# Quarterly Economic Bulletin

## Quarter 4, 2016

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# MINISTER'S FOREWORD

According to the latest economic intelligence, the Western Cape's Project Khulisa sectors are reporting significant jobs growth.

Reporting on the third quarter – that is July to September 2016 – StatsSA's Quarterly Labour Force Survey (QLFS) showed that we've added 49 000 jobs to our economy quarter-on-quarter. Consequently, the Western Cape's broad unemployment rate of 24.8% remains the lowest in the country.

Construction jobs in the Western Cape have grown by 23.5% between Q3 2015 and Q3 2016, increasing employment in the sector from 196 000 to 242 000. We also reported on the gains in tourism as visitor arrivals increased across the province during the 2016/17 peak summer season. Foreign tourist numbers grew at 29,8% year-on-year in December 2016, and major attractions achieved growth of 19,8% between 2013 and 2016.

These figures show that we are on track to meet our Project Khulisa job creation targets.

This edition of the Quarterly Economic Bulletin includes an analysis on tourism, which forecasts further increases in visitor arrivals and spend over the next year.

Apart from Project Khulisa's key sectors, we are also prioritising a set of economic game-changers, one of which is skills. Through the Western Cape's Apprenticeship Game Changer, we have set a target of introducing 32 500 qualified apprentices into the labour market by 2019. The QEB also provides an overview of skills development in the province.

I hope you will find this edition of the QEB useful in offering context to key economic trends.

**Alan Winde**
Minister of Economic Opportunities

# HEAD OF DEPARTMENT'S FOREWORD

According to the third quarter QLFS, the province created 49 000 jobs this quarter - nearly 20% of all the jobs created in the country. Considering that the Western Cape, unlike our sister provinces, still finds itself in the one of the worst droughts in recent memory and that agriculture is such a large component of our economy, makes this feat even more outstanding.

Although our regional economy is constrained by the same macroeconomic constraints that affect the rest of the country, one of the main reasons why the Western Cape outperforms the country average includes our strategy for jobs and growth. This strategy is underpinned by our principles of industry lead, economic leadership (where appropriate), the provisioning of quality skills, reducing unnecessary and inefficient government-to-firm facing bureaucratic processes, and the provisioning of an environment that is conducive for firms to grow.

Further to the province's focus of offering a superior environment in which to do business, its sector selection strategy espoused through Project Khulisa is proving to yield substantial returns. According to the provincial Department of Agriculture, the agriculture and agri-processing sectors have added many jobs over the past three years.

In addition, the Western Cape Tourism indicators have also surpassed previous bests and the Saldanha Bay Industrial Development Zone – the central development in the Rig and Ship Repair industry – has started to sign up investors at a rapid pace.

Even within the context of national and global economic constraints, the past few quarters have been remarkable for the Western Cape. With what we have seen, the coming quarters hold even more promise.

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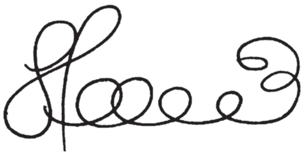

**Solly Fourie**
Head of Department
Department of Economic Development and Tourism

# EDITOR'S NOTES

Global economic and political uncertainty is normally like kryptonite to the Rand, local equity markets and cost of local debt. So you can imagine my surprise when, in response to Trump and Brexit, the South African legal tender rallied to R12,90 to the USD. The currency appreciated more than a third against the British Pound from more than R24 per GBP to R16 in just one year. Even more astonishing when one considers uncertainty around our credit ratings, uncertainty around leadership in National Treasury and concerns on rising public debt.

The most confused you will ever get, is when trying to understand what drives rand movements and, at least for me, I gave my cognitive faculties a bit of a reprieve after the rand trading collusion report published by the Competition Commission. The report named and shamed about a dozen local and international banks and other currency traders and describes how more than just economic trends influence currency prices. This is obviously not the first time something like this happened. The South African Reserve Bank accused at least one bank of behaving dubiously in the local currency crisis of 2001.

Notwithstanding all this uncertainty and confusion induced by less than benign motives, the economy – and more so the Western Cape economy – is proving rather resilient. Employment still remains slower than what is required, however, it is showing signs of acceleration. As per the latest QLFS, the Western Cape added 49 000 jobs this quarter. For the first time in December, the Airports Company South Africa reported more than 10 million arrivals and international arrivals continue to show robust growth. December alone saw a 28,9% increase in international arrivals at Cape Town International Airport. The increase in Tourism, and what we believe to be an increase in inward migration into the province, are having rather profound influences in the real estate industry. Non-metro medium house prices increased by more than 22% over the last 18 months, and while not as acute, this trend persists across metro house prices. House prices in the Western Cape is higher by as much as 40% when contrasted against other large provinces such as Gauteng and KwaZulu-Natal. These trends could explain why residential construction outperforms national by the margin it does.

The drought continues to be a concern for the provincial economy, but despite these concerns the agri-jobs outperformed just about all other sectors. Agri-job performance is one of the key reasons that non-metro unemployment managed to report the lowest unemployment rate since the non-metro unemployment was reported, which currently stands at 14% in the province.

Further, the Western Cape Government is rather excited to report that the Saldanha Bay Industrial Development Zone (IDZ) – an initiative that is more than ten years in the making – has signed its first investor in the Industrial Zone. It is expected that the Saldanha Bay IDZ will create more than 30 000 jobs.

This edition of the QEB offers further insight into the extent and the reasons why the provincial economy is outperforming our other provincial counterparts; and discusses behavioural economics and how psychological, emotional and cognitive idiosyncrasies influence economic decisions.

We hope that you find this edition informative and assist in your economic and financial decisions making

**Nezaam Joseph**
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# SPOT THE OPPORTUNITY: CARBON NEUTRAL MANUFACTURING

VICTORIA DELBRIDGE

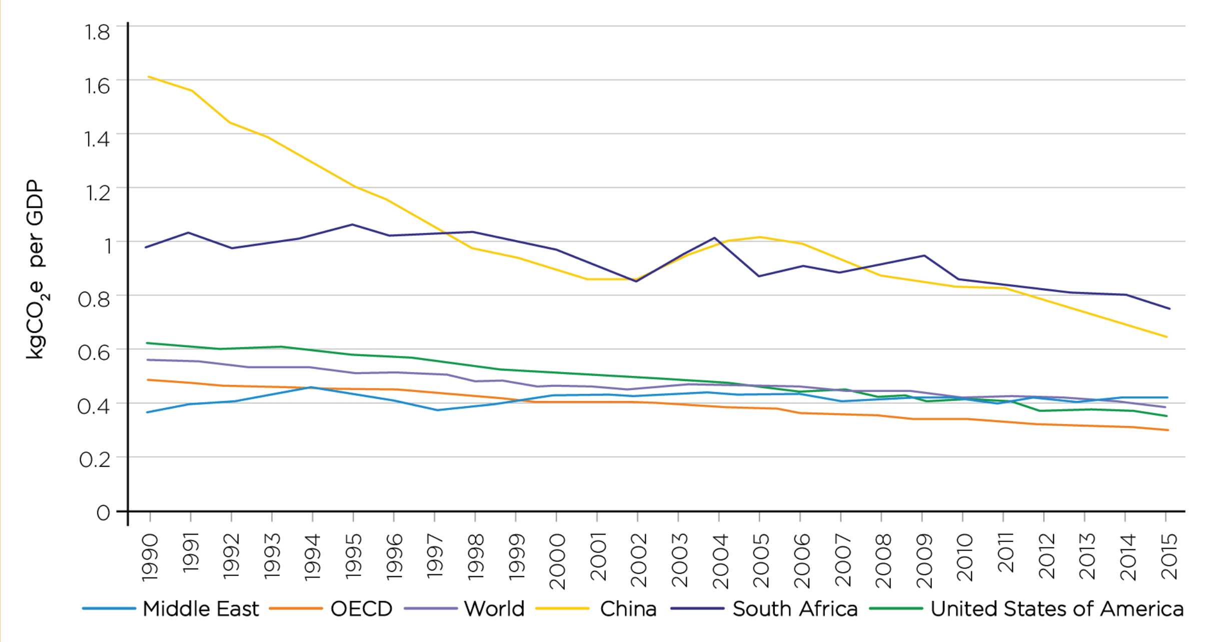
Whether, like President-elect Donald Trump, you believe that climate change is a hoax, or whether you are the front-runner of your local Greenpeace directive; the global movement towards a carbon neutral future has finally reached the point of inevitability and is demanding a response. International climate agreements are at long-last providing the market signals required to push even the greatest of non-believers into action. Carbon taxes, emission caps and carbon trading markets are fast becoming a global reality, irreversibly altering the cost of conducting emission-intensive business and in turn, their risk ratings, capital flows and competitiveness.

## How does South Africa measure up?

South Africa is currently the 13th highest emitter of greenhouse gases in the world, 35th in per capita emissions and 6th highest when looking at emissions per unit of GDP. Our high emission intensity results from our dependence on low-grade coal for electricity generation and energy intensive industrial and mining sector.

Figure 1 below shows that our emissions per unit of GDP are significantly higher than the world average, as well as, high emitting regions such as the OECD, the Middle East and the USA. China – the top emitting country in the world – is relatively comparable to South Africa in this regard, but they have achieved far more substantial declines since 1990.

**Figure 1** $CO_2$ emissions per unit of GDP, 1990–2015




*Source: Global Carbon Atlas (2016)*

Having large emissions per unit of GDP means that our businesses are vastly more emission intensive than the average, and are therefore more under threat of reduced competitiveness as carbon pricing is increasingly implemented worldwide. In addition to this, damage due to climate variability is already evident in Southern Africa, with the 2015/16 drought as a case in point. Climate variability and global warming are set to have vast economic impacts in South Africa, particularly surrounding food security, exports, employment and tourism. These threats mean that strategies to improve sustainability are essential for future economic growth and business viability.

Whilst the focus for implementing emission-reducing interventions are vastly directed at energy and transport sectors, the third most emission intensive sector in South Africa, manufacturing, should not be overlooked. Manufacturing is responsible for 11% of South Africa's total emissions, and is also the largest consumer of electricity (at 38% of the national supply). Furthermore, offsetting and reducing emissions from manufacturing provides relatively simple short-term solutions to keep our businesses competitive and forward-thinking whilst we gather momentum to undertake larger infrastructure changes in the energy and transport spaces. Thus, carbon neutral manufacturing is a critical component of South Africa's transition into a sustainable economy, and an under-utilised opportunity to reap the rewards of being a future-ready business.

## Carbon pricing and the future of business

In 2012 Microsoft took an executive decision to incorporate carbon pricing into their business model, and managed to achieve carbon neutrality in the same year. Since then they managed to reduce their emissions by more than 9 million tonnes of $CO_2$-e (carbon dioxide equivalent), which is just more than the cumulative emissions of the 19 least emitting countries. They used carbon pricing funds to invest in more than 14 million megawatt hours of renewable energy, impacted more than 7 million people through carbon offsetting projects aligned with the United Nations Sustainable Development Goals, facilitated climate change grants, and improved impact measurement. To top it off, Microsoft achieved this whilst saving themselves $10 million per year.

Microsoft's story is one of the major case studies highlighted at the United Nations Framework Convention on Climate Change (UNFCCC) 22nd Conference of the Parties (COP 22), held in Marrakesh in November. Coincidentally, it was held only days after Donald Trump was elected the 45th president of the United States, the man who professed climate change to be nothing but a hoax. Whilst the US election outcome cast somewhat of a depressed shadow over the event, confidence was restored as dozens of countries ploughed enthusiastically into fleshing out the implementation details of the Paris Agreement drawn up at COP 21 last year.

The Paris Agreement was a commitment between 195 countries to work together to limit global warming to below two degrees Celsius above pre-industrial levels. The agreement has so far been ratified by 111 countries (including South Africa), whose pledges are now legally binding. The World Bank estimates that achieving the two-degree cap will mean reducing our global carbon emissions by 50% by 2050 and converting to carbon neutral economies by the end of the century. Ninety-five countries are listing market mechanisms as a means to achieve their emission reduction pledges, with 40 countries already having implemented formal carbon pricing policies, and many more businesses worldwide doing it of their own accord.

Implementing a carbon price, even when not legally required by national taxes, has a multitude of benefits to long-term company profitability. These include:

1. **Future capital allocations** – Those who take carbon emission reductions seriously will enjoy a lower cost of capital in the future than those who don't. This is because the climate readiness of companies will impact on how capital is allocated in the future; the negative effects of climate change pose the threat of permanent capital losses and therefore a significant drag on investment returns.

2. **Risk ratings** – Companies that are not investing in climate-smart technologies or offsetting their emissions are increasingly being seen as a risky investment by stakeholders. The long-term viability of these companies is called into question by their lack of foresight in planning for greater emission prices in the future.

3. **Low-carbon investments and R&D** – Implementing an internal carbon price helps businesses justify investments in low-carbon infrastructure, enabling them to better prepare for the future business environment in which carbon pricing will be the norm. In doing so they reduce their tax liability and uncover hidden risks and opportunities in company supply chains.

4. **Improved competitiveness and trade** – As more countries set carbon tariffs, it will become increasingly difficult to trade internationally with emission intensive goods. By implementing a carbon price and reducing emissions, goods will become more internationally competitive.

In South Africa, around 44 of the largest companies are using an internal carbon price, nearly all of which follow the price range released by National Treasury in respect of the impending South African Carbon Tax. The tax is set to have an initial rate of R120 per tonne of carbon dioxide equivalent ($CO_2$-e). However, after accounting for the stipulated tax-free thresholds, the effective carbon tax will range between R6 and R48 per $CO_2$-e. This is because the exemptions mean that the tax will only be imposed on 5% to 40% of actual emissions during the initial period ending in 2020. The cost of the tax will thus be low in the initial period, then increase by 10% each year until 2020. This will give all stakeholders the opportunity time to iron out any issues that may arise and to ensure enforceability.

As the carbon tax looms closer, the first-movers will undoubtedly have an advantage, both competitively through improved efficiencies as well as reduced tax liability. Implementing a carbon price early enables businesses to test their carbon reduction strategies against future scenarios and help drive investment towards climate-aligned investment goals. It also signals to investors that a business is prepared to tackle future climate-related challenges and opportunities. This speaks to the longevity of the company as well as reduced risk of investing in their operations.

## Carbon offsetting

The increasing incidence of carbon pricing has seen a number of companies employing 'carbon offsetting' in order to ensure that they do not leave a net surplus of carbon in the atmosphere. Carbon offsetting requires companies to invest a sum of money in a registered organisation that will then undertake activities that absorb carbon from the atmosphere. The trade is facilitated by a regulating body through the use of carbon credits with unique identifying numbers, which are retired once the carbon has been offset. The concept underlying this is that a tonne of greenhouse gas is the same wherever in the world it is emitted, and therefore carbon credits can be traded internationally.

By offsetting carbon, the production externality is internalised in a way that is often cheaper than altering actual business operations. However, many environmentalists have criticised the practice of carbon offsetting as a scapegoat to avoid making structural change to the norm of carbon-intensive manufacturing. They argue that in doing so, we actually regress on the change necessary to combat climate change. However, some businesses are stretched to keep afloat, and having the financial burden of completely altering their production systems and investing in very expensive infrastructure is simply not feasible.

Carbon offsetting ensures that everyone has an opportunity to contribute to reducing their carbon footprint, and in most cases, companies are concurrently taking steps to reduce their emissions at source when they can afford to. This is because implementing a carbon price incentivises firms to invest in carbon-efficient technologies in the future in order to reduce the costs of carbon offsetting or paying a carbon tax.

Many carbon offsetting projects also deliver added sustainability benefits such as job-creation, health & well-being improvements and protection of biodiversity. Whilst it may be true that carbon offsetting will not provide a complete solution to global warming on its own, it plays an important role in creating sustainable supply chains.

## Western Cape pioneers in carbon neutral manufacturing

The Western Cape has set a goal to position itself as the green economic hub of Africa and South Africa's lowest carbon province. Whilst significant headway has been made in terms of renewable energy investments and green transport solutions, there is still a long way to go; and the long-term and costly nature of these developments means that our ability to reduce emissions is slow. Carbon offsetting in manufacturing provides a more immediate contribution to the province's emission reduction initiatives, and is an important part of the province's overall sustainability goals.

The Western Cape Government recognises this and has been instrumental in developing the Atlantis Special Economic Zone (SEZ), an industrial park dedicated to nurturing green manufacturing. In addition to this, the Western Cape is also home to some inspirational and pioneering SMME's, who have successfully implemented carbon pricing and carbon offsetting in their own capacity.

Two examples, the story of Darling Brew's Blood Serpent Beer and Impahla Clothing, are detailed in Box 1 and Box 2 below.

## BOX 1: DARLING BREW, BLOOD SERPENT BEER

**Figure 2** Blood Serpent Beer


The West Coast's Darling Brew has recently released Africa's first carbon neutral beer, Blood Serpent. Blood Serpent is a 5% ABV dry-hopped lager, which is now certified to have a carbon footprint of zero, all wrapped up in a 500 ml bottle.

Whilst the manufacturing process is not significantly different from other craft beers, the company has chosen to practice carbon offsetting as a means to reduce their carbon footprint. The carbon footprint is determined through an audit conducted by sustainability consultants (Ecolution Consulting) who assess the carbon emissions created by the fuel, water and energy consumption during brewing, as well as the glass, labels and packaging during production.

For every 16 000 bottles of Blood Serpent Beer produced, the equivalent emissions produced by an average car driving 38 894 km is offset (4 033.64 kg of $CO_2$-e). This is done by donating to the Kariba REDD+ (Reducing emissions from deforestation and forest degradation) project, which aims to provide sustainable livelihood opportunities in Zimbabwe by protecting the region from deforestation and alleviating the effects of poverty and drought. The carbon offsets are validated by recognised verification bodies such as the Verified Carbon Standard, the Gold Standard and the Plan Vivo.

In conjunction with these efforts, the brewery has also undertaken to save as much water as possible through sunken water tanks, water-saving nozzles and re-using as much water as possible. Local, fair trade and organic ingredients are used where possible and the spent grain is used to feed Darling's resident cattle.

The team at Darling Brew are committed to finding innovative ways to make their operations more efficient in the future.

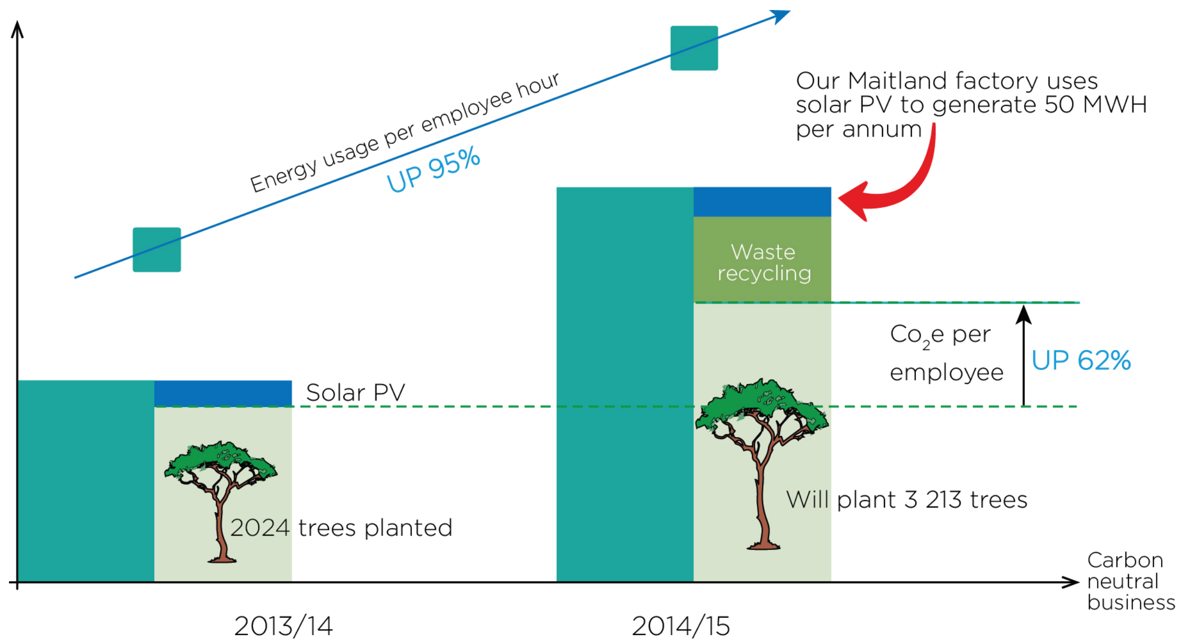
## BOX 2: IMPAHLA CLOTHING

Impahla clothing, a branded sportswear clothing manufacturer, has been recognised by the Western Cape's 110% Green initiative as the first carbon neutral garment manufacturer in South Africa. Established in 2004, the company employs 418 staff, with production facilities in Maitland, Elsies River and Epping. The company commands its entire supply chain with clients such as Puma, Adidas, Asics, Merrell and Uzzi (Truworths) among others.

