Western Cape Government
Economic Development and Tourism

BETTER TOGETHER.

Quarterly Economic Bulletin

Quarter 3 (July – September) 2016

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MINISTER'S FOREWORD

This year we've seen the significant impact of political events on our economy.

Allegations of state capture, around the appointment of Des van Rooyen as the new national Finance Minister, influenced markets immediately.

More recently, the markets again reacted swiftly at the announcement that the current Finance Minister, Pravin Gordhan, had been charged with fraud in relation to the early retirement of a former SARS official.

In both these instances, the value of the Rand started falling, affecting the purchasing power of all citizens, but especially the poorest South Africans.

This edition of the Quarterly Economic Bulletin (QEB) looks at the potential economic impact of another major political event, this time on a global scale. The United Kingdom's anticipated exit from the European Union, known as Brexit, is unpacked and the possible effects on our region are discussed.

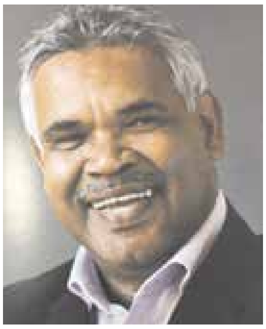
Another topical development, closer to home, is the proposed sugar tax. Mooted as a measure to combat obesity, the QEB team offers their analysis of the proposed legislation.

The QEB's economists also turn to opportunities in one of Project Khulisa's priority areas, agri-processing. We have selected to focus on increasing our share of the global halaal industry, and this edition of the QEB casts the spotlight on this growing industry.

I'd like to commend Nezaam Joseph and his team for putting together this update on the challenges and opportunities in our economy. Going forward, I trust that the QEB will continue to serve as a useful tool to highlight economic trends.

Alan Winde
Minister of Economic Opportunities

HEAD OF DEPARTMENT'S FOREWORD



As we continue to face a demanding and tight national economic environment, the Department of Economic Development and Tourism remains confident of positive growth and stays committed to the support of the business community in creating an environment conducive to growth and expansion.

As part of this commitment, we have intensified our efforts to ensure appropriate and affordable interventions and projects that will stimulate the demand for and supply of Western Cape manufactured goods and services. One such project is the reproduction of the Quarterly Economic Bulletin (QEB).

This issue of the QEB provides, among others, insight into some key industrial projects such as the production of halaal goods and services, which are aimed at stimulating Western Cape exports into the global halaal industry. It also provides an update on the infrastructure development at the Saldanha Bay Industrial Zone and the spin-off towards the development of competitive skills that are needed to match the demand for services in that area. In addition, other current and topical economic issues are expounded in the hope that the views expressed by the editorial team will stimulate discussion and debate, thereby leading to greater awareness of the economic opportunities it may bring.

I trust that you will find this quarter's QEB useful in shaping a greater understanding of the local, national and global economic landscape, and that it helps in making our region more prosperous and better able to create an environment characterised by growth and expansion.

Solly Fourie
Head of Department
Department of Economic Development and Tourism

EDITOR'S NOTES

Through my grapevine, I heard that hordes of political fiction writers like David Baldacci, Tom Clancy and co, are retiring their penmanship. Writers' Guilds the world over are so concerned about the future of the political fictional genre; and they may indeed be on to something. Why would anyone want to buy political fiction if all you need is a South African daily newspaper recounting the day's happenings from Pretoria? I had not anticipated the morning papers more for my daily fix of political drama and who is suing whom.

This entertainment is obviously not by any means free. We, the tax-payers, not only have to pay for all these legal shenanigans, but while these indictments and summonses are being issued by and to some of the most important protagonists and institutions in our country, I cannot help but wonder who is at the helm of the ship? I, personally, can barely chew and walk at the same time, never mind the contemporaneous threat of going to jail, logging counter legal proceedings, running institutions of national importance, addressing matters of corruption and appeasing external stakeholders – which would require multi-tasking skills that would overcome even my superhuman mom. Perhaps all this drama is part of a bigger goal of meeting the SABC's local content target of 90%. Personally I do not need any TV channel other than the Parliamentary one.

What has surprised me most, though, is how well financial markets are holding up through all of this. At the time of writing, the Rand was well below 14 to the USD, the ALSI is up nearly 10%, and in USD terms, the ALSI was up by more than 20% for the year. Even bond prices, a measure of the country's risk, is pointing in the right direction. I do find myself struggling to explain why financial markets have not responded more negatively. Perhaps it has to do with the perception about the strength and independence of our judiciary, or perhaps markets have priced in these developments months ago and this is the new normal or dare I say it, perhaps it is in recognition that we have very well-run firms that can generate profits not only from within our borders, but also from any other market they find themselves in.

In my view, our most prolific export for a considerable time has not been commodities such as iron ore, gold or platinum, but the strength and depth of our private sector management. Our corporate boards and private sector executive have managed to navigate some of the most difficult geographies such as Africa, China, India, South America and the Middle East very profitably. Even in constrained operating environments, characterised by declining real salaries, our retail firms have shown immense resilience.

It is true that our current account deficit is in part balanced by financial flows, but a large component of those flows are profits generated by local firms from abroad. In fact, investment income is up more than 23% over the same period last year. One gets the sense that if government provides a more enabling economic environment for local firms to invest in, jobs and profits will start showing real growth again.

It is this understanding that underpins the Western Cape Government's rationale for jobs and economic growth. Government needs to get the basics right: reduce unnecessary government red tape that holds back private operations, provide adequate skills into the market, ensure that industry has sufficient energy and water and lastly, address corruption, ensure stability, and uphold the rule of law. Between the City of Cape Town and the Western Cape Government, the focus remains on positively contributing to this enabling economic environment insofar as the provincial and local government mandates extend.

If business confidence is the barometer of government enablement, the Western Cape continues to outshine the rest of South Africa. The Provincial Government's skills initiative, Project Khulisa's sectoral initiatives, and progress in ease of doing business initiatives are all making positive differences in and amongst firms domiciled in the Western Cape.

This QEB explores the impact and potential responses to the fourth wave of industrialisation. The potential impact to employment is truly scary and will require focus at the helm if the country is to navigate the tsunami of technological innovations that threatens employment. This edition attempts to explain and simplify the complexities of energy, one of the Province's Game Changers. In addition, it explores the growth in halaal food demand and shares the rationale of why halaal food is so integral to Project Khulisa. Lastly, notwithstanding some crazy developments, a third of our share portfolio has returned more than 20% over the last seven months and outperformed the ALSI again by some margin. We only have one share showing a marginal decline of 0.5%. Our bullish outlook on SA Inc. appears to be paying handsome dividends.

