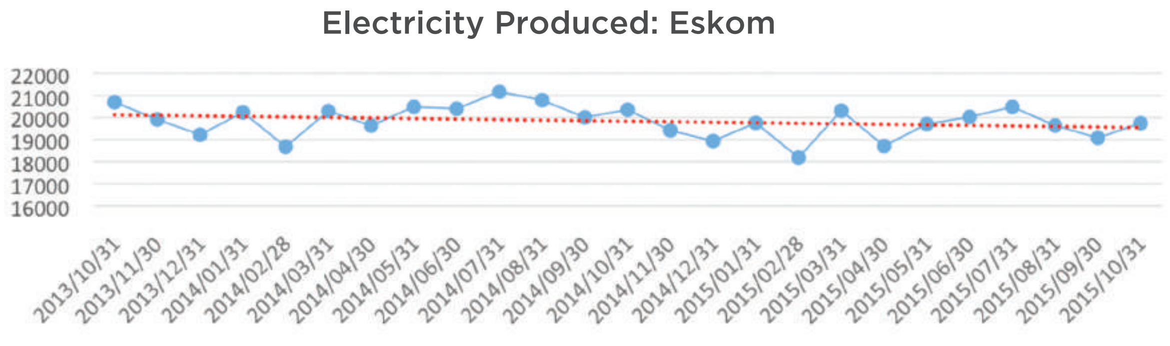
Fourthly, domestic shortages in food commodities will likely see higher food inflation, which affects the financially stretch poor more dramatically. Higher food inflation will also exert upward pressure on overall inflation, which in turn will compel the Reserve Bank to increase interest rates sooner and more aggressively. Livestock food inflation is likely to persist even after the rains start falling, as farmers would want to rebuild cattle stock and therefore hold back on bringing livestock to market.

Lastly, and perhaps most concerning, is the impact a protracted drought is likely to have on medium to long-term food security. Farming in South Africa is generally a leveraged industry and if the drought is protracted into the next season, farmers will face further financial distress and risk foreclosure, which will negatively impact food security in the medium to long-term.

ELECTRICITY SECURITY

December denotes nearly four months without electricity load shedding by Eskom. Unfortunately, it is not due to increases in production, but more because of economic weakness. The diagram below shows a negative trend-line in Eskom-produced electricity. Consumption, however, has decreased marginally faster than that of production, giving Eskom the space to undertake plant maintenance without net shortfalls. August and September each realised a 3.7% reduction in electricity consumption. It is probable that the decline in the electricity-absorbing mining sector contributed to this decline. Quarters 2 and 3 saw an overall decline in electricity demand of 6.4% and 9.8% respectively. October saw a slight increase in electricity consumption, mainly due to an increase in manufacturing activity.

FIGURE 8: ELECTRICITY PRODUCED BY ESKOM



Source: StatsSA

Other than for January 2014, over the past 24 months, every month realised a reduction in year-on-year production by the state-owned electricity producer. In August and September production decreased by 5.5% and 4.9% respectively, without the need for any load-shedding.

It is worth noting that Eskom's share of the total provisioning of electricity has been slowly declining from 94.6% less than a year ago to 93.6%, probably due to more renewable energy projects coming online.

COMMODITIES

The commodity super-cycle attracted significant investments in mining exploration, which in this slow growth environment resulted in an oversupply of mining commodities. This is evidenced by commodity prices approaching production costs. In fact, many mining investments are now not profitable with mining firms reducing output and contemplating closing shafts indefinitely. Lonmin and Anglo are cases in point. Lonmin shareholders approved a significant rights issue to raise money to keep the company afloat and Anglo indicated recently that, in order to keep it profitable, the company would have to shed more than 80 000 jobs.

The auto, construction and packaging industries are some of the biggest purchasers of mining commodities and current demand is not sufficiently robust to exert upward pressure on ferrous and nonferrous metal prices. While fundamentals may point to even lower prices, China appears to be reluctant to cut production of its labour-absorptive steel industries, content to absorb losses from steel production. Chinese mills produce up to 47% of aluminium and 37% of all zinc production, and it is estimated that China subsidises steel production by up to $100 per ton, which presents South Africa with both pros and cons.

The advantage is that China is providing a floor for mining commodities through subsidies to their mills, but the $100 per ton subsidy on steel production means that our local steels mills cannot profitably compete. Typically, mills employ lower educated workers, which South Africa has in abundance. Municipalities such as Saldanha Bay are very dependent on milling activity for employment and economic activity. The risk of closures of South African steel mills increased significantly over the past twelve months. It would be devastating to local economies, such as Saldanha Bay, if steel mills were to close down.

PERFORMANCE BY THE REST OF THE ECONOMY

It is not all doom and gloom though. If one excludes the performance of the mining and agricultural sectors, the economy does not appear to be as depressed as suggested by overall GDP statistics. If mining and agriculture is excluded, the economy improved by 2.2%, supported by robust manufacturing (6.2%), finance (2.8%), wholesale and retail (2.5%) growth. Quarter 3 presented the second best GDP growth in two years (the economy grew by 3% in Q3, 2014) if mining and agriculture are excluded.

Further evidence that the economy is not collapsing is healthy growth in heavy commercial vehicles, a trend that has been playing out for much of the quarter. If firms are investing heavily in heavy commercials, it is normally a signal that these firms are optimistic about the future.

CONSUMER SPENDING

In the current low interest rate environment, consumer spending held up well over the last few quarters, providing support to the economy. However, stronger headwinds are appearing. Transunion's Consumer Credit Index, an indicator of consumer health, has declined sharply in the 3rd quarter to 51.2, which is likely to slow down consumer spend.

The two 25 basis point increases in interest rates will increase debt servicing costs, which in turn will reduce disposable income. Furthermore, the increase in inflation from 4.1% to 4.8% has further strained the consumer, which has led to a rapid deterioration in the 3-Month Impairment Rate. While it is expected that retail sales will show an improvement year on year in the fourth quarter, they will do so at a slower rate.

WESTERN CAPE PERFORMANCE AND OUTLOOK

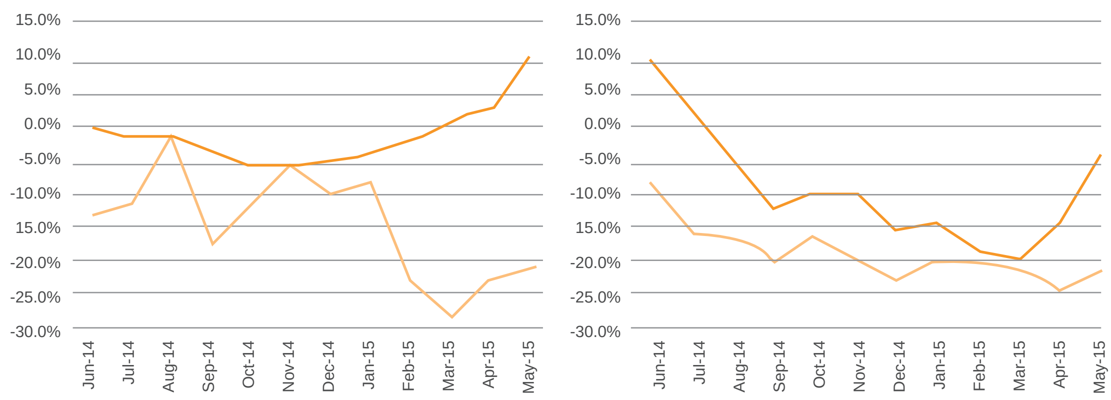
GDP in the Western Cape in recent times have consistently exceeded that of the overall South African GDP. While regional economic growth cannot detach itself from national economic performance, the Western Cape Government intends to maintain a widening gap between it's growth and that of the national economy. In doing so, the Western Cape has unique characteristics and competitive advantages over the rest on the country in tourism, long-term savings and a concentration of retail head-offices, that must be exploited. Offshore business process outsourcing growth is also concentrated mainly in the Western Cape.

The Western Cape Government appreciates that it is the private sector that creates jobs and that government must create a compelling environment to increase business confidence in which firms would want to invest. In so doing, government's role is to facilitate growth by reducing red tape, instilling confidence in the economy and ensuring adherence to the law. Business confidence, a leading key indicator of investment and economic performance, is a product of factors that are both exogenous and endogenous to South Africa or the Western Cape. However, there is much government can do to improved business confidence in the Western Cape. After years listening to and responding to industry concerns through a number of provincially developed key strategic interventions, we believe that we are seeing improved business confidence. This is evidenced by the growing gap between the Western Cape and the rest of South Africa's business confidence levels.

FIGURE 9: RMB/BER BUSINESS CONFIDENCE INDEX

Increases in business confidence, in nominal terms and relative to overall national confidence levels, has seen significant increases in fixed capital formation plans. As depicted below, the rest of the country is in the midst of a downward trend in non-residential plans passed, whereas it is tracking upwards in the Western Cape. Off an already low base, growth in non-residential renovations is zero nationally, but tracking strongly upwards in the Western Cape, already breaching the 10% mark earlier this year.

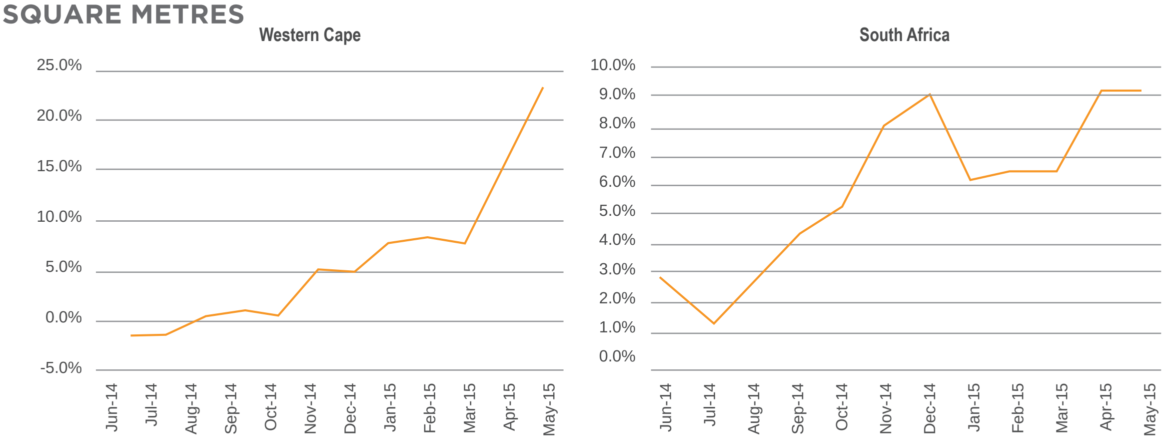
FIGURE 10: ROLLING TWELVE MONTH AVERAGE OF NON-RESIDENTIAL PLANS PASSED IN SQUARE METRES



Source: StatsSA

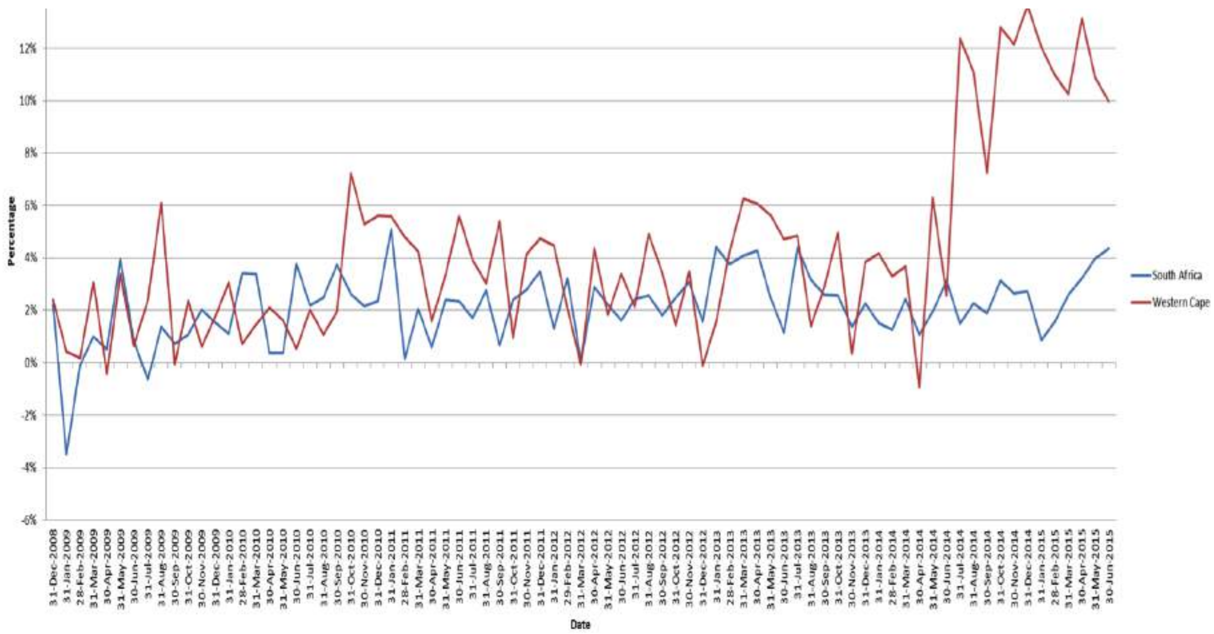
Western Cape residential construction growth plans are even more promising. Led in no small part by the quality of government services provided to its citizens, the rolling twelve-month average of the change in the number of square metres approved has breached 22%.

FIGURE 11: ROLLING TWELVE MONTH AVERAGE OF RESIDENTIAL PLANS PASSED IN SQUARE METRES



Source: StatsSA

FIGURE 12: ROLLING 12 MONTH AVERAGE OF % CHANGE IN TOTAL VALUE OF ALL RECORDED BUILDING PLANS PASSED BY LARGER MUNICIPALITIES



Increases in private sector infrastructure spend and increases in business confidence levels bodes well for future economic activity within the province. The 2015 quarter 3 Quarterly Labour Force Survey supports trends in business confidence and increases in fixed capital formation. Even though the Western Cape is only the third largest provincial economy and also the third most populous province, in quarter 3 it created 60 000 jobs, the highest number of jobs created across the board. The unemployment rate in the Western Cape is now 20.5%, well below the national average of 25.5%.

TABLE 5: 2015 QUARTER 3 LABOUR SURVEY

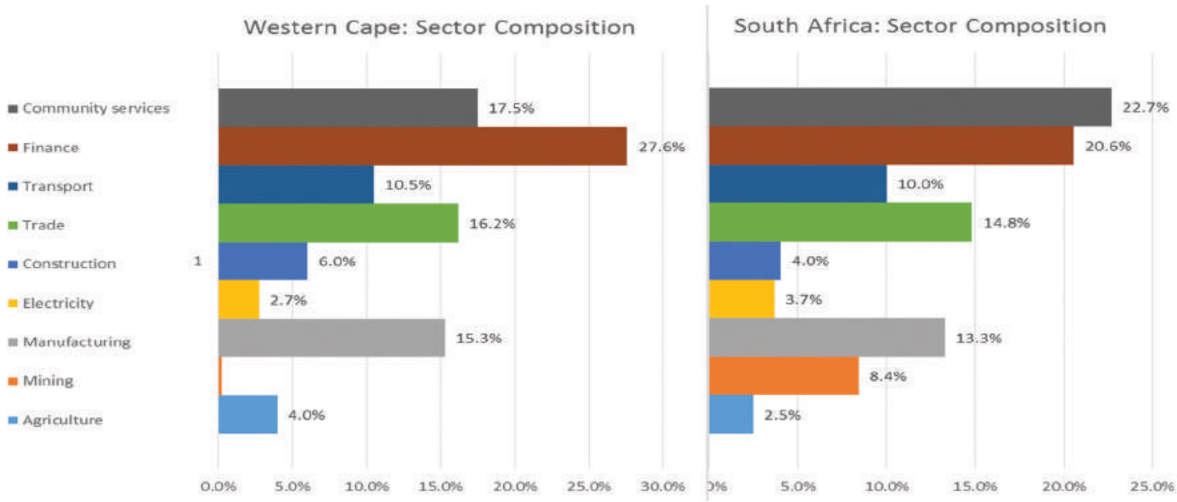
Province	Jul-Sep 2014	Apr-Jun 2015	Jul-Sep 2015	Qtr-to-qtr change	Year-onyear change	Qtr-to-qtr change	Year-onyear change
	Thousand					Per cent	
South Africa	15,117	15,657	18,828	171	712	1.1	4.7
Western Cape	2182	2257	2317	60	136	2.7	6.2
Eastern Cape	1377	1366	1372	6	-5	0.4	-0.4
Northern Cape	302	297	302	6	0	1.9	0.0
Free State	755	798	795	-4	40	-0.4	5.3
KwaZulu-Natal	2419	2556	2573	17	154	0.7	6.4
North West	921	940	921	-19	1	-2.0	0.1
Gauteng	4820	4969	5011	41	191	0.8	4.0
Mpumalanga	1135	1180	1184	4	49	0.3	4.3
Limpopo	1206	1293	1353	59	147	4.6	12.2

Source: StatsSA

SECTOR PERFORMANCE

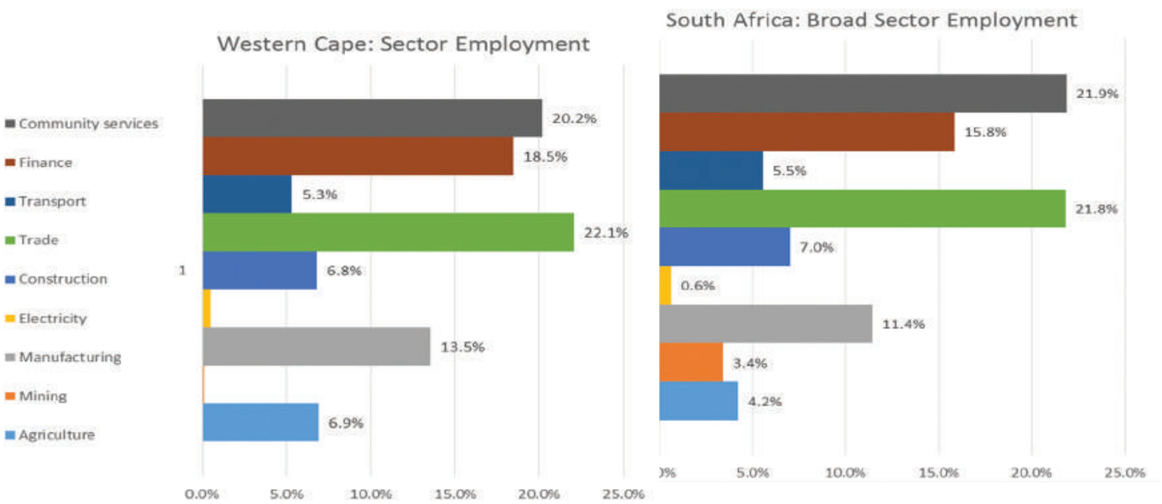
The figure below shows distinct difference in structure between the national economy and that of the Western Cape.

FIGURE 13: SOUTH AFRICA AND WESTERN CAPE BROAD SECTOR COMPOSITION



Source: IHS

FIGURE 14: SOUTH AFRICA AND WESTERN CAPE BROAD SECTOR EMPLOYMENT COMPOSITION



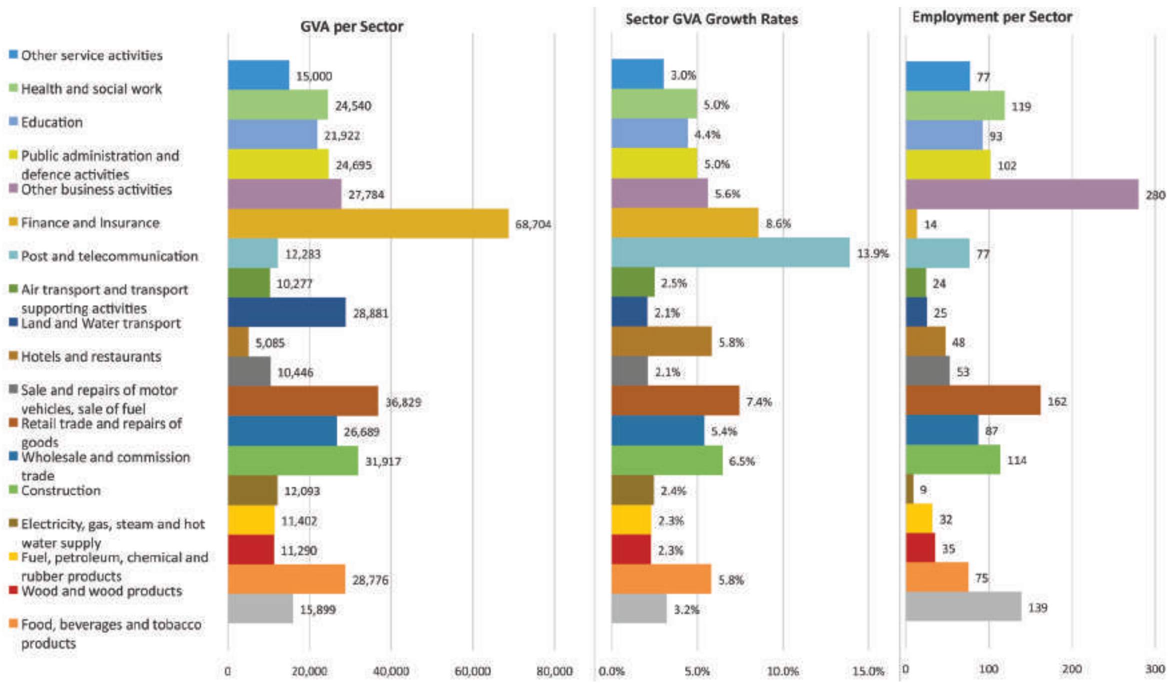
Source: IHS

The figures above show a few unexpected anomalies. Even though Construction GVA, as a percentage of the total, is 50% higher in the Western Cape than it is nationally, construction nationally accounts for a higher percentage of employment. A similar trend is evident in the Finance sector. The most likely reason is because many firms' head offices in these sectors are domiciled in the Western Cape.

It also comes as no surprise that the Western Cape has a negligible mining sector, both in terms of jobs and GVA.

The figure that follows describes the structure of the Western Cape economy in terms of GVA, employment and economic growth rates over 12 months. Of the larger sectors in the regional economy, financial services and other business services continue to show robust growth.

FIGURE 15: SOUTH AFRICA AND WESTERN CAPE SECTOR GROWTH RATES



Source: IHS

TOURISM

The Tourism sector is one of the most significant contributors to employment and GDP in the Western Cape. The Western Cape's approach to increasing tourism centered on improving marketing of the region and further developing tourism assets.