Whilst the clothing and textile manufacturing industry's potential to negatively impact the environment is considered moderate, Impahla clothing has committed in numerous ways to improve the environmental sustainability of their operations. For the most part, they offset their emissions by planting indigenous trees in communities throughout the Western Cape, through a certified carbon trading programme managed by Food and Trees for Africa. At R50 a tree, they will spend a total of R160 650 on planting 3 213 trees to offset their emissions for the current year.

In addition to carbon offsetting, Impahla also implements a recycling programme and a solar panel project to reduce their emissions. 3% of the electricity used is produced in-house via their 30 kWp solar photovoltaic (PV) plant at Maitland, which was designed and installed by Power Solutions. They have, however, predicted that their electricity use is going to increase as a result of growth in more energy intensive divisions, thus they are actively exploring increasing their own power-generating activities. Eventually the solar panel project aims to reduce electricity consumption by 25%.

**Figure 3** Impahla carbon emissions and offsetting, 2013/14 – 2014/15




*Knit fabrics and sock production, a far more energy intensive process, has increased Impahlas's energy intensity

*Source: http://www.impahla.co.za/environment/*

## Conclusion

In light of the recent developments in international climate negotiations, it is essential that reducing greenhouse emissions becomes a top priority for all businesses. The use of market mechanisms and carbon pricing is increasingly prevalent in all major economies worldwide, with significant impacts for current and future business competitiveness and investment decisions. Whilst major new infrastructure and business processes take a while to implement, purchasing carbon credits to offset emissions presents an effective opportunity to reduce emissions in the short-term, and has significant benefits for the company's risk profile, cost of capital and tax liability in the future. A number of Western Cape pioneers are already reaping the rewards of implementing carbon pricing, and are contributing to the Western Cape Governments vision of becoming the green economic hub of Africa.




# PORTFOLIO INSIGHTS AT THE END OF THE UNIVERSE

RUSSEL BOEZAK

## Taste of Fear

The world is a small place dear reader; have you noticed? Twenty-five years ago our investment decisions were only informed by business editorials in the newspaper, general market indicators on radio and television, company-specific highlights in magazines, or company AGMs, if you were really that keen. The hobbyist element of investment clubs also added a frisson of verve and energy as we tried to out-pick each other on the next big price swing, or proudly try to outwit analyst sentiment, whether we were stoically blue-chip or new-contrarian. How non-partisan we thought we were, sitting in our hermetically-sealed, homogenous echo chambers. Our market was largely domestic, and therefore so was our focus. We were not too concerned with macro; save for the new promises our first inclusive national election was to bring. Sometimes it is not whether things are good or things are bad, but it has to be predictable.

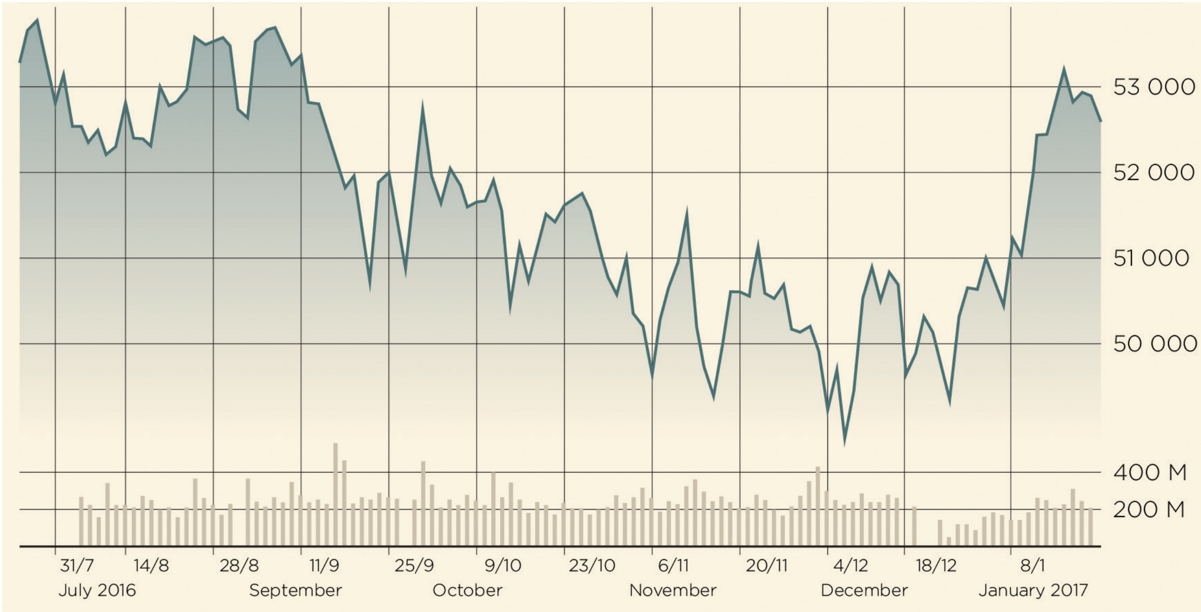
Onto the big ‘unknown unknown’ facing our portfolios at this juncture – namely the 2016 US general election. I must share a secret with you. For years I was only a coastal traveller to the US. My nascent network of friends were people that seemed to be doing well, tackling Wall Street in the East, or in retired comfort at Thousand Oaks, California in the West, a perennial ‘best place to live in the world’. When you start travelling slowly through the heartland of America, you begin to sense the wave after wave of economic shocks many ordinary citizens had to go through. You cannot understand the inexorable step-globalisation if you do not have (or feel you need) a passport. As small as our world has become, it might really just be information spread rather than economic participation. If anything, all we know is how we fare compared to others across town, across the country, across the world. The US elections has used nationalism as a key plank to reframe the globalisation versus protectionism debate in the consciousness of its electorate. Whereas Brexit was a referendum on the free movement of people, the US election result was a referendum on free trade and its effects at home. Greater minds will argue the scope and context as I have described to be greatly oversimplified, yet how many times have we seen electoral hive mind turn mainstream polling and studied, expensively-educated conjecture on its head. Whether your portfolio is internationally diversified or proudly South African, world trade is what drives revenue, and with a GDP of $18 trillion and 325 million people, the US is the largest consumer market in the world. Understanding the impact the US election result – more specifically the consequence of a change in trade policy – will have on equity markets in 2017 is something therefore that is important to observe.

## Country Boy

Is this a doe-eyed plea for free trade? There is no right or wrong answer – only public opinion. My opinion is the following. My head tells me that we already benefit from the core benefits of globalisation, since very few brands we love and cannot do without are not made in South Africa, and probably never will be. My heart, however, says that the Western Cape in the 70s and 80s had core industries that were the absolute lifeblood of the working man and woman, textile industries in particular. Major economic hubs that provided mass employment were a great example of real trickle-down economics in action. Maybe the real question is this – how can we enable our people themselves to believe that they too can participate in the economy other than just being a consumer. Perhaps this is the real challenge – we will always have a hybrid economic system with a fairly large Gini coefficient that can only be narrowed through participation, not just consumption.

How did the JSE All Share Index respond in November 2016? As per the below graph, relatively well by all accounts. There were similar surges in benchmark indices in other markets. Perhaps the most prudent advice is the same as always – if the fundamentals of our companies remain sound and you have generous stop losses attached to your share holding positions, then continue to take advantage of system shocks such as this. In previous columns I made the same suggestion when Nhlanhla Nene was replaced as Minister of Finance in December 2015. A system shock can provide a good opportunity to test how strong the companies in which you are a shareholder really are. Please also remember the common behavioural response of the retail investor immediately after a system shock is the sell down or get out of a position completely, then climb back in should the market return, or worse sell down bits and pieces of a holding in response to schizophrenic news reporting. High transactional count will dilute the performance of your portfolio, irrespective of the reason for the trades, and this will always hurt the retail investor more than the institutional investor.

**Figure 4** The JSE ALSI performance over the last six months




## Golden Fleece

Greek mythology holds that barbarians panned for gold using the wool of sheepskins at the base of mountain torrents. Hard work was rewarded at the end of the day with a golden fleece. Not enough for you to leave the mountains forever, but constant application over time will almost always result in reward. My point here is that your stock-picking convictions will be tested over time, and that this is exactly what should be happening. You will be forced time and again to question your trading decisions. I am not advocating holding on to a company whose business model has been invalidated, or whose customer market has disappeared. I am encouraging you to read about your company and how the world can affect its profitability, and to fight or at least question the instinct you will experience when you do. The news is normally presented to elicit an acute emotional response to the content. That is how the writer or editor drums up trade to justify the cost it charges its advertisers.

Question the impulse! Give it words, even if you say to yourself aloud *'Wow, it feels like this company will delist before the month is out.'* Here are additional questions to ask, if only to buy yourself some time before you pull the trigger on the share.

a) How do you feel about the company's management? Has there been significant changes, to either the ExCo or the board? Are there non-executive directors on the board that have board membership in other companies that are tanking? Is it a question of wilful internal mismanagement or lack of oversight?

b) Are people still making use of the company's products or services? How much do they depend on import or export either for customer revenue or supply chain fulfilment? Have you stopped supporting the company for a more personal reason?

c) Is the company operating in countries where it is difficult to expatriate revenue? Is the company accessing the capital markets too often through rights issue? Does the company acknowledge having high debt levels despite having popular goods and services?

Just the time taken to answer these questions will move you from a 'heart' decision to a 'head' decision. The reason why impulse control is so important is because we are online now for most of our waking lives, and have crucially become highly susceptible to news. We have news coming at us from all channels, particularly online, and we need to be even more aware of the reasoning that leads to a decision. And remember, there is always a flight to gold in prolonged period of uncertainty. A gold index or one or two gold miners is always essential in the portfolio. You will regret later not having at least some exposure throughout the investment life.

## Latin Lady

I am no sage, dear reader, merely a retail investor trying to find out more about myself as much as trying to make sense of the markets. Yes, there are one or two pundits that I like, one or two journalists whose writing sense appeals to me; and yes, there are some companies I am married to, contrary to the 'beware of confirmation bias' caveat that liberally peppers my prose. Guess what, this makes me a retail investor. I believe that crafting my gut is more important in the long run to my portfolio than trading on flotsam and jetsam that is the 24-hour information firehouse of mainstream media. In January of this year, ratings agency Moody's has agreed to pay nearly $864 million in a settlement with US authorities over its inflated ratings of risky mortgage securities that contributed to the 2008 global financial crisis. This is a critical event for institutional investors of pension funds and the like, where the rating of an investible company is a key metric.

What does this tell us dear reader? That there are no sages out there either. There is just you and the market, and you cannot absolve yourself of you alone being responsible for your money management. It also tells me that sometimes it does not hurt to be second to the trough. Securitised mortgage obligations and other exotic instruments I don't understand, always come to market in a blaze of reaction. Not many people ask questions similar to the ones I have given you above. My first question ten years ago was simple – if the underlying resource upon which the sophisticated instrument was built on is so stable, why not become a mortgage lender then? Why the need for abstraction? Why indeed. By building a sexy financial instrument sold by sexy people to the securities market with the endorsement of a ratings agency, it is difficult, with hindsight, to not agree that we understand why we were so drawn to the glitz of it all. Greed, I suppose, along with willingly drinking the Kool-Aid. Beware of confirmation bias. There, I said it again.

## Money, Money, Money

So how have our stocks fared? Let us update our numbers.

| Investment idea | Price at 29-2-2016 | Price at 30-12-2016 | Change |
|---|---|---|---|
| AdvTech | 1357c | 1717 | +26.5% |
| Calgro M3 | 1820c | 1900 | +4.4% |
| Jasco | 77c | 94 | +22% |
| Schroders REIT | 2201 | 1879 | –14.6% |
| Woolworths | 8079c | 7102 | –12% |

Two stocks down and AdvTech, the diversified education giant and Jasco, the electronics company have done well. AdvTech's share price resilience is indicative of the fact that many South Africans want, and are willing to pay the premium for educational options. Woolworths is perhaps still ingesting its purchase of Davy Jones in Australia, and because its target market is at the upper LSM (Living Standards Measure) scale, belt-tightening economic pressures are no doubt beginning to manifest. Calgro M3's share price is doing well. The company is still doing well in both the public and private retail sector, and its numbers remain buoyant. Schroders are exclusively international – European specifically – and continues to receive predictable corporate tenant revenue yields, which does not explain the slight loss of investment appetite in the company. Up is down. Is it starting to breach my stop losses – Yes. Am I considering getting out – No. As I mentioned at the start of the article, the market does not like 'unknown unknowns'. I believe in the company fundamentals of our portfolio. For now.

*With that dear reader, till next time.*


# THE EVOLUTION OF THE ARTISAN DEVELOPMENT PROGRAMME – Enhancing trainee artisan quality and benefits to industry

GERSHON OLIVER & CLAUDE ORGILL

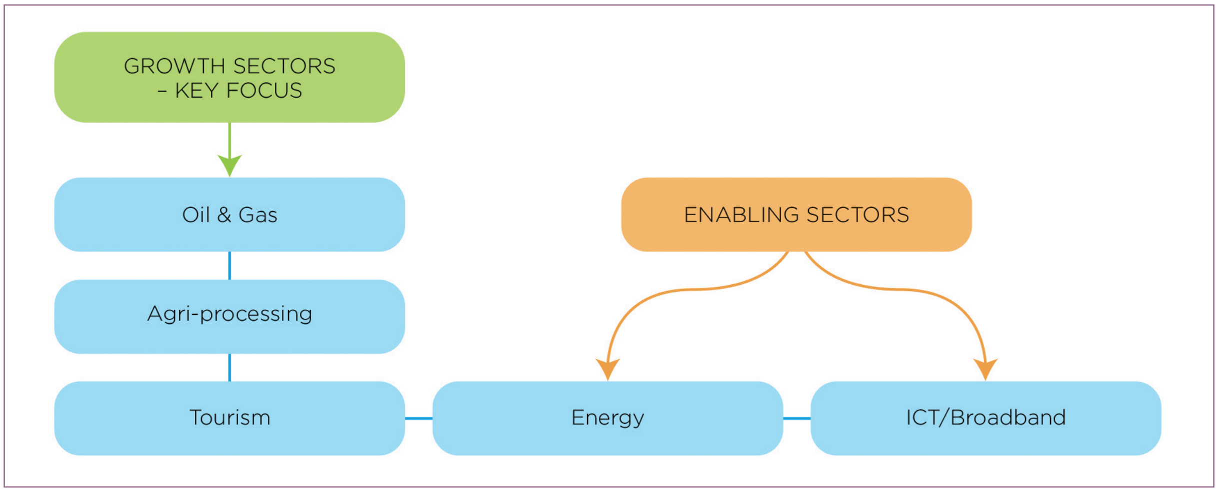
"There is a good life and a good living to be made in the blue – collar trades"

*Ken Duncan, CEO at SSACI*

The key strategic role of the Department of Economic Development and Tourism (DEDAT) is that of an 'enabler' and an 'enabling leader' for the Western Cape economy. To this end, DEDAT with its partners such as the SETA's, TVET colleges, and the Western Cape Government, have set aside a sizeable budget of R803 million, specifically for the Apprenticeship Game Changer over the next three years.[1] A major share of this budget has been earmarked to be expended on training learner artisans and ensuring that they are matched and placed at host companies.

In regard to Artisan Development, the Department has a key focus on the Project Khulisa (growth) sectors, namely Oil and Gas, Agri-processing and Tourism (see the figure below). More recently, additional support has also been extended to the enabling sectors such as Energy and ICT/Broadband.

**Figure 5** DEDAT sector focus for artisanal learners/candidates, 2017/18




*Source: DEDAT (2016)*

## South Africa's challenged artisanal landscape

Industry has observed that the average age of artisans in South Africa has risen exponentially over the last few decades – implying that the artisanal trades are losing master artisans at a faster pace than they are being replaced.

One of the key reasons attributed to this trend has been that numerous State Owned Companies (SOC's)[2] and the private sector – well-known for having delivered successful artisan development programmes in the past – have either ceased or significantly reduced their training and throughput of artisans. For example, the number of apprenticeships, having peaked in 1980 has progressively decelerated and then hit rock bottom in 2003.[3]

The prevailing situation, however, has resulted in an estimated 15-year backlog in developing artisans with the requisite technical skills and competence. Furthermore, there is an estimated shortfall of about 15 000 – 20 000 in the national target of scarce skills training per annum for artisans. Collectively, this has translated into lost opportunities for growth and jobs, particularly in the related manufacturing, engineering, construction, mining, and to a lesser degree in the tourism and hospitality industries. Stated differently, if an additional 20 000 recently qualified and productive artisans were available and ready to be absorbed into the local economy, this could potentially result in an extra 10 800 other

1 Figures represented here are taken from DEDAT's PGMTEC 1 presentation.
2 Examples of the SOC's include, Eskom, Transnet, Denel, SAA, SANDF and the garages and maintenance departments of government agencies and institutions.
3 This is According to Ken Duncan, CEO of the Swiss South African Co-operation Initiative (SSACI) in an interview with The Money Show's Bruce Whitfield from Cape Talk (29 March 2016 at 08:01 p.m.).

work opportunities being created.[4,5] This is due to manufacturing relative to other sectors having one of the highest (job) multiplier effects.

*All of this is extremely disconcerting given SA's close to zero level of growth and tri-partite issues of persistently high levels of unemployment, poverty and inequality. Alarmingly, South Africa has such a major unemployment problem, but it still finds itself having a significant shortage of artisans.*

The aforesaid technical skills gap is developing at a rapid pace and will only be contained through accelerated experiential learning in a methodical training environment.[6] In the case of the national target for scarce skills training for artisans, it is self-explanatory that in order to redress this would entail training substantively more artisanal candidates. This task, however, has been allocated to the myriad Sector Education and Training Authorities (SETA's) who have been actively promoting training opportunities.

In line with this, since 2003 the total number of apprenticeships in SA has been ramped up. More recently, it has jokingly been said that apprenticeships are back with a bang![7] Notwithstanding this, the workplace experiential learning phase of the holistic artisan development cycle remains a challenge – industry asserts that the supply of the adequate quality and productivity of artisans are not being met.

As a means to assist in addressing the technical skills gap, the creation of public and private partnerships to increase and bolster the development of artisans and specifically, substantively raise the quality and employability of learner artisans, DEDAT developed the Artisan Development Programme (ADP).

## The Department's Artisan Development Programme

The policy context of DEDAT's Artisan Development Programme is found in the country's Human Resource Development Strategy for South Africa (HRDSSA II) and the National Skills Development Strategy III (NSDS III). Furthermore, the ADP was originally designed, piloted and pioneered as a precursor to the National Artisan Development Strategy and is directly aligned to the Western Cape Government's PSG 1's Project Khulisa.

The ADP was first initiated in 2012/13 and successfully trained 500 public Technical and Vocational Education and Training (TVET) unemployed learners in a 12-week Job Readiness Programme[8] and 105 qualified artisans in coaching and mentoring.[9]

As a result of the above-mentioned intervention, 202 of the 500 learners were matched and placed within host companies for 18 months to gain relevant work experience (the workplace experiential phase) in 2013/14. The aim of this initiative was for learners to gain access to the national trade test and become qualified artisans. Saliently, in 2013/14 the Department (due to its public and private partnerships) leveraged funding from MERSETA (R11.6 million) and the W&R SETA (R540 000) and supplemented the training of the aforesaid 202 trainee artisans with the 2nd and 3rd phases of the Competency Based Modular training (CBMT)[10]. In 2014/15, a further 187 learners were matched with mentors and placed at host companies for the 18-month workplace experiential phase[11]. In 2015/16, incorporating past lessons learnt and leveraging additional funding resulted in a significant 362 artisanal candidates (who completed all the 4 phases of CBMT) and accordingly 174 trainee artisans were matched and placed in industry.[12]

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4 Given the noteworthy decline in the training and throughput of artisans and resultant critical scarcity of suitably qualified artisans across the artisanal trades, industry spending on hiring essential recently qualified and productive artisans could be deemed as 'investment spending'. To determine the multiplier effect, investment spending is utilised. In the economic literature investment spending normally relates to spending on capital goods such as machinery, equipment, land and buildings.

5 The engineering trade regulation average salary range for a recently qualified artisan is estimated at between R156 000 – R180 000 per annum. If the upper band of this average salary range is used as a proxy for the manufacturing sector and utilising the PAIRS (2011) multiplier of 3.00 for the manufacturing sector means that an extra investment spend of R1 million in the sector for a recently qualified artisan equates to the creation of three jobs. Thus, the uptake of 20 000 recently qualified artisans into industry will equate to a spend of R3.6 billion in the manufacturing sector and the creation of 10 800 extra work opportunities.

6 DEDAT (2015)

7 According to Ken Duncan, CEO of SACCI

8 The programme was a 3 month intensive (work readiness) simulated practical training programme (at a FET) based on the Apprenticeship modules. Learners completed three compulsory modules relevant to their trade, namely: 1) induction, 2) Safety, and 3) Hand and workshop tools.

9 DEDAT Annual Report, 2012/13

10 DEDAT Annual Report, 2013/14

11 DEDAT Annual Report, 2014/15

12 DEDAT Annual Report, 2015/16

For the Department, the internalising of key lessons learnt, leveraging of funds for the ADP and more importantly, the introduction and subsequent strengthening of the CBMT, was a game changer for the attainment of the strategic priorities of the ADP.