As usual, I hope you enjoy this edition. Thank you for all your suggestions and general comments and feel free to drop me additional comments on Nezaam.Joseph@WesternCape.gov.za

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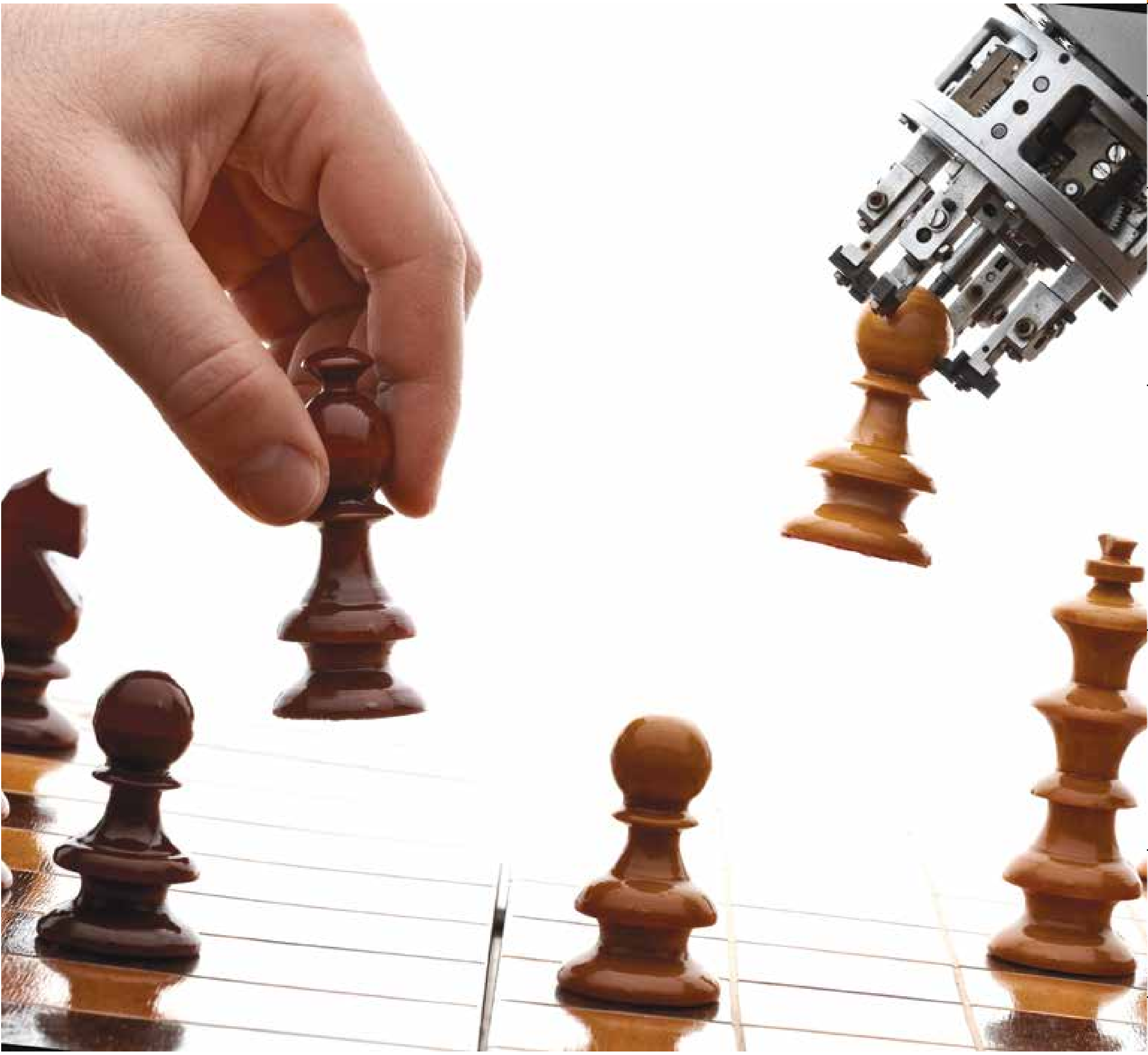


PREPARING FOR INDUSTRY 4.0

VICTORIA DELBRIDGE

At the beginning of this year, Foxconn, one of the largest multinational electronics manufacturing companies in the world, replaced 60 000 of 110 000 workers in one of its factories with robots. This is one of a number of major events of its kind to hit the global job market – and changes like these are set to become the norm as automation and computer technology becomes more accessible and more advanced. Just last year, 35 Taiwanese companies (including Foxconn) spent $610 million in total on artificial intelligence, and in the US there are currently over 260 000 robots working in factories. Whilst this lends itself to short-term economic instability, Foxconn denies that the automation of manufacturing tasks will lead to long-term jobs losses. Instead they argue that these changes will free up workers to take part in higher value-add positions with higher returns.

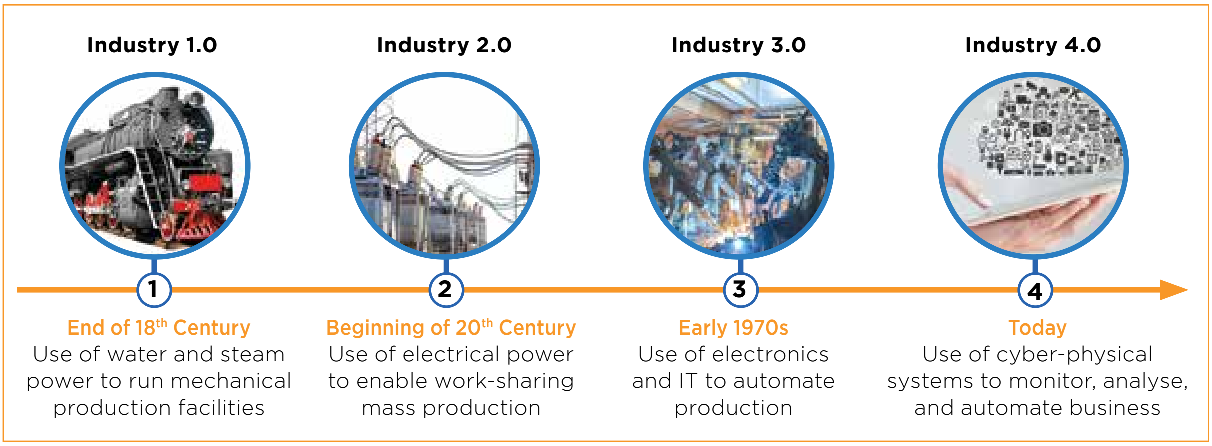
This marks the beginning of what has been termed 'the fourth wave of industrialisation' – a disruption so great it promises to change the way we live, work and interact irrevocably. Increased connectivity, inclusion and efficiency are held at the core of the innovations of this era, with technologies such as artificial intelligence, big data and the sharing economy leading the way. While we hope that Foxconn's predictions that the negative effects of these disruptions will be limited to short-term economic instability, all stakeholders need to take radical action to ensure that deepening inequality and reduced agency do not surface through the cracks of inadequate preparation.

Industry 4.0

Technological innovation has been disrupting the way we live and work since the start of industrialisation in the 18th century. Whilst these innovations have largely been cumulative resulting in continuous progression, there are a few innovations that have caused fundamental transformations to human development, allowing us to characterise the eras into waves.

The first wave saw the beginning of mechanisation using water and steam power to improve the productivity of labourers and achieve outputs that were not possible with human force alone. The second wave introduced electrical power and the division of labour to enable mass production. The third wave (or digital age) was marked by the emergence of electronics and information technology, which further automated production and drastically improved global connectivity. And lastly, the fourth wave is characterised by the convergence of the physical, digital and biological worlds in the use of 'cyber-physical' systems to better analyse and automate production.