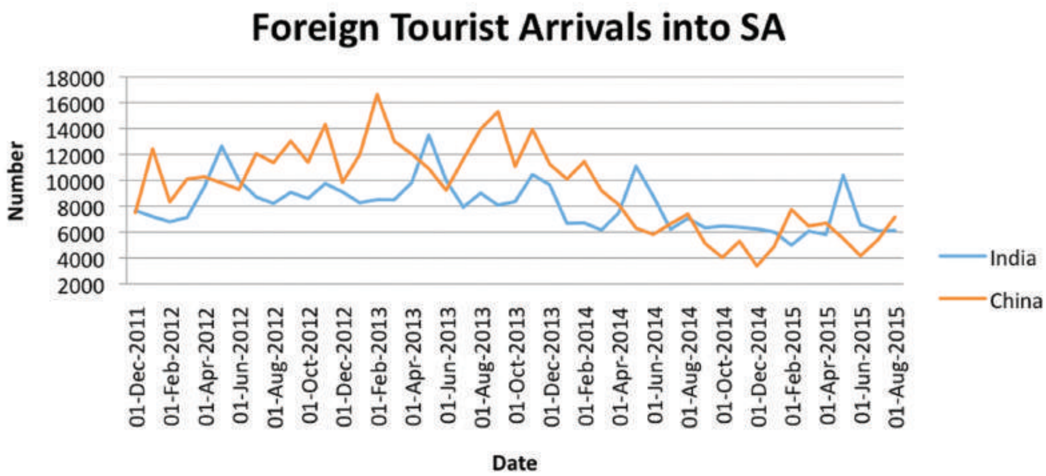
FIGURE 16: TOTAL FOREIGN ARRIVALS

Source: StatsSA

The twelve-month rolling average of foreign arrivals has declined, one of the primary reasons being the new onerous visa regulations. The impact on arrivals from countries that have less developed facilities to comply with the new visa regulations, such as China and India, is most significant. Arrivals from China, the largest global tourism source market, has declined even while Chinese tourism increased. It is of concern because the decline is off a relatively low base and given the size of the Chinese tourism market, it is a wasted tourism growth opportunity.

The same is true for India, the world's second most populous country. Given that these two countries are the fastest growing economies in the world, tourism growth from them should have been strongly positive. The single most significant contributor to this trend is the new visa regulations. Fortunately national government is in the process of re-evaluating them.

FIGURE 17: FOREIGN ARRIVALS FROM CHINA AND INDIA



Source: StatsSA

PROVINCIAL STRATEGY FOR GROWTH AND JOBS

The Western Cape Provincial Government has five Provincial Strategic Goals (PSGs) described in the graphic below, which cumulatively constitute the five-year Provincial Strategic Plan (PSP). Each of the PSGs is characterised by an actionable policy agenda designed to achieve quantifiable and measurable outcomes. The twelve provincial departments work together in a transversal manner, towards achieving the five outcomes. While the strategic outcomes are the collective responsibility of the twelve provincial departments, one lead department is tasked with leading a strategic outcome.

In the case of PSG1 – Create opportunities for growth and jobs – the Department of Economic Development and Tourism is tasked as the lead department in achieving the strategic outcome of facilitating the creation of 280 000 jobs and increasing Gross Value Add by R25 billion over a five-year time horizon. The Economic Cluster responsible for achieving the PSG 1 outcome is comprised of the departments of: Transport and Public Works, Environmental Affairs & Planning and Agriculture, led by the Department of Economic Development & Tourism.

To achieve the facilitation of 280 000 jobs over five years requires a whole-of-an-economy approach to stimulating growth, in that it must address shortcomings in the economic environment as well as identify economic sectors that needs government assistance to achieve accelerated growth. Within the current fiscal environment of austerity, it will require deliberate choices being made.

FIGURE 18: PROVINCIAL STRATEGIC PLAN 2014-2019

WESTERN CAPE GOVERNMENTS RESPONSE TO EMPLOYMENT AND ECONOMIC GROWTH

Fundamental weaknesses in the provincial and national economies were masked by robust global growth and the commodities super-cycle of the 2000s, which saw vigorous provincial GDP growth of just under 6% for most of the mid-2000s. Provincial unemployment improved to 16.4%, substantially better than the national unemployment trough of 21.5%. Reducing unemployment and increasing economic activity is easier during periods of robust global economic growth, as was the case leading up to the 2008 financial crisis, than in the current climate of reduced global growth.

The US mortgage crisis and subsequent global credit crunch, the sovereign debt crisis and commodity collapse cumulatively have had a severe impact on both the South African and regional economies. National Treasury's counter-cyclical fiscal stance has injected more than a trillion Rand into the economy since the start of the financial crisis in support of the local economy. National budgets were used to support long-term growth by investing in infrastructure as well as short-term interventions such as the Extended Public Works programme, which is intended to create short-term employment.

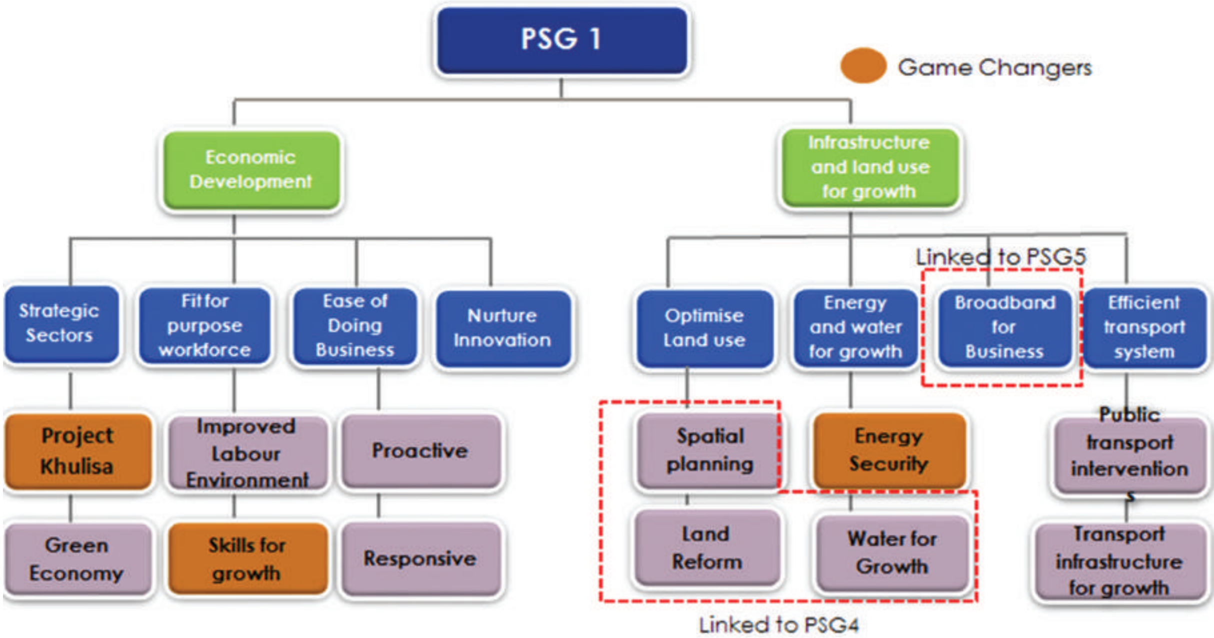
Until recently monetary policy too was accommodative with record low interest rates. Global liquidity supported by low global interest rates and Open Market Operations by other central banks provided support to local industries and financial markets. Without the National Treasury's fiscal support and SARB's monetary easing, the impact on GDP and employment would have been more severe than it actually has been.

While both fiscal and monetary instruments provided buoyancy in the economy, neither dealt with the underlying structural economic shortcomings, such as skills shortages, electricity capacity constraints, labour rigidity, low levels of productivity and red tape.

PROVINCIAL STRATEGIC GOAL 1

The Western Cape Government recognises that both fiscal and monetary policies are not permanent fixes for fundamental and structural economic weakness. In addressing these, the Western Cape Government has developed Provincial Strategic Goal 1 (PSG1), a 'whole-of-the-economy' approach that recognises and addresses fundamental economic weaknesses in the regional economy.

FIGURE 19: PROVINCIAL STRATEGIC GOAL 1

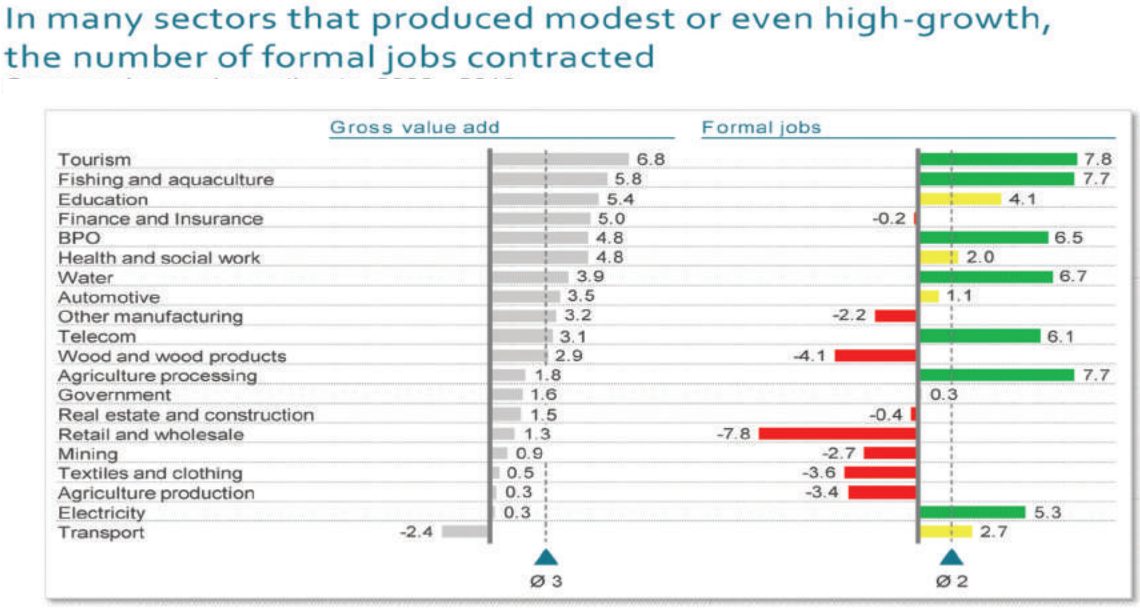


At the centre of PSG1 is Project Khulisa. Project Khulisa is a fifteen-year three-phase strategic plan that:

- accurately identifies parts of the economy with the greatest potential for accelerated, sustained growth and job creation, and develops a plan to accelerate jobs and growth,
- sets achievable outcomes for each its sectors,
- develops discrete manageable interventions in achieving those outcomes.

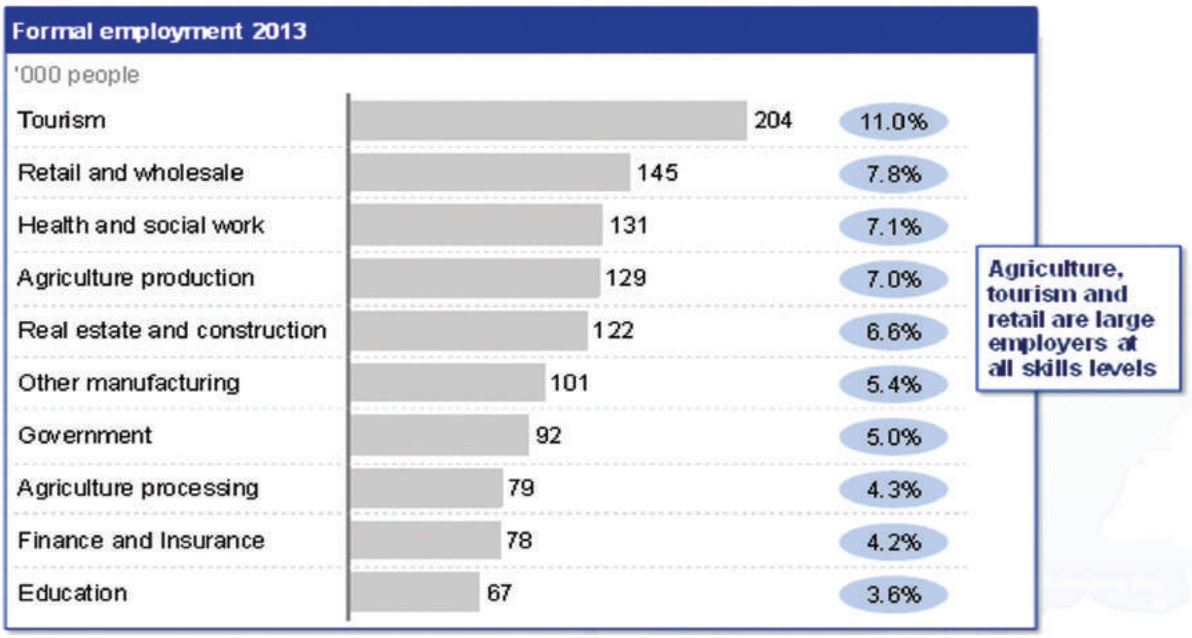
The plan recognises that government resources are finite and therefore it deliberately identifies a small number of high-potential opportunities that can deliver meaningful jobs and growth within five-year timeframes. Project Khulisa approaches sector-selection by implementing three filters; firstly ranking and prioritising all sectors in terms of Gross Value Added (GVA) and employment. The rationale behind ranking sectors is that if larger sectors grow, the effect on employment and GVA is more impactful than if smaller sectors had to grow by a similar rate.

FIGURE 20: COMPOUND ANNUAL GROWTH RATE,2009-2013



Within the context of fiscal austerity, the Department had to make difficult choices in deciding what to do and, as importantly, what not do within the tight budgetary envelope. Prior to the implementation of PSG1 the Department directly supported 16 sectors through its Special Purpose Vehicle model, which realised decent economic development returns. Decent returns need to be converted into outstanding returns if the province intends to address unemployment in a meaningful and profound manner.

FIGURE 21: FORMAL EMPLOYMENT BY SECTOR IN THE WESTERN CAPE

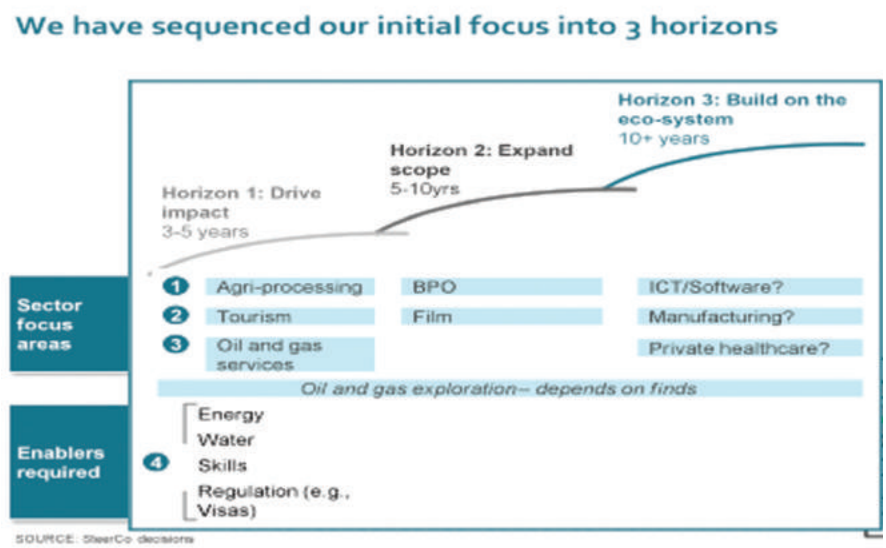


The second filter recognises the structure of provincial unemployment. While the Western Cape's unemployment rate (20.6%) is substantially below that of South Africa as a whole (25.5%), it is still unacceptably high. It means that more than 603 000 people are unemployed, mostly youth, thus threatening to create a lost generation of citizens without skills, work experience or hope of finding employment. Because unemployment is concentrated amongst the youth, Project Khulisa biases sectors that will absorb youth into jobs that require lower levels of education and for which skills will be easier to develop.

The last filter recognises that rural employment opportunities are less prevalent than in larger cities. Shortages in employment opportunities in rural municipalities underpin population migration to larger non-rural municipalities. Inward migration into cities does not bode well for cities or for the more rural municipalities. Inward city migrations exert increased demands on bulk services, housing and other municipal services. Rural municipalities provide services consumed by youth during schooling years, but because of the outward migration, municipalities do not benefit from the productive years of their population. Project Khulisa recognises that, economically and socially, it is important to create rural employment opportunities that limit population migration into the larger cities.

Depicted in the graphic below, Project Khulisa sequenced sector intervention into three five-year horizons. The analysis identified Agri-processing, Tourism and Oil & Gas as sectors that would most likely maximise employment and GVA return. In line with limited budgets and other resources, the Department's sector activities will therefore focus mainly upon the Agri-processing, Tourism and Oil & Gas Servicing sectors over the next five years. Horizon 2, which may overlap Horizon 1, will see an inclusion of at least two more sectors.

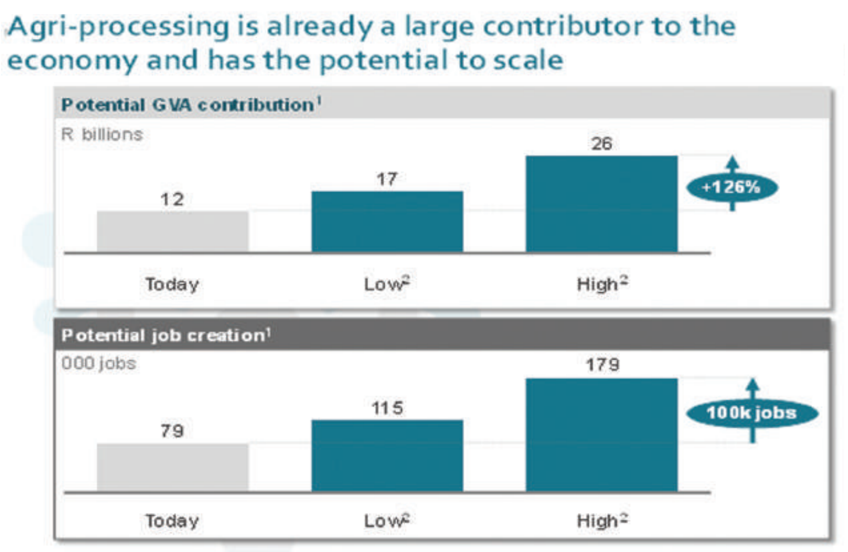
FIGURE 22: PROJECT KHULISA SECTOR FOCUS AND SEQUENCE



PROJECT KHULISA: AGRI-PROCESSING

Agri-processing is already a large contributor to both regional GVA and employment. It directly contributes R12 billion to the economy and accounts for 79 000 jobs in the province. Under a high-growth scenario the sector's GVA contribution could increase by 126% to R26 billion and it could add a further 100 000 jobs.

FIGURE 23: ECONOMIC PROJECTION FOR THE AGRI-PROCESING SECTOR



In contributing to the stretched employment and GVA targets, the Department has identified two key interventions namely, to grow local exports of Halal agri-processed products and to grow exports of Western Cape wine and brandy.

AGRI-HALAL OPPORTUNITIES

Nearly a quarter the of the world's population is Muslim, that is more than 1.6 billion, and it is growing at a rate twice as fast as the global population. The global halal food and lifestyle sector was estimated by Thompson Reuters to be worth more than $1.6 trillion in 2012 and is expected to reach $2.47 trillion by 2018.

Global brands are growing their Halal offerings as they start recognising the opportunities presented by the Halal market. A third of Nestle's 468 factories are Halal certified, producing over 300 food products in more than 50 countries. Major hotel chains such as the Ritz-Carlton caters specifically for Halal food requirements. Consumer firms such as Unilever not only accommodate Halal food products, but are developing special hair shampoos aimed at Muslim women that wear Islamic head gear. The Muslim tourism market, excluding the Hajj and Umrah pilgrimages, accounts for 12.5% of global tourism expenditure.

The Halal food market is big and growing. Because the Western Cape has a productive and mature agricultural market, it lends itself to agri-beneficiation for the growing global Halal market. In this regard, the Department will grow the province's share of the global Halal market from 1% to 2% by increasing local capacity to process agricultural goods for domestic and international markets. It will facilitate the establishment of a Halal processing hub, and facilitate the building of quality testing facilities.

WINE AND BRANDY OPPORTUNITIES

South Africa is currently the ninth largest wine producer, contributing approximately 4% of global production. In terms of production per surface area, South Africa's 130 000 hectares under vines is one of the most productive in the world.

The wine and brandy industry is particularly important to the Western Cape; more than 80% of all South African wine and brandy production being based here. The region produces more than 1.5 million tons of white and red crushed grapes, which in turn produces more than a 1.1 billion litres of wine and brandy. The three largest producing regions, Stellenbosch, Paarl and Robertson, make up nearly 50% of all wine grape vineyards in the country.

After a slight decline in income of R100 million in 2014, due mainly to a decline in average Rand income per ton, producers' income from wine and brandy stood at just over R4.7 billion. Over the last three years, the industry exported approximately 50% of its total production. Europe remains our most important market overall but exports to China and Africa has shown robust growth. After a bumper export year in 2013 when more than 60% of production was exported, exports as a percentage of total local production experienced a sharp decline of more than 14%.

The industry presents a healthy source of foreign currency and interestingly, State revenue from wine taxes matches producers' income of R4.7 billion. In fact, between 2009 and 2013, State revenue exceeded producers' income. Within the current environment of low domestic driven growth, the industry presents an interesting value proposition to grow regional GVA and jobs.

Notwithstanding promising growth prospects of the industry, it faces stiff headwinds. Production costs are of particular concern. Over the last five years, these costs have increased by more than 10% per annum, driven by high farmworker salaries and consistent inflation plus electricity price increases. In the light of slight decreases in average income per ton, it is imperative that the industry penetrates non-traditional markets to diversify sources of demand. In collaboration with Wesgro, the Department will explore, develop and implement strategies that better exploit non-traditional markets.

The most significant concern to the industry is the current drought that the industry finds itself in. During the 1982 and 1992 droughts, agricultural production declined by 35% and 60% respectively. Given that this industry is somewhat leveraged, sustained drought conditions could be devastating. The Department will therefore aggressively explore and develop efficient water and energy management opportunities within the sector.

In summary, to unlock the potential of the agri-processing sector, the Department must address several significant challenges, including:

- **Market access.** The sector faces several barriers to exports, including trade barriers (e.g., lack of trade agreements with the BRICs or countries in Africa) and non-trade barriers such as certification and other requirements in export markets. Together with Wesgro, the provincial marketing agency, the Department intends to identify, develop and implement, in collaboration with industry, a co-ordinated response.

- **Access to energy and water.** The scarcity and high cost of water is already slowing the growth of the industry; and the high cost and uncertain supply of electricity is affecting the cost competitiveness of what is an energy-intensive industry.

- **Logistics and infrastructure.** The sector's growth is held back by a lack of adequate and competitive infrastructure – including machinery and equipment (mainly imported in a context of a weak exchange rate); logistics (both downstream and upstream); and transport and export infrastructure (e.g. congestion in the Cape Town port, and tardiness of rail linkages).

- **Knowledge/skills.** The sector faces a scarcity of skilled labour at all levels, which drives up labour costs. There is also inadequate skills and investment in R&D (e.g., testing labelling, new product development, and disease prevention)

- **Industry structure.** Agri-processing is a fragmented industry with few big firms and a large number of SMMEs facing challenges in terms of access to finance, access to markets, and the ability to comply with regulations

It is salient to comment on alcohol as a source to increase employment when substance abuse is rife in the Western Cape. On the face of it, it appears difficult to reconcile government support to increase wine and brandy production in the Western Cape, particularly in the light of the high levels of both alcohol abuse and foetal alcohol syndrome. However, the strategy to increase wine and brandy production is not intended to increase local alcohol consumption, but rather to increase exports.