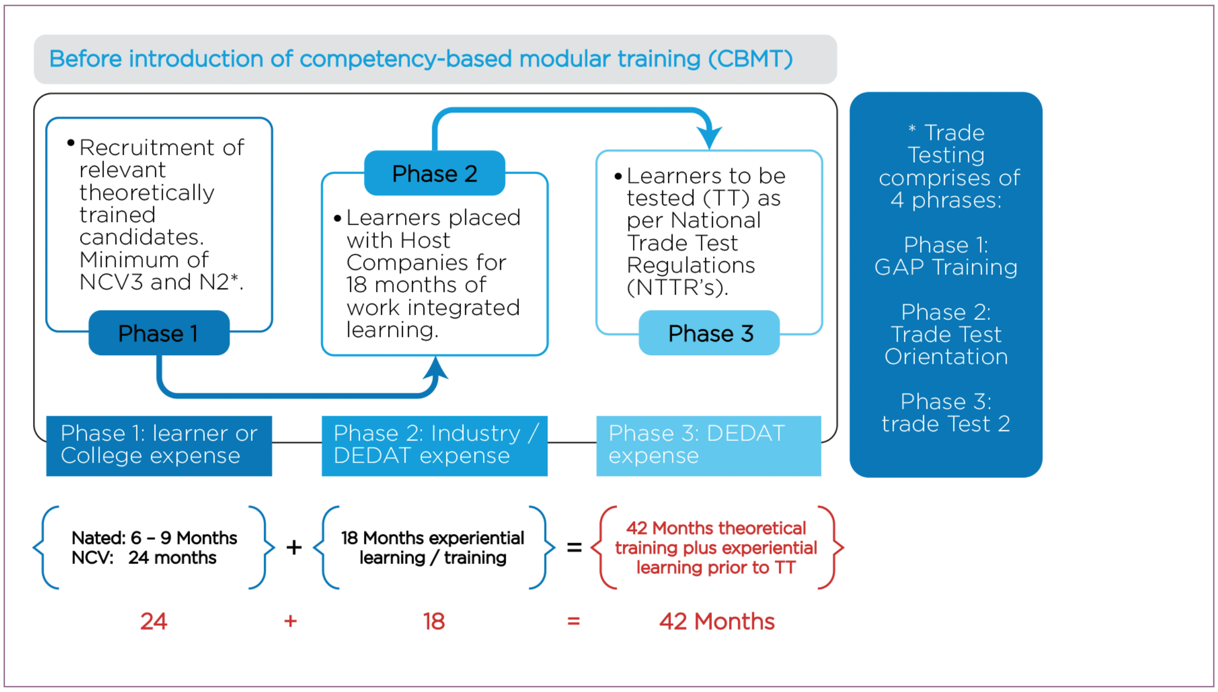
## The inclusion of CBMT in the ADP and associated benefits to industry

The addition of the CBMT meant that the learner artisans received extra practical simulated workplace training, which spanned from 3 to 12 months (or four phases) and exposed learners to practical assimilated skills all linked to the various theory streams. Importantly, the CBMT enhances the learners' productivity and employability and reduces the time required for work placement into industry before the learner would be ready for trade testing.

Industry specialists in artisan training have asserted that trainee artisans lack the sufficient practical exposure and that the recommended duration of an apprenticeship should be at least 36 months to permit the learner to accrue the adequate relevant workplace experience.[13]

The figure below highlights the different phases of the ADP pre and post the introduction of the CBMT. It clearly shows that with the introduction of CBMT, the rise in trainee artisan experiential learning prior to being placed at a host company (from 24 months to 36 months), and then the inclusion of placement at a host company prior to trade testing (from 42 months to 54 months).

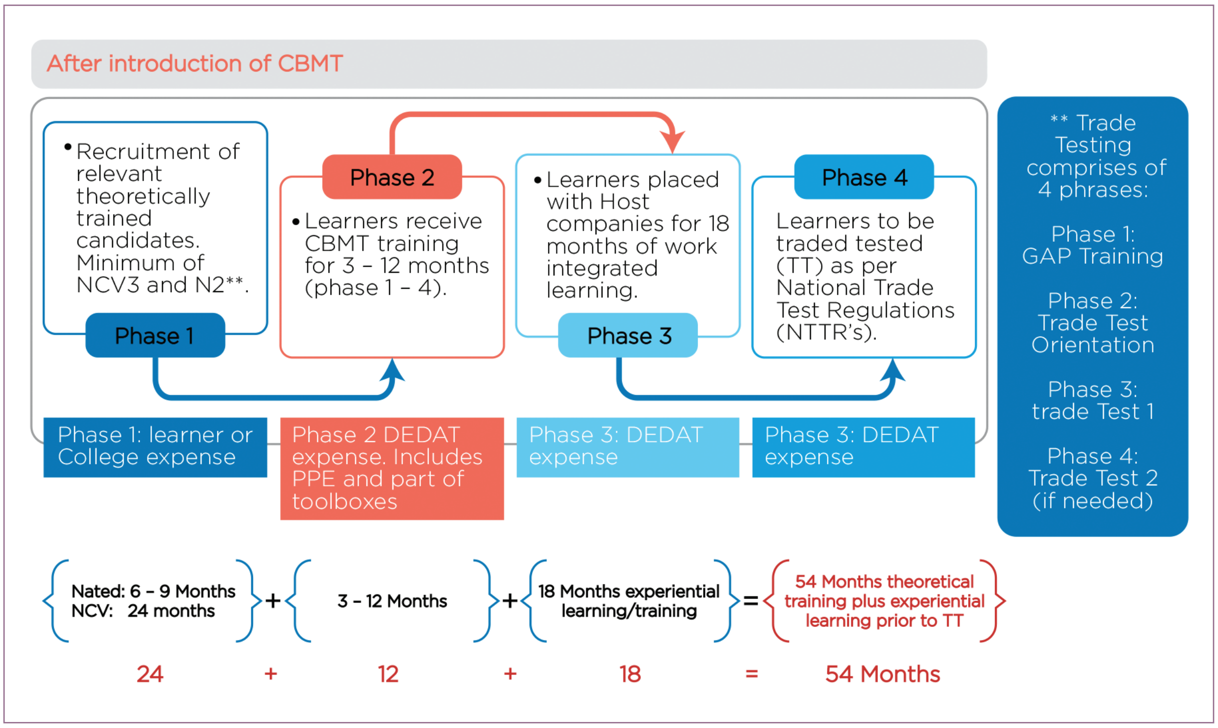
**Figure 6** Different phases of DEDAT's ADP with the introduction of CBMT




*Source: DEDAT (2016)*

13 SEIFSA (2016:pg 26)

**Figure 6** Different phases of DEDAT's ADP with the introduction of CBMT (continued)




*Source: DEDAT (2016)*

* Nated (N) 2 or National Certificate Vocational (NCV) 3

**Note:** The trade test regulations, 10425 Volume 599 states that a minimum of 12 month's work integrated learning at a host company should suffice. However, a period of 18 months is more preferred by industry and DEDAT.

The direct benefits of the ADP, particularly after the introduction of the CBMT include:

- The mitigation of an aging artisanal workforce;
- Trainee artisans having more practical skills, being more marketable and of greater quality given that they have received more simulated practical workplace training;
- Rendering of more competent and employable trainee artisans;
- Improving the overall competitiveness of artisanal trade industries;
- The training being linked to industry demand;
- Allowing every learner – irrespective of race or creed – to obtain an equal opportunity;
- Saving mentor coaching and training time and allowing mentors to attend to work requirements;
- Improving succession paths intra-industry and inter-industry;
- Fostering stability and promoting continuity within the respective host company;
- Fostering enterprise development;
- Eliminating companies from creating their own simulated practical workplace training programme and in so doing saving them valuable resources;
- The uptake of trainee artisans would reduce the firm's variable cost ratio as sales revenue would rise faster than variable production costs given that the trainee artisans are employed at no/little additional cost.[14]

More importantly, the figure above clearly shows that almost all phases of the ADP, including the CBMT and placement into industry, are funded by the Department. In the case of learner placement at host companies, the trainee artisans are only paid a stipend of R3 000. To effectively compete with other alternative workplace experiential opportunities, it has been suggested that (upon consideration of uptake of DEDAT learner artisans) industry should strongly consider providing additional compensation to learner artisans. The DEDAT-paid stipend is significant for a quality and productive no cost resource that would add value to any artisanal host company.

14 The trainee artisans are temporary workers and therefore a 'variable cost' to the firm.

It is suggested that industry consider remunerating the trainee artisans according to the three phases of the work integrated learning – raising the wages every 6 months for the 18-month work placement. For instance, in the first 6 months increasing the wages by R1 500 (overall salary including DEDAT stipend: R4 500), the next 6 months by R500 (R5 000) and the last 6 months (R5 500)[15]. This top up is not obligatory and remains the prerogative of the host company to implement; however, it would surely go a long way in curtailing trainee artisans 'jumping ship' prior to the completion of their work placement.

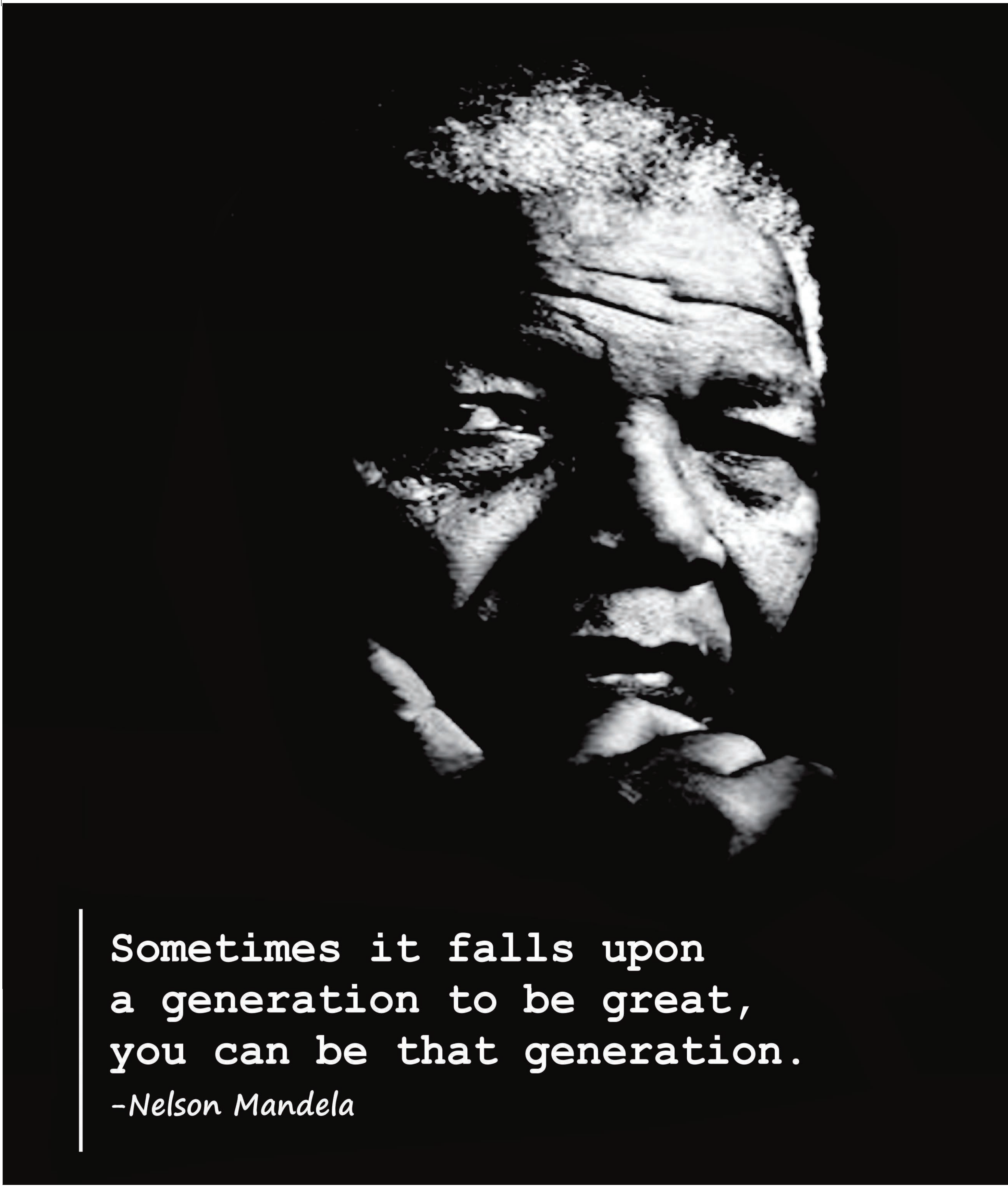
In conclusion, the evolution of the Department's ADP, more specifically with the inclusion of the CBMT into the holistic programme, has significantly enhanced trainee artisan's quality, productivity and employability, in line with industry demand.

Another salient direct benefit of the ADP relates to industry being able to employ trainee artisans at no cost. However, it has been suggested that industry strongly considers 'topping up' the stipends so as to be more in line with the rest of industry. Upon doing a simple cost/benefit analysis, the benefits to an artisanal company will definitely outweigh the costs!

Should your company be interested in participating in the Department of Economic Development and Tourism's value-add and cost-effective Artisan Development Programme by hosting trainee artisans for the 18-month work integrated learning, please contact:

| | |
|---|---|
| Name: | Mr Claude Orgill |
| Telephone: | 021 483 9337 |
| Email: | Claude.Orgill@westerncape.gov.za |
| | |
| Name: | Mr Nicholas Spencer |
| Telephone: | 021 483 4162 |
| Email: | Nicholas.Spencer@westerncape.gov.za |

15 These indicative amounts were furnished by an industry expert. However, not all the artisanal trades operate the same and accordingly they are not remunerated the same. Thus, it remains the decision of the firm to decide the salary.




# OPPORTUNITIES TO ADDRESS YOUTH UNEMPLOYMENT

CELESTE KRIEL, KARLA BAZIER, LEONARD MAMOGOBO, LINDELWA MKALIPI, YORICK MOOLMAN AND WENDY SIFUMBA

‘I was one of many school leavers that had no idea what to do after secondary school, even though I had a career path in which I wanted to follow but unfortunately I had financial constraints.’

*Karla Bazier*

‘It was always my intention to finish school and pass with an exemption to study further at a university to obtain a degree in order to build a good life for myself and to look after my family. Although we would like things to go according to our plan, unfortunately life is not that way in the least.’

*Yorick Moolman*

‘As the youth we tend to not do research about the career paths we want to follow and we don’t research about the other possible career choices that are out there, we just stick to what we know and what society thinks is the ‘norm’.

*Wendy Sifumba*

## Introduction

When you are young it is easy to feel like Superman or Wonder Woman – as you should – because the youth hold limitless potential to achieve greatness. There is an army of youth that, if mobilised constructively, have the opportunity to allow their greatness to blossom. Unfortunately, for most youth, it is easy to feel lost and struggle to find a path to achieving success. The quotes above resonate with the stories of many youth, who thought they had their lives planned out, but when things did not go according to plan, became very discouraged.

Opportunities can be difficult to find in an undeniably constrained economic and labour market environment. The persistently high levels of unemployment continue to be one of the most pressing socio-economic problems and the most critical challenge of the South African labour market. The high unemployment rate among the youth, in particular, is most worrisome. Thus, absorbing the youth into employment is critical for the economy as it will enable us to better utilise currently wasted human capital.

As a society, we should not relegate our youth to being lost to the labour market. Instead, we should absorb more youth into employment, and in this way we could potentially stimulate faster economic growth. But economic growth can only happen if we push and pull labour into areas that can kick-start the economy. Ultimately (and crucially), growing the pool of the employed youth helps individuals move out of poverty and allows us to build a more inclusive economy.

Youth undoubtedly face challenges as they try to enter the labour market environment. The scale of the challenge is great given that about 643 000 people in the province are unemployed (2016Q3). However, even though the provincial unemployment rate (21,7%) is high, when compared to the national one (approximately 27,1%), it is still better. The province also has many unemployed people who are actively seeking employment (i.e. very low discouraged work-seekers and higher labour force participation rates compared to most other provinces). This is perhaps indicative of individuals having a very positive and optimistic view of the provincial labour market. Furthermore, 30,6% (2016Q3) of youth in South Africa aged 15 – 24 were not in employment, education or training (NEET). Youth aged 15 – 34 in the Western Cape accounts for over two-thirds (68,2%) of the unemployed compared to their 39,7% share of employment.

## Challenges facing youth in finding employment

The causes of youth unemployment in South Africa are diverse. Looking at the supply side, research has found that educational attainment is positively related to the employment state of individuals. It is concerning that a large percentage of the youth in the province have not completed secondary education, because this might act as a barrier when trying to find employment. In addition, when individuals struggle to find employment and are unemployed for a long time, they may face an erosion of their skills base and a greater chance of skills obsolescence. The longer the youth remain unemployed, the lower the probability of them finding employment, because the experience gap between them and the employed widens.

The economy demands highly skilled labour, thus an incomplete secondary education is simply not enough to guarantee employment. Even if the youth pursue post-secondary education, they might have enrolled in the study fields (such as Humanities and Arts) that have a low demand for labour because there is already an over-supply of graduates from these fields, while there is an under-supply of graduates from fields like Engineering and Medical Sciences. As a result, these youth graduates may not be demanded by employers, and this could result in a skills mismatch problem.

The institution at which individuals study may also act as a 'signal' to employers, and youth may attend institutions that are not recognised by employers, since the quality of the qualifications obtained (e.g. a post-Matric certificate or diploma) might be viewed as inferior.

It is also argued that youth may not have adequate networks to obtain relevant information concerning job opportunities. Even if the government builds libraries in communities, the youth may not have financial resources and mobility to successfully seek work and/or relocate closer to where the opportunities exist. Thus, they might end up staying closer to home where there may not be as many employment opportunities.

Another possibility is that the youth (particularly those coming from well-resourced families) may have set their reservation wage too high. This may be based on unrealistic expectations about their probability of being employed, as well as over-estimating their chances of finding full-time permanent employment. This may lead them to taking a much longer time to 'shop around' for a job that meets their expectations.

In addition, youth often lack 'soft' skills such as communication skills, personal presentation, work readiness capabilities, emotional maturity, and the ability to compete with older workers. Even if the youth possess these skills, employers might be more reluctant to take the risk of employing young workers, who are much more inexperienced and whose productivity is not fully known.

Furthermore, inexperienced youth could need training and potential employers might be worried that, once trained, the better youth workers might leave for other jobs, thus leaving the firm with non-performing workers. This could act as a deterrent to employing youth, given that the Labour Relation Act makes it difficult for employers to shed non-performing workers.

## Creating an opportunity: The Premier's advancement of Youth (PAY) internship programme

The Premier's advancement of Youth (PAY) internship programme was established by the Premier of the Western Cape after noticing that year after year the rate of unemployed youth in the Western Cape after matric was rising.

The main aim of the PAY internship programme is to introduce young people who have just completed matric to a working environment so that they could gain experience in the workplace. The PAY internship programme also offers various training courses thus giving the interns even more work experience.

Below we summarise the experiences of each DEDAT PAY intern:

In November 2015, it was explained to me that the Premier of the Western Cape established the Premier's Advancement of Youth (PAY) Project for those matriculants that have no idea what they will be doing after secondary school and that have limited funding. I was one of those many school leavers that had no idea what I wanted to do after secondary school. I had a career that I wanted to follow but unfortunately I had financial constraints and knew I could not do it right away. I decided to apply for the PAY Project. I would say that I made a good choice by applying.

At first, I was unsuccessful as a candidate for the position as an intern, but 2 months down the line I was called back. They asked me whether I was still interested in becoming an intern, without a doubt I took the opportunity given. I am enjoying being a PAY Intern. I'm learning so many things in the work place.

I was placed in the Economic Research Unit. Research is an interesting industry to be in, especially when I see how much the Economic Research Team love what they do. I am very eager to be taught the things they are involved in.

I am highly grateful to have received such an exciting opportunity within the government. I am using this opportunity to broaden my knowledge within the work place as well as the Unit which I was placed in.

I explained to the youth who attended the workshop that there will be challenges in life but they should stay focused, and have to push harder by taking on other opportunities to get where they want to be in life. Disappointments in life are the way you prepare yourself to accomplish goals you have put in place for yourself in the future. The more you try, the more you will achieve. More opportunities should be established whether it's learnerships or internships for the youth, not necessarily in government but other institutes within the Western Cape.

The experience of being a PAY intern has been overwhelming but at the same time it's been an interesting journey. The whole experience of writing an article has been great. It has enhanced my writing skills. I would definitely want to write more articles based on economic analysis and statistical figures in the future.

**Karla Bazier**
*PAY Intern at the Department of Economic Development and Tourism*

When you finish school, whether its secondary school or primary school, you hope to gain practical experience in the form of employment. With the current financial situation in our country it is more and more difficult for the youth to find employment, whether they have the proper qualifications and training or not.