Figure 1 The four waves of industrialisation

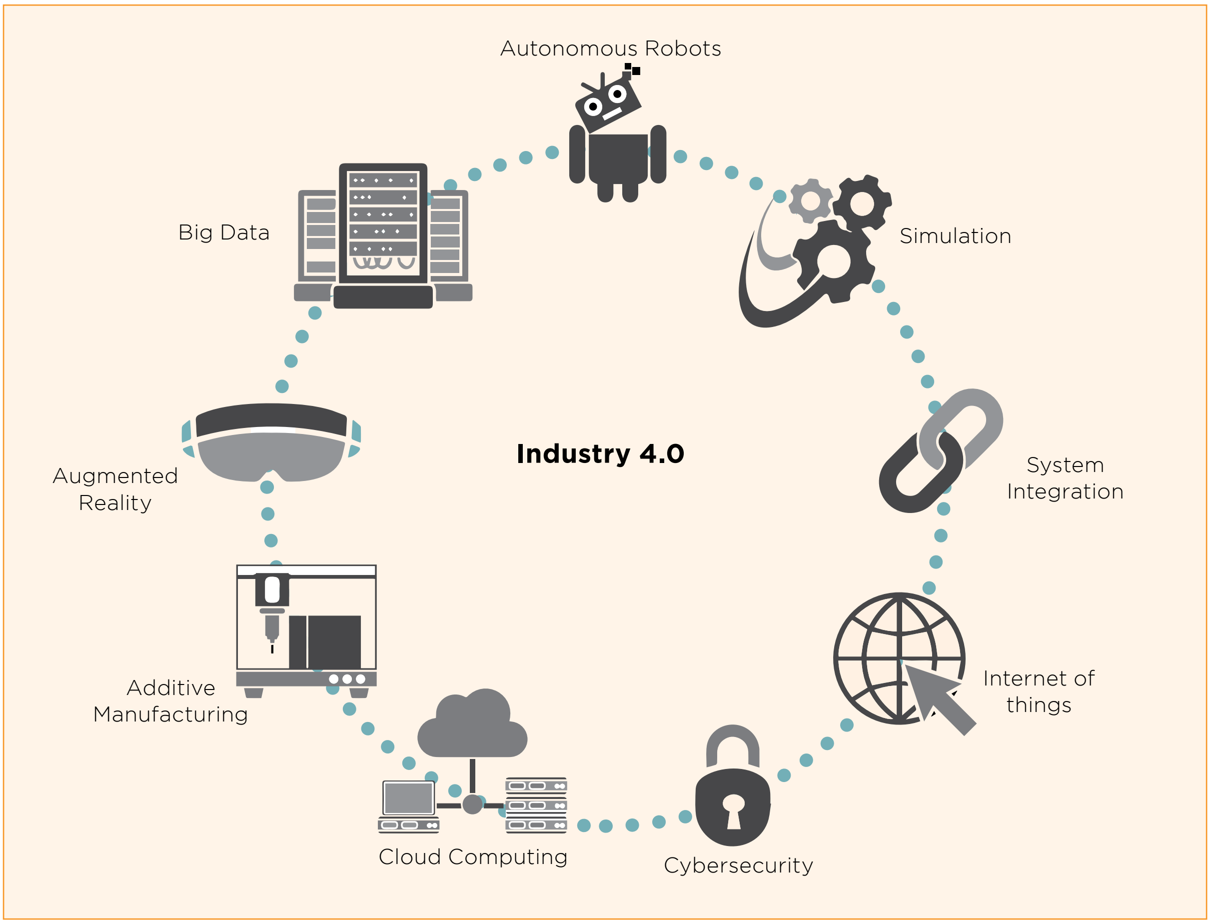


Source: https://za.pinterest.com/pin/532409987179805791/

The common link throughout these waves of industrialisation is that they are all centred on improving automation and connectivity – and the fourth wave is no different. The aim of the fourth wave is to increase output with as little input as possible, thereby increasing productivity, efficiency and profits.

Whilst previous revolutions have primarily replaced physical labour, industry 4.0 will extend to higher skilled mental labour too. Technologies from extreme automation, robotics, artificial intelligence, driverless cars, big data, 3D printing to neuro-technological brain enhancements and genetic editing, are disrupting every industry and economy at a rapid pace. Eventually every job level in the labour market will be affected, with lawyers, teachers, journalists and financial advisors not far off the horizon. Smart machines will be both more accurate and more efficient than human labour, causing large disruptions to job markets and skill requirements.

Figure 2 Industry 4.0 technologies



Source: https://www.linkedin.com/pulse/industry-40-whats-md-ahasanul-habib-%E5%93%88%E6%AF%94-industrial-engineer

The debate around the fourth wave is often polarised between those who see limitless new opportunities versus those who foresee major labour market disturbances. The proposal at the cusp of each of the previous waves of industrialisation was indeed major labour market surpluses, but if we take our cue from history, the outcome will likely sit somewhere in the middle. Whilst the long-term effects are set to become more stable, there will be a significant churn and economic instability in the transition period, and as with all disruptions, there will be winners and losers.

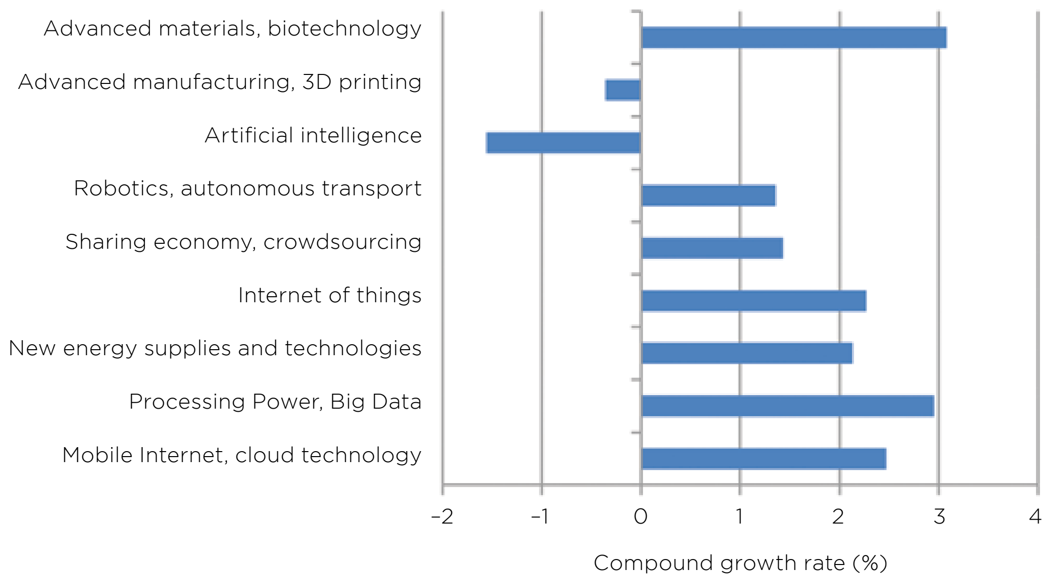
Countries that are prepared for industry 4.0 will benefit handsomely from these developments, but countries that are not, are set to have their economies engulfed by yet another wave of disruption. It is therefore imperative that all institutions recognise their responsibility in ensuring that South Africa embraces this change and positions itself to reap the rewards of the fourth wave.

Impact on jobs

Various estimates predict that between 35% and 50% of jobs will be lost over the next two to three decades as a result of technological advancements. However, many of these jobs will be replaced by new and often higher-value jobs over time (as historic markers have shown). This may increase job satisfaction but also has the potential to deepen inequality levels, both within countries and amongst countries. The critical point is to monitor these developments to ensure that the population is continually upskilled in relevant areas so that they are able to take advantage of available opportunities.

This section is primarily based on information from a report by the World Economic Forum (WEF) entitled 'The Future of Jobs' published in January 2016. The data is extracted from a survey of chief human resource and strategy officers from over 370 large multinational firms. These firms represent more than 13 million employees, 9 broad industry sectors and 15 major developed and emerging economies. The report looks at the impact of new technologies on jobs and skills required during the short-term period between 2015 and 2020.