Secondly, the strategy will realise increased production of higher-end wine and brandy products. The by-product of increased quality would mean that fewer hectares will be harvested for cheaper wine-related production. It is believed that it is cheaper wine products that are typically abused.

PROJECT KHULISA: TOURISM

Tourism is a one of the largest contributors to GVA and employment in the Western Cape. The sector has a broad spatial footprint throughout the province and employs relatively low skilled workers. It directly contributes R17 billion to the provincial economy and supports more than 204 000 formal jobs. Employment in the tourism sector grew by approximately 10% per annum from 2006 to 2014, which made this sector one of the fastest labour creating sectors. In a high-growth scenario, sector GVA could increase by 65% to R28 billion and could add a further 120 000 formal jobs to the economy over the next five years.

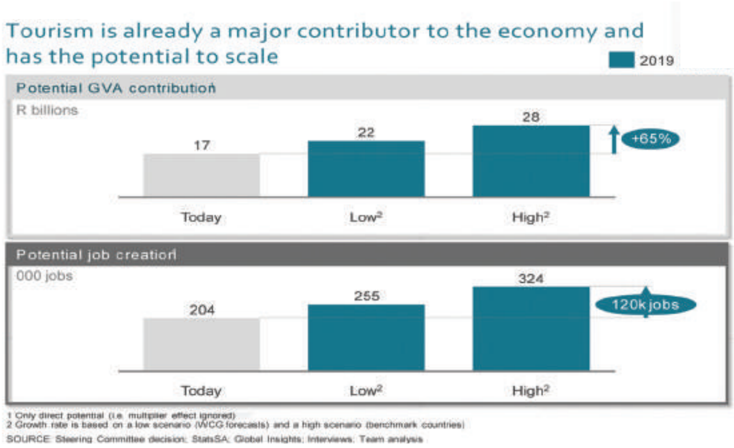
Onerous visa regulations, xenophobic attacks and disease outbreaks in Africa are likely to negatively impact on achieving the stretched targets set by the Western Cape Government. The burdensome visa regulations are already having a negative impact on tourist arrivals, particularly from countries such as India and China that have less efficient and accessible infrastructure to comply with South African entry regulations. This is evidenced by a reduction in Chinese and Indian arrivals, which is of a concern because China has become one of the largest source tourism market globally.

It is important to note that Cape Town International has actually experienced increases in international arrivals since the new visa regulations have been implemented. However, arrivals from China and India to OR Tambo have indeed declined sharply, but neither China nor India have direct flights to Cape Town.

Notwithstanding these issues, Western Cape Government is pleased with the performance of the sector. International tourism grew by a healthy 4% per annum over the last eight years. To achieve Project Khulisa outcome targets, international arrivals need to increase from the current 4% per annum to 10% per annum.

It does appear that the tourism sector is preparing for rapid growth. Four new large hotels are currently under construction in the Cape Town CBD. Business tourism is also expected to grow rapidly with the expansion of the Cape Town International Convention Centre and the development of a new convention centre in Canal Walk.

FIGURE 24: POTENTIAL GVA CONTRIBUTION:TOURISM



Over the medium term, the Department will address the following challenges in the sector:

- **Accessibility –** Visa restrictions are unnecessarily cumbersome for international entry and it will require lobbying national government to ease them. Limited direct flights to the Western Cape act as a restraint to growing tourism. The Department will therefore engage airlines and other stakeholders to increase direct flights to the region.
- **Attractiveness –** The province boasts a number of unique tourism assets, yet they remain undeveloped. The Department will thus develop six tourism niches aimed at attracting increased tourism and longer stays in the province.

Furthermore, it is reported that it is not easy for tourists to move around the province. A strategy will accordingly be developed and progressed to address these difficulties.

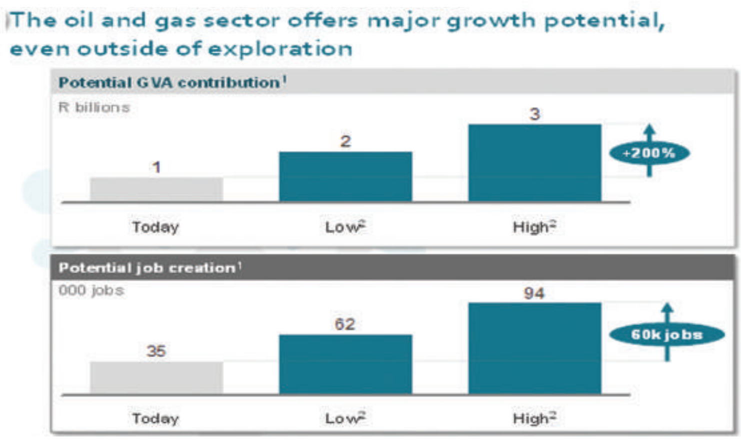
Lastly, the Department will address negative perceptions regarding safety in the province.

- **Awareness –** Fragmented and unco-ordinated provincial tourism strategies amongst regional stakeholders inhibit the pooling of resources in selling the Western Cape brand and creates confusion in international markets around the region's value proposition. The Department will develop, in a collaborative manne,r a single brand and a clear value proposition for the region.

PROJECT KHULISA: OIL & GAS

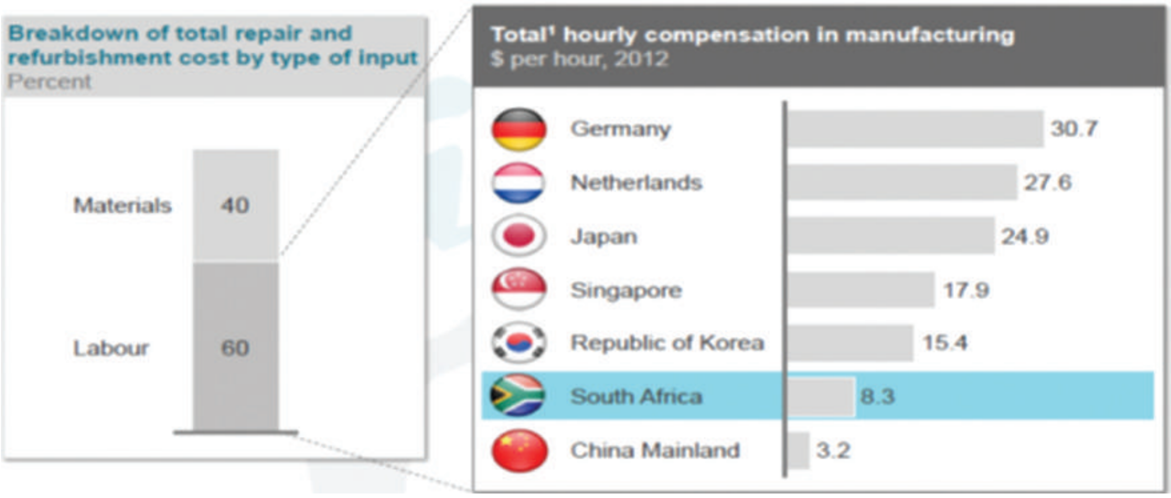
Oil & Gas ship and rig repair is the wild card sector. It currently only accounts for 35 000 formal jobs in the province and contributes R1 billion to GVA. The sector is mainly concentrated near the City of Cape Town harbour and to a lesser extent, the Saldanha Bay harbour area. Industry growth is restricted by limited harbour facilities appropriate for ship and rig repair. Over the next five years, under a high growth scenario, the sector could add a further 60 000 formal jobs and contribute an additional R2 billion to regional GVA.

FIGURE 25: POTENTIAL GVA CONTRIBUTION:OIL AND GAS



Six hundred Oil & Gas vessels that require regular servicing are operating in East and West Africa. These vessels are mainly serviced in Far East countries. The cost and time for vessels to travel to the Far East could be significantly reduced if this region offered suitable vessel-servicing services. South Africa, and specifically the Western Cape presents a compelling proposition to ship and rig owners. The regions has sophisticated and integrated value chains, one of the deepest natural harbours and competitively priced labour. Labour costs are particularly important to the rig and ship servicing industry because 60% of repair and refurbishing costs is labour-related.

FIGURE 26: VESSEL REPAIR INPUT COSTS



To achieve employment and GVA targets a number of critical challenges must be addressed, namely;

Development of Port and Bulk Infrastructure: Neither Cape Town nor Saldanha Bay harbour have any additional accommodation to support vessel repair and refurbishment. The Western Cape Government has been lobbying national stakeholders for a decade to develop berthing capacity for the servicing of Oil and Gas vessels. Last year, the National Ports Authority announced that it will be setting R4 billion aside for the development for a quay specifically for the purpose of vessel repairs. The Department of Trade and Industry proclaimed land adjacent to the harbour as an Industrial Development Zone (IDZ). The development of this IDZ will cost a further R400 million, for which funding has already been allocated. The Western Cape Government's own Department of Transport and Public Works has prioritised road and other infrastructure to support the port and the IDZ.

Local Skills: Even in the current environment, which is severely constrained by suitable infrastructure, the industry is reporting severe local skills shortages. These shortages drive up servicing costs as local firms either bid up prices of existing skills or have to import skills from abroad. Because the current skills environment is not set up for the development of suitable artisanal skills for vessel repair industry, local firms often have to send local candidates abroad to attain suitable certifications required for them to work on vessels.

As depicted by the diagram below, a single rig typically requires 1500 people from more than 30 different occupations. Anecdotal evidence has shown that a single rig berthed for 90 days for repairs and refurbishment generates invoices of up to R1to the vessel owner. In response the Department has developed, in collaboration with local colleges and industry, an aggressive skills development programme specifically designed to alleviate skills shortages. The approach includes the development of new programmes and curricula suited for the vessel repair industry, financial support to train artisans, and finally stipend support to firms as they ramp up productivity of new artisans in the industry.

FIGURE 27: RIG REPAIR SKILLS

1500 people from over 30 different occupations are required to repair one rig

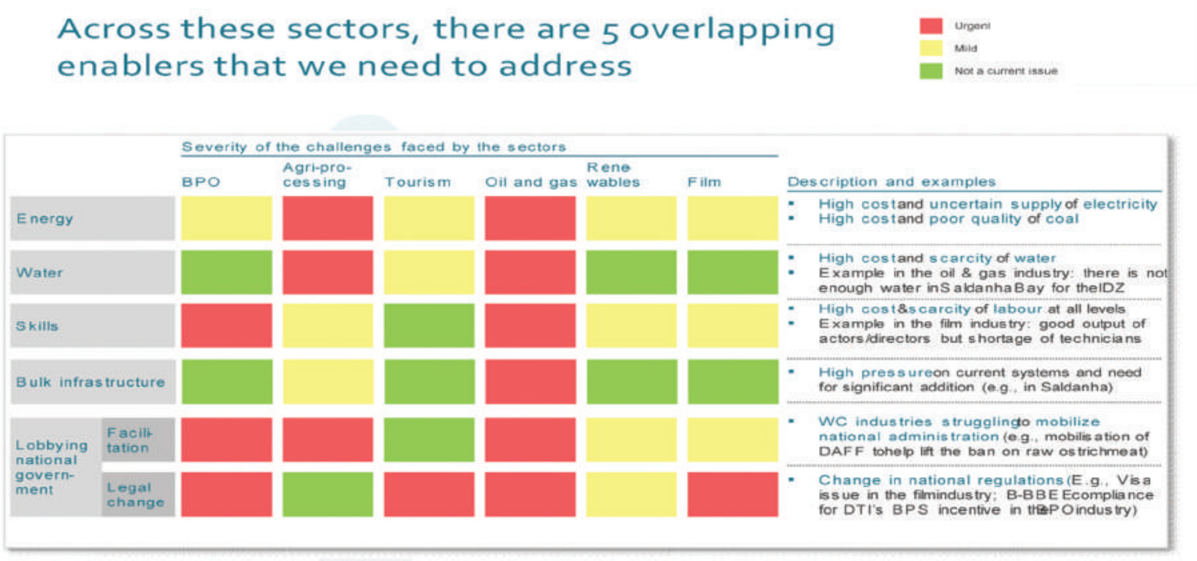
Occupation	Number required	Occupation	Number required
Coded Welders[1]	322	Hydraulics technicians	5
Boilermakers	107	Scaffolders	54
Mechanical artisans	27	Instrument technicians	27
Diesel fitters	5	Painting	54
Electricians	40	Shot blast	11
Electrical technicians	13	Dimensional controllers	11
Quality inspectors	16	Weight controllers	3
NDT specialists	8	Instrument pipe fitters	11
Mobile crane drivers	11	Project Managers	1
Riggers	19	HSE Managers	1
Labourers	537	QA Managers	1
Operators	27	Financial Managers	1
Pipe fitters	107	Contracts Managers	1
Foreman	27	IR Manager	1
Chargehands	54	Procurement Manager	0.5
Estimators	5	Expeditors	1

- 1,508 skilled people required per rig
- Over 30 different occupations required
- Management capabilities required over multiple roles

WHOLE-OF-ECONOMY APPROACH

With Project Khulisa as an anchor, very distinct economic-enabling themes present themselves that would require economic intervention. In addressing these themes, sectors beyond Project Khulisa would also benefit.

FIGURE 28: ECONOMIC ENABLERS



SKILLS GAME CHANGER

Prevalent across many sectors in the national and provincial economies are significant gaps between the supply of and industry demand for suitable skills. The Department has thus developed a strategic plan to address skills shortages across the economy. The Department's intervention aims to address skills shortages by collaborating with academia and industry, development of new curricula and employment stipend support.

In addition, the Department recognises that the relationship between labour and employers is unnecessarily contentious. The Department, in collaboration with the Western Cape Economic Development Partnership (EDP) – an institutional product of the Western Cape Parliament – will explore ways to improve the labour environment. The EDP has contributed significantly in addressing conflict between farm owners and farm workers through constructive partnering and will continue to do so across the economy of the Western Cape.

EASE OF DOING BUSINESS

Industry engagements highlighted the unnecessary economic costs of Red Tape. The Department defines Red Tape as any wastages experienced by firms in responding to unnecessary legislation or needlessly complex and time consuming processes. The Western Cape Goverment has established a Red Tape call-centre that permits firms to request the Department's assistant in dealing with any such issues. In addition to reactively addressing Red Tape issues, the Department is proactively identifying areas of poorly constructed regulation and process that unduly burdens firms.

NURTURE AND INNOVATION

In support of one of the values of the Western Cape Government, the Department recognises that innovation is a key ingredient for competitiveness in a modern economy. While still supporting private sector innovation, the Department is developing a Western Cape Government framework which is intended to foster innovation amongst its 80 000 employees. While it sounds simple, government policies and operating procedures make it cumbersome to nurture internal innovation primarily because innovation is inherently risky and could lead to, what government defines as fruitless and wasteful expenditure. Managing risks and return in the domain of innovation within government is tricky, but this administration is committed to finding ways to foster innovation.

OPTIMISE LAND USE

The Department of Economic Development & Tourism's supporting department, the Department of Agriculture, is leading the difficult domain of land reform in collaboration with financial services firms, the Land Bank and farmers. Commercial banks through the Banking Association of South Africa committed R1 billion in support of land reform. Furthermore, the Department of Transport and Public Works is in the process of exploring the suitability of provincial sites for the purpose of land reform.

It is paramount that land reform is managed in a responsible manner that does not put food security at risk. The models proposed must have the support of all relevant stakeholders if land reform is going to work.

BROADBAND FOR BUSINESS

The province is rolling out an ambitious R10 billion broadband project that will see free broadband hotspots in all of its 400+ wards. WCG's broadband strategy focuses on broadband for households, education, business and government. Western Cape Government recognizes that broadband is key to improved competitiveness and driving down the cost not only in the economy but will also lead to reduction in costs of government produced services.

ENERGY AND WATER SECURITY

The International Monetary Fund's Article IV on South Africa consultations concluded that electricity shortages is the single greatest obstacle to growth, economic activity and investment. It is therefore imperative that all stakeholders work together in achieving greater energy security. Western Cape Government has a multiple-pronged approach to achieve improved energy security.

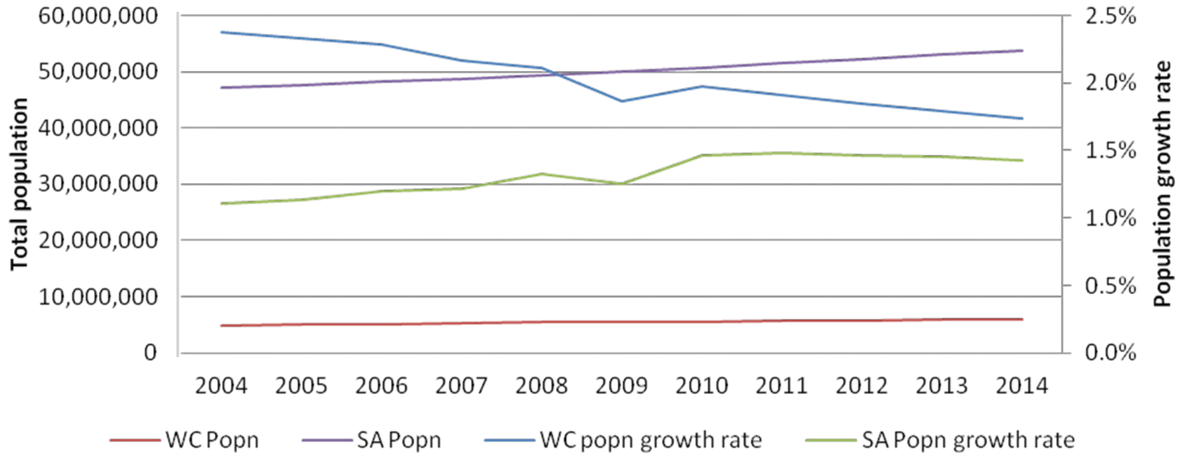
The provincial government is piloting a number of energy efficient innovations in government buildings aimed at reducing government energy consumption. It is developing guidelines, rules and regulations aimed at promoting rooftop PV in municipalities and is driving active partnerships between government and business around energy reduction.

CONCLUSION

We believe that PSG1, within the context of very limited public resources, is the most effective manner to accelerate employment and GVA in the province. PSG1 presents stretched targets that can only be achieved if all stakeholders, some outside the control of WCG, work together towards a common goal. Our targets have not compensated for exogenous shocks such as drought or terrorist attacks that may impede growth. We have set these targets because they stretch our reach and we would prefer falling short of stretch targets than meeting mediocre ones.

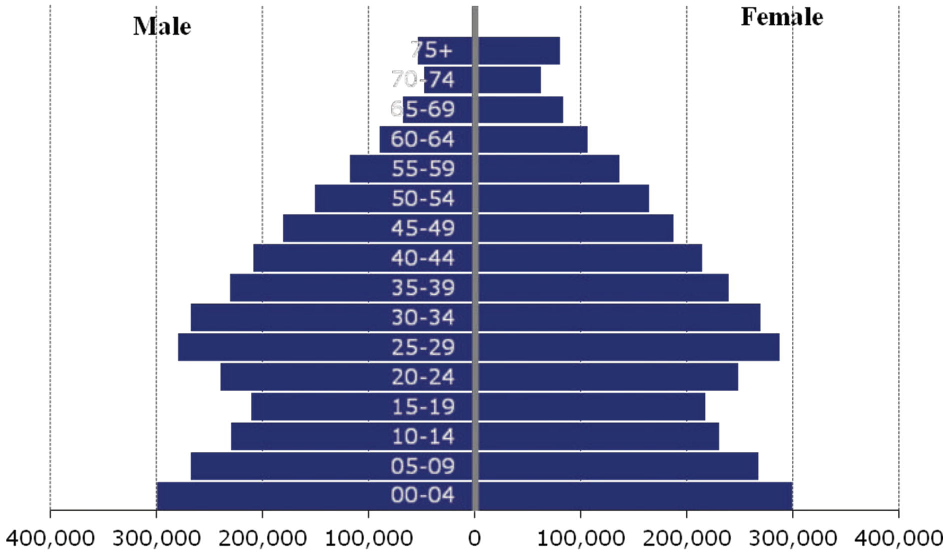
PROVINCIAL ECONOMY AT GLANCE

FIGURE 29: TOTAL POPULATION AND POPULATION GROWTH RATES



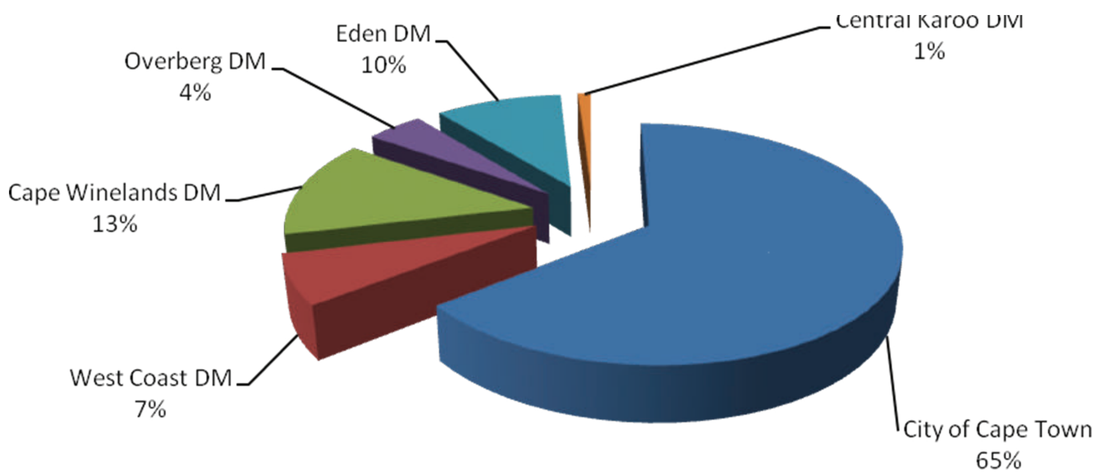
Source: Stats SA

FIGURE 30: WESTERN CAPE POPULATION PYRAMID



Source: IHS

FIGURE 31: DISTRICT POPULATION AS A PROPORTION OF PROVINCIAL TOTAL (2014)