We've heard all the common contributions or effects of unemployment, from lack of education to illiteracy. From a personal perspective and personal experience, I would say lack of research and self-awareness is one of the biggest contributors to youth unemployment.

As the youth we tend to not do research about the career paths we want to follow and we don't research about the other possible career choices that are out there, we just stick to what we know and what society thinks is the 'norm'.

From a personal perspective and personal experience, as a young person I have also experienced indecisiveness and lack of self- awareness because for most of my schooling life I was so adamant on getting a BCom degree because I want to be an entrepreneur and I thought that receiving a degree was the only channel I could use to get into the business world. Although it could come in handy, but through research and through finding myself I realised that I'm more of a practical and hands on person and that there are other channels I could use to get into the business world.

Finding your first job can be very difficult because everywhere you go, experience is required and if you're straight out of school, you don't have the necessary experience they require.

That is why internships and learnerships are very crucial for any young person's potential career. You get to equip yourself with the necessary skill as well.

It is internship programmes like the Premier's Advancement for the Youth Programme (PAY) that have contributed to a lot of success stories that hundreds of youth are telling right now.

The odds of getting into the PAY internship are one in thousands as the Premier's office receives thousands of entries per year and only a few hundred make it, but that does not mean it's not worth a try.

**Wendy Sifumba**
*PAY Intern at the Department of Economic Development and Tourism*

The opportunity as a PAY intern in the Western Cape Government was never part of my plans as a matriculant in the year 2015. It was always my intention to finish school and pass with an exemption to study further at a university to obtain a degree in order to build a good life for myself and to look after my family. Although we would like things to go according to our plan, unfortunately life does not always work out that way.

When I finished my matric year in 2015, I volunteered at various places but afterwards I realised I was just one of many school leavers sitting at home who was unemployed. When I was unemployed I often went to our Public Library to browse for vacancies and searched for new things. I often used the Public Library as a resource to get myself employment. It was exactly at this place where luck struck me to apply for the Premier's Advancement of Youth (PAY) Programme. I am very grateful that I have applied for this programme because this internship enabled me to do things that I have never done before such as sending e-mails, typing out documents and how to do presentations both verbally and electronically.

The PAY programme is a great opportunity for the youth to gain necessary experience in order for them to get employed by the private sector and within the government. The skills that youth gain in the internship programme is a once in a lifetime experience, because they get to learn computer literacy, office management and communication skills which is essential in the new era and beneficial for their future work.

Therefore, I will always be grateful for this opportunity and will always try and make the most of it, as much as I possibly can.

**Yorick Moolman**
*PAY Intern at the Department of Economic Development and Tourism*

## Reaching out to the youth in our communities: Our workshops

On 12 and 16 September 2016, the Research and Development Unit of the Department of Economic Development and Tourism (DEDAT) held workshops for the unemployed youth in the areas of Masiphumelele (Ocean View) and Hangberg (Hout Bay) in order to gain more insights from the youth that are unemployed. The workshops provided an opportunity to present some of the opportunities (WCG programmes, various bursaries etc.) that unemployed youth could access. The workshops were aimed at being both encouraging and to share information.

During the workshops each of the interns shared their experiences through presentations that described when they were unemployed, how they found out about the Premier's Advancement of Youth (PAY) internship programme and to talk about what it was like to be employed. The PAY interns shared their experiences and showcased a number of youth development opportunities. It was great for our interns to present their experiences as PAY Interns at the Western Cape Government. They were able to explain that it was not always easy to reach success.

We emphasised the importance of doing research, as many school leavers may not have decided what they would like to study, or have no financial support to pursue their tertiary education. Many youth in the area are faced with financial constraints and are unable to fund their tertiary education and therefore struggle to find employment with only a secondary level of education. We highlighted that there are numerous opportunities within various institutions that offer bursaries and learnerships. Youth were encouraged to not only a have a Plan A, but to also have a Plan B, Plan C and even a Plan D. The term 'hustle' may have bad connotations attached to it, but given that the opportunities are so diverse, it is important to explore as many avenues as possible in order to gain access to employment. There may be many barriers to entry to employment, but it is important to try to figure out ways to climb over them, go under them or even break through them.


**Figure 7** Picture of mural taken at the venue of youth workshop in Masiphumele

When we got to Masiphumelele there was a very striking mural at the entrance to the library (Figure 7). It said 'We are the future. No youth. No future.' This perfectly aligned with the purpose of the workshops, which was to encourage the youth that they are the future, and they all should try to achieve greatness in their futures, even at a time when it is so easy to grow despondent.

## Our findings

The workshop was an informative programme in which the PAY interns shared their experiences and showcased a number of youth development opportunities. The workshops that we held were in areas that reminded us that the youth are faced with numerous challenges when it comes to employment. The variety of challenges include social fabric issues like drugs, gangsterism etc. The issue of youth employment should not be seen in isolation. By addressing these social challenges it will assist us in decreasing the unemployment levels in the province and focus more on our vulnerable youth.

The workshops revealed that youth are quite active when it comes to looking for employment. During the workshops, we were informed that many of the youth were unaware of the opportunities given by the Western Cape Government. Many youths actively search for work by reading through daily newspapers or advertisements. A big challenge is that most of the youth do not have the resources (airtime to make calls, money to fund travel costs, etc.) in order to vary how they search for employment opportunities – which they so badly want to get.

Most of our youth give up on looking for employment, simply because they think that they might not have the sufficient skills for the job. Youth should be assisted to develop the necessary knowledge to network with other people for future employment opportunities. More thought should also be given to the employment opportunities of youth with special needs.

We received good feedback after attending the workshops, especially in Hangberg, where the youth in the area requested more of the information packs that were distributed. They stressed the fact that they need government to have more of these workshops in the areas because it is difficult for them financially to get to places to attend these types of information workshops. The workshops for both days were very informative to us as the research team.

## Why invest in the youth?

Development discourses have for many years been following a common understanding that a ‘good start in life’ will ensure a positive developmental process throughout the following coming stages of life. However, if explicit and enough investment in each life phase are not made, such assumptions do not come true. Thus, to ensure that the investments in the first decade of the child’s life are effective, it is important that adequate investments are made in the second decade to ensure that past investments result in societal improvement and to mitigate the risk of losing previous investments.

The following points are an initial effort to systematise the argument in favour of making specific investment in youth development:

- **Investing in the youth represents an opportunity to break the cycle of intergenerational poverty:** Early labour, pregnancy, school drop-outs and lack of choices and opportunities to build life projects are the main reasons why youth are likely to reproduce poverty patterns when forming their own families, hence, investing in them is strategic for development.

- **Critical thinking and the tendency to break patterns:** Nowadays it is clear that innovation depends on ‘thinking out of the box’. Youth, when stimulated to innovate, can strongly contribute to produce positive social changes. Also, youth can contribute to promote creative solutions to resolve intergenerational conflicts.

- **The youth phase of life is crucial and unique to develop specific skills:** Youth can play an important role in their own development and acquisition of fundamental skills. Communities, schools, family and government can support the development of such skills.

- **Increase participation to strengthen democracy:** Most recently, South Africa has witnessed streets populated by demonstrators asking for more accountable governments, democracy, economic rights, participation and freedom.

## Youth employment opportunities in the Department of Economic Development and Tourism

The Department is doing what it can to address youth unemployment and we have the following programmes:

- **The work and skills programmes** aims to provide an economic opportunity for the youth by providing skills training and on-the-job training to youth between the ages of 15 – 34 years old. The programme enables 1 000 learners to be trained and placed in 120 host companies. The sectors which are targeted are labour absorbing sectors such as community, social, personal services and catering services.

- The **Premier's Advancement of Youth (PAY)** project allows for a year of mentoring, on-the-job training and development of skills (such as computer literacy, learner license, administration, life skills) to make an intern more employable and marketable. This programme provides support and opportunities for low skills, pathways into employment and further study.

- **CapaCITI 1000** aims to train 130 learners in ICT skills ranging from software development, business analysts, applications and infrastructure management and vendor skills.

- DEDAT funds programmes in **entrepreneurship, artisan development, tourism and software development**. The Artisan Development Programme focuses on the 125 registered trades as listed on the Organising Framework for Occupations (OFO). The programme supports the full value chain ranging from competency-based modular training, recognition of prior learning, work placement experiential learning and Trade Testing.

- The DEDAT **Occupational Readiness Programme (ORP)** aims to increase the employability of the unemployed youth on the West Coast. The programme is focused on exposing unemployed youth from Grades 9 – 11 to basic skills that will assist in access to trade and occupationally directed programmes upon exit, to meet the demand from infrastructural projects on the West Coast. This programme also includes the placement of Grade 12 unemployed youth into various skills programmes offered by the West Coast TVET College.

## Conclusion

Youth unemployment is a serious challenge. In order to better understand the experiences of unemployed youth, as well as create awareness about opportunities, we ran workshops in two areas (Masiphumelele (Ocean View) and Hangberg (Hout Bay)). These workshops were well received and highlighted the fact that there are many opportunities that youth are not aware of. They also revealed that there are information asymmetries and that the gap in awareness may be difficult to bridge when youth do not know how to research and identify possible opportunities. It also speaks to the way that government communicates opportunities, and that more may need to be done to create awareness about internships, bursaries and learnerships that are available.

It highlighted the skills and talents of the PAY interns to be trained in running workshops successfully. It also revealed that even after completing the PAY internship, it is still difficult for them to be absorbed into the labour market. The WCG gives its PAY interns a number of skills and training but the private sector needs to be more informed about the internship and recruit from this pool of talented youth.


# TOURISM PERFORMANCE:
## 2015, January-March 2016 and April-June 2016 – *Do we have lift off?*

SHURAY BUX AND LEONARD MAMOGOBO

Economies around the world are becoming more interdependent and this has led to a growing significance of tourism globally.

Cape Town is already recognised as one of the top tourist destinations, having won many global accolades, which include the following:

- The 2015–16 Telegraph Travel Awards, which chose Cape Town as Best City (for the fourth year running).
- In 2016, in Condé Nast's globally recognised Reader's Choice Awards, the City was acknowledged as the number one food city in the world.
- In 2015, TripAdvisor ranked Cape Town number 10 in the Top 25 Destinations in the World.
- In 2015 Cape Town was ranked number two on Lonely Planet's Best Bargain Holiday Destinations.
- National Geographic named the City as number 2 on its top 10 list of best beach cities in the world.

The Western Cape also offers a significant market and investment opportunity to tourism related businesses. In 2015, foreign tourists spent R14,9 billion in the Western Cape. Given the momentum in tourism growth, construction has accelerated (Wesgro). Marriot International, in partnership with Amdec in the past year announced plans to develop three new properties in the city to the value of a R2 billion. Tsogo Sun also has plans to add 500 rooms valued at R680 million in Cape Town. The Carlson Rezidor Hotel Group recently launched the Radisson Red at the V&A Waterfront's Silo District, and the Radisson Blu Hotel and Residence at the old Triangle House Building (IOL).

There is tangible evidence that the Western Cape tourism market is performing well from an investment and media perspective. But questions have been raised as to what extent this has translated into direct economic benefits for the region.

The Western Cape (WC) Government has identified economic sectors that will provide the greatest growth and job creation over the next five years. This project, called Project Khulisa (which means 'to grow' in isiXhosa) is one of the 'Game Changers' identified for roll out to 2019. The Tourism sector has been prioritised as part of Project Khulisa because it shows significant potential to contribute to growth and jobs in the Western Cape.

The prioritisation of the Tourism sector is not unique to the Western Cape and South Africa. It is globally recognised as an important economic and social activity that significantly contributes to economic development. It is accepted as one of the key sectors, which developing countries like South Africa can use to grow their economies. Tourism is difficult to measure as it is not classified as a specific good or service but rather known as a consumption-based concept that is dependent on the status of the consumer. The United Nations World Tourism Organisation (UNWTO) defines tourism as 'the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for business, leisure and other purposes not related to the exercise of an activity remunerated from within the place visited'. The Tourism sector's performance is also not easy to measure as the sector's economic contribution is made up of activities in a range of other sectors. Statistics like arrivals and accommodation performance are not easily tracked in the short-term due to the diverse sources of data and the time required to integrate information.

Notwithstanding these challenges, Project Khulisa estimated in 2014 that Tourism directly contributed R17 billion in GVA and accounted for 204 000 formal jobs in the province. Under a high growth scenario, with significant stimulus, Project Khulisa estimates that the sector's GVA contribution could increase by 65%, to R28 billion, and it could add a further 120 000 formal jobs in the coming years.

In order to grow the sector, the Western Cape Government, through the Department of Economic Development and Tourism, has increased its support to the sector. As a result, programmes promoting the sector have been expanded. But the sector's response to these programmes is not clear to date. While there are many informal reports of increased activity that can be attributed to the depreciated Rand and increased marketing, in recent years the sector has also suffered setbacks. New visa regulations have been introduced and some markets have experienced slower economic growth. Additionally, global market trends have become harder to predict. In the past months, events like Brexit and the election of a new President for the United State of America (US) have increased this uncertainty.

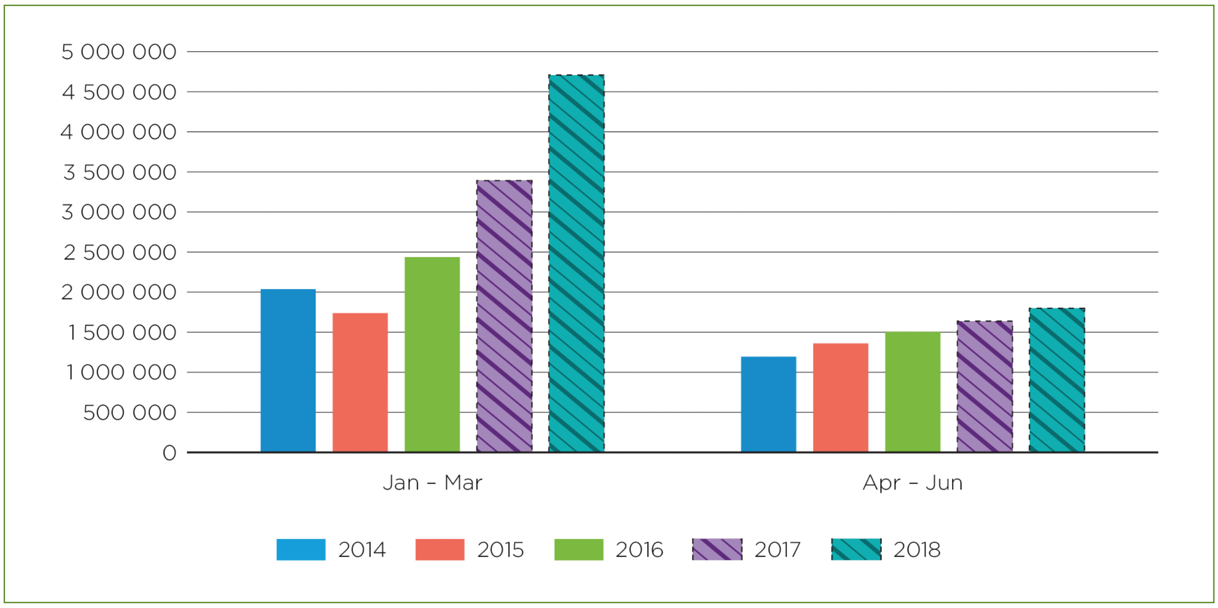
This article aims to assess the Western Cape's foreign tourism performance and its economic value by using Gross Value Added (GVA), Total foreign spend (TFS) and arrivals data by Wesgro and South African Tourism (SAT). Total Foreign spend is one of the best indicators of economic impact of tourism as it aggregates the number of arrivals, the number of bed night stays and spending by tourists.

## Foreign Tourism Performance in the Western Cape

### GVA PERFORMANCE

Looking at the most recent data available for the Western Cape, Figure 8 below compares nominal Gross Value Added (GVA)[1] for Q1: January to March and Q2: April to June, over 2014, 2015 and 2016. Most importantly, it shows that overall nominal GVA increased from 2014 to 2016 for both quarters The increase is much higher for the summer months of January to March. If the growth experienced in 2016 continues at the same rate into 2018, the size of summer months will almost double in size.

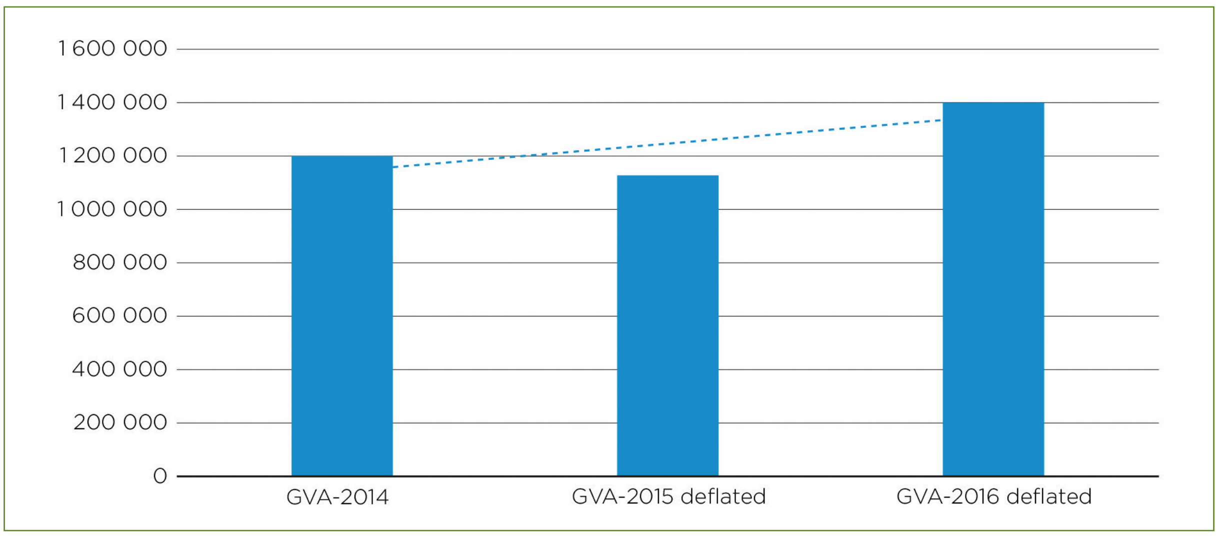
**Figure 8** Western Cape nominal tourism GVA Q1:January to March and Q2:April to June, for 2014, 2015, 2016, e2017 and e2018




*Source: SAT Quarterly reports*

On a deflated basis, as seen in Figure 9 below, the GVA trend for Q2: April to June is less positive with a dip in 2015. This means in real terms Q2's contribution shrunk in 2015.

**Figure 9** Western Cape Tourism GVA (deflated) (R 000's)[2]




*Source: SAT Quarterly reports*

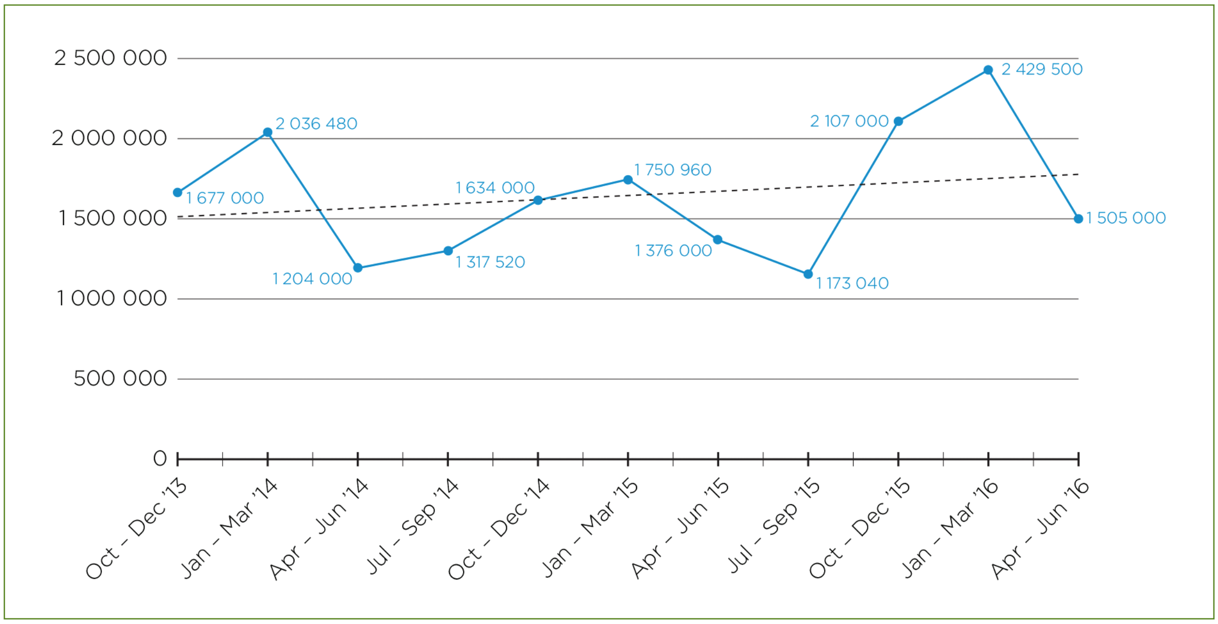
1 Calculated as 43% of spend as per National Tourism Satellite account, released in Feb 2016
2 Deflated by 6%

## Foreign Spend Performance

Figure 10 below shows an increasing trend line in Total Foreign Spend (TFS) in the Western Cape, over the quarters from October 2013 to June 2016.