Figure 3 Technological impacts on employment, 2015–2020



Source: World Economic Forum, Global Challenge Insight Report: The Future of Jobs (2016)

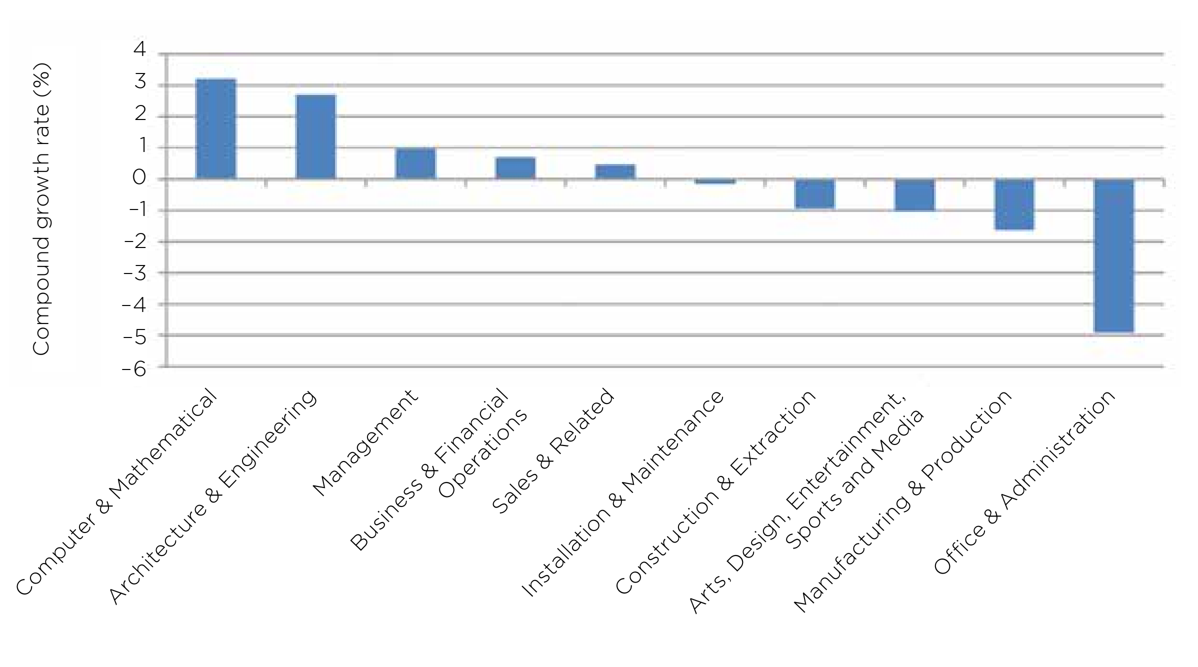
From Figure 3 above, we can see that the technological drivers of employment have an overall positive effect, increasing global jobs by 2.02% over the 2015–2020 period. The largest job growth enhancers will be advanced materials and biotechnology at 3.1%, which are transforming the manufacturing industry, increasing environmental sustainability and improving medical interventions. This is followed by job increases attributed to processing power & big data (2.9%), and mobile internet & cloud technology (2.4%), which are drastically improving the efficiency of a variety of companies.

The technologies that businesses expect to have the most negative effect on near-term employment are artificial intelligence (–1.56%) and advanced manufacturing and 3D printing (–0.36%). Artificial intelligence is mainly expected to affect education and training, legal, business and financial industry jobs. However, it is not yet on a scale that could lead to any sort of wide-scale societal upheaval, despite what the media might portray. Some of the technological impacts, specifically in advanced manufacturing and 3D printing, artificial intelligence and the internet of things, will not be fully realised in this short-term period. However, the effects are expected to be much more pronounced in years to follow.

Demographic and socio-economic shifts are expected to have nearly as strong an impact as technological change, causing a 1.5% increase in jobs over the 2015–2020 period. Globally, rapid urbanisation, the growing economic agency of women and youth, and the rising middle class in emerging markets, are driving this job creation. Furthermore, ethical concerns and changing attitudes to natural resources as a result of climate change are also having a positive impact on short-term employment prospects. The only negative demographic characteristic is geopolitical volatility.

These aggregate numbers mask some important variations in the way in which the above-mentioned technologies will affect different industries and different geographical regions. For instance, developed countries are much more likely to have the institutions, systems and resources needed to make the most of these new technologies. This is explored below.

Figure 4 Employment effect by job family: 2015–2020



Source: World Economic Forum, Global Challenge Insight Report: The Future of Jobs (2016)

Whilst manufacturing and production often receives the most media attention as an industry affected by technological advancement, the figure above shows a relatively moderate decrease of 1.6%. What is hidden though is that the skills required in these jobs may change drastically, and studies predict that it will become a much higher skilled profession in the future. The most significant driver of change is labour-substituting technologies such as additive manufacturing and 3D printing, as well as more sustainable product uses. Advanced materials and biotechnologies are expected to counteract these declines to some extent. Overall there remains potential in this sector for upskilling and productivity enhancement for people to work with the new technology, rather than pure substitution.

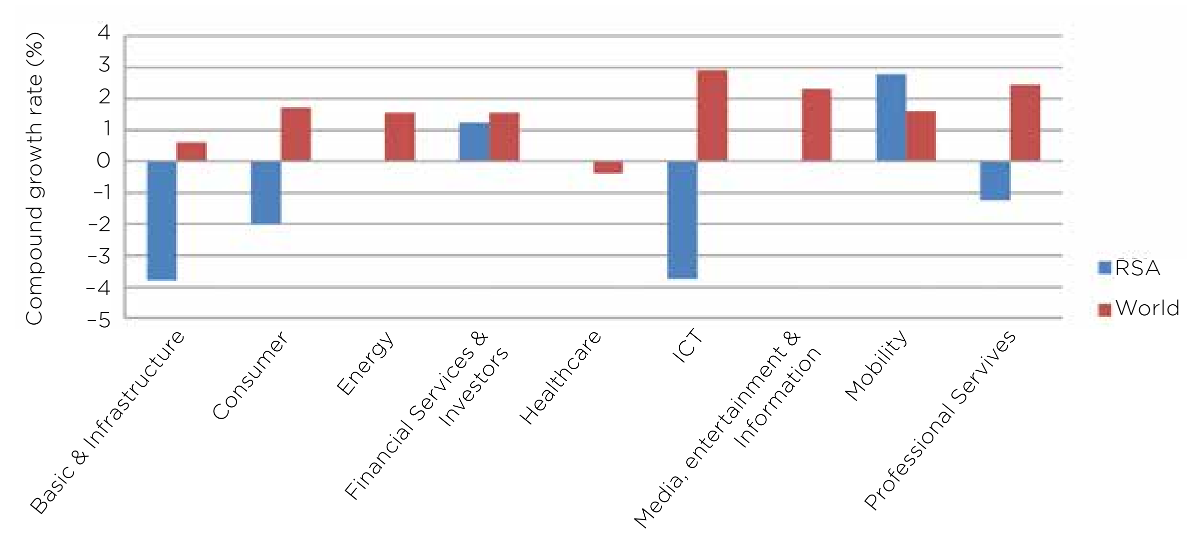
Office and administration jobs are expected to see the largest decrease of almost 5% over the period. This is attributed to more flexible work structures as well as mobile internet and cloud structures.

On the other hand, strong employment growth is expected across architecture and engineering as well as computer and mathematical jobs. 3D printing, resource efficient sustainable production and robotics are strong drivers of employment growth in the architecture and engineering job family. This reflects the need for skilled technicians and specialists to create and manage advanced and automated production systems. Unfortunately, whilst the Western Cape is relatively more prepared in these sectors than the rest of South Africa, the skills shortage is still marked.

Business and financial operations, sales & related, and construction & extraction have a relatively flat global outlook. However, this masks varying effects that temper one another. These jobs are largely affected by new waves of consumer ethics, as well as big data analytics that interpret online consumer profiles and preferences to create tailored shopping experiences. In the Western Cape, a large number of jobs fall within the service and financial categories. Worryingly, FNB recently announced that it had cut 600 jobs as customers reverted to digital banking. Job losses like these need to be urgently replaced by upskilling workers to work higher up in the value chain.