Source: IHS

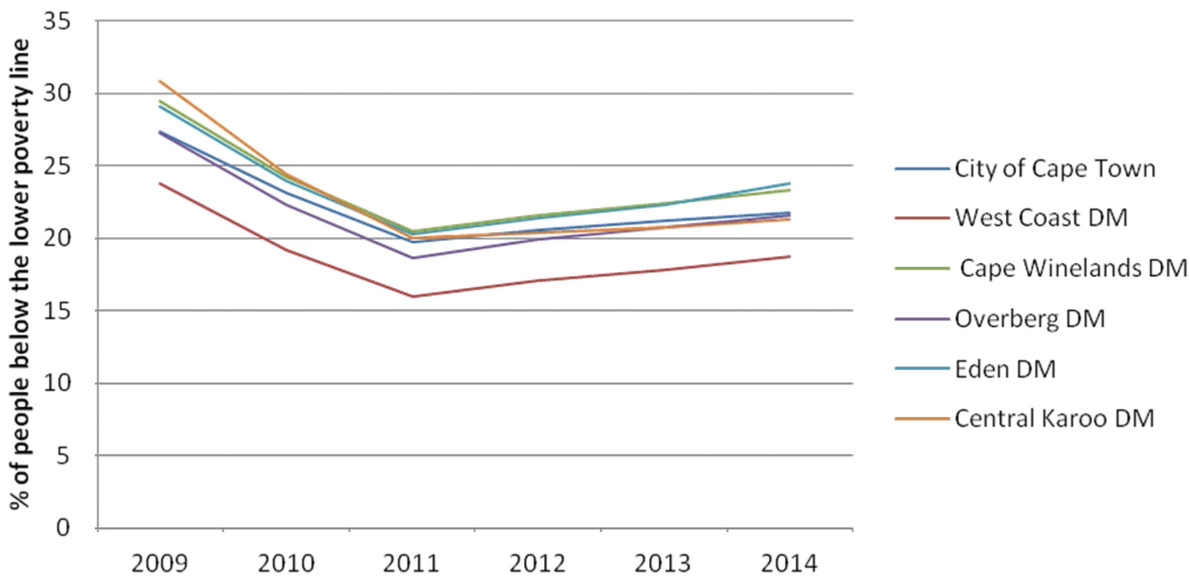
PROVINCIAL
MUNICIPAL
GLOBAL OUTLOOK
NATIONAL OUTLOOK
WESTERN CAPE OUTLOOK
PROVINCIAL STRATEGY
QEB 2015

TABLE 6: POPULATION DISTRIBUTION BY DISTRICT 2009 - 2014

	Western Cape	City of Cape Town	West Coast DM	Cape Winelands DM	Overberg DM	Eden DM	Central Karoo DM
2009	5 502 529	3 525 357	365 584	748 698	246 674	547 736	68 479
2010	5 611 279	3 598 749	375 352	762 065	249 335	556 304	69 474
2011	5 718 420	3 669 239	385 343	774 441	253 188	565 899	70 310
2012	5 824 212	3 738 244	395 233	786 402	257 419	575 815	71 099
2013	5 928 832	3 806 815	404 685	798 154	261 600	585 688	71 890
2014	6 031 741	3 874 479	413 708	809 698	265 714	595 460	72 682