This longer term positive trend reaffirms the April to June comparison (from Figure 10) showing that increased tourism activity can be expected in the future. The troughs and peaks represent seasonality of the market, because less tourists visit in winter.

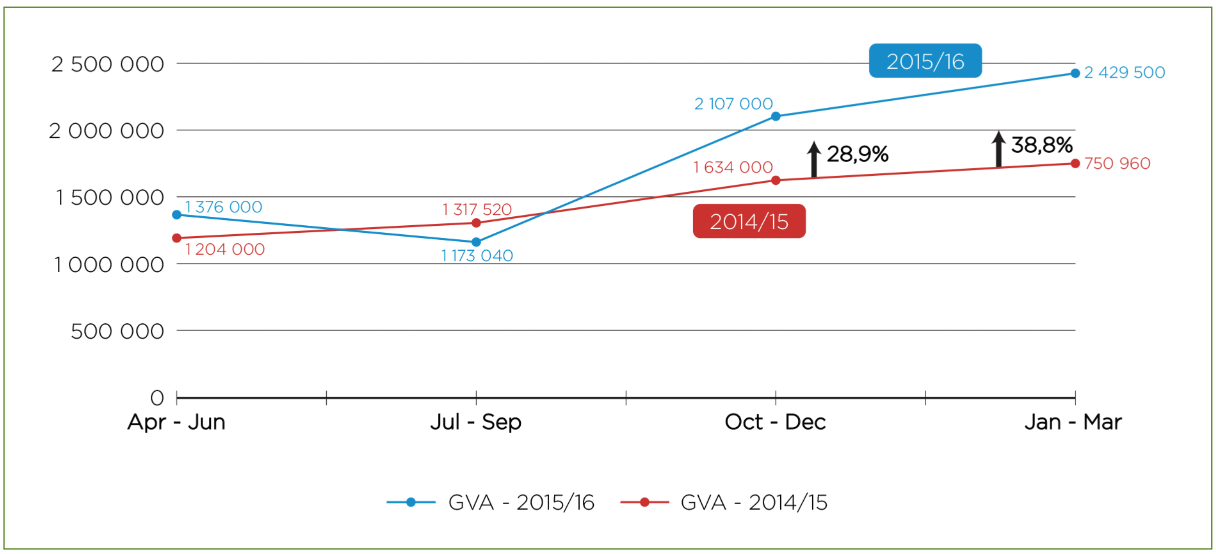
**Figure 10** Western Cape Spend Performance (Quarterly) (R 000's)




*Source: SAT Quarterly reports*

When comparing a 12-month period of years 2014/15 and 2015/16 in Figure 11, it is interesting to see that nominal tourism GVA performance has improved from October to March – the Western Cape's peak summer season. The GVA for October to December 2015 and January to March 2016 has improved by 28.9% and 38.8% respectively when compared to the previous years.

**Figure 11** Western Cape Tourism GVA Performance (Quarterly) (R 000's)

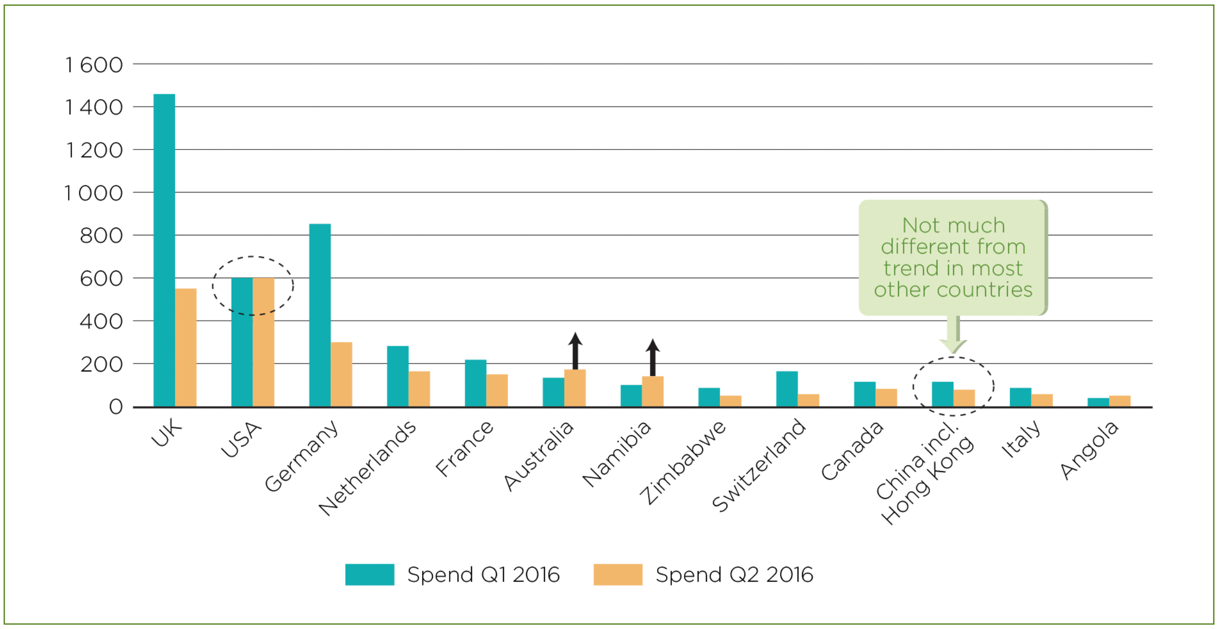



*Source: SAT Quarterly reports*

As mentioned earlier in this article, most tourists are attracted to the Western Cape's summer months. As the wetter, windier winter approaches and the Northern Hemisphere warms, less tourists visit the region.

Figure 12 shows the top 13 markets for the Western Cape. After the summer months in the first quarter, we see the number of tourists from most countries (excluding Namibia, Australia and Angola) falling. Interestingly, the US market remains steady. This result suggests that to improve the province's performance in the winter season, more attention should be given to these countries. The US in particular is important given its large contribution to the province's TFS and GVA.

**Figure 12** Western Cape Quarter 1 and Quarter 2 Spend – Top 13 Markets

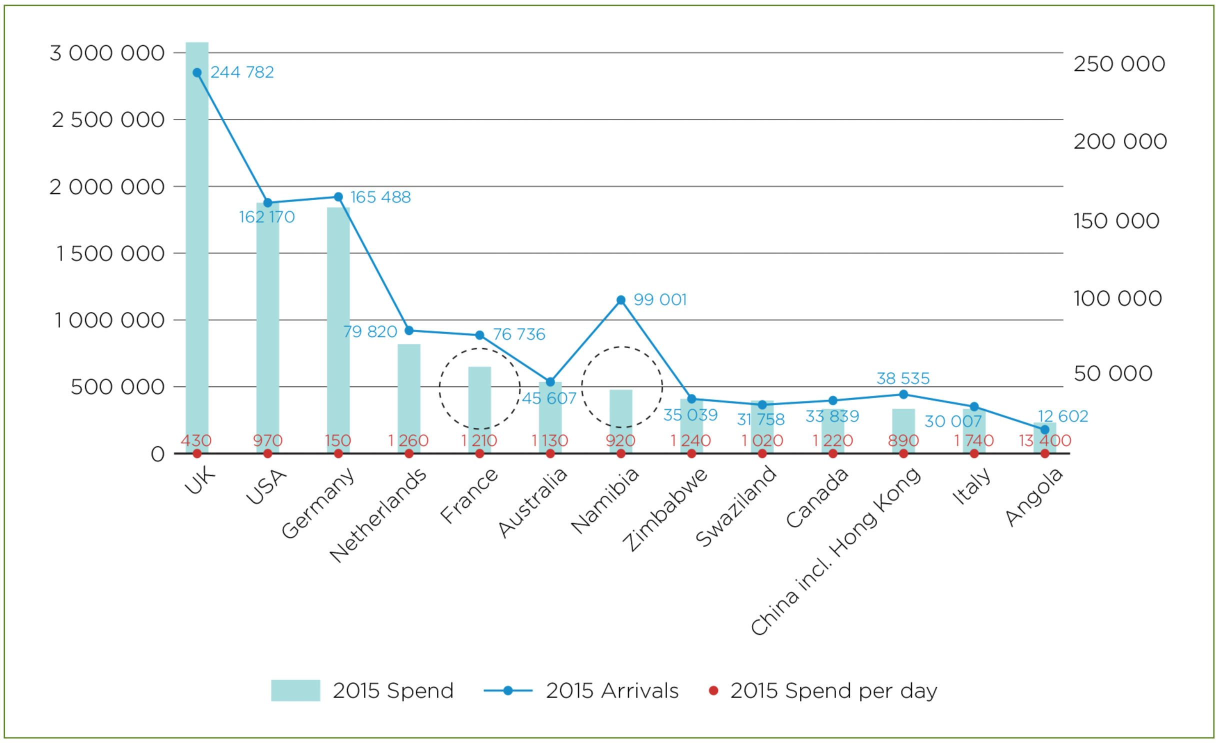



*Sources: Wesgro 2016, SAT 2015 spend*

In 2015, developed countries dominated the top five markets for foreign tourist arrivals, with the United Kingdom (UK) being the Western Cape's most important market (as shown in Figure 13). Although Germany, in third place, had more arrivals, the US took second place. Figure 13 shows that although some countries had more arrivals, their lower daily spends resulted in lower contributions to GVA and TFS. For example, this can be seen when comparing Namibia and Australia: Australian tourists spend on average R1 130 per day in the Western Cape and Namibians spend R920.

Using the arrivals and spend data we can conclude that Australia actually contributes more than Namibia to TFS and GVA, even though Namibia has twice as many tourists arriving in the province. This makes Australian tourists more attractive than the Namibian ones.

**Figure 13** Western Cape Spend per country – 2015 – Top 13 Markets

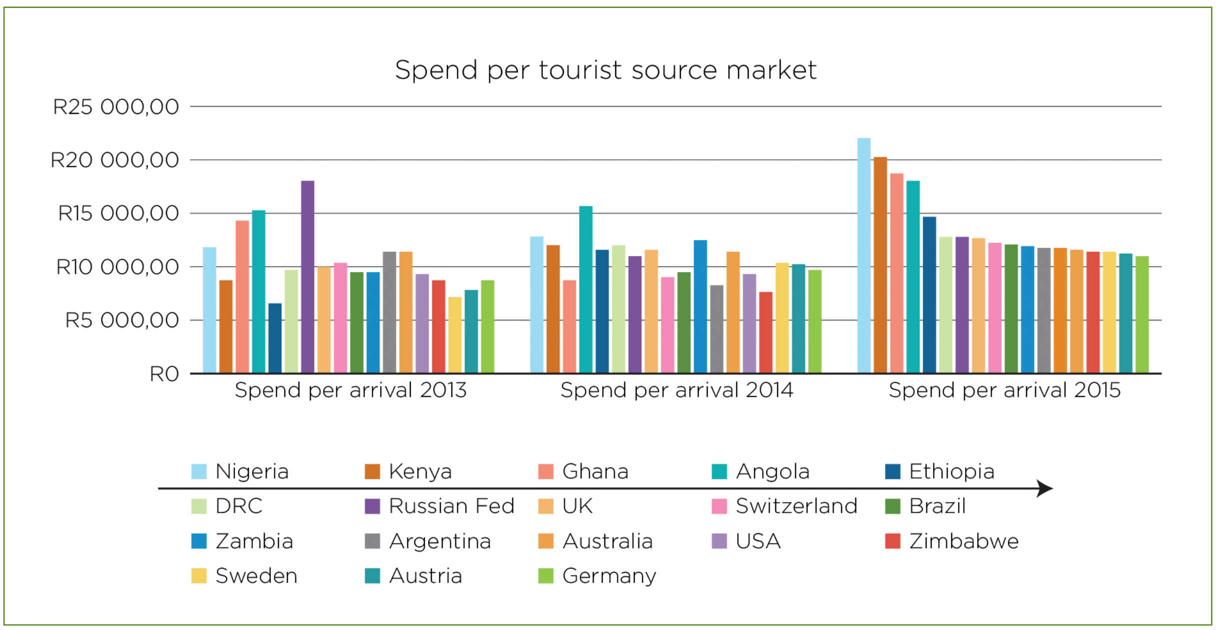



*Sources: SAT and Wesgro*

African countries, however, dominate spend per trip (as shown in Figure 14). The six top spenders originate from African countries and they have grown over the past three years. The top three spenders came from Nigeria, Kenya, Ghana and Angola.

This begs the question of whether the Western Cape needs to position itself better within Africa. In these markets, tourists are attracted by shopping opportunities. This, however, has to be balanced with efforts in bigger markets. It would be interesting to test the elasticity of the different markets to assess how they would respond to various stimuli like Rand depreciation or more tailored marketing.

**Figure 14** Western Cape Spend per arrival



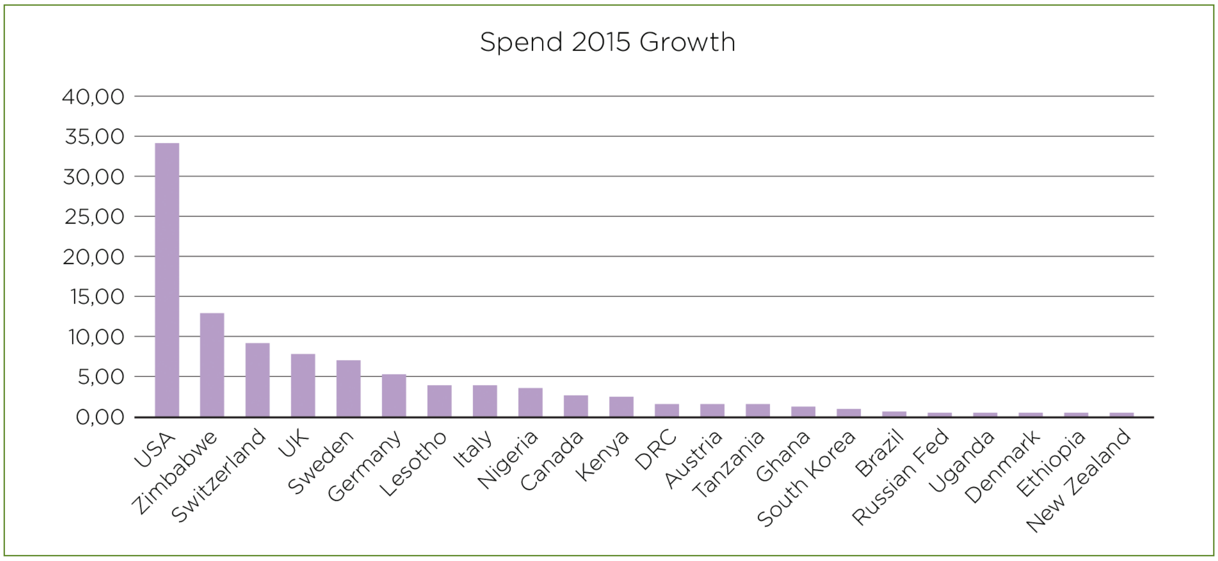

*Sources: SAT and Wesgro*

## Growth and Declining Markets

The inflow of tourists to the Western Cape is the result of the success of policies aimed at entrenching the Western Cape's status as a major international tourism and business events destination.

Of the countries that led to positive growth in tourism and total foreign spending in the Western Cape, the US contributed about 34% to the positive growth. This is shown in Figure 15. This is by far higher than the next biggest contributors, Zimbabwe and Switzerland; and suggests that the US market has responded markedly to the depreciated Rand. Comparisons with later periods in 2016 should be done to ascertain if the growth in spending is maintained.

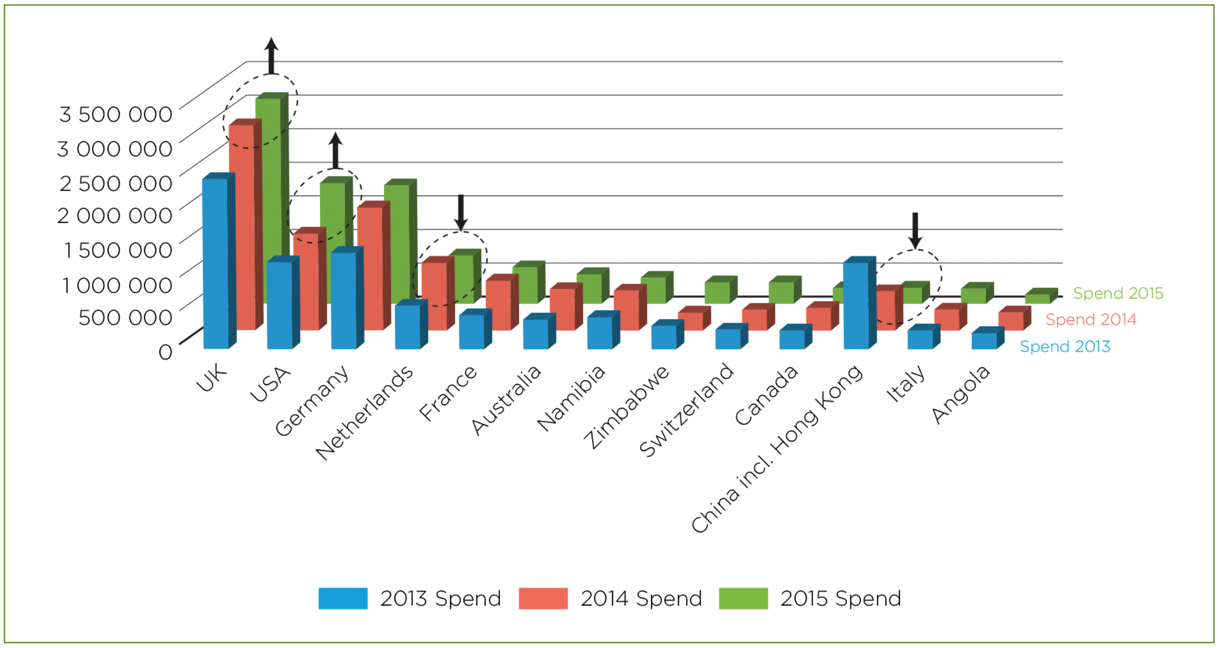
**Figure 15** Spending growth (positive contributors)




*Sources: Wesgro 2016*

Most of the Western Cape's top markets have improved nominal spend from 2013 to 2015 (as shown is Figure 16). The UK, the US and Germany were the largest markets. Most countries apart from the Netherlands and China (including Hong Kong) grew.

**Figure 16** Western Cape nominal tourism spend by country

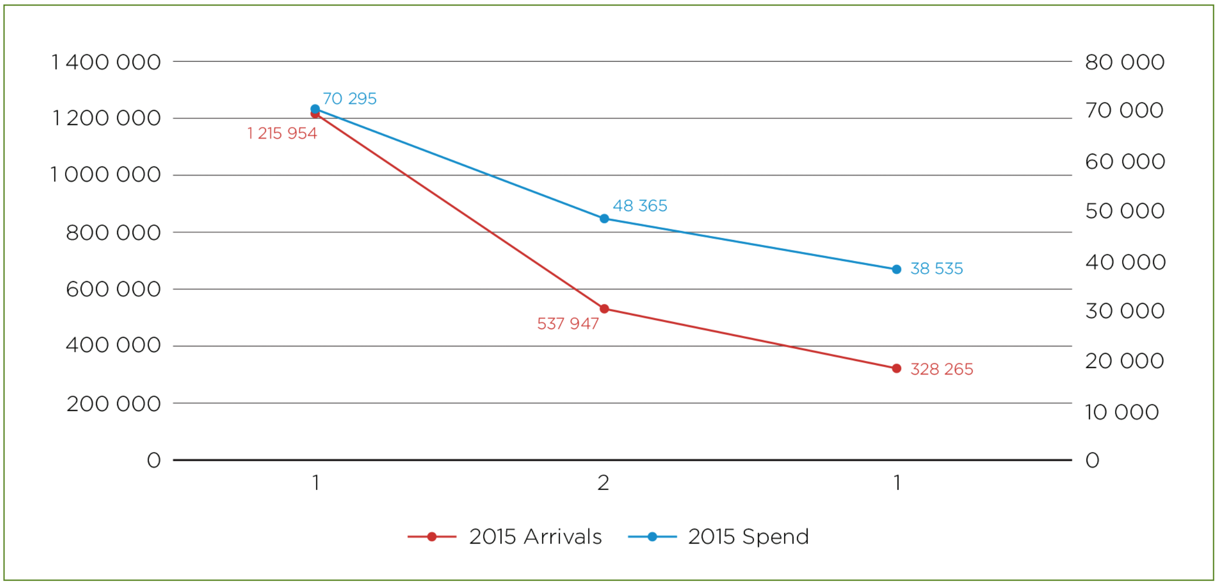



*Source: SAT and Wesgro*

It is very clear (in Figure 17) from the arrivals data and total foreign spend for China, that the tourism performance has been on a decline over the three-year-period from 2013 to 2015. It is widely accepted that this is due to the visa regulations that were implemented. The amended regulations presented barriers to travel for the Chinese.