An important point to note is that the above figure shows growth rates but not the number of jobs gained or lost. Unfortunately, growth is predicted in relatively smaller, high-skilled job families that will not be able to absorb the full extent of job losses coming from the rest of the labour market. The WEF predicts that there will be a total loss of 7.1 million jobs and a gain of 2 million jobs, leaving a net loss of 5.1 million jobs worldwide. Two thirds of the jobs lost will be in office and administration work, with gains being made in several smaller and highly skilled job families.

Figure 5 Employment effect by industry, RSA and World: 2015–2020



Source: World Economic Forum, Global Challenge Insight Report: The Future of Jobs (2016)

Figure 5 above is concerning as it shows relative declines in the South African region when compared to the global average. The ICT, Basic & Infrastructure, Professional Services and Consumer industries show particularly stark differences. This is likely due to the shortage of necessary skills, making these skills relatively more expensive in SA. As global connectivity increases, international competition may capture more of the local market.

ICT is the sector that is set to drive the 4th wave of industrialisation, and thus it is important that we find our competitive advantage in this industry in order to reap the rewards. Lowering the costs of broadband infrastructure, whilst improving its reach and quality, is important for making these roles more efficient and able to compete on an international scale. Concurrently, more trained IT professionals are desperately needed to reduce the skills premium on this profession. These are core focus areas of the Western Cape Government's Broadband Game Changer.

Impact on skills

Many of the jobs available in industries today look very different to those ten, or even five years ago, and likely did not even exist. Furthermore, it is estimated that 65% of children starting school in this era will ultimately end up working in jobs that do not exist yet. The ability to learn quickly and adapt to change will be one of the most critical skills in the future as the shelf-life of skills rapidly becomes shorter.

Currently, skills are not keeping up with technological advances, particularly in African countries where education and skill levels remain low. During previous industrial revolutions, it has often taken decades to build training institutions equipped to develop major skill sets on a large scale. The education system that we uphold continues to be stuck in an era designed for the second industrial revolution, and this needs to change. Reskilling and upskilling will need to take place at an increased rate across all academic backgrounds and industries.

As robots and computers become more proficient in routine tasks, skills with a strategic or social element will hold greater value. Human values such as empathy, creativity, persuasion, emotional intelligence, collaboration & communication, critical thinking, teaching and judgement or accountability will come to the fore. This is in addition to the technical skills required such as advanced computation, engineering and innovation – whose demand will stay relatively constant. Design driven innovation will also be key in an increasingly automated world. This is seen in companies such as Apple's business model.

Figure 6 Skills needed in the future

Source: https://globaldigitalcitizen.org/the-8-skills-students-must-have-for-the-future

Preparing the workforce with adequate skills for future jobs will require a radical restructuring of the education system in terms of both what is taught and how it is taught. Memorising facts will soon be replaced by engendering social, problem solving and innovation-driven skills. Much cost and time efficiency will be gained from using online learning as the basis for education institutions. Whilst these may not replace the role of personal mentors if motivation is to prevail, it does allow access to education for a far greater number of students and is more cost effective in the face of rising levels of student debt. Online learning allows more diverse content sharing and will be more practical with future skills needing constant updating and flexibility.

Ernst & Young, one of the larger accounting firms in the UK, announced last year that they would no longer be considering degree or A-level results when hiring. This is part of a larger movement to realise that traditional methods of testing are not accurate representations of all student's abilities and do not account for differences in individual's backgrounds. The hope is that this will open up opportunities to a wider array of people, where attitude becomes more important than academic achievements.

Inequality, concentration and control

INEQUALITY

Just as in previous periods of industrialisation, the wealth created in the 4th wave will not miraculously trickle down from the rich to the poor; and those who are replaced may not have the necessary skills to be assured of an alternative job. The skills premium is also set to increase drastically as not only low-skill jobs, but middle-skill jobs are further mechanised.

As human labour has becomes less important in productive processes, the share of national income that is going to labour has fallen sharply, causing further increases in inequality. In South Africa, the labour share of national income has been declining by an average of 5% per decade since 1975 – which is relatively more than many other countries. In technology-based companies, the ratio of market cap to labour is also drastically higher than traditional firms. For example, in February 2014, Facebook bought WhatsApp, a company of only 55 employees, for $22 billion. By contrast, a US airline had a similar market cap in December 2015, but with around 82 300 employees.

Higher savings and investment in capital will be rewarded as production replaces labour with capital. This is particularly important in the South African context due to extreme concentration of wealth and low savings rates. On the other hand, it is hypothesized that technological innovations will begin to lower capital intensity over the long run as the sharing economy picks up and spreads the returns from capital over a greater number of people. Many online businesses also simply perform a coordinating function or service and require no capital to operate; this reduces the capital intensity of businesses. The reduced need and flexibility of capital and infrastructure will balance out some of the inequality generated in the long run.

Gender gaps are also at risk of becoming more pronounced due to low representation of women in computing, mathematical and engineering firms and a relatively higher proportion working in administration and sales. This will have drastic repercussions for the development advances that have been made in the last few years with the increasing participation of women in economic activity.

Employing robots does alleviate some of the ethical issues that many multinational firms face in terms of unfair labour practice. Foxconn, the company mentioned in the beginning of this article, has received extensive criticism for working their employees too long and hard in order to meet demands and cut costs. Furthermore, it was noted that it would take an average Foxconn worker 2.5 years to earn enough to afford the new gold plated $10 000 Apple watch that they help to produce. Many of these low-skill jobs that will be replaced are jobs that do little to promote human well-being, personal growth and self-actualisation. Never-the-less we must consider whether there are sufficient safety nets to catch these workers and their families when this income, albeit small, is lost.

There is also potential for increased connectivity to link previously informal businesses into global markets. This will incorporate wide tracts of individuals into the formal economy and allow them to reach a much wider consumer-base with more opportunities to grow their businesses. Of course this comes with increasing competition, which may render some businesses successful and others not.

Despite the opportunities presented, inequality is certain to rise unless governments take immediate action. This is either through increased social protection or aggressive skills development. We have already discussed the latter above, and the former will be discussed further on.

CONCENTRATION

The main way in which the internet promotes economic growth and development is through increased competition arising from greater information flows, more available options and easy price comparison. However, in many online businesses, the marginal cost per unit of output tends to zero and returns to scale are high. This means that companies incur virtually no extra cost as the number of users increase. When the internet delivers scale without a competitive business environment, the outcome is excessive concentration of market power and rise of monopolies.

Whilst these natural monopolies have arisen, there is a significant difference to our traditional views on monopolies in that they actually have low barriers to entry. This means that although it is easy to gather large market shares, it is also relatively easy to lose them if new competitors are more innovative. Many companies that once held market leads have since declined to negligible entities, for example Yahoo and MXit.