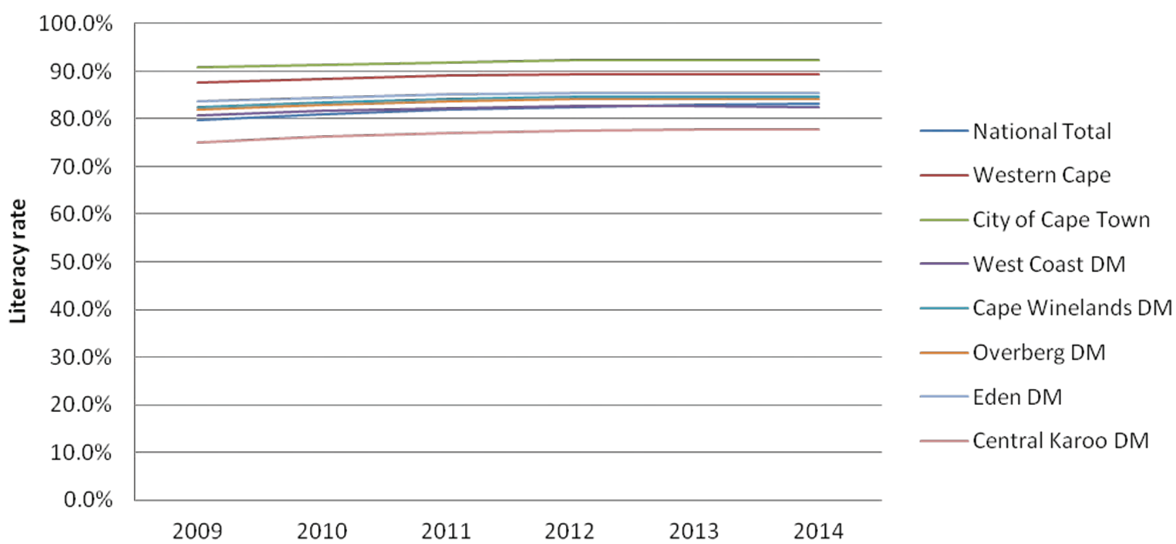
Source: IHS

FIGURE 32: PERCENTAGE OF PEOPLE BELOW THE LOWER POVERTY LINE



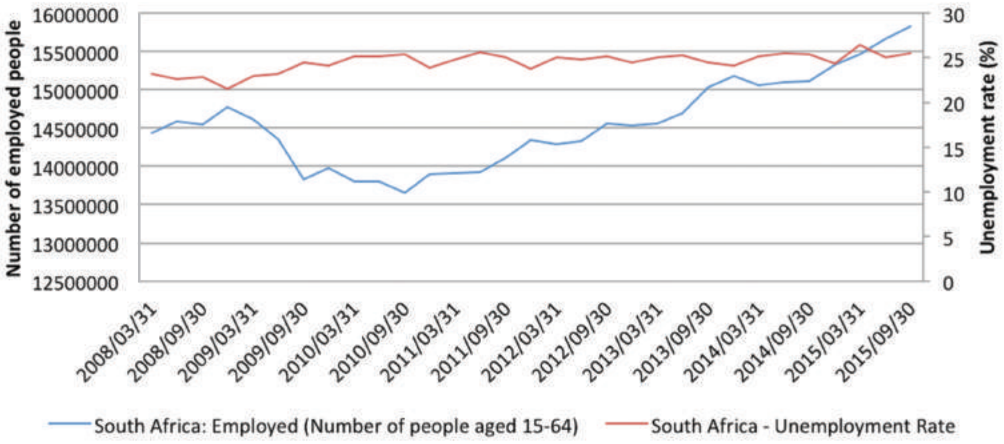
Source: IHS

FIGURE 33: FUNCTIONAL LITERACY



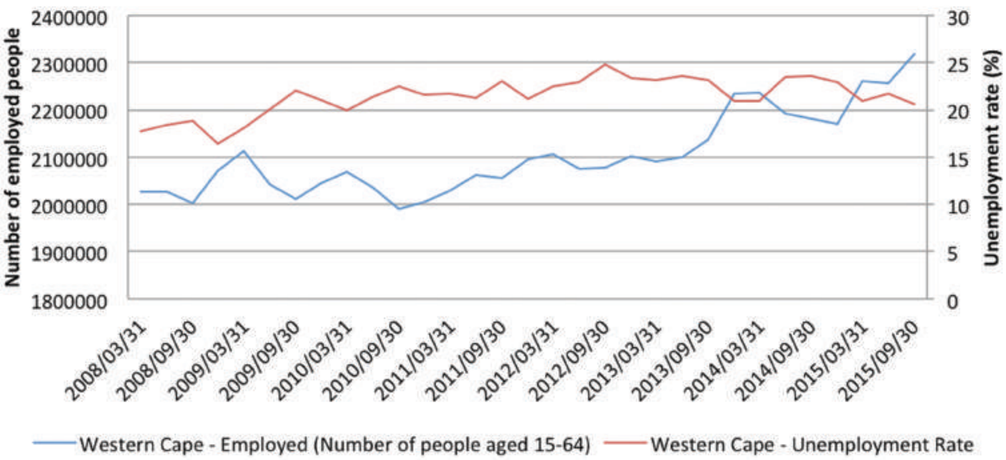
Source: IHS

FIGURE 34: SOUTH AFRICA - KEY INDICATORS



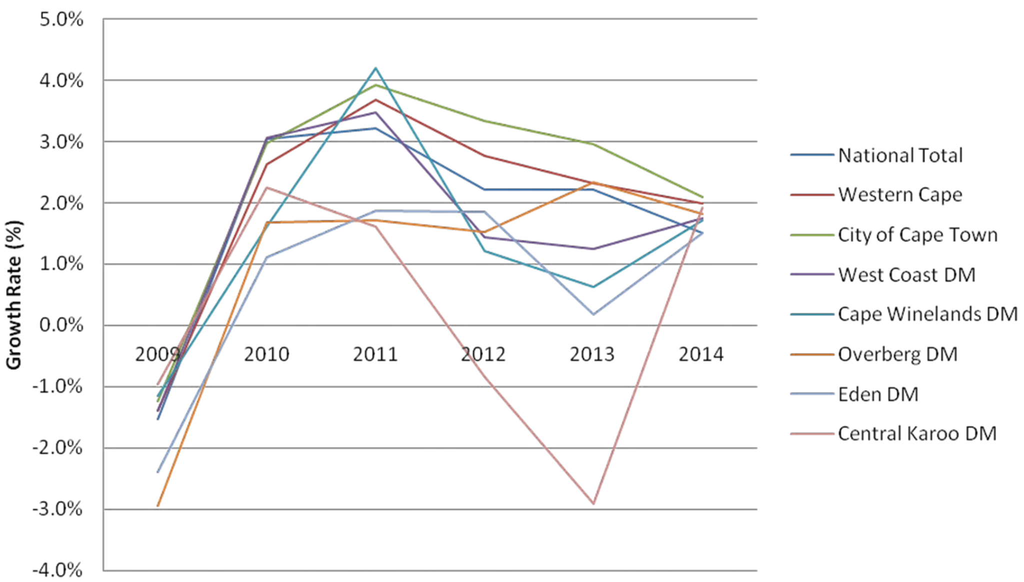
Source: Stats SA

FIGURE 35: WESTERN CAPE - KEY INDICATORS



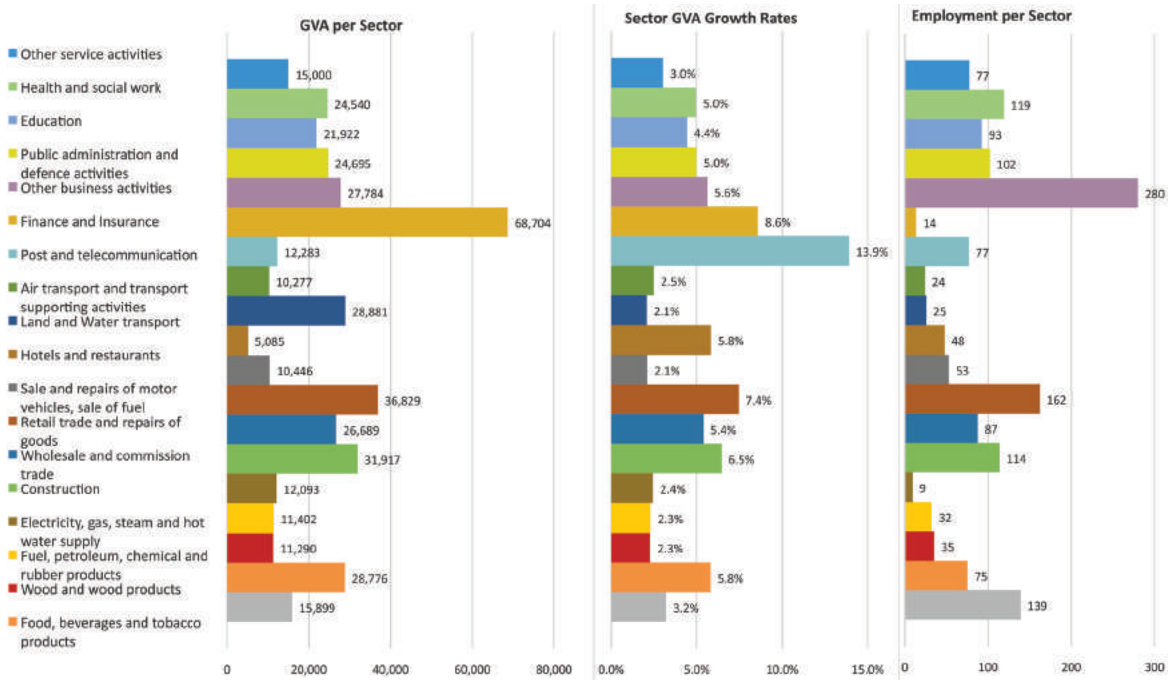
Source: Stats SA

FIGURE 36: GDP GROWTH RATES

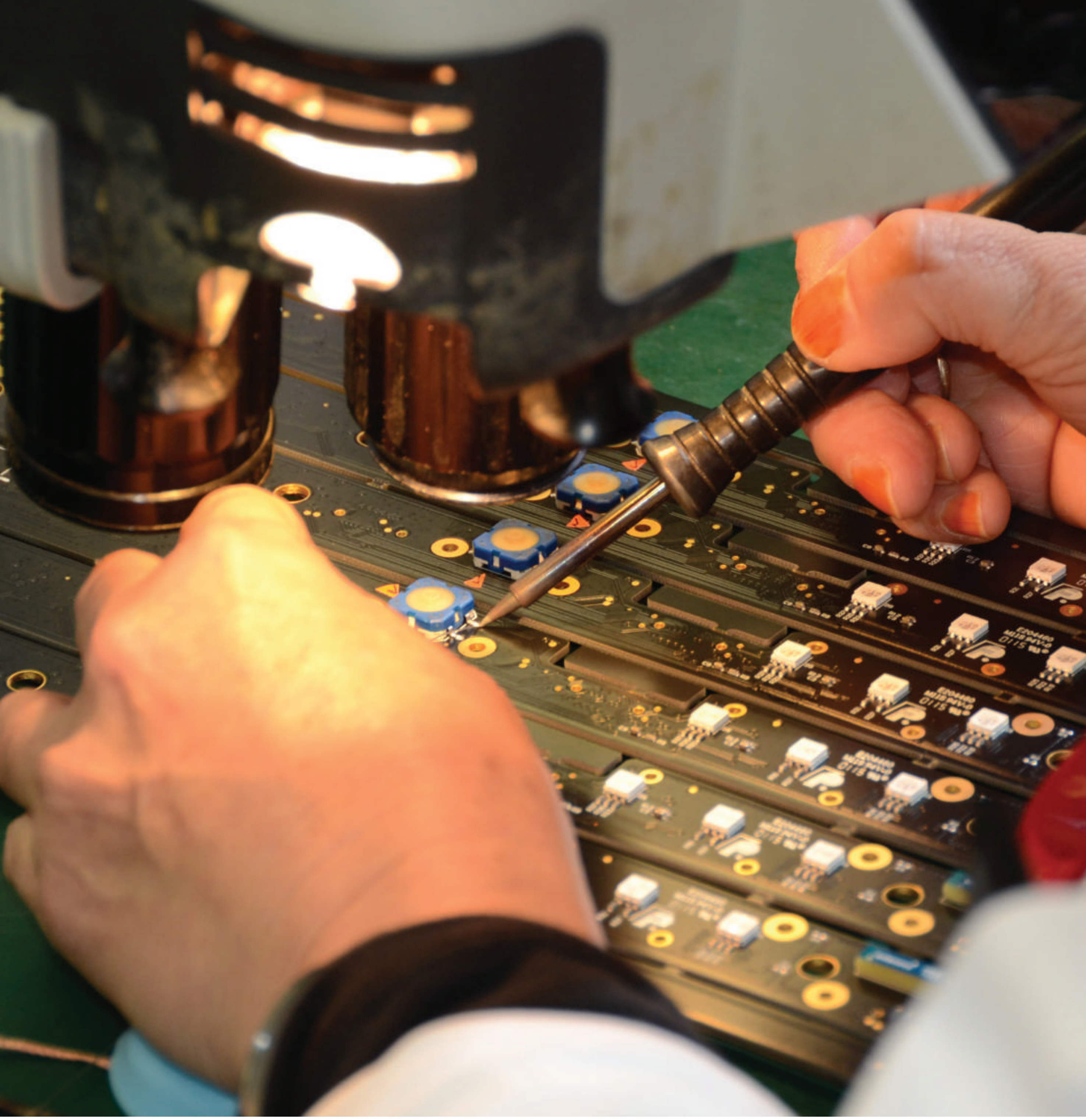


Source: IHS

FIGURE 37: GVA, GVA GROWTH RATES AND EMPLOYMENT PER SECTOR



Source: IHS

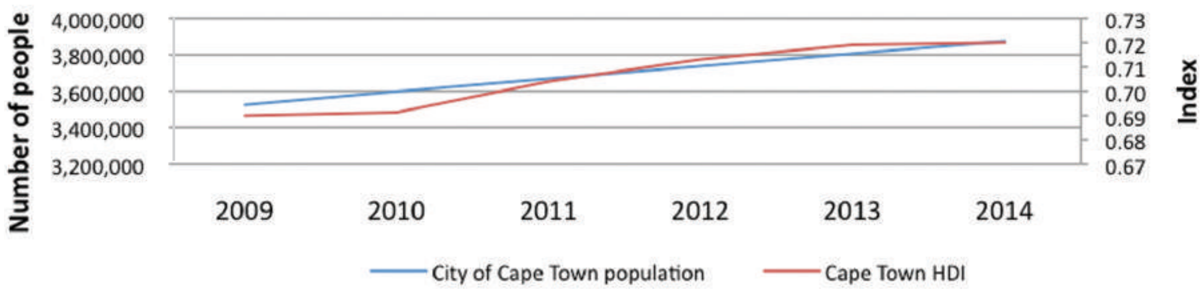


MUNICIPAL ECONOMIES AT GLANCE

DISTRICTS

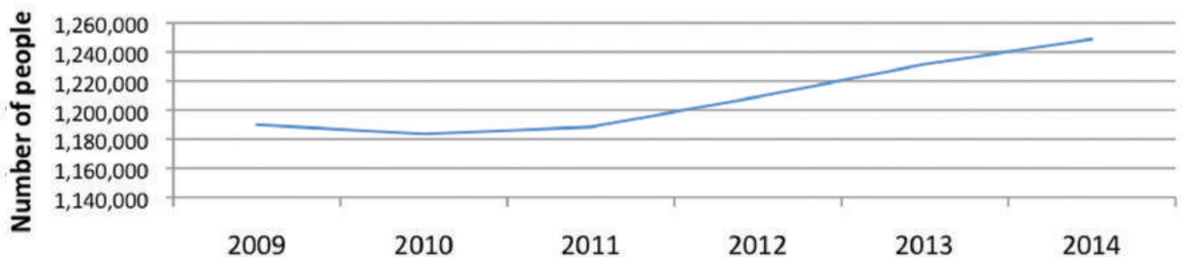
CITY OF CAPE TOWN OUTLOOK

FIGURE 38: CITY OF CAPE TOWN – POPULATION AND HDI



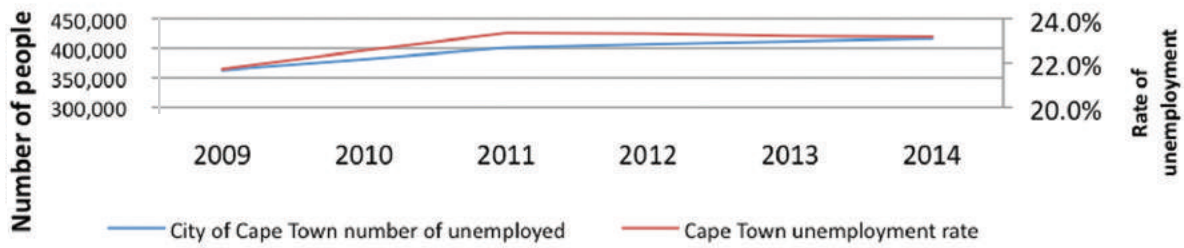
Source: IHS

FIGURE 39: CITY OF CAPE TOWN - NUMBER OF FORMALLY EMPLOYED



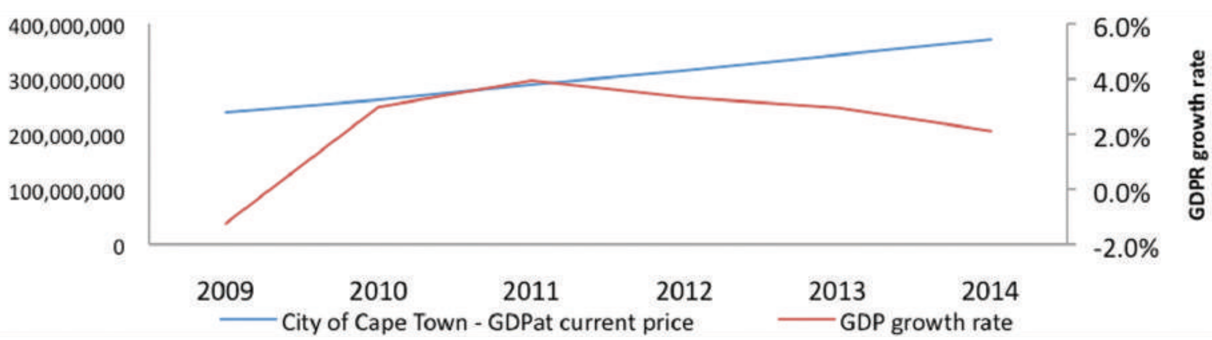
Source: IHS

FIGURE 40: CITY OF CAPE TOWN - NUMBER OF UNEMPLOYED AND UNEMPLOYMENT RATE



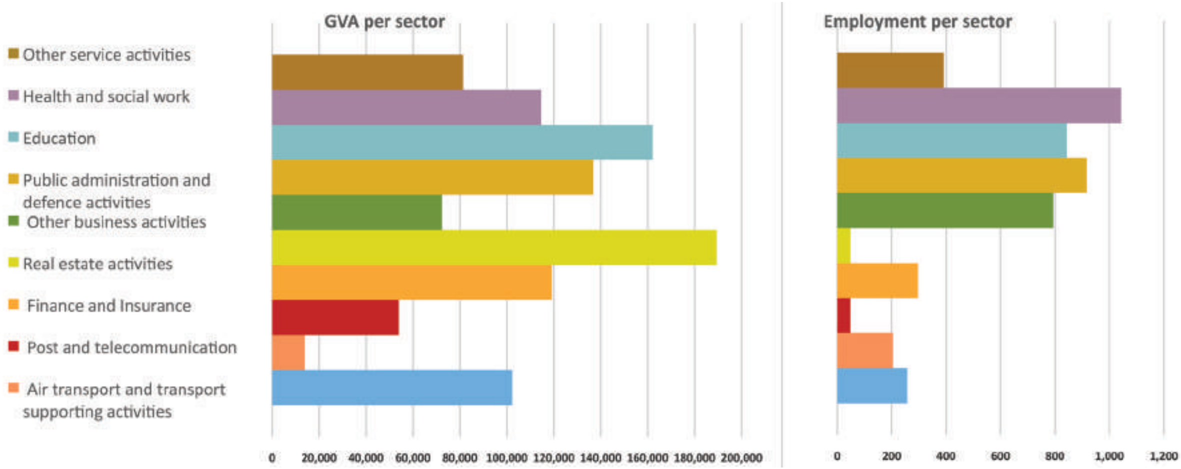
Source: IHS

FIGURE 41: CITY OF CAPE TOWN - GDP AT CURRENT PRICES (R1000) AND GDP RATE



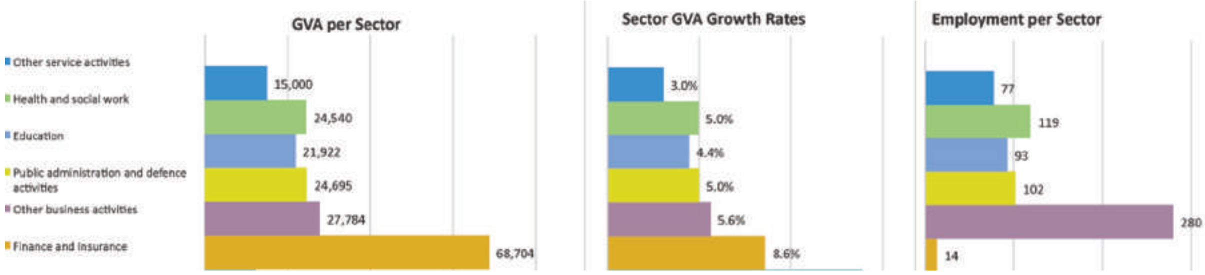
Source: IHS

FIGURE 42: CAPE TOWN - GVA AND EMPLOYMENT



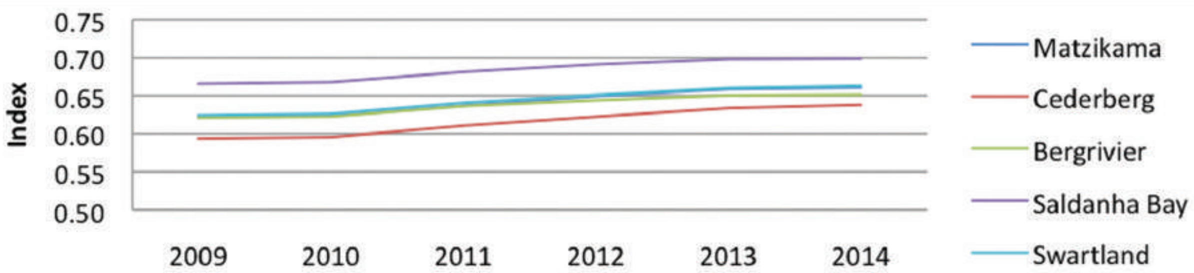
WEST COAST

FIGURE 43: WEST COAST - POPULATION DISTRIBUTION BY MUNICIPALITY



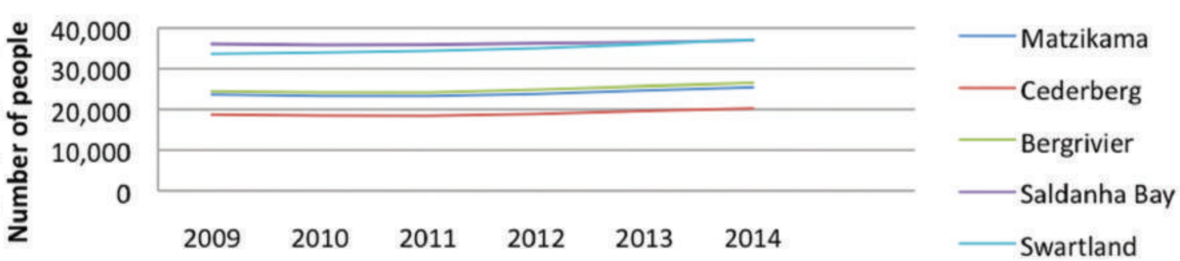
Source: IHS

FIGURE 44: WEST COAST - HDI BY DISTRICT MUNICIPALITY



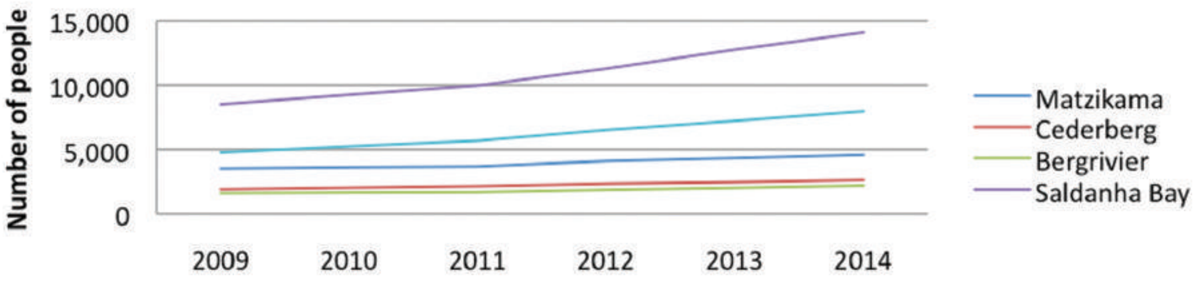
Source: IHS

FIGURE 45: WEST COAST - NUMBER OF FORMALLY EMPLOYED



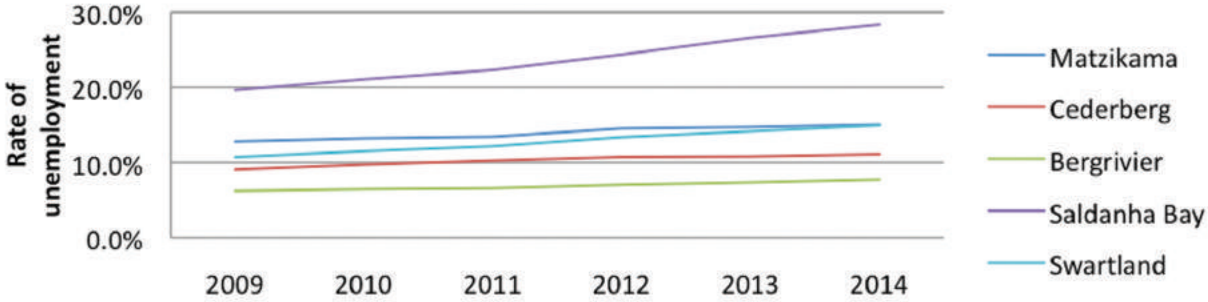
Source: IHS

FIGURE 46: WEST COAST - NUMBER OF UNEMPLOYED



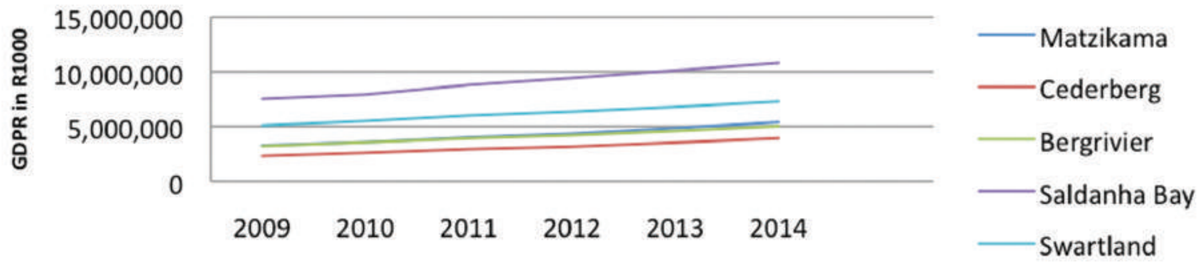
Source: IHS

FIGURE 47: WEST COAST - UNEMPLOYMENT RATE



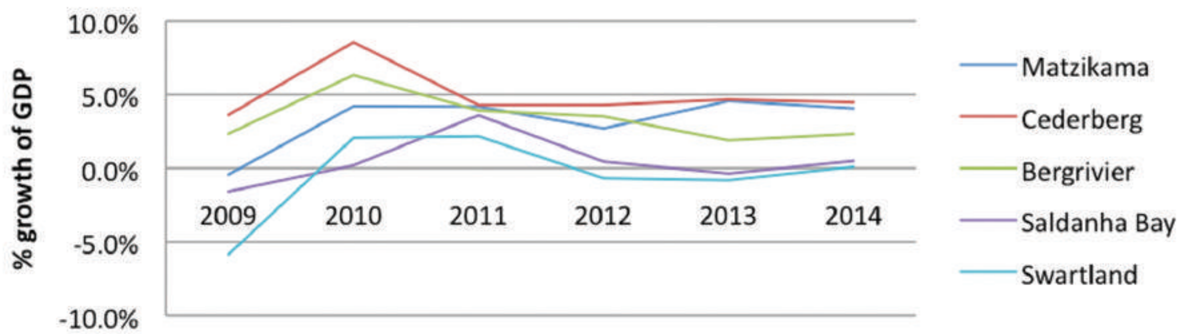
Source: IHS

FIGURE 48: WEST COAST - GDP BY MUNICIPALITY



Source: IHS

FIGURE 49: WEST COAST - GDP GROWTH RATES BY MUNICIPALITY



Source: IHS

FIGURE 50: MATZIKAMA - GVA AND EMPLOYMENT

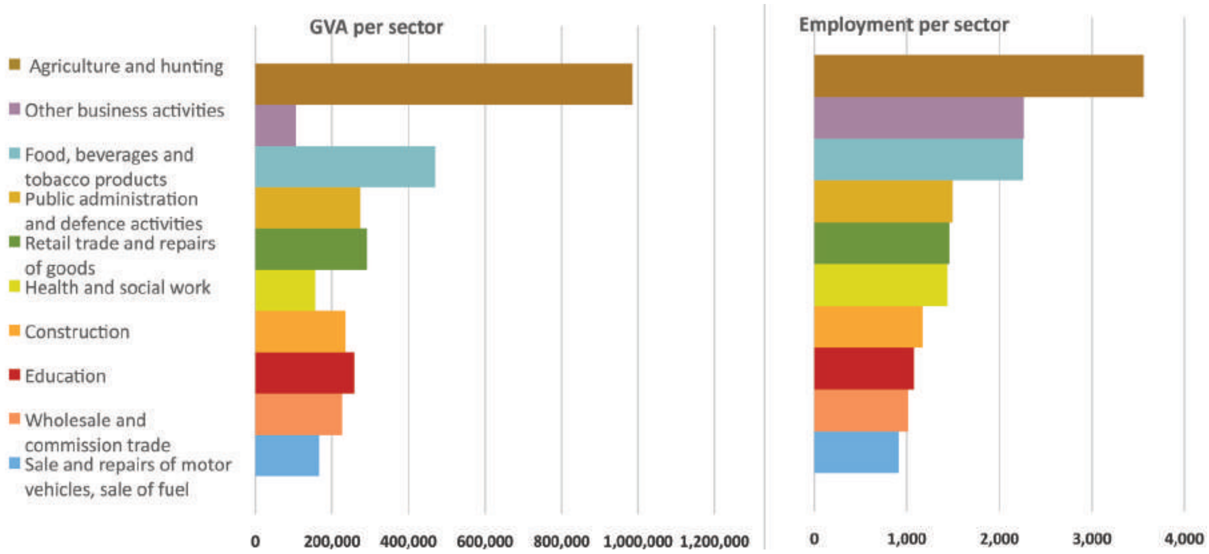


FIGURE 51: CEDERBERG - GVA AND EMPLOYMENT

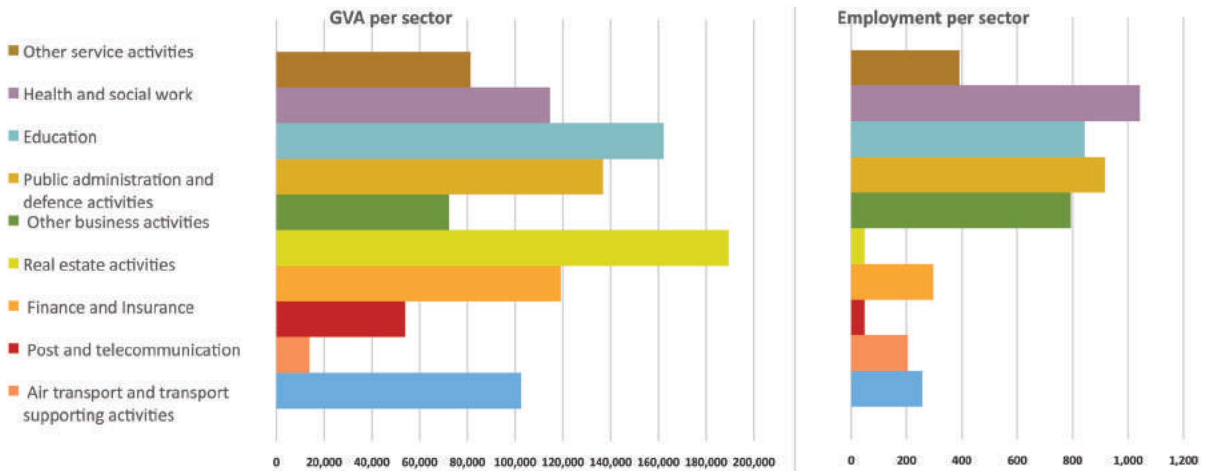


FIGURE 52: BERGRIVER - GVA AND EMPLOYMENT

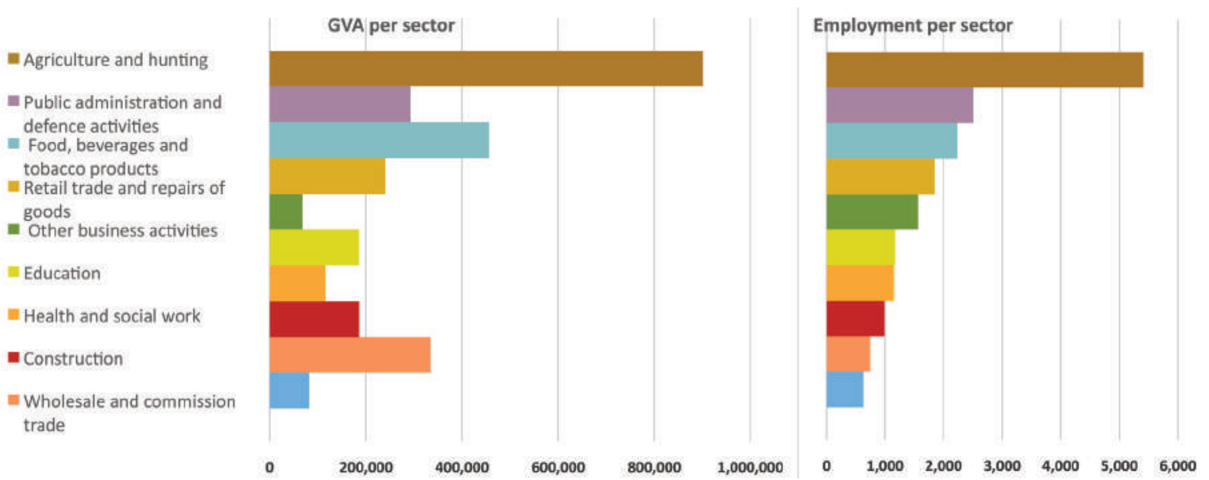


FIGURE 53: SALDANHA - GVA AND EMPLOYMENT

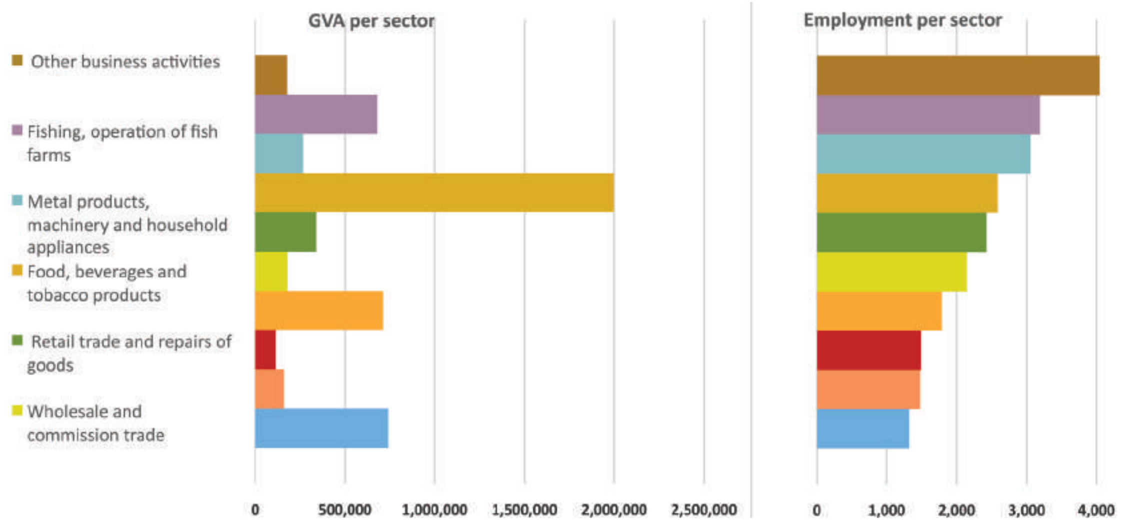
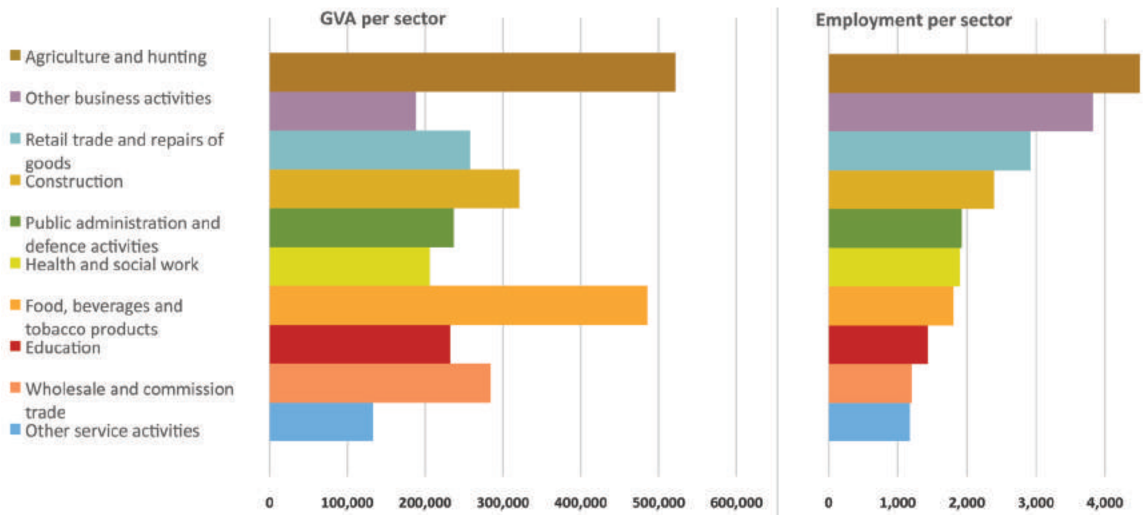
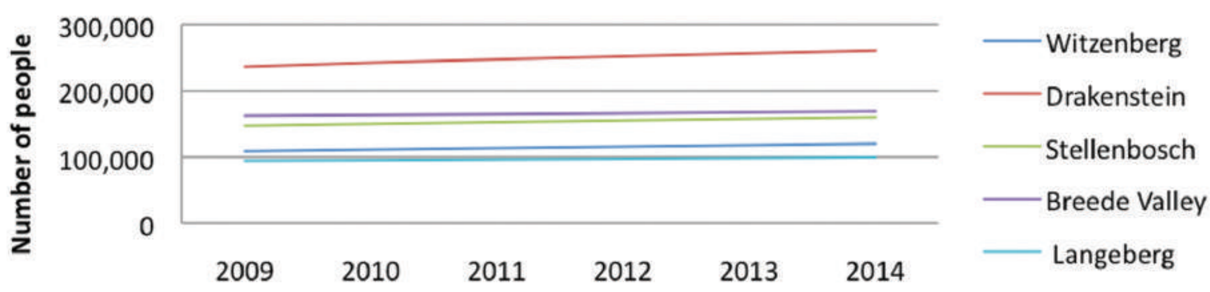