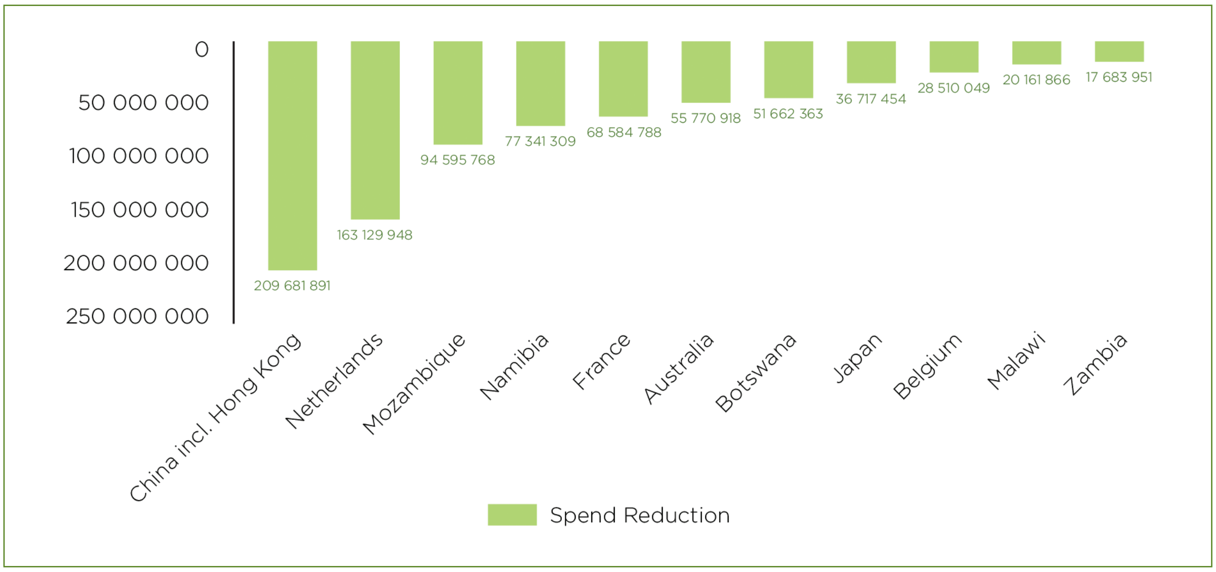
Thus, the ability of South Africa to improve the management of barriers to travel will impact on tourism's performance for countries like China.

**Figure 17** China: Western Cape Spend and Arrivals




*Source: SAT and Wesgro*

**Figure 18** Worst Performing Countries in Terms of TFS

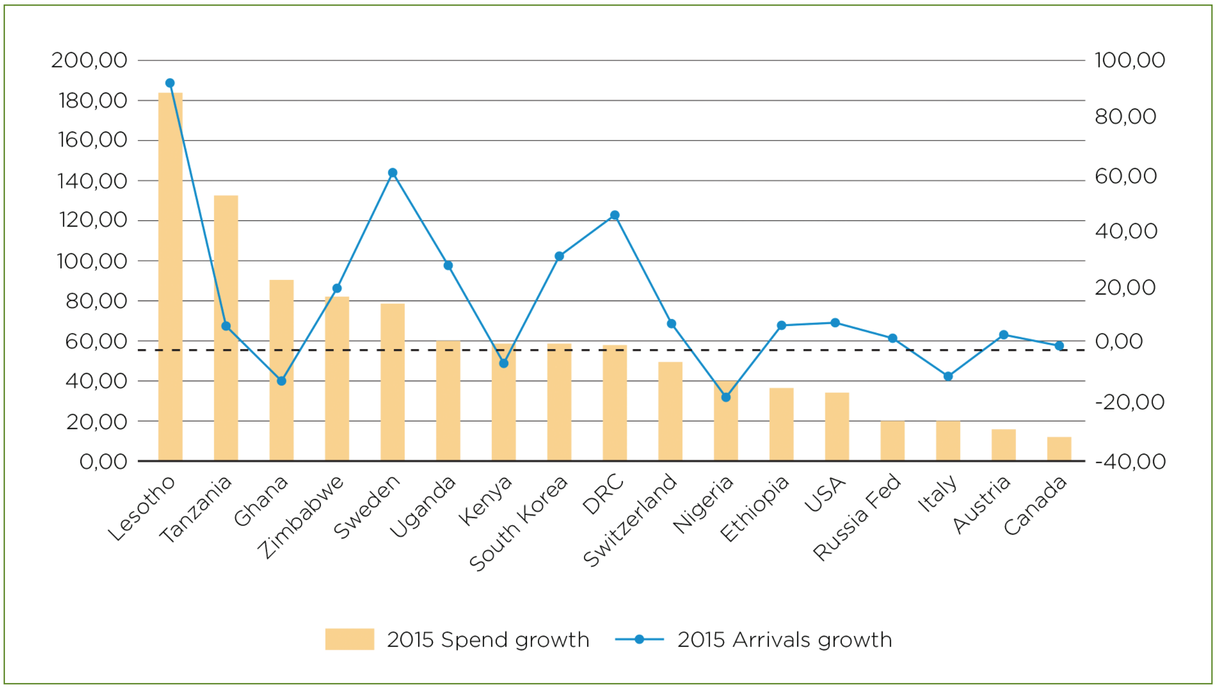



*Source: SAT and Wesgro*

The worst performing countries in terms of TFS decreases in 2015 are indicated in Figure 18. China and the Netherlands lead with declines of R209 681 891 and R163 129 948, respectively. Mozambique and Namibia on the other hand, were the African countries with the worst performance in 2015.

However, the number of tourists visiting the Western Cape from China is expected to grow in both 2016 and 2017 with Chinese travel and tourism industry leaders having welcomed the steps taken to improve the visa application process to make it easier to travel.

**Figure 19** Western Cape Spend growth 2015




*Source: SAT and Wesgro*

In 2015, Lesotho, Tanzania and Ghana had the biggest growth off their own 2014 bases, as seen in Figure 19. Ghana, Nigeria and Kenya had negative arrival growth for the year, however, their spend growth was positive. This may explain why these countries constituted the top three spend per tourist in 2015 (as mentioned earlier in this article).

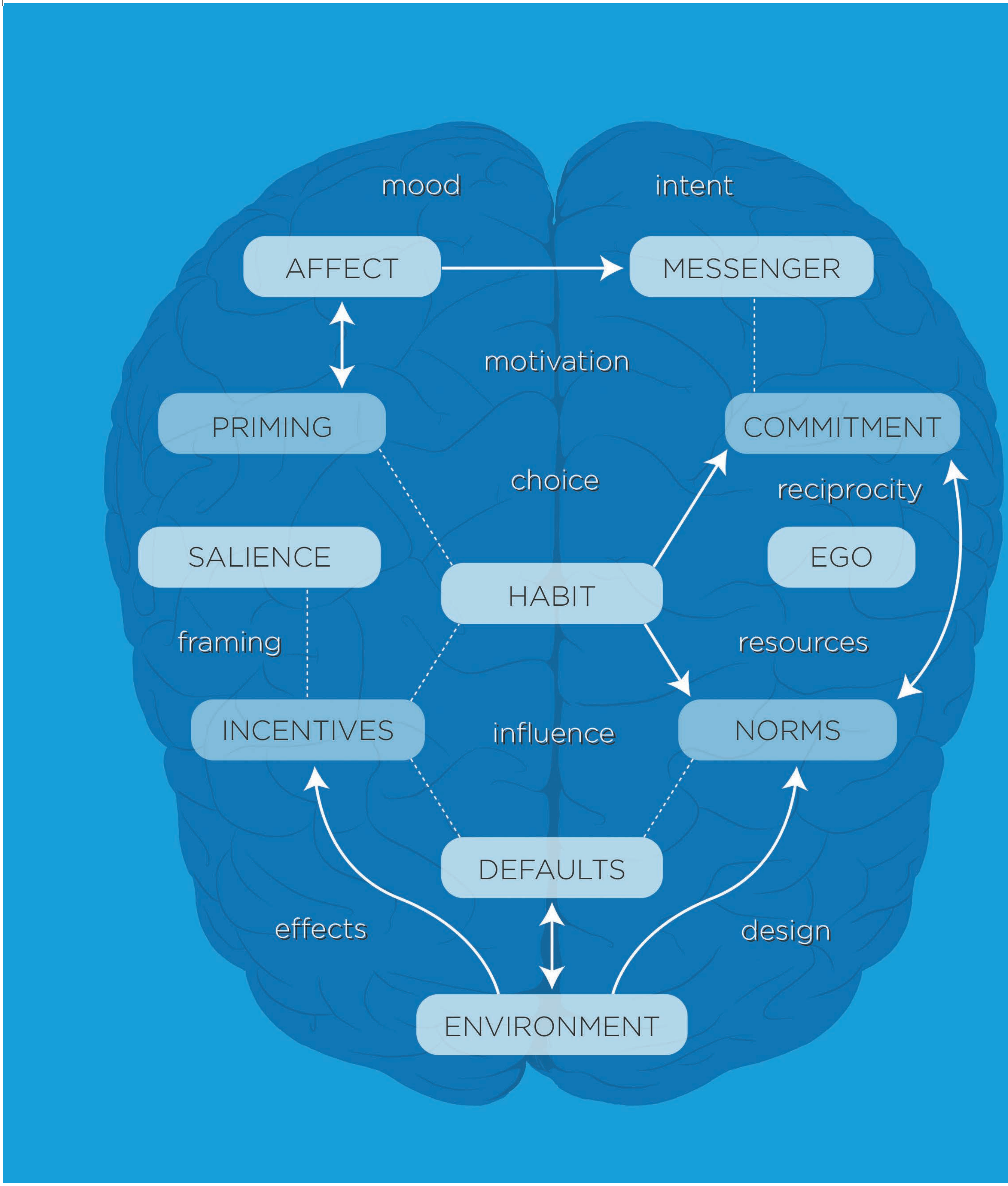
A 10% decrease in tourist arrivals from Ghana and an increase in Ghana's spend per tourist resulted in 85% growth in Ghana's spend. Normally we would expect the two effects to offset each other, but Ghana's spend per tourist growth was very strong.

## Conclusion

Substantial increases in funding and support as well as a competitive rand correlates to an increase in foreign tourism. During 2015Q4 and 2016Q1 there were increases of 28.9% and 38.8%, compared to the same period in the previous year. Even the slower winter period of April to June 2016, saw a solid increase when compared to the same period in 2015 and 2016.

The Western Cape's tourism sector's nominal GVA has been increasing from 2014 to 2016 with the UK being the largest contributor to revenue in 2015 followed by the US. European performance was supported by Germany in third place.

The data further shows that the Western Cape's summer months has realised higher growth, and that increased tourism activity can be expected in the future.




# BEHAVIOURAL INSIGHTS FOR POLICYMAKERS

GINO ENGLE

Behavioural economics (BE) may seem in vogue but many may not understand what underpins its growing popularity in terms of informing policy decision-making. This paper introduces the reader to the background thinking, as well as how institutional arrangements are being established to exploit BE insights for policymakers.

Over recent years, interest in the application of behavioural science tools to public policy has grown remarkably. Governments across the world are increasingly using behavioural insights to inform policy design and delivery in an effort to maximise impacts for citizens given dwindling budgets. This renewed interest in behavioural science has led to the establishment of specialised government agencies tasked with applying novel 'nudges' to improve public service delivery. This acknowledgment of the power of behavioural insights – something behavioural economists have long understood – amounts to a radical shift in the way policy is developed.

For governments of emerging economies such as South Africa, these shifts are exciting and appear to open boundless opportunities for behavioural economics to influence wider societal change. However, it is important to assess the work of these innovating government agencies before adapting their use of behavioural insights to our developmental context and its unique problems.

## Innovating for better decision-making

Behavioural economics has developed out of numerous research approaches into how humans make decisions. As a field of study, it is led by the belief that economic decision-making and the outcomes thereof can be improved upon by studying actual human behaviour. Traditionally, the application of behavioural economics – a subset of the behavioural sciences, which include fields such as psychology and neuroscience – was restricted to businesses and consumers, with a particular focus on financial markets.

Early social scientists like Herbert Simon and Daniel Kahneman laid the foundations of behavioural economics by studying the inherent all-too-human biases that hinder the decision-making process. For example, Simon's concept of 'bounded rationality' emphasises the limitations to any decision problem, particularly limitations to knowing complete information, a situation which leads to satisfactory decisions (or 'satisficing' behaviours), where the solution is often sub-optimal. When applied to policymaking, the bounded rationality model is particularly pertinent in portraying the various permutations of what government officials can know regarding policy implications (those 'known unknowns' and 'unknown unknowns').

Kahneman and Tversky developed this idea by showing that people rely on 'heuristics', or rule-of-thumb shortcuts when making decisions. In 1973 they concluded that: 'In making predictions and judgments under uncertainty, people do not appear to follow the calculus of change or the statistical theory of prediction… They rely on a limited number of heuristics, which sometimes yield reasonable judgments and sometimes lead to severe and systematic errors.'[1]

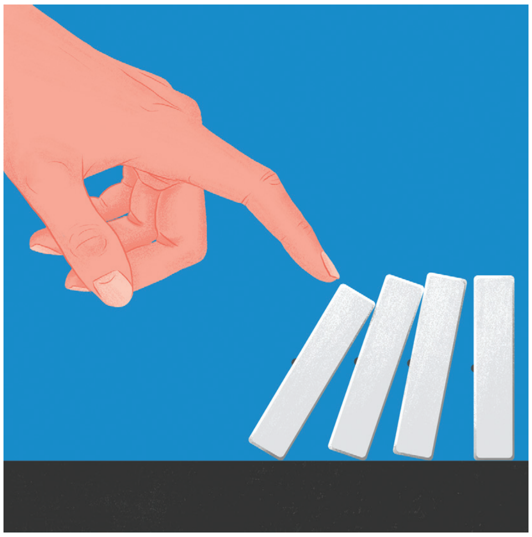
The study of heuristics has led to profound insights into how people make decisions. Behavioural scientists now agree that the human brain relies on rules-of-thumb processes to save time and effort, which can rather be spent thinking through more logical decision problems. Research has identified different types of heuristics. For example, the availability heuristic says that individuals make decisions based on knowledge that is readily available, while the representative heuristic says that individuals make decisions based on how typical an example is judged to be. Examples of availability and representative heuristics abound: from the false stereotypes we make about descriptions of people and their professions[2] to investors overreacting to new market information.[3] Many studies also emphasise the usefulness of following rules-of-thumb or gut feelings, showing, for example, that heuristics based on intuition are crucial for firefighters, soldiers and pilots to make quick decisions under pressure.[4]

1 Kahneman and Tversky, 1973
2 Kahneman and Tversky, 1974
3 Chiodo et al., 2002
4 History summarised from: www.thedecisionlab.com/evolution-behavioral-economics-irrationalitys-revenge-part-2/

However, in general, the recent trend in behavioural science is to focus more on the situation of decision-making – taking into account the urgency or complexity of the decision problem and its context. Kahneman's popular book, Thinking, Fast and Slow (2011), synthesises these lines of research by introducing dual systems of thinking where fast thinking relates to repeat or 'automatic' decision-making (read: heuristics) and slow thinking to 'effortful mental activities'. His diagnosis: Fast thinking serves us well most of the time, but there are instances where we would do better by slowing down our thinking.[5]

## 'Nudging' heuristics/towards better decisions

Short of advocating philosopher-king style governance, the application of behavioural science to policymaking has become a challenge of harnessing heuristics to incentivise effective behaviours to ultimately achieve policy outcomes. This thought became highly influential when popularised by Richard Thaler and Cass Sunstein in Nudge: Improving Decisions about Healthy, Wealth and Happiness, (2008). Nudge theory is defined as 'an approach to understanding and changing people's behaviour by analysing, improving, designing, and offering free choices for people, so that their decisions are more likely to produce helpful outcomes for those people and society generally'. Nudge theory effectively forms the conceptual backbone for applying behavioural insights to policymaking, bridging the gap between behavioural science and effective, low-cost policy innovation.



## The 'nudge' teams

Nudge theory effectively spawned a movement that landed Sunstein a regulatory advisory role in the Obama administration in 2009. This was leapfrogged in 2010 when the UK government launched 'The Behavioural Insights Team (BIT)', a government-owned entity aptly nicknamed the 'Nudge Unit' – which marked a major triumph for the application of behavioural economics to public policy. Since BIT was established, behavioural insights have fast become mainstream in policymaking and have influenced the development of similar 'nudge' teams across the world.

This following section evaluates the work of each of these major 'nudge' teams in the UK, US and Europe.

## The Behavioural Insights Team

The Behavioural Insights Team (BIT) was the world's first government unit dedicated to applying behavioural insights to policy challenges, and has since spun off as a social-purpose company. These days BIT partners with government departments and consults internationally for private companies and non-profits (The I-Teams Report, 2014). Their work has expanded to cover a number of policy areas, including: health and wellbeing, education and skills, home affairs, energy, sustainability and consumers, and productivity and growth, to name a few. The focus throughout their work is to 'achieve social impact by introducing a more realistic model of human behaviour to policymaking'. (BIT, 2016)

Within health and wellbeing, BIT recently presented research that gives evidence of under-reporting in calorie intake surveys, particularly curious as obesity rates in the UK have increased. Upon adjusting these statistics to include measures of purchases, they found that calorie consumption has in fact increased since the 1990s. This finding runs counter to arguments that relate rising obesity rates with declining physical activity. The implications for policy is that focusing on calorie intake is useful, however data collection must address the issue of misreporting consumption, which point to certain behavioural biases.

5 See review at: www.economist.com/blogs/prospero/2012/02/quick-study-daniel-kahneman-economic-decision-making

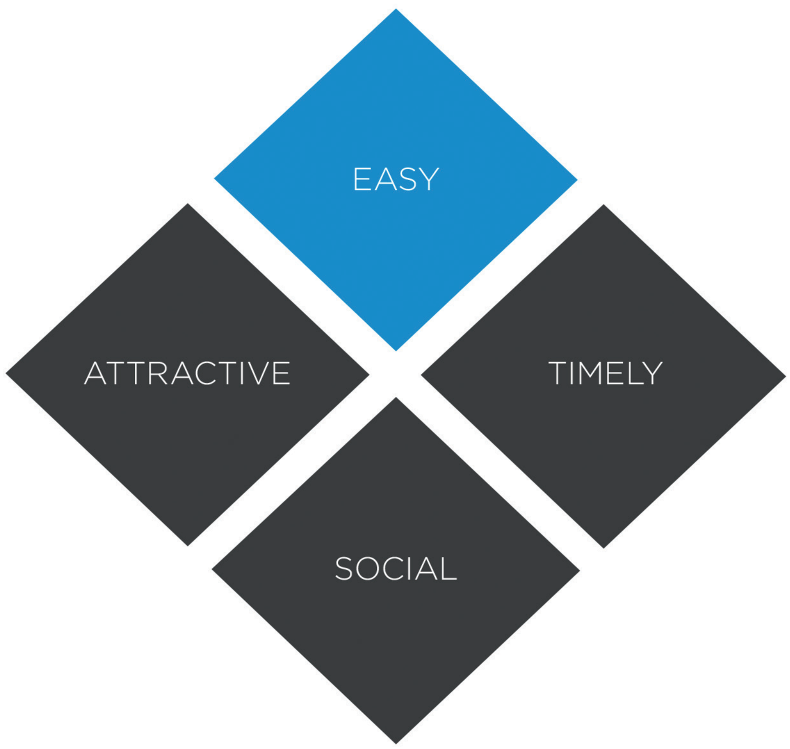
In another health-related project, BIT Australia conducted a trial to test whether hospital patients and staff could be encouraged to choose healthier drinks options. By increasing the prices of high-calorie sugar-sweetened beverages by 20% in randomly allocated vending machines, they found a significant 5% reduction in the number of high-calorie drinks sold. In light of widespread interest in taxing sugar-sweetened beverages to achieve public health objectives (World Health Organisation, 2016), these results give strong evidence for introducing low-cost interventions to achieve measurable results.

**Table 1** The Behavioural Insights Team's EAST Framework

The EAST framework is a simple four-step process to guide policymakers and practitioners to design and adapt services that are easier and more pleasant for citizens to use, while being cheaper and more effective.

Here is a summary:

| | |
|---|---|
| **1. Make it Easy** | Make the option the default, and reduce the 'hassle' factor or taking up the service. Simplify the messages, breaking down complex goals into easier actions. |
| **2. Make it Attractive** | Attract attention by using images, colours or personalisation, or by designing rewards and incentives. |
| **3. Make it Social** | Show that the majority already perform the desired behaviour to encourage others to do the same; and tap into the power of networks so that behaviours are encourage through mutual support and peer-to-peer. |
| **4. Make it Timely** | Prompt people when they are likely to be most receptive, and consider the immediate costs as we are more influenced by those that take effect immediately than those delivered later. |



## The Social and Behavioural Sciences Team

A significant event in raising international awareness of behavioural insights was the establishment of the Social and Behavioural Sciences Team (SBST) in the United States. In September, 2015, President Obama issued an executive order titled: 'Using Behavioural Science Insights to Better Serve the American People', effectively calling on Federal government agencies to apply behavioural science insights to the design and implementation of their policies and programs.