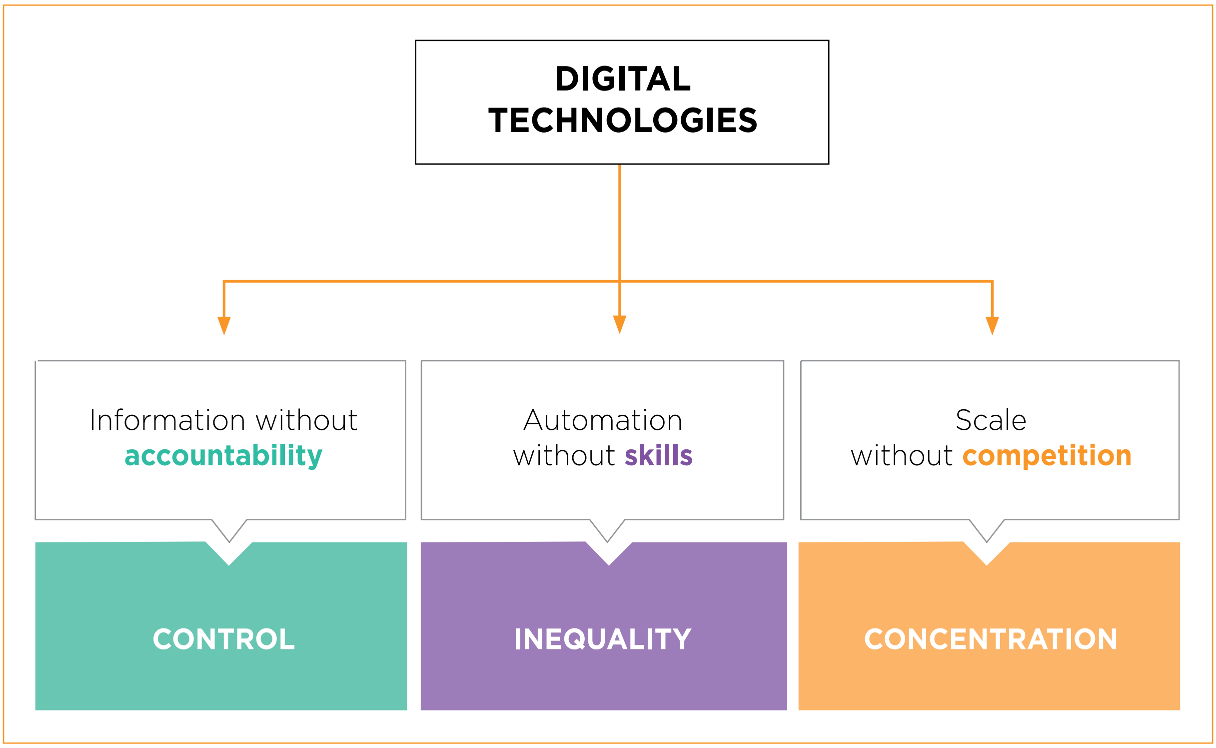
In some countries, historic policies often maintain high import duties and other protections for digital goods and services. Although these are put in place to allow firms to maintain profits without threats from more innovative international counterparts, it also disincentivises investments in R&D and keeps these countries from reaping the benefits from digital industrialisation. Because of the reach of digital innovations, governments should be careful of protecting industries, rather working to enable them to operate and compete in the international digital environment.

CONTROL

With increasing connectivity and high speed transfer of information via online news and social media platforms, comes a new category of regulation and security issues. Cyber-crime and increased ease of organised violence are on the rise and are assisted by increasing connectivity and digital innovations. New laws and regulations, and improved data security are needed urgently to prevent information from falling into the wrong hands.

Online platforms can be used to increase widespread citizen participation in policy-making and enhance the accountability of governments. However, the opposite of this has been seen to date, with governments in many countries using this space to further influence social and political discourse. This means that the internet, for the most part, will only be a reinforcing aid to existing accountability relationships. Initiatives to strengthen transparency and accountability are therefore an important component of best utilising the opportunities availed by new technologies.

Figure 7 Impact of digital technologies without appropriate analogues



Source: World Development Report: Digital Dividends (2016)

The fourth wave in developing countries

While we analyse and discuss the fourth wave of industrialisation, it is important to remember that not all countries have yet progressed through all the previous levels of industrialisation. In fact, these waves continue to exist concurrently in various stages of development throughout the world. Within these periods of development there have been opportunities for developing countries to ‘leapfrog’ the industrialisation process through technological innovation. For example, while South Africa is still primarily entrenched in the first wave of industrialisation with a focus on mining and agriculture (which are considered primary products), the second wave of manufacturing has yet to be significantly developed. But in some parts of the country we have made significant inroads in the third wave, taking leads in mobile banking innovations and prepaid mobile and data services.

The fourth wave of industrialisation is reaching the developing world much quicker than previous revolutions and is expected to have a greater impact in these regions than in developed economies. This is because mobile technologies have the potential to connect millions of formerly excluded informal workers and consumers. There has thus never been a better time to level the playing field with first world economies, provided the necessary steps are taken.

So how are we going to leapfrog into the fourth wave of industrialisation? What are the necessary investments, skills, innovations, rules of law, policies and resources required to do this? Where there are no industries, and countries are still exporting raw materials to import manufactured goods, what are the implications of this? These are some of the questions that policy-makers should be grappling with in the present transformative space. Part of industry 4.0 is automating industry. For example, China has developed its manufacturing sector through offering low cost labour, and can now move these workers up the value chain as they automate production in their already vastly developed manufacturing sector. But this is not the same in South Africa where there is no significant manufacturing industry.

The current era of development has been characterised by global value chains, with companies locating different parts of their production processes in different regions depending on the relative costs. For instance, many developed countries would do the highly skilled design, R&D and financing work, whilst the manufacturing and assembly would be located in lower income countries where labour is relatively cheaper. This has benefitted developing countries insofar as they were able to become competitive based on their large, low-cost labour forces. However, as production becomes increasingly automated, low cost labour will no longer be an incentive to offshore low-skill production. Developed countries will begin to near-shore manufacturing as robots and machinery become more affordable, reducing transport and logistical costs.

This will have a negative effect on developing economies insofar as they continue to rely on low-cost labour to be competitive. However, near-shoring also presents an opportunity to supply local industries with relatively less competition. This is especially evident in Africa – the only continent projected to have positive population growth in the future. South Africa, being one of the most developed countries in the region, is perfectly positioned to take advantage of near-shoring production to supply other African countries. This is particularly important in the agri-processing sector as the majority of consumer spending in these poorer regions is on food. In South Africa we have the skills, land, financing and energy requirements to ramp this sector up; however, transport infrastructure into the rest of Africa is severely lacking. Increasing local food production also has the added benefit of reducing pressure on the current account, improving food security and widespread employment.

Aside from manufacturing, the stronghold of a country is also no longer determined by its wealth of natural resources, but rather in the quantity and quality of its data and how this data is manipulated and processed to innovate better products and services. In previous industrial revolutions, wealthy countries exploited the natural resources of poorer countries by expropriating them or purchasing them at a low price, then processing them abroad and selling it back to the country at a large mark-up. In this wave of industrialisation, the commodity of interest is data. It is already happening that large foreign-owned companies are buying our data at little to no cost and selling it back to us in processed forms. It is crucial that we do not make the same mistake again by not taking an active stance in developing our own products and reaping the benefits of the technology innovation and changing the industrial climate worldwide. When third world countries are no longer just consumers of technology and become creators, technological outcomes can be tailored directly to local needs.

The table below shows the competitiveness of countries according to various categories relating to the fourth wave of industrialisation. The scores shown are relative rankings, with only select countries shown.

Table 1 Competitiveness of fourth industrial revolution categories

Country	Flexibility of labour structures	High Skill level	Adaptive skills	Suitable Infrastructure	Legal protections	Overall impact
Switzerland	1	4	1	4	6.75	3.4
Singapore	2	1	9	3.5	9	4.9
United States	4	6	4	14	23	10.2
United Kingdom	5	18	12	6	10	10.2
Sweden	20	12	7	12	19.75	14.2
Germany	28	17	6	9.5	18.75	15.9
South Korea	83	23	19	20	62.25	41.5
China	37	68	31	56.5	64.25	51.4
Russia	50	38	68	47.5	114	63.5
South Africa	107	83	38	59	42.75	66
India	103	90	42	100.5	81.5	83.4
Brazil	122	93	84	64	97.75	92.2

Source: UBS White Paper for the World Economic Forum (2016)

Whilst South Africa does not fare well overall, it beats two of the other BRICS countries significantly. Our relative strengths are seen in adaptive skills and legal protections, whereas our weaknesses lie in inflexible labour structures and low skill levels. The suitability of our infrastructure is middle of the range.