FIGURE 54: SWARTLAND - GVA AND EMPLOYMENT



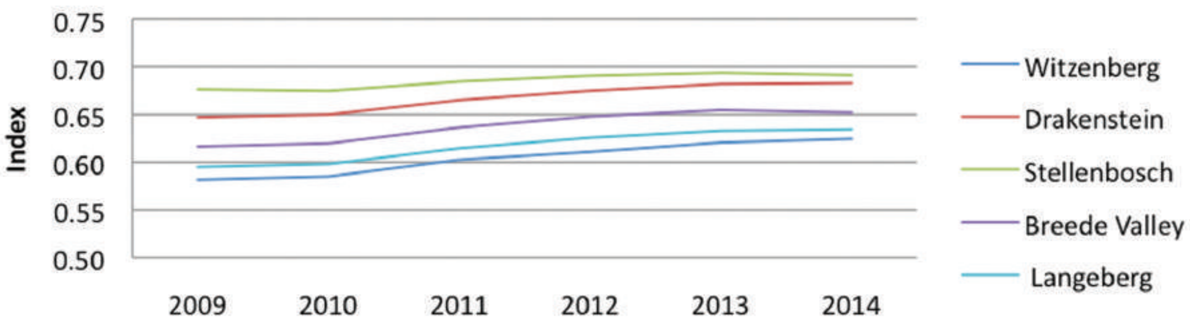
CAPE WINELANDS

FIGURE 55: CAPE WINELANDS - POPULATION DISTRIBUTION BY MUNICIPALITY



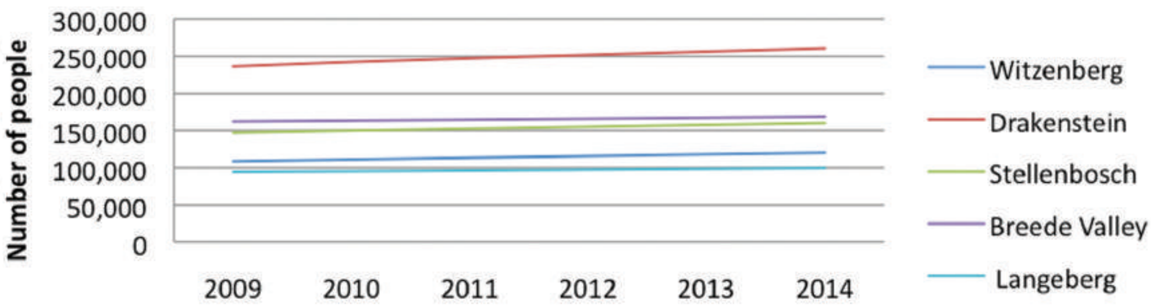
Source: IHS

FIGURE 56: CAPE WINELANDS – HDI



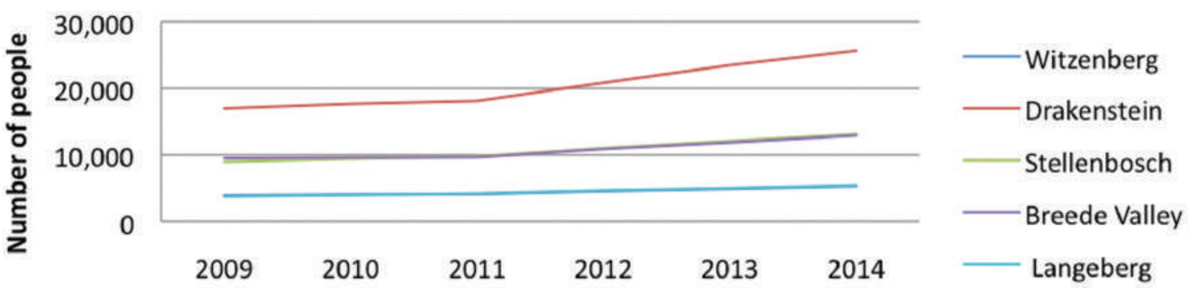
Source: IHS

FIGURE 57: CAPE WINELANDS - NUMBER OF FORMALLY EMPLOYED



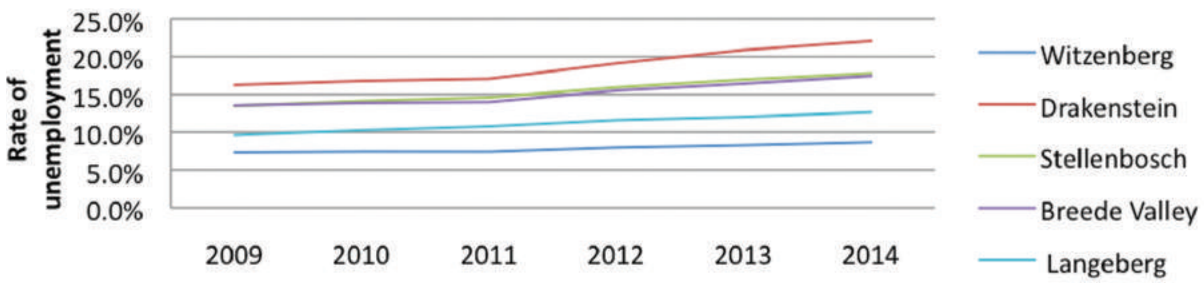
Source: IHS

FIGURE 58: CAPE WINELANDS - NUMBER OF UNEMPLOYED



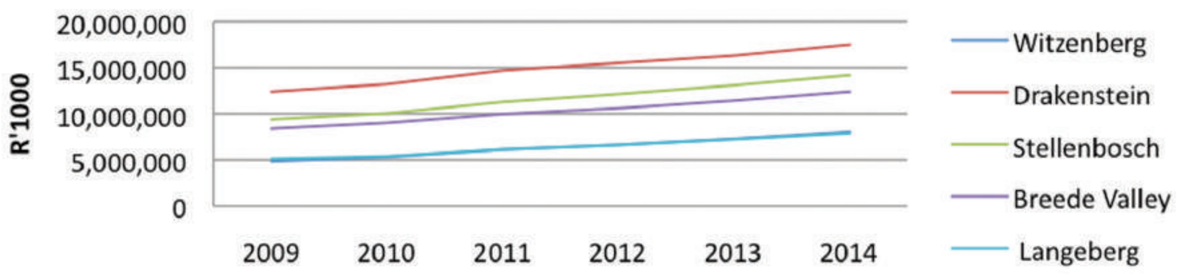
Source: IHS

FIGURE 59: CAPE WINELANDS - UNEMPLOYMENT RATES BY MUNICIPALITY



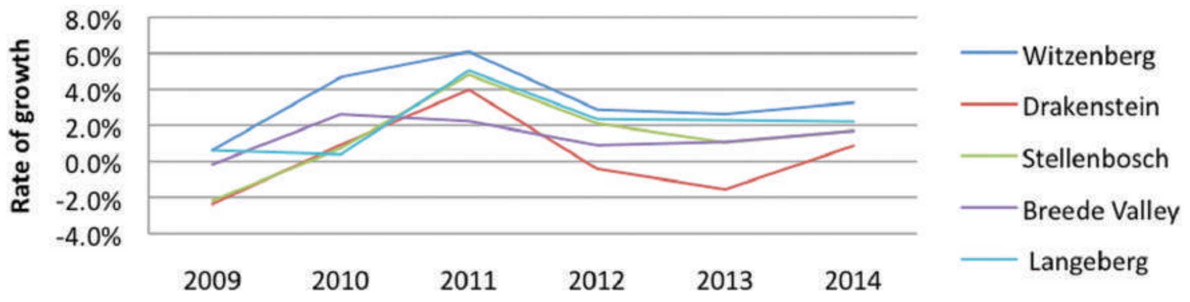
Source: IHS

FIGURE 60: CAPE WINELANDS - GDP BY MUNICIPALITY



Source: IHS

FIGURE 61: CAPE WINELANDS - GDP GROWTH RATES



Source: IHS

FIGURE 62: WITZENBERG - GVA AND EMPLOYMENT

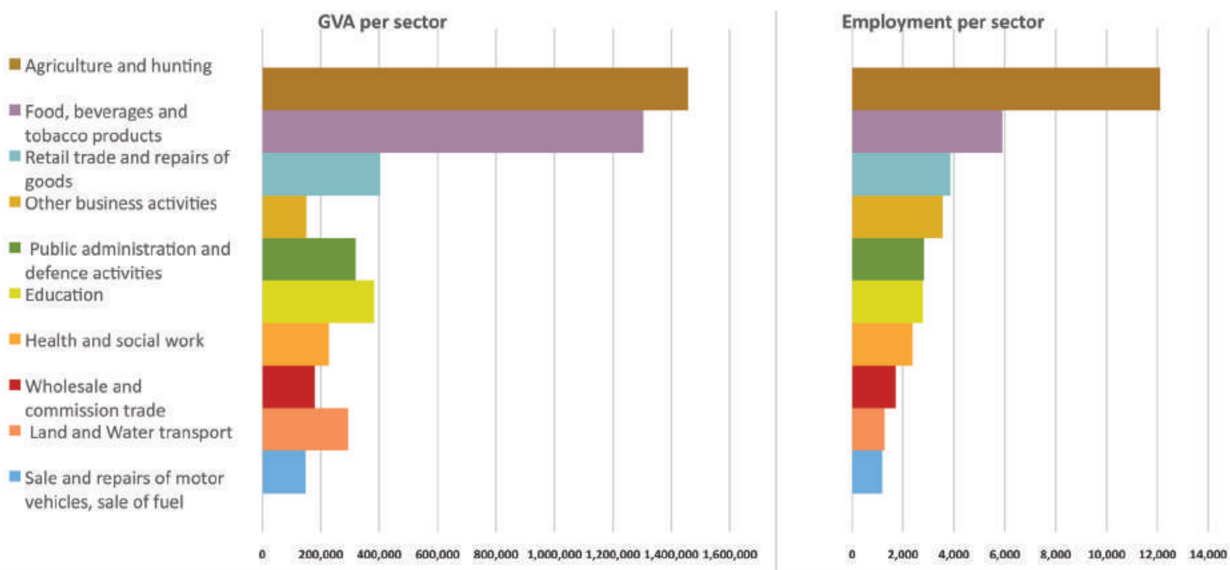


FIGURE 63: DRAKENSTEIN - GVA AND EMPLOYMENT

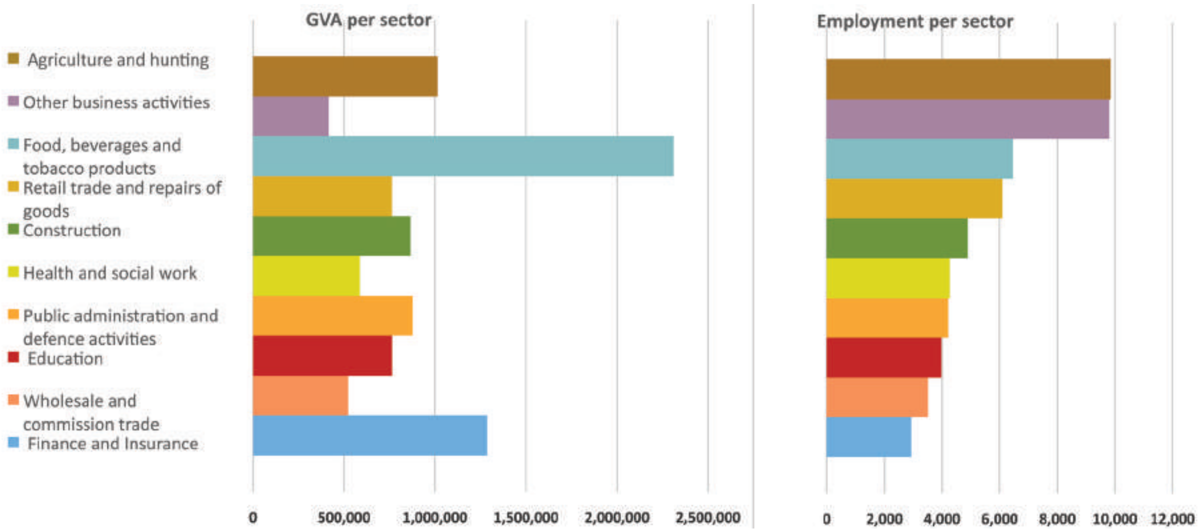


FIGURE 64: STELLENBOSCH - GVA AND EMPLOYMENT

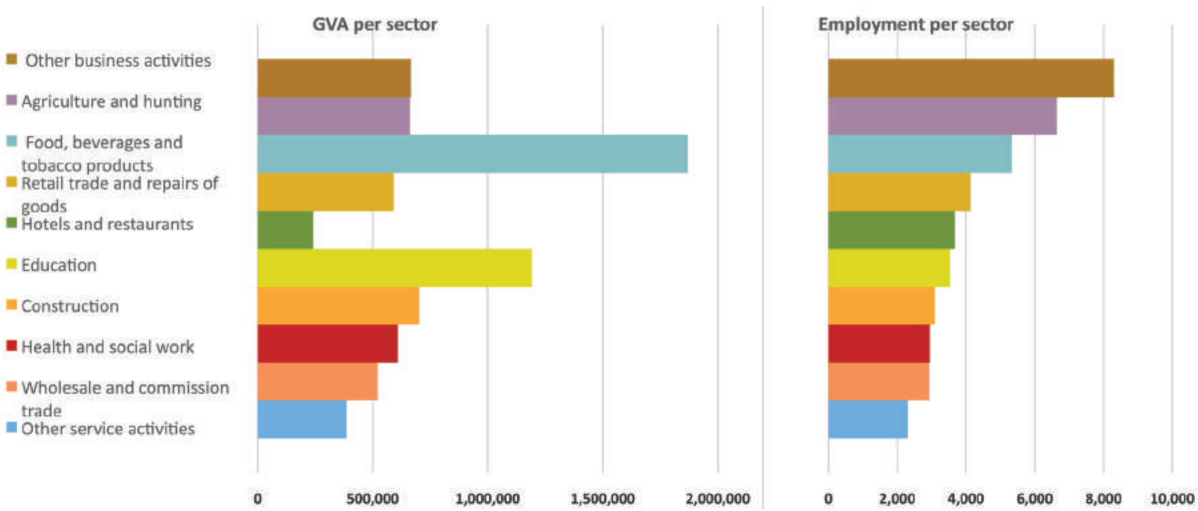


FIGURE 65: BREEDE VALLEY - GVA AND EMPLOYMENT

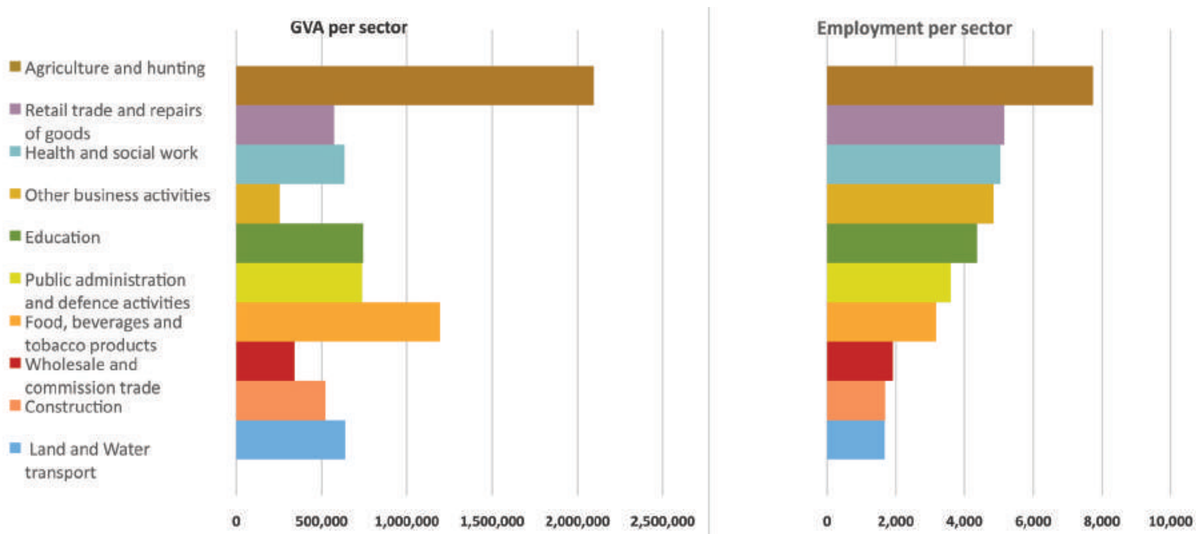
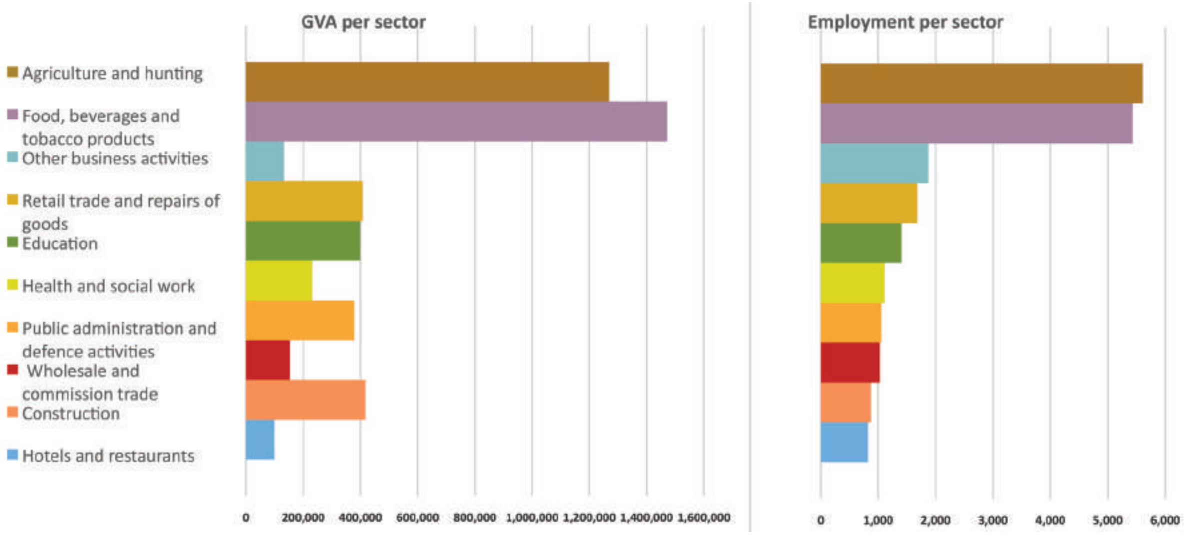
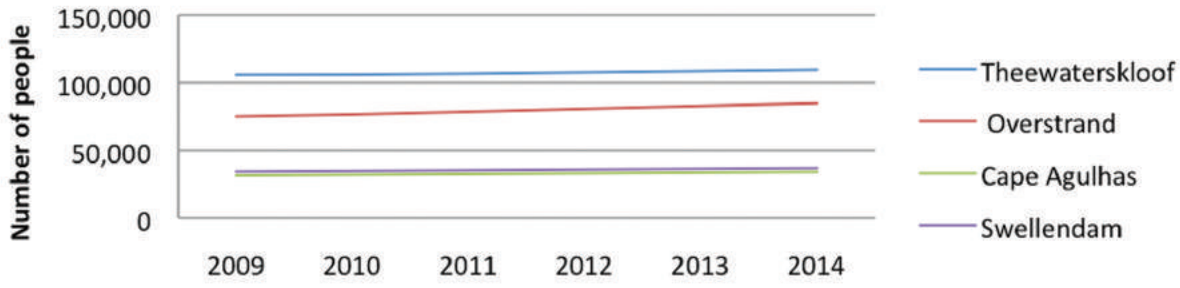