Since its establishment, SBST has been very active in providing insights into social policy design across numerous government departments. For example, various evidence-based interventions have been trialled to improve the efficiency and effectiveness of health systems, to 'nudge' increases in health insurance take-up through email reminders, and to streamline health plan choices to help individuals make better-informed decisions (SBST, 2016). Many of these low-cost interventions focus on redesigning how programmes communicate with individuals. For example, SBST assisted in the design of a Bureau of Prisons handbook for newly released prisoners, as evidence suggests that better customised services leads to significantly lower arrest rates following release. Similar interventions that focus on improving the effectiveness of information campaigns have also been rolled out across employment schemes and public health campaigns in a number of States.

## Foresight and Behavioural Insights Unit

This newly created 'nudge' unit of the European Commission was launched alongside its flagship publication, Behavioural Insights Applied to Policy. This release is part of a new wave of literature seeking to inform policymakers and behavioural sciences alike on new developments in the space of behavioural insights and policy – Cass Sustein and George Akerlof (a Nobel Prize-winning economist) are currently in the process of establishing the first Behavioural Public Policy academic journal, for release in 2017.

In their publication, the Foresight and Behavioural Insights Unit find four main conclusions:

1. There is growing appetite to apply behavioural insights to policymaking
2 There is room for improved exchange and knowledge-sharing between policymaking and academic communities
3. Behavioural insights should be applied throughout the policy cycle – taking into account implementation and enforcement issues
4. There is space to improve the effectiveness of behavioural policy insights, and research into their long-terms

## Conclusion

Behavioural economics is taking the world by storm and the application of behavioural insights to policy has become a political no-brainer. The advantages of such smart policy are effective and low-cost solutions to sometimes tricky and stale policy problems. The time has now come for emerging economies such as South Africa to capitalise on behavioural insights for effective policy solutions.

# ECONOMIC PERFORMANCE AND OUTLOOK

MIRACLE MANGENA

# GLOBAL PERFORMANCE AND OUTLOOK

The global economy is projected to grow by 3.4% in 2017.[1] The World Economic Forum's Global Competitiveness Report 2016 – 2017 succinctly captures why global economic growth has remained persistently low, attributing it to (among other factors) low and declining commodity prices, increasing external imbalances, and stressed government finances. The other key development that underpins the above growth outlook projections is the possible impact of Brexit (discussed in the previous publication). In addition to this (but not yet factored into these outlook projections), is the outcome of the recent US presidential election. There is currently uncertainty about how the new administration will proceed in terms of key policies, such as trade.

The low global economic growth has created a need to identify opportunities that will create the necessary conditions required for rapid growth. The World Economic Forum's Global Competitiveness Report 2016 – 2017 identifies the Fourth Industrial Revolution as a potential engine for new growth. Thus, unless businesses are willing and able to take the risk of innovation and move away from the mode of doing 'business as usual', it might be difficult to create long-term and sustainable growth.

To this end, a review of key developments from both advanced economies and emerging markets and developing economies is presented below:

United States – The Wall Street Journal reveals that the third quarter GDP of the US showed significant growth, more so when compared to the overall growth in the first half of 2016. The US economy expanded at a seasonally adjusted annual rate of 2.9% in the third quarter, compared to 1.4 % recorded in the second quarter.

The key drivers for the US GDP growth in the third quarter were:

- Consumer spending – although it slowed down to 2.1 % in the third quarter from 4.3 % recorded in the second quarter, it remained significantly high. There was strong spending in durable goods and personal consumption expenditure added 1.47 percentage points to the 2.9 % totall GDP growth rate.
- Business spending contributed 0.15 of a percentage point in the third quarter GDP.
- Exports contributed 0.83 of a percentage point to the third quarter total GDP.

Economic data released revealed that the rate of unemployment slightly increased from 4.9% in August to 5% in September 2016. The US economy created 156 000 new jobs in September 2016. The labour market performance was succinctly captured by the Fed Chair, Janet Yellen when she indicated that the central bank thinks the labor market still has the potential to pull more would-be workers back into the job market.

The US economy accounts for approximately 25% of the global output. It also represents a significant share of the financial markets. It is on the basis of this significant contribution that developments in this economy remain crucial and therefore warrant serious review. The Recent election in the US paved the way for a new administration led by Mr Donald Trump to assume office in January 2017. Although the initial reaction from the markets was mainly an expression of shock at the outcome, the markets subsequently recovered. At the moment there is uncertainty regarding the economic policies to be pursued and the consequent impact this will have on the global economy.

The key policy issues are:

- On fiscal policies: possible change in taxation for working class and corporates, protectionist taxes on imports and infrastructure investment. Currently it is uncertain whether there will be radical reforms on these fiscal measures or there will be a change of focus when the new administration is initiated into office.
- On monetary policies, although this is the mandate of the Fed, the focus on interest rates became clear during the campaign period, however what is not clear is whether there will be shift in the Fed Bank's approach to interest rates. The other key aspect, which is yet to unfold, is how financial markets will respond to policy changes.

Although there is uncertainty on the possible impact of major reforms should they be implemented, there is a silver lining, for example on possible investment in infrastructure that may potentially lead to firming up of prices of commodities. The picture regarding policy direction should become clearer during the first quarter of 2017.

1 IMF World Economic Outlook Update, October 2016

**Euro Area** – although the Eurozone expanded in the first quarter of 2016 by 0.5%, growth then slowed to 0.3% in the second and third quarters. Notably weak performance (contraction) in France, stagnation in Italy and low growth in Germany weighed heavily on Eurozone GDP growth in the second quarter. Spain (0.8%) and the Netherlands (0.7%) recorded stable growth rates in the second quarter. IHS Markit attributed the slow growth to the fact that businesses and consumers in the Eurozone become more cautious in the second quarter owing to significant global uncertainties (including Brexit).

Consumer spending growth slowed down by 0.4 of a percentage point from 0.6% in the first quarter to 0.2% in the second quarter. This slowing down of consumer spending occurred even though consumers in the region were still enjoying the benefits of low inflation (deflation) and improving labour markets.

**China** – The key highlights from economic data recently released by the National Bureau of Statistics of China shows that on trade, exports declined by 7.3% and imports dropped by 1.4%. The drop in Chinese imports signals that global demand remains weak.

Economic data for October 2016 showed better performance in manufacturing sectors, such as: manufacture of automobile industry (17.9%), the manufacture of electric machinery and equipment (8.3%), manufacture of computer, communication equipment and other electronic equipment (9.3%), processing of food from agricultural products (6.5%), textile industry (4.8%); manufacture of raw chemical materials and chemical products (6.7%) and manufacture of non-metallic mineral products (5.9%).

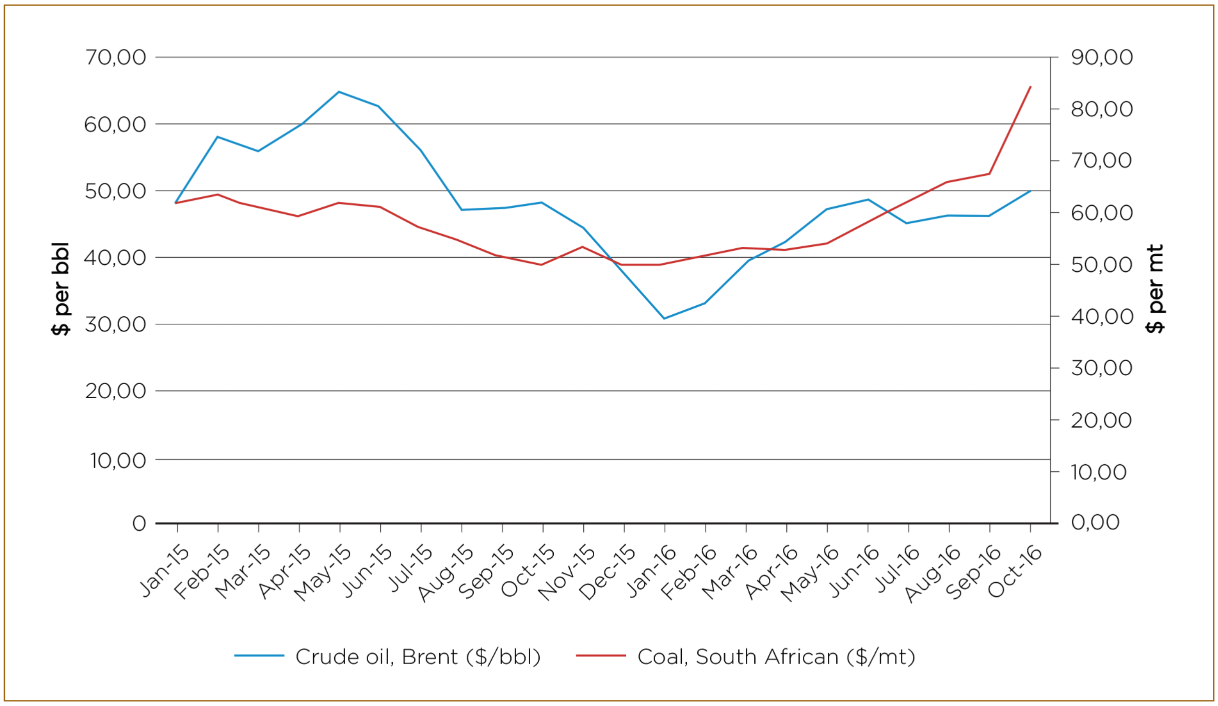
**Africa** – In sub-Saharan Africa, challenging macroeconomic conditions in its largest economies, lower oil receipts, and drought conditions accounted for the downward revision of growth projections.

IHS Markit's monthly economic outlook forecast data indicates that Nigeria will remain in recession, South Africa will continue on a low growth trajectory, whilst Senegal, Ethiopia and Kenya will maintain growth rates above 5% in the third quarter of 2016.

## Commodities

The World Bank Commodity Price Data shows that global prices of Brent crude oil increased slightly from US$45.07 per barrel in July 2016 to US$49.73 per barrel in September 2016. It is also projected that the average price for oil would be US$48.19 per barrel for the year 2016. The figure below tracks the changes in prices of Brent crude oil and coal from South Africa since January 2015:

**Figure 20** Energy prices - Crude Oil, Brent and Coal from South Africa




*Source: World Bank Commodity Price Data*

The price of coal from South Africa shows a sharp increase from US$67.36 per metric tonne in September 2016 to US$83.51 per metric tonne in October 2016. Refreshingly, trends for Brent crude oil and coal from South Africa show steady improvements since the major fall in January 2016.

The World Bank Commodity Price Data also indicates that other commodities such as gold and platinum prices fell between August 2016 and October 2016. Gold prices dropped from US$1 340.17 to US$1 266.28 per troy oz. and platinum prices dropped from US$1 121.65 to US$958.30 per troy oz.

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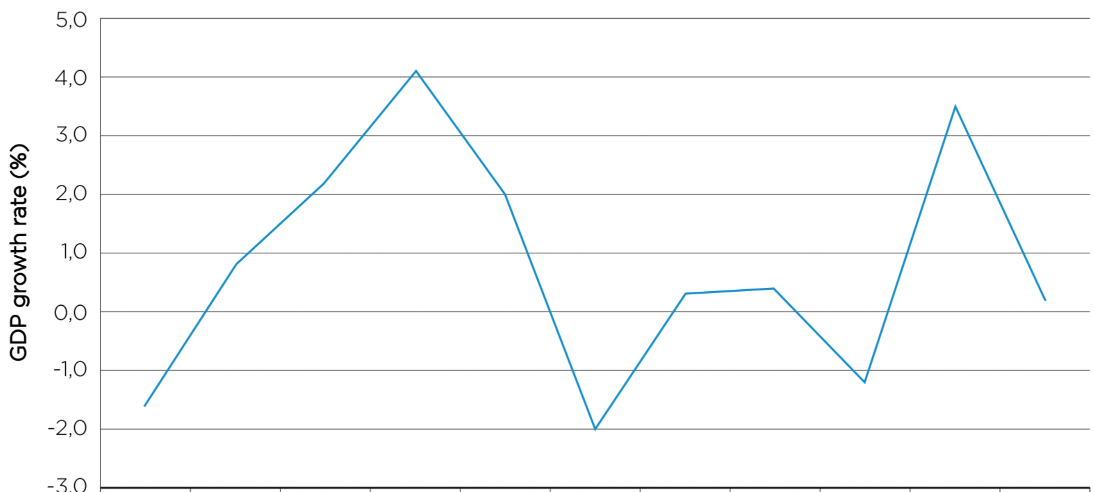
# NATIONAL PERFORMANCE AND OUTLOOK

South Africa, like most emerging and developing economies, is dependent on commodity exports (precious minerals) and hence remains exposed to low global commodity prices. The South African economy recovered during the second quarter from an initial contraction in the first quarter. In the third quarter, real GDP increased by 0.2%.

The graph below shows quarterly performance of GDP from 2014Q1 to 2016Q3:

**Figure 21** GDP growth rates 2014Q1 – 2016Q3




| | 2014Q1 | 2014Q2 | 2014Q3 | 2014Q4 | 2015Q1 | 2015Q2 | 2015Q3 | 2015Q4 | 2016Q1 | 2016Q2 | 2016Q3 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | -1,6 | 0,8 | 2,2 | 4,1 | 2,0 | -2,0 | 0,3 | 0,4 | -1,2 | 3,5 | 0,2 |

*Source: Statistics South Africa*

The major contributing sectors to the positive GDP growth rate in 2016 Q3 were: mining and quarrying expanding by 5.1% (contributing 0.4 of a percentage point to GDP growth), general government services 1.8% (contributing 0.3 of a percentage point to GDP growth) and finance, real estate and business services 1.2% (contributing 0.2 of a percentage point to GDP growth).

Among the sectors that contracted were: manufacturing (contributing –0.4 of a percentage points to GDP growth), trade (contributing –0.3 of a percentage point to GDP growth) and electricity (contributing –0.1 of a percentage point to GDP growth).

A review of the manufacturing sector shows a decline in production on a quarter-to-quarter basis (seasonally adjusted) of 1.3% between the second and third quarters. Data released by Statistics South Africa[2] (StatsSA) also shows that year-on-year manufacturing production recorded an increase of 2.2% in August 2016 before recording no change (0%) in September 2016, when compared to the same months for 2015.

2 Manufacturing: Production and Sales (preliminary) September 2016 released on 10 November 2016

The table below tracks specific sectors that contributed to the decline in the volume of manufacturing production on a year-on-year basis:

**Table 2** Year-on-Year percentage change in volume of manufacturing production by division and major group (base: 2010 = 100)

| Manufacturing division | Jul-16 | Aug-16 | Sep-16 |
|---|---|---|---|
| Food and beverages | –2.8 | 3.3 | –2.6 |
| Textiles, clothing, leather and footwear | –2.3 | –1.6 | –1.5 |
| Wood and wood products, paper, publishing and printing | –1.0 | 0.7 | 2.0 |
| Petroleum, chemical products, rubber and plastic products | 8.1 | 4.1 | 0.4 |
| Glass and non-metallic mineral products | –4.8 | 1.1 | –3.0 |
| Basic iron and steel, non-ferrous metal products, metal products and machinery | –5.2 | –2.2 | 0.2 |
| Electrical machinery | –13.6 | –12.3 | –5.7 |
| Radio, television and communication apparatus and professional equipment | 10.2 | 3.2 | 2.3 |
| Motor vehicles, parts and accessories and other transport equipment | –4.1 | 8.6 | 8.8 |
| Furniture and other manufacturing | 2.9 | 7.5 | –2.3 |
| **Total** | **–0.5** | **2.2** | **0.0** |

*Source: Statistics South Africa*

The key subsector that performed relatively well on a year-on-year basis in the manufacturing sector was Motor vehicles, parts and accessories and other transport equipment, which recorded an increase of 8.8%. This increase, however, failed to significantly impact on the overall manufacturing sector given that the weight for this subsector is only 6.85 (out of 100). Unfortunately, the subsector with the greatest weight, the food and beverage, whose weight to the manufacturing sector is 24.53, declined by 2.6%, on a year-on-year basis between September 2015 and September 2016.

A snapshot of the year-on-year performance of major groups of food and beverages subsector is presented below:

**Table 3** Year-on-Year Percentage change in the volume of major groups of food and beverage production (Base: 2010=100)

| Major Food and Beverage Groups | Jul-16 | Aug-16 | Sep-16 |
|---|---|---|---|
| Food and beverages | –2.8 | 3.3 | –2.6 |
| Meat, fish, fruit, etc. | –1.2 | –0.7 | –2.3 |
| Dairy products | –6.5 | 3.4 | –5.1 |
| Grain mill products | –4.9 | –3.2 | –0.6 |
| Other food products | –5.4 | 6.9 | –2.1 |
| Beverages | 1.6 | 5.5 | –3.3 |

*Source: Statistics South Africa*

The major decline in production volume of the food and beverages sector between September 2015 and September 2016 was the 5.1% decline in the dairy products subsector. The impact of the drought conditions might have constrained production in the overall subsector.

The economic growth outlook for South Africa in 2016 is projected to remain below 1%:

- South African Reserve Bank estimates a 0.4% growth for 2016.
- The Medium-Term Budget Policy Statement (MTBPS) reviewed their projections downwards from the initial forecast of 0.9% to 0.5% for 2016.
- IHS Markit forecasts that South Africa's GDP growth rate may expand by 0.3% in 2016 and 0.8% in 2017.
- The IMF estimate for 2016 is 0.1%.

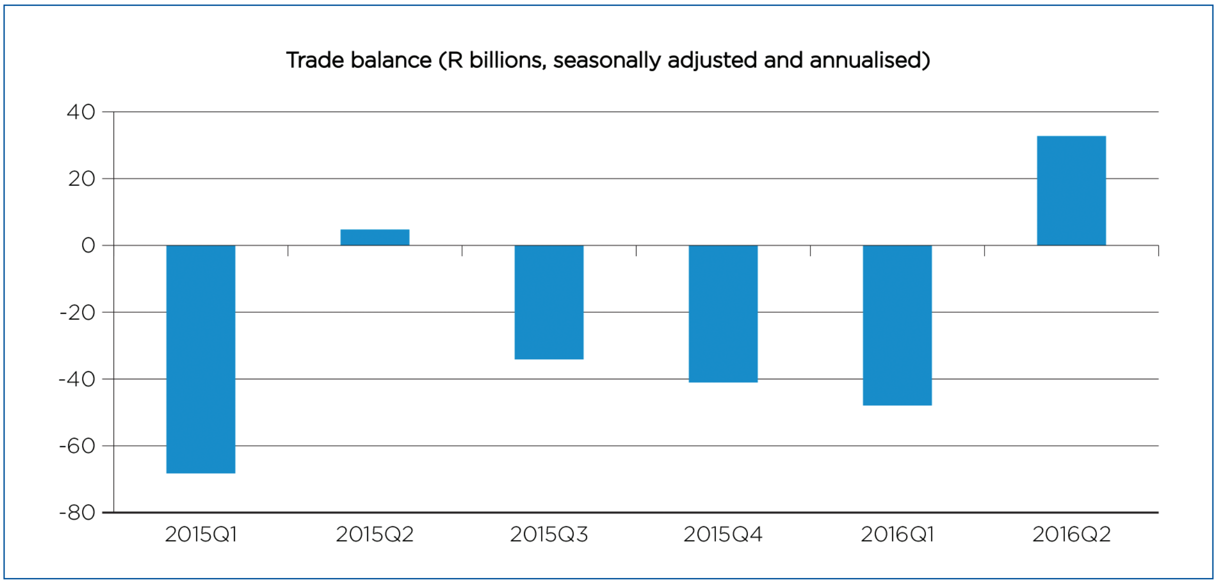
Evidently, all the estimates point to low growth for 2016. Key among the reasons for low growth forecasts are structural constraints (insufficient electricity supply under a high growth path), weak business environment, and weak global demand dragging prospects for commodity demand.

## Trade

The trade balance, which was negative from the third quarter of 2015 to the first quarter of 2016, somewhat recovered in the second quarter of 2016. The South African Reserve Bank attributed the strong performance in the second quarter trade balance to the lagged effect of the depreciation of the Rand and weak growth in domestic demand that led to a decline in merchandise imports. This contributed to the economy moving from a deficit of R48 billion in the first quarter of 2016 to a surplus of R33 billion in the second quarter of 2016.

The bar chart below traces changes in the trade balance between the first quarter of 2015 to the second quarter of 2016:

**Figure 22** Trade balance




*Source: SARB*

Interestingly, the positive trade balance together with a smaller deficit on net service, income and current transfer payments, contributed to reducing the deficit on the current account of the balance of payments (deficit as a percentage of GDP) from a negative of 5.1% in the first quarter of 2015 to a negative of 3.1% in the second quarter of 2016.