The more developed countries in the top entries of the table may serve as examples of where we need to strive to be better so that we are adequately prepared for industry 4.0. Of particular interest is South Korea, which, bar the inflexibility of its labour structures, is a developing country that achieved good scores in its competitive readiness for the fourth wave.

Role of government

The government has a significant role to play in ensuring that we reap the benefits of industry 4.0 by facilitating an enabling environment for the disruptive changes to come. Unfortunately, there is currently an insufficient understanding of these disruptive changes, both within government and the private sector. This speaks to the need for government to actively work on making sure all citizens are well informed about the fourth wave of industrialisation.

With regard to skills development, governments have a responsibility to be proactive in developing a solid understanding of the skills base and of changing future skills requirements resulting from disruptive technology changes. It is important that the focus be on training people on future expectations rather than past or current labour market demands. Efforts to place unemployed youth in apprenticeships in certain job categories may be self-defeating if the skills required will vastly change in years to come. It is important that we upskill in order to place technology as a colleague rather than a competitor.

Creating platforms for people to build apps, create new digital services and drive new economies also needs to be a central focus for governments. This requires widespread infrastructure investment in internet connectivity with fast and cost-effective data supplies. It also requires citizens and businesses to be educated in digital literacy. This is an area that the Western Cape Government has taken great strides in with the Broadband Game Changer in the Department of Economic Development and Tourism.

With near-shoring on the horizon, South Africa needs to work with regional trade blocs to ensure that adequate transport infrastructure is in place for increasing localised trade. This will enable us to take advantage of the growing African market for goods in the future. Other infrastructure requirements such as water and energy access, need to be closely managed and monitored to ensure we are ready to take on these projects in the future.

Another important focus for government is the re-evaluation of the red-tape relating to current ways of contracting and policies that inhibit growth and competition in the fourth wave. Future ways of contracting and policies need to be centred on flexibility, quick response times and the ability to change or update regularly. Having said this, significant regulation also needs to be put in place to protect online information from various forms of cyber-crime.

Whilst the government should be focussing on creating an enabling environment for workers to be upskilled for tomorrow's work, there is still the need for a healthy social net to catch those who fall through the cracks. Going further than this, some stakeholders argue that there will be a need for an unconditional basic income (UBI) in the future, in which all citizens of a country are paid a monthly stipend regardless of income. This is to offset declining work opportunities as automation increases.

The grant would primarily have to be funded by taxing companies who will increasingly be using robots to automate their production and processes. It will then be distributed to citizens as a safety net in the face of declining job opportunities. The implications of differing company tax rates and the monetary values of different country UBI's could have interesting implications for trade and off-shoring in the future. This sort of grant would also be extremely heavy on any countries fiscal budget, especially in a country like South Africa where the tax base is relatively small and there are already large deficits in public finance.

Earlier this year the Swiss government held a referendum to gauge the population's stance on a nation-wide unconditional basic income grant of $2 500 per month for adults and $625 per month for children. The outcome of the referendum was an overwhelming rejection of 77%, with the stance that it may make people lazy, it would crowd out government funding from other social welfare programmes and that it was expected that the job loss from new technologies would not be severe enough to warrant this. Despite this, it seems a few other high-income countries are going ahead with various experiments in a basic income grant.

In conclusion, it is clear that the South African government needs to take immediate action to prepare for industry 4.0. Countries around the world are fundamentally transforming various institutions and investing in new skills and infrastructure to enable the smooth transition into the fourth wave. If we are not amongst the first-movers, we will remain a receiver of new technologies, and we will not reap the benefits of this global transition.

SOUTH AFRICA'S ENERGY FUTURE

DR HILDEGARDE FAST

Eskom – a spanner in the works?

Eskom threw the proverbial spanner in the works in July when it stated that it was reluctant to sign new Power Purchase Agreements with renewable energy producers. Just as we were getting excited about the success of government's Renewable Energy Programme, we face the prospect of following in the steps of the dinosaurs by not adapting to global realities.

Eskom's bias against renewables was already made clear by its CEO in May, when he stated that the power generated by renewable energy technology had not helped the utility.

Given the mixed signals, renewable investors have been spooked, with anecdotal evidence pointing to foreign investors – who have ploughed R53 billion into our economy through renewables since 2010 – being hesitant to commit their long-term resources. One example, SMA Solar Technology, which manufactures solar inverters in Cape Town – cited the lack of national government commitment as a contributing factor for their decision to shut down their operations in South Africa.

This is gravely concerning for the Western Cape, as we are establishing a green technology Special Economic Zone in Atlantis where we wish to attract these investors (who are now nervous).

Our Energy Security Game Changer

Amidst the fierce debates that have since taken place in the media, it is important first to calm the waters.

Eskom *did not* say it was refusing to sign Power Purchase Agreements, but rather that it wished to discuss the implications of these projects for Eskom's future. This is reasonable.

Also, the Minister of Finance stated that policy is made by government, not state-owned enterprises, and the Minister of Energy has re-stated national government's commitment to the Renewable Energy Programme.

So renewables are still well on track.

It is also important for us to take a step back and ask what we really want our energy future to look like and how we can best get there. These are questions we have asked ourselves in the Western Cape. We brought together stakeholders from national and local government, academia, Eskom and the energy industry, and civil society in 2015 to craft a vision and strategy for the Western Cape.

We call it the Energy Security Game Changer.

Our vision is:

- *to have a Western Cape that is powered more and more by low-carbon sources of energy.* More than half of the electricity that powers the Western Cape comes from coal-fired power plants in the north of South Africa. These plants generate about half of South Africa's greenhouse gas emissions, so most of our new energy capacity is going to have to come from wind, solar, gas, or nuclear energy.
- *that this new generating capacity should be affordable.* Solar and wind energy prices have dropped significantly since the beginning of the Renewable Energy IPP programme: a price reduction in wind energy from 139c/kWh to below 60c/kWh, and in solar photo-voltaic (PV) – a reduction from 335c/kWh to below 75c/kWh. This means that solar and wind energy prices are cheaper than other forms of energy.

However, owing to the variable nature of wind energy and the day-time dependence of solar energy, wind and solar need to be complemented by power plants that ramp up and down quickly (this is called dispatchability).

This is Eskom's main argument against renewables: their coal-fired plants produce continuous power, not highly dispatchable power, and can't match the variable nature of solar and wind.

Natural gas vs. coal-fired power

Eskom has, in this debate, omitted to talk about how natural gas is perfectly suited to provide this dispatchable power: gas-to-power plants can produce power within minutes and just as quickly power down again. In addition, the carbon emissions from natural gas are less than half that of coal-fired power. When the prices of electricity from renewable energy and natural gas are combined, as demonstrated by the CSIR, it will be competitive with new-build coal by 2020.

This is why the Western Cape Government is strongly promoting the importation of natural gas into the Province. We have completed numerous studies into the technical aspects of gas importation in order to facilitate investment, and as part of our Energy Security Game Changer, we are supporting Operation Phakisa's investigations into options for a gas pipeline between Atlantis and Saldanha Bay.