FIGURE 66: LANGEBERG - GVA AND EMPLOYMENT



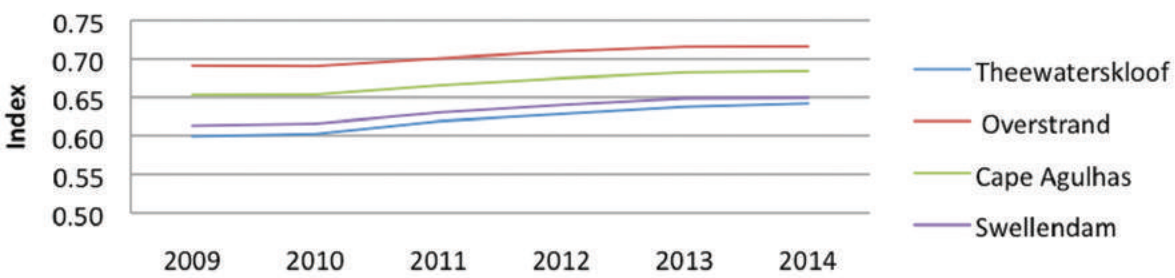
OVERBERG

FIGURE 67: OVERBERG - POPULATION DISTRIBUTION BY MUNICIPALITY



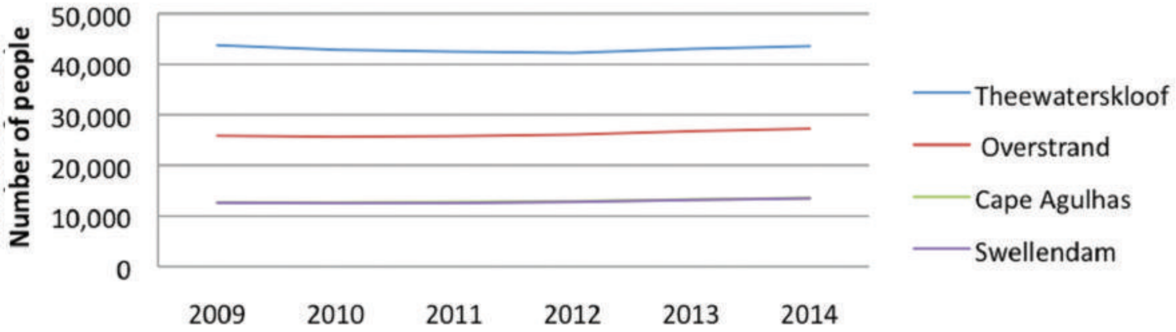
Source: IHS

FIGURE 68: OVERBERG - HDI



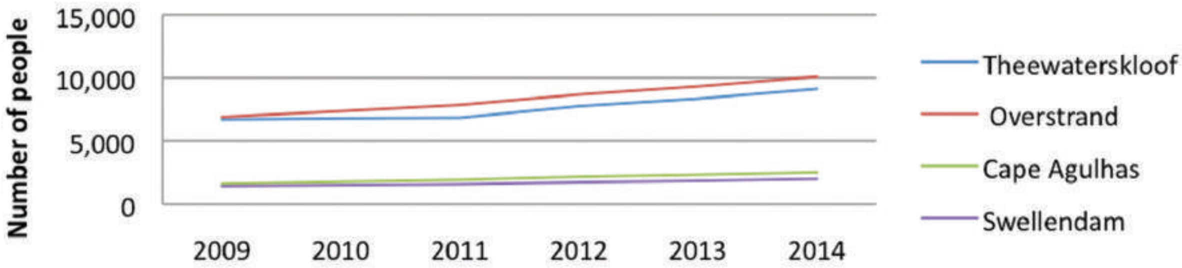
Source: IHS

FIGURE 69: OVERBERG - NUMBER OF FORMALLY EMPLOYED



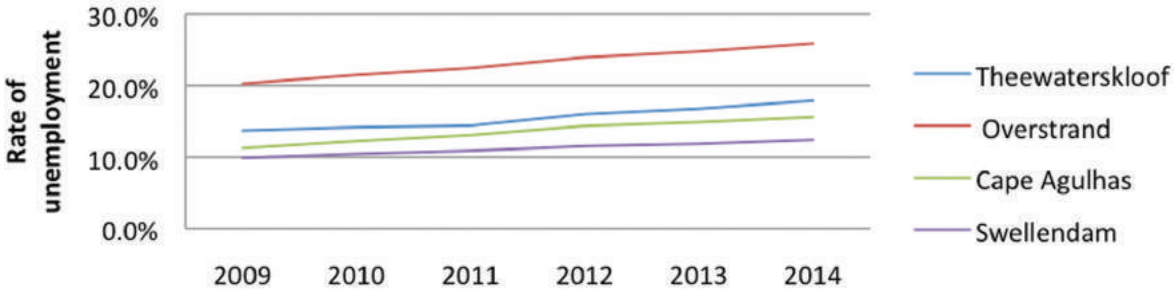
Source: IHS

FIGURE 70: OVERBERG - NUMBER OF UNEMPLOYED



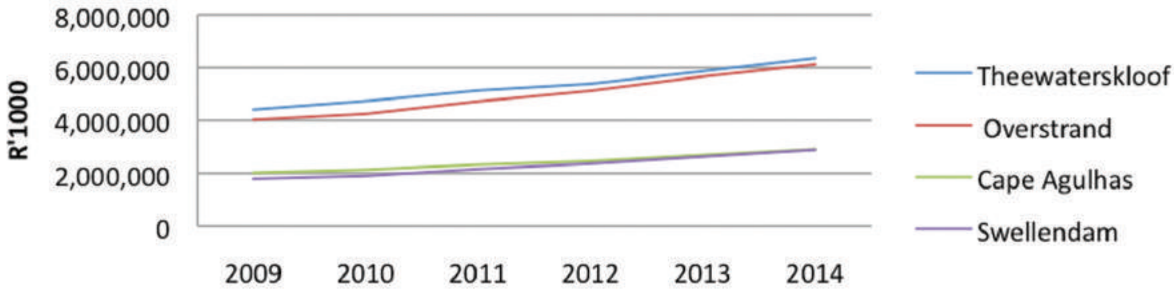
Source: IHS

FIGURE 71: OVERBERG - UNEMPLOYMENT RATES



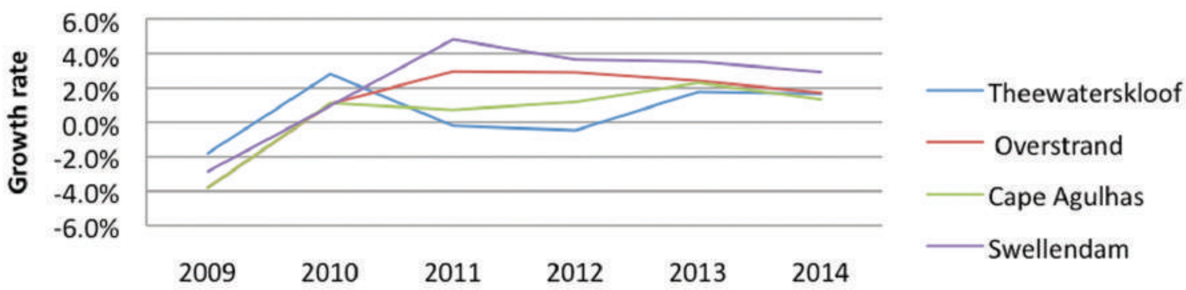
Source: IHS

FIGURE 72: OVERBERG - GDP BY MUNICIPALITY



Source: IHS

FIGURE 73: OVERBERG - GDPR GROWTH RATES



Source: IHS

FIGURE 74: THEEWATERSKLOOF - GVA AND EMPLOYMENT

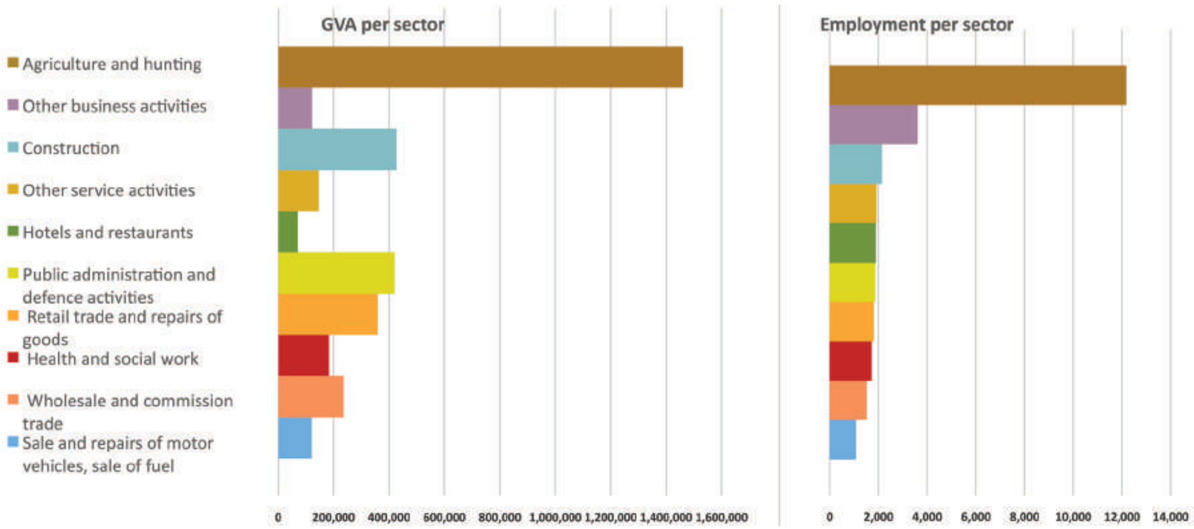


FIGURE 75: OVERSTRAND - GVA AND EMPLOYMENT

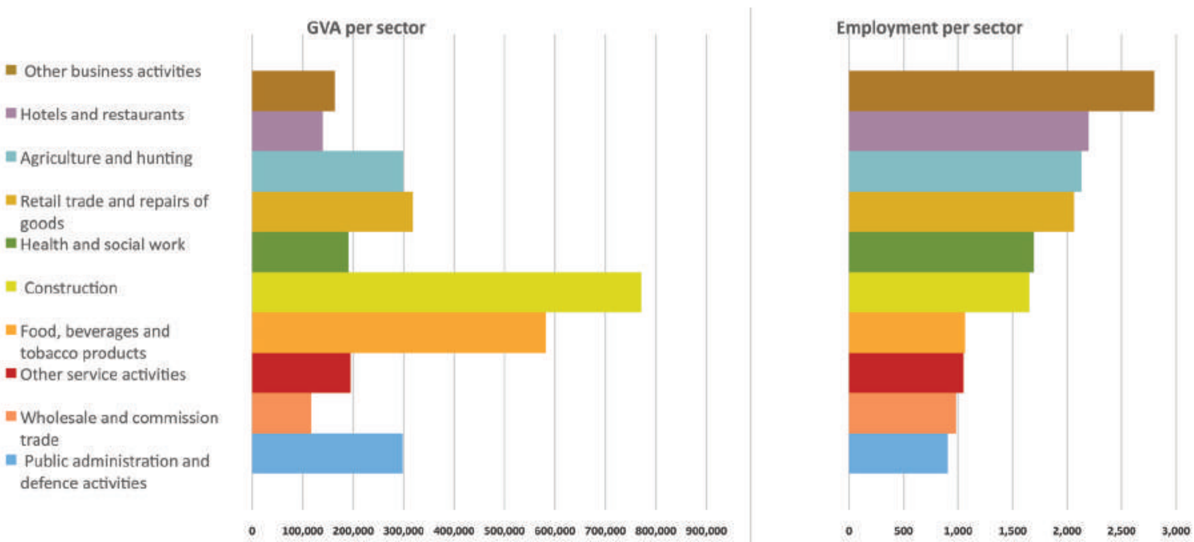


FIGURE 76: CAPE AGULHAS - GVA AND EMPLOYMENT

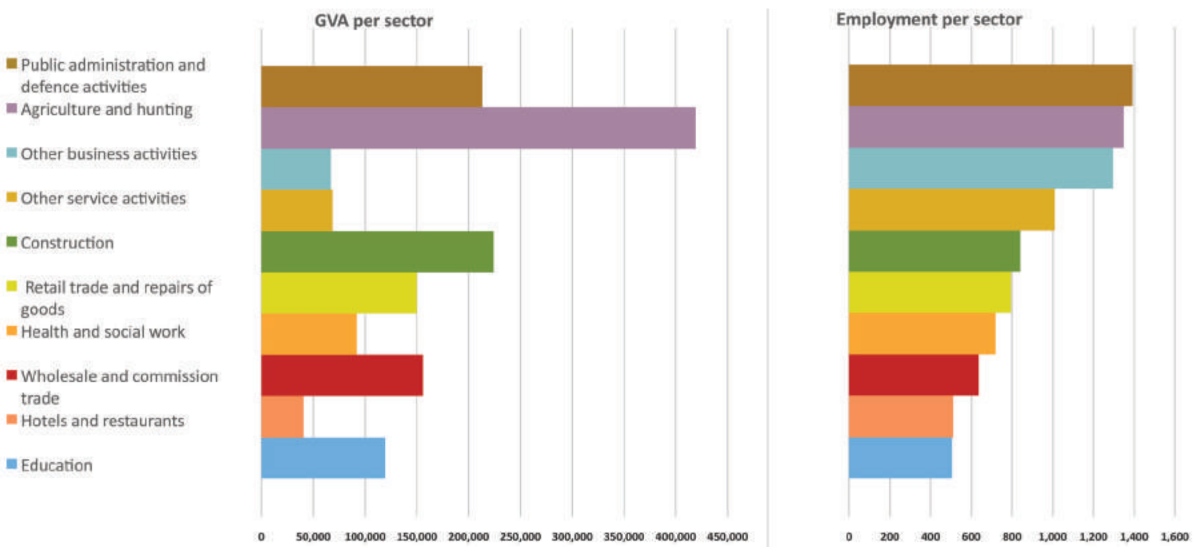
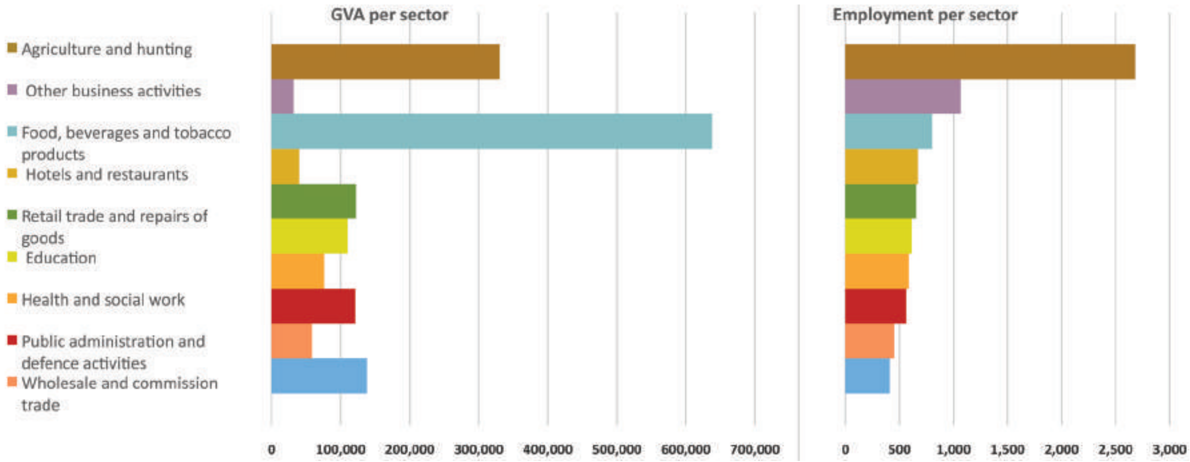
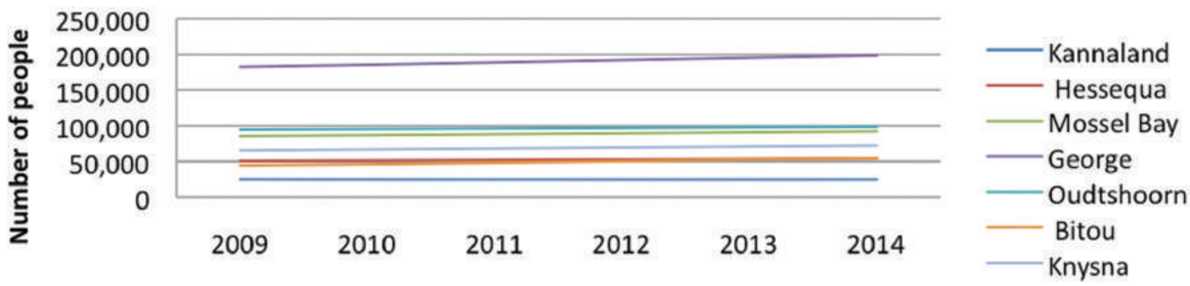