## Is AGOA under threat?

Following the outcome of the US presidential elections, and the uncertainty about whether the new administration will adopt a protectionist policy towards trade or not, it is imperative to review the possible impact to SA trade should such a policy stance be adopted. Even though nothing has emerged in this regard yet, the prospect of trade barriers and protectionist policies from the US need to be considered against the backdrop of the Africa Growth and Opportunities Agreement (AGOA) between the US and 39 African countries (including South Africa) currently eligible for preferential trade benefits. The real fear is that if the US decides to adopt protectionist policies, it may not be good news to preferential trade arrangements such as AGOA. Recent sentiments by the US president-elect suggest that he would cooperate with other countries if they cooperated with the US. This reminds us about the negotiations that SA and the US had on the renewal of AGOA, specifically with regard to the 'chicken' issue. The meaning of the word 'cooperate', will become clearer when the new US president is inaugurated.

## Labour Market

The labour market performance analysis is based on two key quarterly publications by Statistics South Africa, the Quarterly Labour Force Survey (QLFS) and the Quarterly Employment Statistics (QES). Statistics South Africa differentiates between these two publications succinctly by highlighting that QLFS 'is a survey of households which collects information from approximately 30 000 dwelling units, and collects data on the labour market activities of individuals; whereas QES is an enterprise based survey that collects information from non-agricultural businesses and organisations from approximately 20 000 units'.[3]

What is evident from this distinction as presented by Statistics South Africa is that:

- the QLFS is a household-based survey, whilst the QES is an enterprise-based survey.
- QLFS includes; agricultural workers, self-employed workers whose businesses are unincorporated, unpaid family workers, and private household workers among the employed which are not included in the QES.
- QLFS has an age limit (15 years of age and older) whilst QES is not limited by age.
- QES, being enterprise-based, risks double counting for individuals with more than one job, as opposed to QLFS, which is household based and hence does not pose the risk of double counting.
- in determining the formal sector, QLFS includes income tax, VAT and number of employees, while QES only uses VAT.

The richness of complementing statistical data from these publications for labour market performance review stem from the fact that whilst the QLFS covers a broad spectrum of employment, the QES weighs in with data on remunerations for the formal sector.

In terms of the labour market performance, Table 4 below presents key labour indicators for the period covering the first quarter of 2016 and 2016Q2.

**Table 4** Key labour market indicators - South Africa

| | Jul–Sep 2015 | Apr–Jun 2016 | Jul–Sep 2016 | Qtr–to–Qtr change | Yr–on–Yr change | Qtr–to–Qtr change | Yr–on–Yr change |
|---|---|---|---|---|---|---|---|
| | Thousand | | | | | Percentage | |
| Population aged 15–64 years | 36114 | 36 591 | 36 750 | 159 | 636 | 0.4 | 1.8 |
| Employed | 15 828 | 15 545 | 15 833 | 288 | 5 | 1.9 | 0.0 |
| Unemployed | 5 418 | 5 634 | 5 873 | 239 | 455 | 4.2 | 8.4 |
| Not economically active | 15 867 | 15 412 | 15 044 | –368 | 176 | –2.4 | 1.2 |
| Unemployment rate (%) | 25.5 | 26.6 | 27.1 | 0.5 | 1.6 | | |
| Absorption rate (%) | 43.8 | 42.5 | 43.1 | 0.6 | –0.7 | | |

3 Quarterly employment statistics – March 2016 released on 4 July 2016

| | Jul–Sep 2015 | Apr–Jun 2016 | Jul–Sep 2016 | Qtr–to–Qtr change | Yr–on–Yr change | Qtr–to–Qtr change | Yr–on–Yr change |
|---|---|---|---|---|---|---|---|
| | Thousand | | | | | Percentage | |
| Labour force participation rate (%) | 58.8 | 57.9 | 59.1 | 1.2 | 0.3 | | |

*Source: Statistics South Africa]*

The number of employed persons in South Africa increased by 288 000 in the third quarter of 2016. This was a positive development given that in the first half of the year the economy had witnessed an employment contraction, losing 344 000 in the first quarter of 2016 and 129 000 in the second quarter of 2016. In the non-agriculture formal sector (from the QES), employment increased by 1% between June and September 2016 translating to an increase of 93 000 jobs.

The rate of unemployment increased by 0.5 of a percentage point from 26.6% in the second quarter of 2016 to 27.1% in the third quarter of 2016. The other key labour market indicators, such as absorption rate and labour force participation rate, increased by 0.6 of a percentage point and 1.2 percentage points respectively.

In the third quarter of 2016, the labour force grew by 2.5%, which translated to an increase of 527 000 persons. To fully understand the labour market performance, Table 5 below summarises the changes in employment levels by industry.

**Table 5** Employment by industry – South Africa

| Industry | Jul–Sep 2015 | Apr–Jun 2016 | Jul–Sep 2016 | Qtr–to–Qtr change | Year–on–Year change | Qtr–to–Qtr change | Year–on–Year change |
|---|---|---|---|---|---|---|---|
| | Thousand | | | | | Percentage | |
| Total | 15 828 | 15 545 | 15 833 | 288 | 5 | 1.9 | 0.0 |
| Agriculture | 897 | 825 | 881 | 56 | –16 | 6.8 | –1.8 |
| Mining | 446 | 447 | 438 | –9 | –8 | –2.1 | –1.8 |
| Manufacturing | 1 774 | 1 712 | 1 683 | –28 | –91 | –1.7 | –5.1 |
| Utilities | 127 | 111 | 118 | 7 | –9 | 6.4 | –6.9 |
| Construction | 1 460 | 1 388 | 1 491 | 104 | 31 | 7.5 | 2.1 |
| Trade | 3 200 | 3 136 | 3 198 | 61 | –2 | 2.0 | –0.1 |
| Transport | 898 | 862 | 915 | 53 | 17 | 6.2 | 1.9 |
| Finance and other business services | 2 160 | 2 220 | 2 323 | 103 | 163 | 4.6 | 7.9 |
| Community and social services | 3 582 | 3 544 | 3 499 | –45 | –83 | –1.3 | –2.3 |
| Private households | 1 280 | 1 296 | 1 281 | –15 | 1 | –1.1 | 0.1 |

*Source: Statistics South Africa*

The key sectors that created employment in the third quarter 2016 at national level were Construction (104 000), Finance and other business services (103 000), Trade (61 000), Agriculture (56 000), and Transport (53 000). During the same period, Manufacturing and Mining contracted. The fall in employment in manufacturing is not surprising given that the sector declined by 1.3% in the volume of manufacturing production on a quarter-to-quarter (seasonally adjusted) basis between the second quarter of 2016 and the third quarter of 2016. The other sector that recorded a contraction was community services, perhaps explained by the austerity measures imposed by government that limit increasing employment.

Another interesting aspect in the third quarter of 2016, is the performance of employment in terms of skills levels. The occupation that recorded the greatest percentage increase in employment in the third quarter of 2016 when compared with the second quarter of 2016 was 'skilled Agriculture', with a quarter-to-quarter change of 9.1%. In absolute numbers, the 'Plant and machine operator' category had the largest increase in number of people employed, 94 000 persons in this trade were absorbed. This was a 7.8% increase from 1 218 000 persons in the second quarter of 2016 to 1 312 000 persons in the third quarter of 2016. Only two categories reported a decline in the number of employed persons, Technicians and Professionals contracted by 2% and 2.7% respectively.

Although, the number of people employed increased in the third quarter, about 527 000 new entrants joined the job market pushing the unemployment rate up to 27.1%. Conditions such as rising inflation, weak employment, and low consumer confidence levels affected consumption expenditure during 2016. These conditions place consumers under immense pressure, especially since private consumption expenditure accounts for more than 60% of the overall GDP.

Quarterly employment statistics data released by Statistics South Africa shows that gross earnings paid to employees increased by 3.9% between June and September 2016 from R522 584 million to R543 066 million. This translates to a net increase of R20 482 million.

The table below tracks the changes in gross earnings by industry in the third quarter:

**Table 6** Gross earnings by Industry

| Industry | Sep 2015 | Jun 2016 | Sep 2016 | Qtr–to–Qtr change | Year–on–Year change | Qtr–to–Qtr change | Year–on–Year change |
|---|---|---|---|---|---|---|---|
| | Rand (Million) | | | | | Percentage | |
| Mining | 28 904 | 29 084 | 30 063 | 979 | 1 155 | 3.4 | 4.0 |
| Manufacturing | 56 527 | 57 016 | 58 880 | 1 864 | 2 353 | 3.3 | 4.2 |
| Electricity | 6 247 | 6 584 | 8 409 | 1 825 | 2 162 | 27.7 | 34.6 |
| Construction | 22 423 | 22 304 | 22 984 | 680 | 561 | 3.0 | 2.5 |
| Trade | 69 509 | 72 236 | 74 999 | 2 763 | 5 490 | 3.8 | 7.9 |
| Transport | 31 647 | 31 864 | 31 110 | –754 | –537 | –2.4 | –1.7 |
| Business services | 128 738 | 128 068 | 137 816 | 9 748 | 9 078 | 7.6 | 7.1 |
| Community services | 164 739 | 175 428 | 178 805 | 3 377 | 14 066 | 1.9 | 8.5 |
| **Total** | **508 738** | **522 584** | **543 066** | **20 482** | **34 328** | **3.9** | **6.7** |

*Source: Statistics South Africa*

The sectors that contributed to the significant increase in gross earnings in the third quarter were: electricity (27.7%), business services (7.6%), trade (3.8%), mining (3.4%), manufacturing (3.3%), Construction (3.0%) and Community services (1.9%). Gross earnings declined in transport by 2.4%. Average monthly earnings paid to employees in formal non-agricultural sector increased by 0.1% on a quarter-to-quarter basis from R18 077 May 2016 to R18 104 in August 2016.

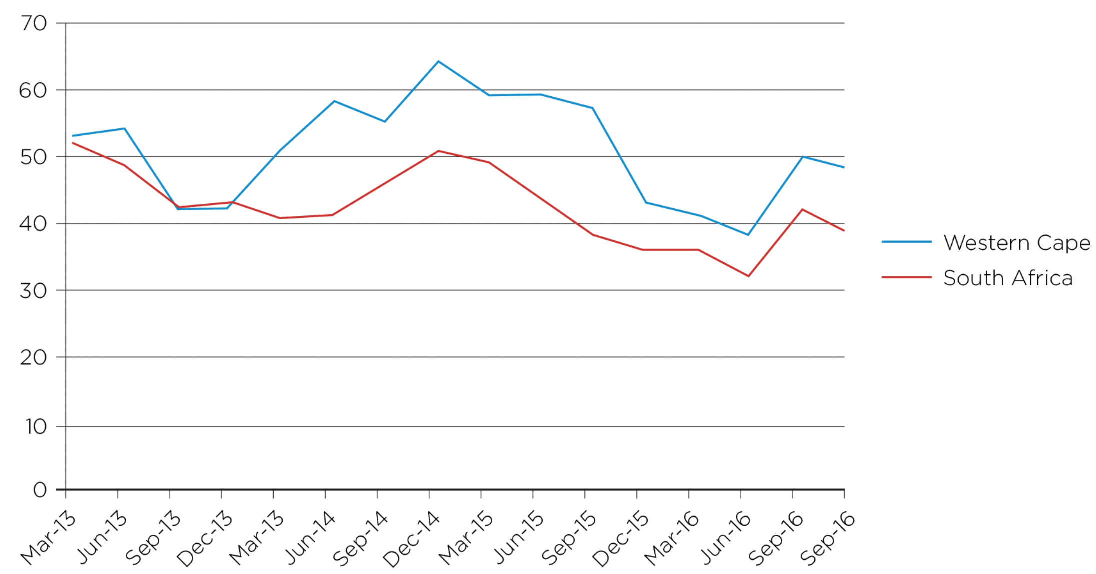
# WESTERN CAPE

## Business Confidence

The Western Cape business confidence was 50 index points in September 2016, before declining to 48 Index points in December 2016. Although the business confidence has declined, it remains higher than the national average of 38 index points.

The national average declined from 42 index points recorded in September 2016 to 38 index points in December 2016.

**Figure 23** Business Confidence Index




*Source: BER*

Business confidence in the manufacturing sector at national level remained constant at 30 index points. The only sector (at national level) with a positive business confidence, was the wholesale sector, with 53 index points.

## Labour market

At provincial level, persons employed in the Western Cape increased by 49 000 in the third quarter of 2016. This expansion in employment followed an initial contraction in the second quarter of 2016 where 90 000 persons lost employment.

The table below shows employment performance by sector.

**Table 7** Changes in employment levels by sector SA and WC

| Changes in employment levels by sector | | | | |
|---|---|---|---|---|
| **Sector** | **National (Total)** | | **Western Cape** | |
| | **Qtr-to-Qtr (2016Q2 – 2016Q3)** | **Yr-on-Yr (2015Q3 – 2016Q3)** | **Qtr-to-Qtr (2016Q2 – 2016Q3)** | **Yr-on-Yr (2015Q3 – 2016Q3)** |
| Agriculture | 56 000 | –16 000 | 10 000 | –49 000 |
| Mining | –9 000 | –8 000 | 2 000 | 1 000 |
| Manufacturing | –28 000 | –91 000 | –19 000 | 18 000 |
| Utilities | 7 000 | –9 000 | –2 000 | –10 000 |
| Construction | 104 000 | 31 000 | 31 000 | 46 000 |
| Trade | 61 000 | –2 000 | 16 000 | –35 000 |
| Finance & other business services | 103 000 | 163 000 | –5 000 | 29 000 |
| Transport | 53 000 | 17 000 | 8 000 | 1 000 |
| Community & social services | –45 000 | –83 000 | 12 000 | –7 000 |
| Private household | –15 000 | 1 000 | –4 000 | 4 000 |
| **Totals** | **288 000** | **5 000** | **49 000** | **–2 000** |

*Source: Statistics South Africa*

Key sectors that created employment in the third quarter of 2016 in the Western Cape Province, were Construction (31 000), Trade (16 000), Community & Social Services (12 000), Agriculture (10 000) and Transport (8 000). During the same period Manufacturing and Finance and other business services contracted.

The Western Cape labour force grew by 1.6% in the third quarter of 2016 from 2 912 000 recorded in the second quarter to 2 958 000 in the third quarter.

The table below tracks some of the key indicators of the labour market performance in the province:

**Table 8** Key Labour Market Indicators - Western Cape

| | **Jul–Sep 2015** | **Apr–Jun 2016** | **Jul–Sep 2016** | **Qtr-to-Qtr change** | **Yr-on-Yr change** | **Qtr-to-Qtr change** | **Yr-on-Yr change** |
|---|---|---|---|---|---|---|---|
| | **Thousand** | | | | | **Percentage** | |
| Population aged 15–64 years | 4 293 | 4 365 | 4 389 | 24 | 96 | 0.5 | 2.2 |
| Employed | 2 317 | 2 266 | 2 315 | 49 | –2 | 2.2 | –0.1 |
| Unemployed | 603 | 646 | 643 | –3 | 40 | –0.5 | 6.6 |
| Not economically active | 1 373 | 1 453 | 1 431 | –22 | 58 | –1.5 | 4.2 |
| Unemployment rate (%) | 20.6 | 22.2 | 21 7 | –0.5 | 1.1 | | |
| Absorption rate (%) | 54.0 | 51.9 | 52.8 | 0.9 | –1.2 | | |
| Labour force participation rate (%) | 68.0 | 66.7 | 67.4 | 0.7 | –0.6 | | |

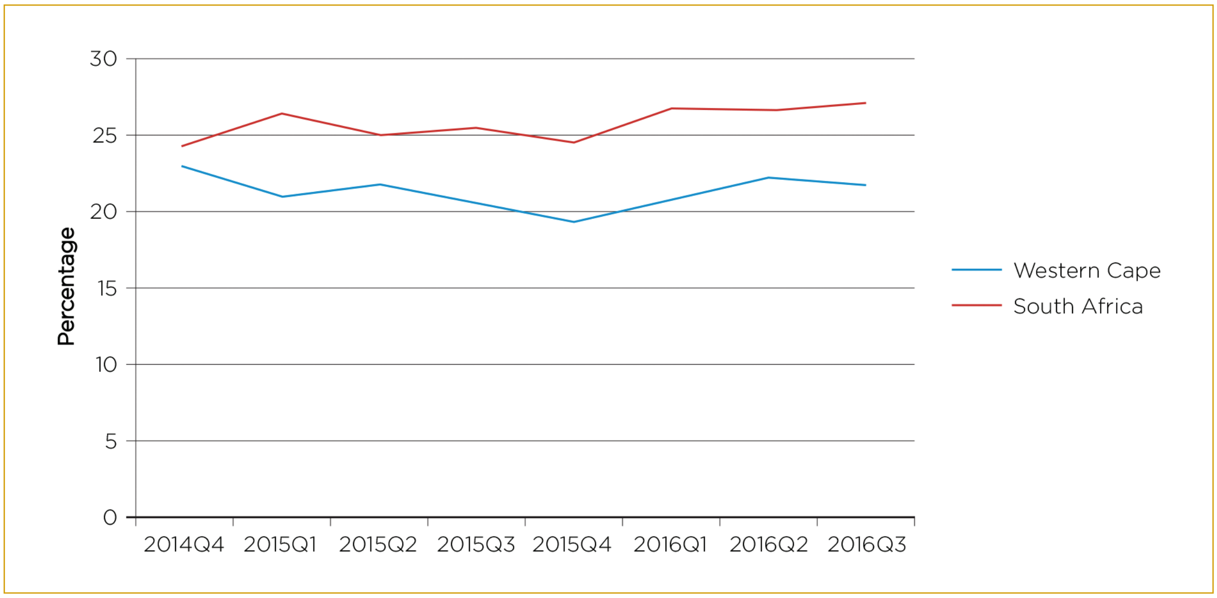
*Source: Statistics South Africa*

The labour absorption rate, which is the proportion of the working age population that is employed, increased by 0.9 of a percentage point from 51.9% in the second quarter to 52.8% in the third quarter.

The unemployment rate in the province declined by 0.5 of a percentage point from 22.2% in the second quarter of 2016 to 21.7% in the third quarter of 2016. This decline in unemployment in the province came when the national average increased by 0.5 of a percentage point from 26.6% in the second quarter of 2016 to 27.1% in the third quarter of 2016.

The line graph below shows the trend of unemployment rates since the fourth quarter of 2014:

**Figure 24** Unemployment trends




*Source: Statistics South Africa*

The Western Cape was the second lowest province in the country (after Limpopo) in terms of the official unemployment rate in the second quarter of 2016, and it was the lowest in the country in the third quarter.

The table below provides a comparison of unemployment rates, both official and expanded among all provinces:

**Table 9** Unemployment rate by Province

| | Official unemployment rate | | | | | Expanded unemployment rate | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jul –Sep 2015 | Apr–Jun 2016 | Jul –Sep 2016 | Qtr–to–Qtr change | Yr–on–Yr change | Jul –Sep 2015 | Apr–Jun 2016 | Jul –Sep 2016 | Qtr–to–Qtr change | Yr–on–Yr change |
| | Per cent | | | Percentage points | | Per cent | | | Percentage points | |
| South Africa | 25.5 | 26.6 | 27.1 | 0.5 | 1.6 | 34.4 | 36.4 | 36.3 | –0.1 | 1.9 |
| Western Cape | 20.6 | 22.2 | 21.7 | –0.5 | 1.1 | 23.1 | 24.6 | 24.8 | 0.2 | 1.7 |
| Eastern Cape | 29.2 | 28.6 | 28.2 | –0.5 | –1.0 | 42.5 | 43.8 | 41.3 | –2.5 | –1.2 |
| Northern Cape | 34.8 | 27.4 | 29.6 | 2.2 | –5.2 | 42.4 | 39.8 | 41.8 | 2.0 | –0.6 |
| Free State | 31.5 | 32.2 | 34.2 | 1.9 | 2.6 | 37.7 | 38.1 | 40.4 | 2.3 | 2.7 |
| KwaZulu-Natal | 20.5 | 22.6 | 23.5 | 0.8 | 3.0 | 35.6 | 39.7 | 40.4 | 0.7 | 4.8 |
| North West | 25.4 | 27.3 | 30.5 | 3.2 | 5.1 | 40.7 | 42.6 | 44.6 | 2.0 | 3.9 |
| Gauteng | 28.6 | 29.5 | 29.1 | –0.4 | 0.4 | 31.4 | 33.0 | 32.8 | –0.3 | 1.4 |
| Mpuma-langa | 26.2 | 28.8 | 30.4 | 1.6 | 4.2 | 39.0 | 41.0 | 41.4 | 0.4 | 2.4 |
| Limpopo | 18.8 | 20.6 | 21.9 | 1.4 | 3.2 | 36.6 | 38.6 | 36.3 | –2.3 | –0.3 |

*Source: StatsSA*

Despite an increase of 0.2 of a percentage point in the expanded unemployment rate, the Western Cape had the lowest rate in the country at 24.8% in the third quarter of 2016.

**QUARTERLY ECONOMIC BULLETIN**

Quarter 4, 2016

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