FIGURE 77: SWELLENDAM - GVA AND EMPLOYMENT



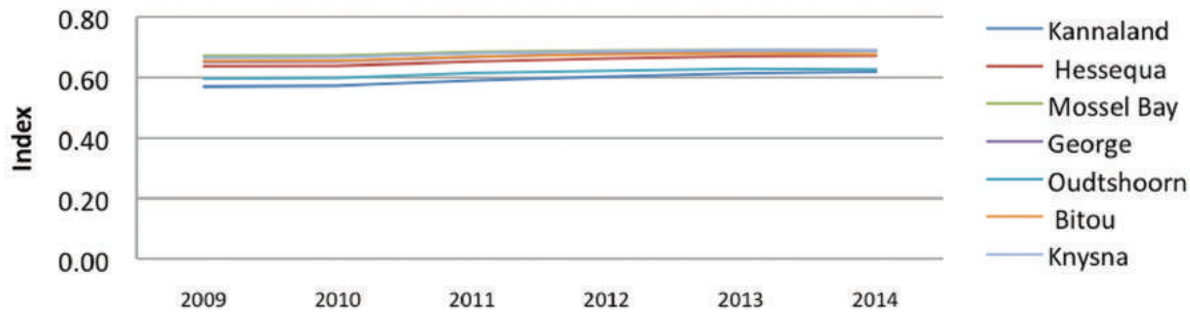
EDEN

FIGURE 78: EDEN - POPULATION DISTRIBUTION BY MUNICIPALITY



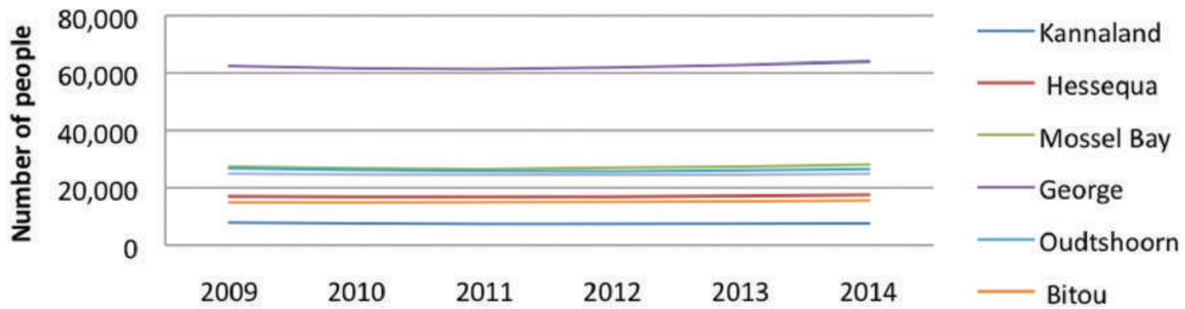
Source: IHS

FIGURE 79: EDEN - HDI



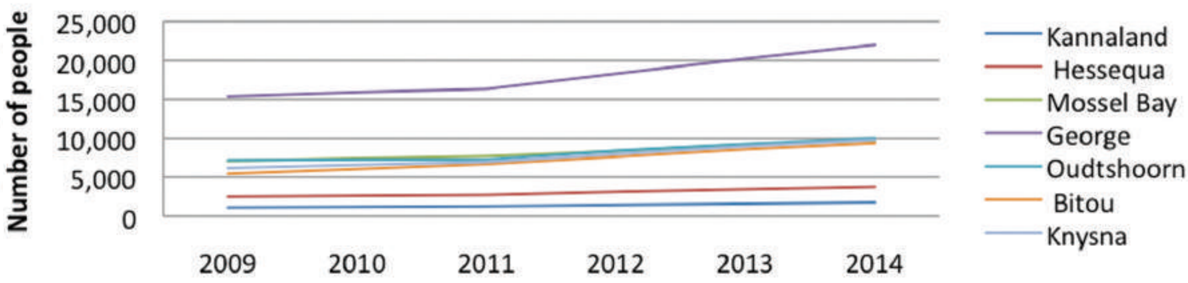
Source: IHS

FIGURE 80: EDEN - NUMBER OF FORMALLY EMPLOYED



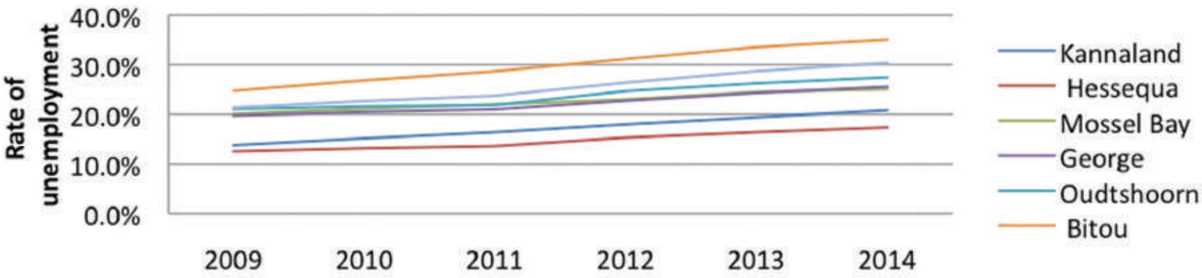
Source: IHS

FIGURE 81: EDEN - NUMBER OF UNEMPLOYED



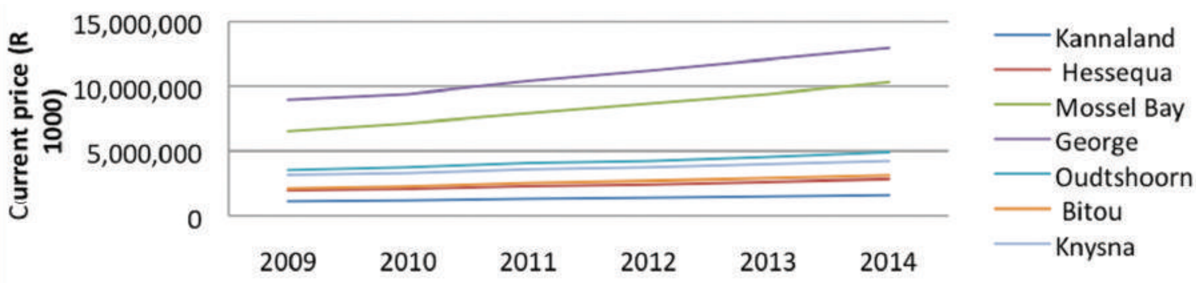
Source: IHS

FIGURE 82: EDEN - UNEMPLOYMENT RATES



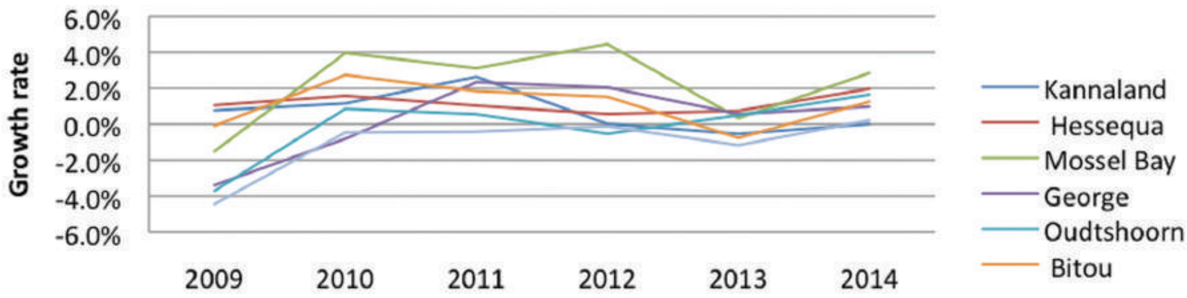
Source: IHS

FIGURE 83: EDEN - GDP BY MUNICIPALITY



Source: IHS

FIGURE 84: EDEN - GDPR GROWTH RATES



Source: IHS

FIGURE 85: KANNALAND - GVA AND EMPLOYMENT

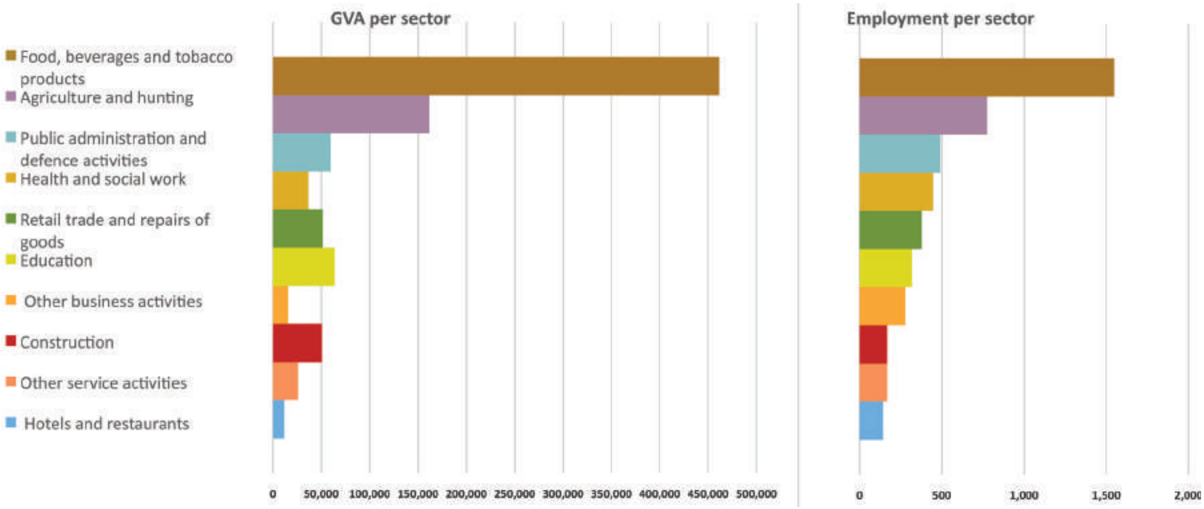


FIGURE 86: HESSEQUA - GVA AND EMPLOYMENT

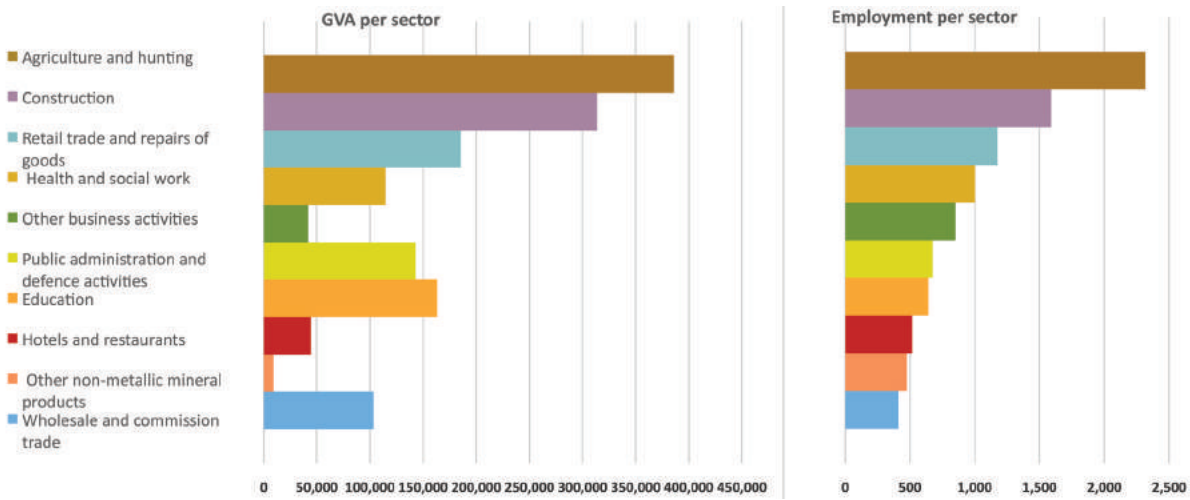


FIGURE 87: GEORGE - GVA AND EMPLOYMENT

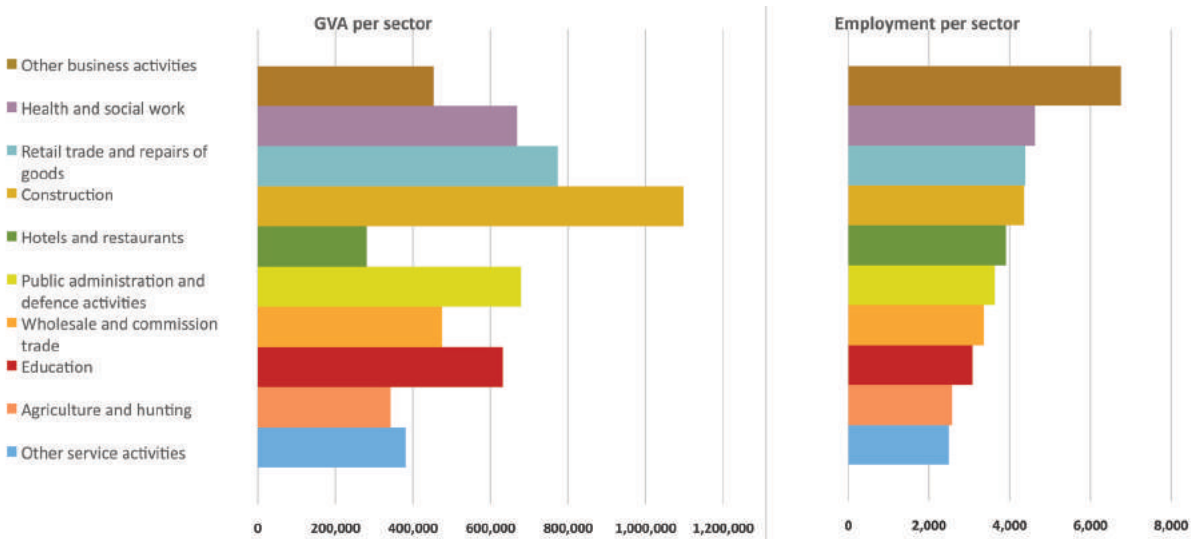


FIGURE 88: OUDTSHOORN - GVA AND EMPLOYMENT

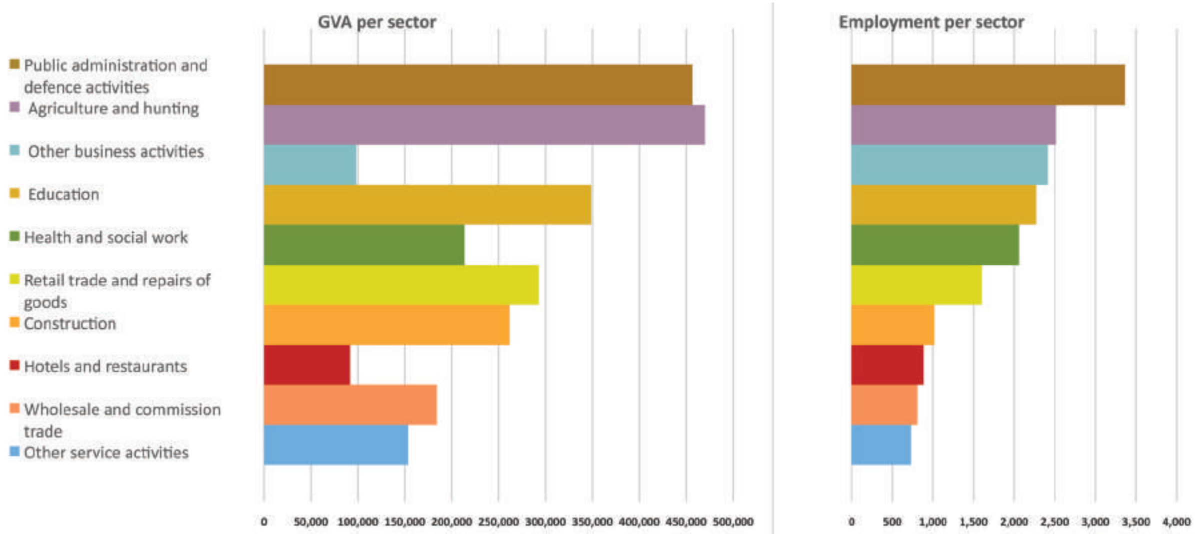


FIGURE 89: BITOU - GVA AND EMPLOYMENT

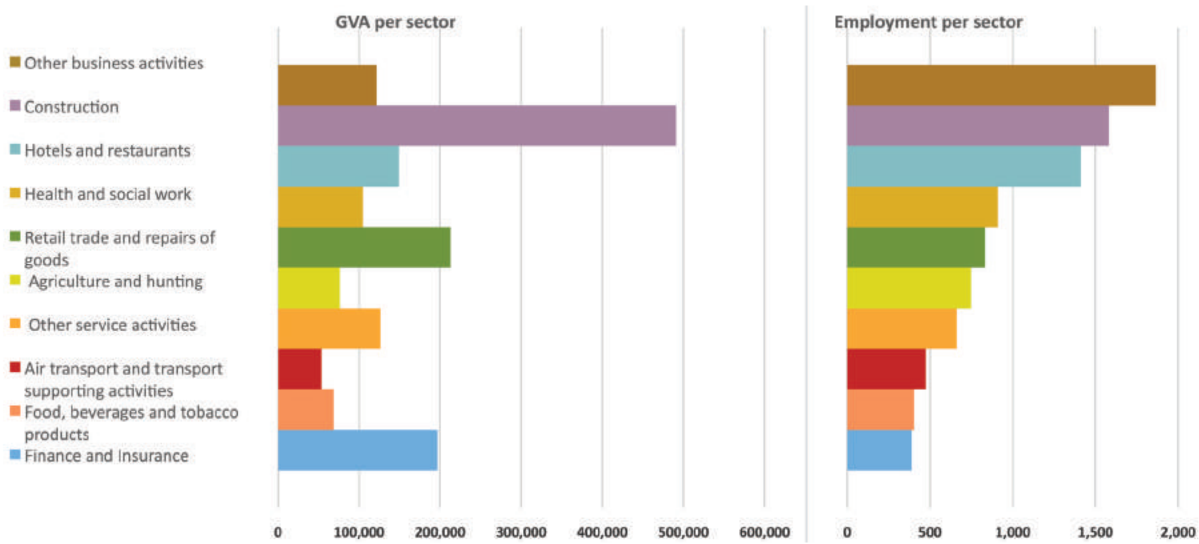


FIGURE 90: KNYSNA - GVA AND EMPLOYMENT

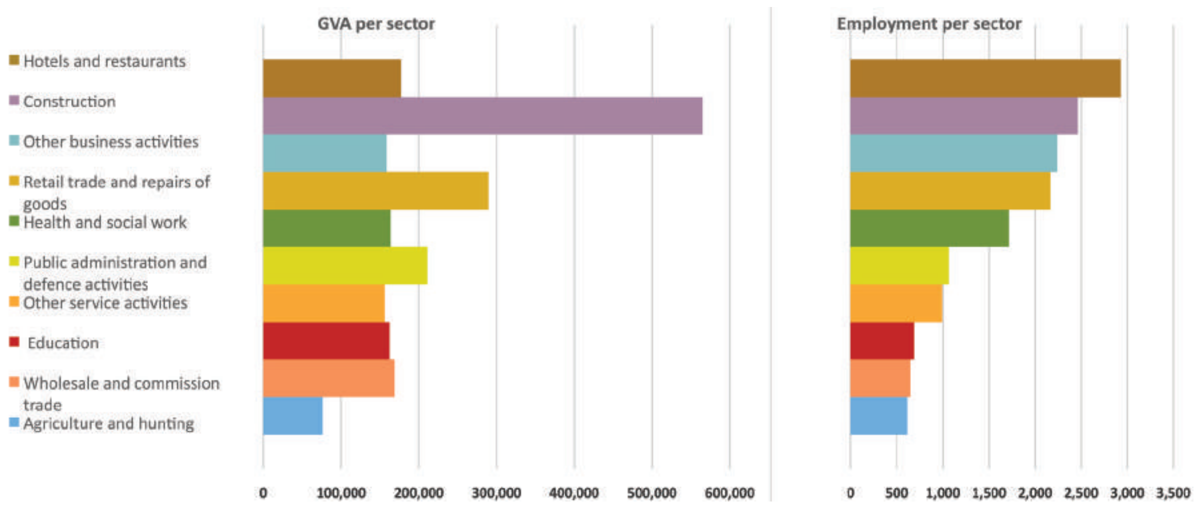
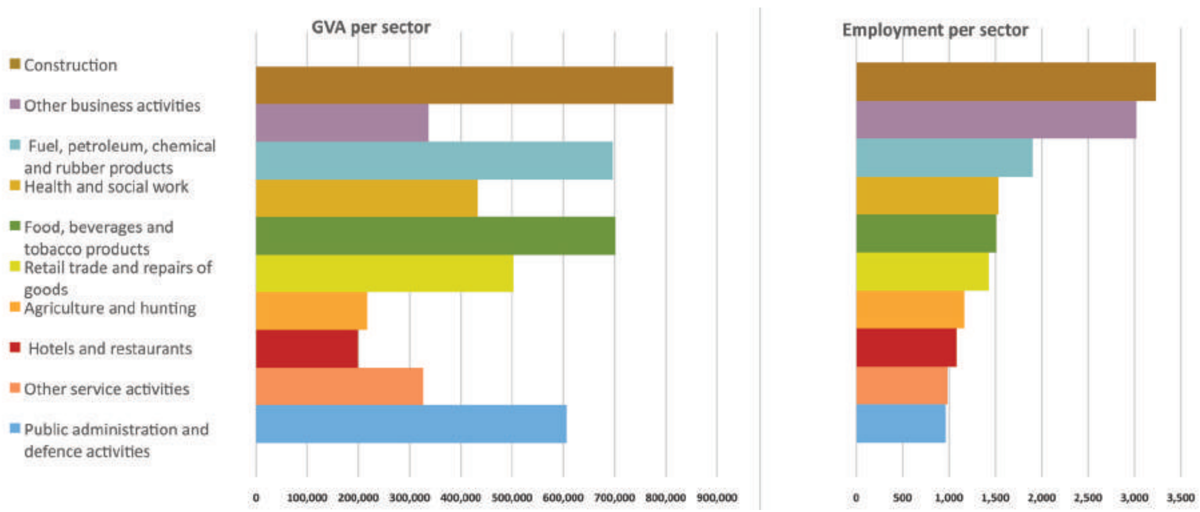
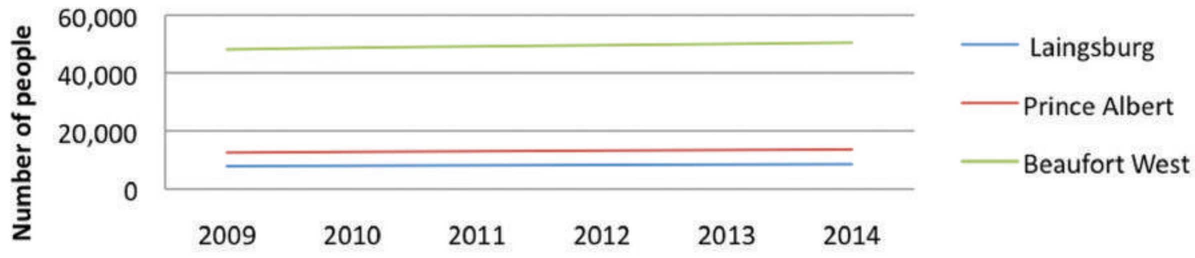


FIGURE 91: MOSSEL BAY - GVA AND EMPLOYMENT



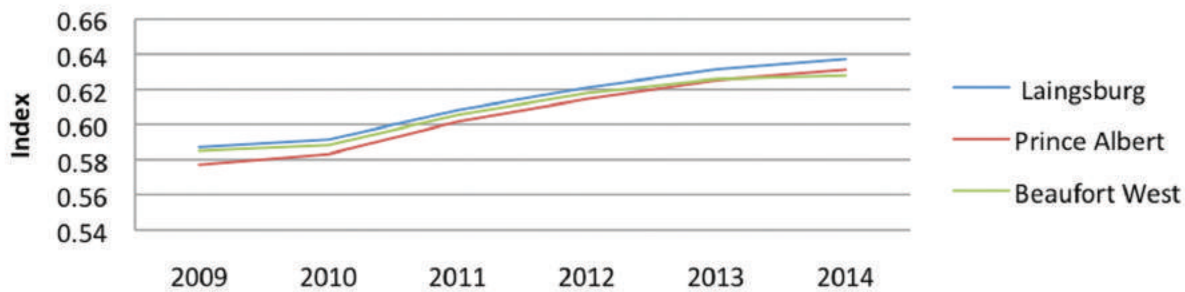
CENTRAL KAROO

FIGURE 92: CENTRAL KAROO - POPULATION DISTRIBUTION BY MUNICIPALITY



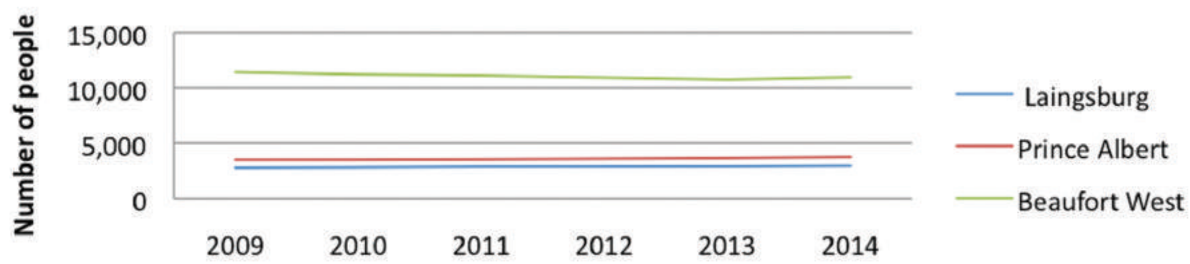
Source: IHS

FIGURE 93: CENTRAL KAROO – HDI



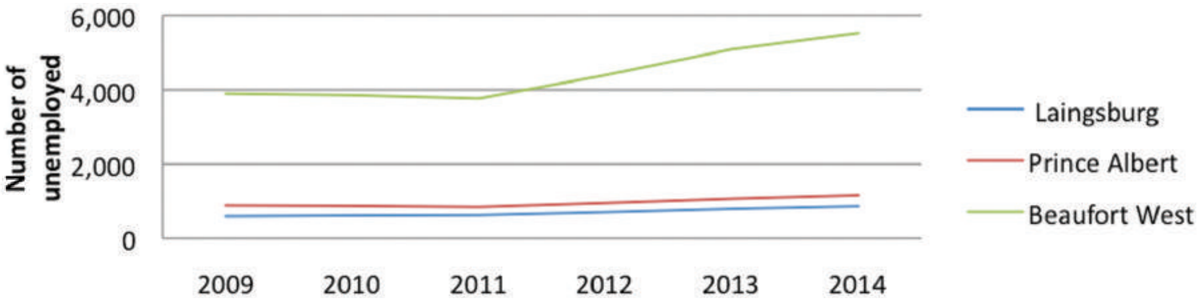
Source: IHS

FIGURE 94: CENTRAL KAROO - NUMBER OF FORMALLY EMPLOYED



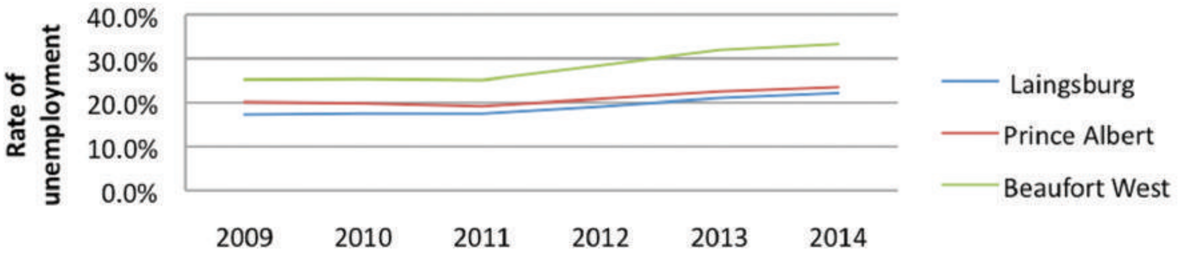
Source: IHS

FIGURE 95: CENTRAL KAROO - NUMBER OF UNEMPLOYED



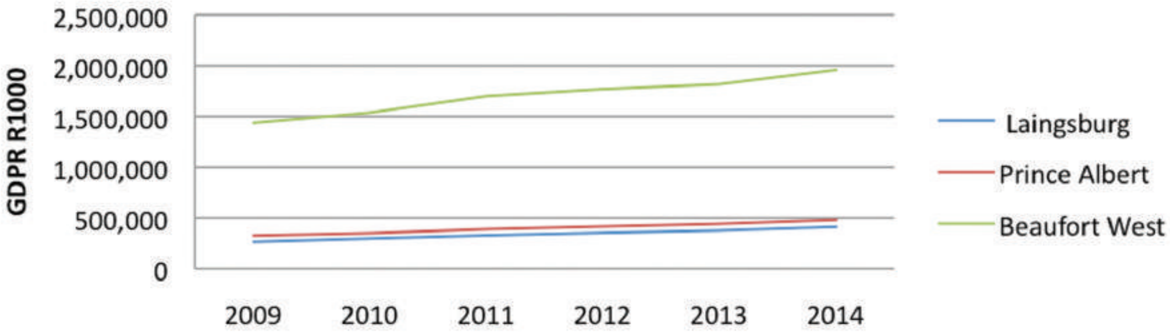
Source: IHS

FIGURE 96: CENTRAL KAROO - UNEMPLOYMENT RATE



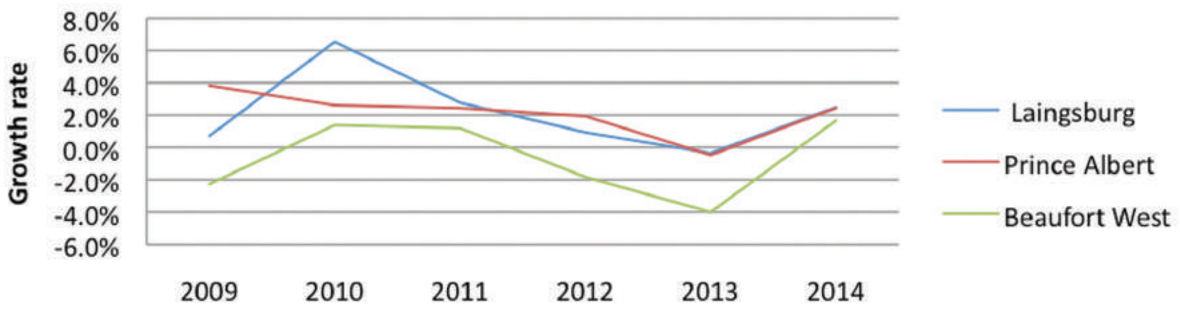
Source: IHS

FIGURE 97: CENTRAL KAROO - GDP BY MUNICIPALITY



Source: IHS

FIGURE 98: CENTRAL KAROO - GDPR GROWTH RATES



Source: IHS

FIGURE 99: LAINGSBURG - GVA AND EMPLOYMENT

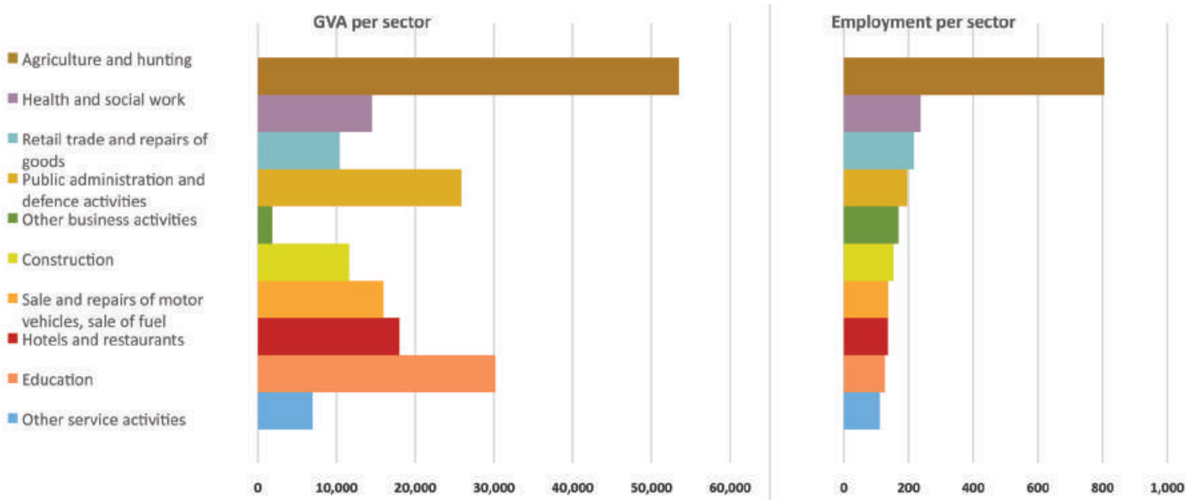


FIGURE 100: PRINCE ALBERT - GVA AND EMPLOYMENT

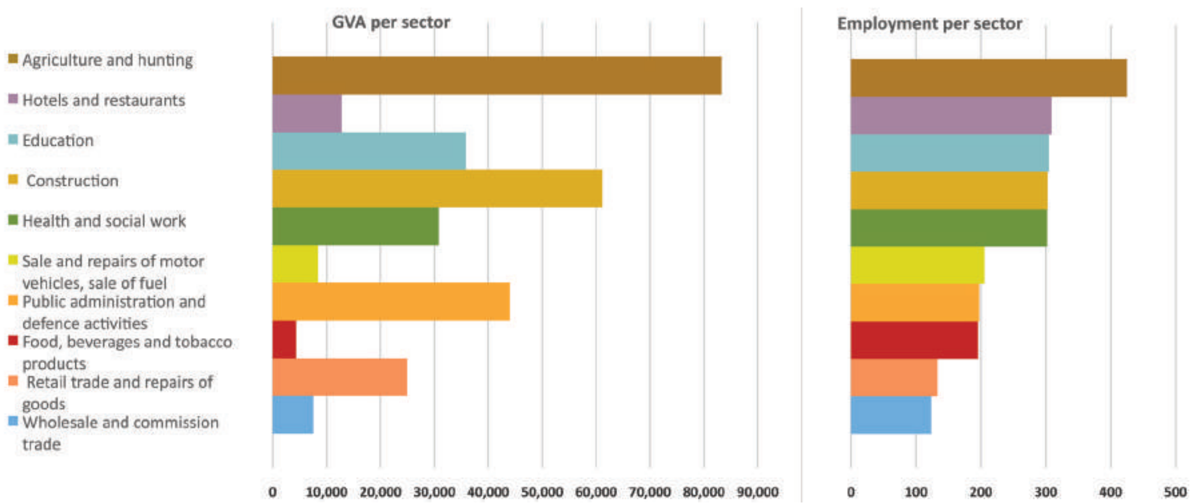
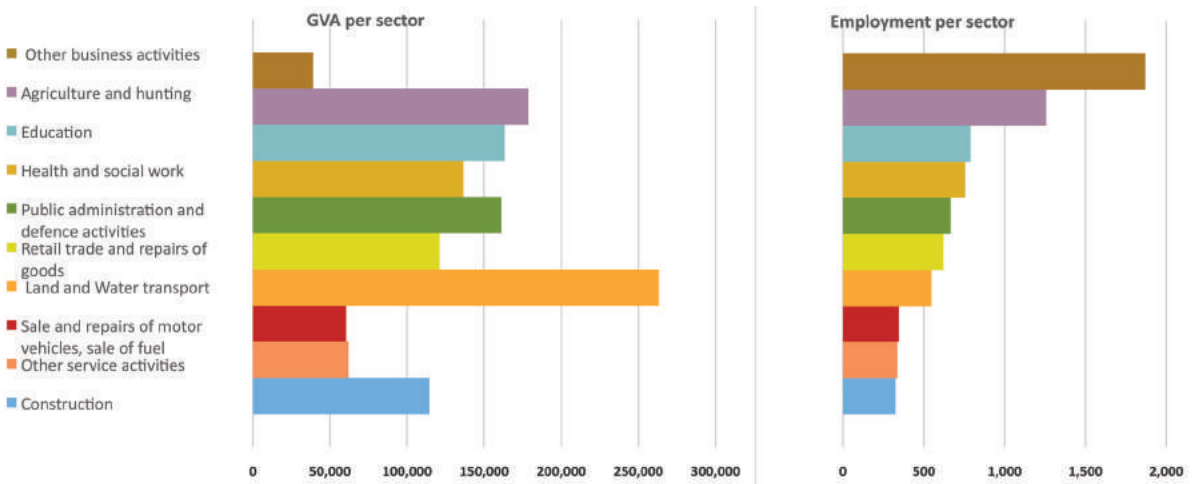


FIGURE 101: BEAUFORT WEST - GVA AND EMPLOYMENT



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