Part of our vision is also to promote industrialisation and localisation in the Western Cape, and this fits well with gas and renewables. Since the Renewable Energy IPP programme was initiated, renewable energy developers and component manufacturers have set up shop in the Western Cape. A Spanish company, Gestamp Renewable Industries, initially invested R300 million in a wind tower factory, and has now expanded its investment with an additional R175 million. Jinko Solar, a Chinese company, invested R80 million in a solar panel factory in Epping. Local companies have provided local content – as in the case of Absolute Rigging, which resulted in 200 temporary jobs and an extra 55 permanent jobs. All the investment in renewables – and the investment expected in natural gas – is from the private sector.

Further to this, a study done for the Province by Deloitte in 2015 showed that industry could save R465m annually if industries switched to natural gas (from sources such as heavy fuel oils), and the availability of natural gas could unlock latent demand for industrial development. If natural gas were imported into the Western Cape and gas-to-power plants constructed, 67,400 jobs could be created in the Province over a period of five years.

Can nuclear power work?

What about nuclear power, with its very low emissions?

It carries various disadvantages, including:

- the final price that will be paid is unknown, is likely to be much higher than the renewables+gas combination, and has not been transparently discussed in South Africa, and
- it is a 'bulky' investment – it is a huge commitment with long build times in an environment where alternative energy technology is cost-effective, still improving rapidly and able to respond to changing energy realities owing to the smaller scale of projects.

That is not to say that nuclear should be completely discounted, but it is impossible to properly debate the possibility in the absence of an updated Integrated Resource Plan (IRP). The IRP sets out the country's anticipated long-term electricity demands and stipulates the generation capacity and energy mix that is required to support it. The last IRP was issued in 2010 and – given the rapidly changing energy landscape in the world and in South Africa – is completely outdated.

As it is, Eskom has had the privilege of questioning the value-add of renewable energy based upon publicly available data, while the assumptions and financial modelling relating to nuclear energy have not seen the light of day. A draft, updated IRP would allow for a more honest and productive public debate.

The value-add of renewable energy

The Western Cape and South Africa cannot afford to ignore the advantages of renewables combined with natural gas. It is a four-fold win:

- lower carbon emissions
- competitive electricity prices
- more foreign investment, and
- more industrialisation and the local jobs that go with it.

This is the energy future that the Western Cape is pursuing. Our Energy Security Game Changer is already in implementation: we have facilitated investments in utility-scale renewables, are encouraging energy efficiency, are promoting rooftop PV installations, and are pursuing the importation of natural gas. The Province has assisted more than half the municipalities in the Western Cape to put in place the legal frameworks and tariffs required for rooftop PV, thereby making distributed generation a reality.

Our energy future is green, it is cost-effective, and it is economically sustainable. It is also the future mapped out in the National Development Plan.

Now is the time to stick with the plan and implement it.

KHULISA NEWSLETTER

LEONARD MAMOGOBO

Introduction

Project Khulisa and Operation Phakisa are aligned in recognising that South Africa is surrounded by a vast ocean that we have not fully taken advantage of. It has immense potential as an untapped resource.

Operation Phakisa was initiated to explore all possibilities and further unlock the potential of our country's vast coastline or the ocean economy. In support of Operation Phakisa, the Western Cape Government (via Project Khulisa) recognises the substantive long term possibilities of the Saldanha Port industrialisation and associated Industrial Development Zone (IDZ). Implementation of proposed infrastructure investment in Saldanha offers major growth potential for the Western Cape, especially in the oil and gas sector. Ultimately it will stimulate local, provincial and national economic growth. The new IDZ is expected to give a major boost to the country's industrialisation and job creation drives.

The Saldanha Bay IDZ (SBIDZ) is the lead project for realising the growth and development of this sector. This project will harness infrastructure investment by National Government and focus on the development of the most appropriate port related facilities for the Oil and Gas Services and Rig Repair sector.

There are various reasons why the industrial project developments are located in the Saldanha Bay region, some of which are that:

- the Port of Saldanha Bay is an important resource for the sustainable growth and development of the West Coast region, with the Port being the largest and deepest natural port in the Southern Hemisphere able to accommodate vessels and offshore mobile drilling units up to a 21.5 m draft;
- there is land available for development (capacity and plans for expansion of port and back-of-port);
- Saldanha Bay is strategically located to serve as a service, maintenance, fabrication and supply hub for the booming African oil and gas sector, due to the increasing number of oil rigs requiring maintenance, and their traffic flow passing from the west to the east coast of Africa;
- Saldanha is an excellent location for a crude oil hub, 'as it is close to strategic tanker routes from key oil-producing regions to major oil-consuming markets'.

The SBIDZ Feasibility Study and business plan focuses on the implementation of the Oil and Gas Supply Hub and Rig Repair Centre.

Some of the projects to be developed in the marine complex will include specialised logistics and handling facilities, as well as repair, maintenance and some value adding light industrial services for oilfield equipment. In addition, suitable infrastructure for the repair, maintenance and upgrade of oil rigs will be available, including workshop and warehouse space for the required back-of-port engineering capabilities. There is significant investment linked to these projects and they present an economic opportunity for businesses within the area, or for new business to be established in the area.

Saldanha Bay is well located for both the rigs operating off West and East Africa, as well as for passing trade, or the so-called tow-rig market. It is estimated that there are currently up to 100 rigs operating off the shore of Africa, while as many as 120 rigs, primarily from Asia, pass by South Africa for repairs. It is without any doubt that the SBIDZ acts as a catalyst to create and sustain the economic growth and development of the West Coast region, as well as facilitate job creation in the Oil and Gas Marine Repair Cluster. In the long-term, this will result in a world-class hub, contributing to industry, trade, innovation, research and technology. An amount of R1 billion has already been spent on the SBIDZ and a further R7 billion will be spent over the next three years. The SBIDZ is likely to attract both local and foreign direct investment into the country, estimated to be worth approximately R9.3 billion over 25 years.

The SBIDZ will have a number of large industrial projects, defined as projects that place large-scale demands on resources such as water, energy, transport infrastructure or labour, or alternatively have large-scale impacts on land or maritime resources. These proposed projects will likely attract international investors and ultimately result in stimulation of economic growth, creation of sustainable new jobs and an increase in exports and therefore foreign exchange earnings. Because of the perception of job availability, the region is likely to experience net in-migration that will see an increase in demand of real estate, and if industry is not able to meet the increased demand for real estate, then real estate prices will increase. This could contribute to the deterioration in the supply of affordable housing in the region, and if not addressed could become a growth constraining factor. The activities within the SBIDZ will likely impact local social facilities, the number and nature of direct jobs to be created, infrastructure requirements, resource availability (such as water and electricity) and the local skills-base and additional economic opportunities.

Methodology for modelling the impact of the IDZ on demand for infrastructure

In order to evaluate the potential impact on the demand for infrastructure in the area as a result of the SBIDZ, a number of services were modelled. The services include:

- water supply (potable and non-potable);
- wastewater (domestic, industrial effluent and brine);
- energy (electricity and other sources);
- solid waste (domestic and hazardous); and
- freight transport (road, rail and port).

In addition, the model provides the following economic information:

- capital investment (based on project investment value); and
- direct jobs creation.

The model identifies demand for infrastructure from 2015 – 2040 and offers the ability to assess the impact of project delays, or projects not proceeding at all. However, it should be noted that the results presented below are of a default situation, which the Western Cape Department of Economic Development and Tourism (WC: DEDAT) is able to modify at a later stage if anything changes or more information is provided.

Potential impacts on municipality-level social services

Proposed industrial projects are likely to impact on population growth via in-migration and hence, also on the social facilities required in the region. Saldanha, Vredenburg and St. Helena were the three largest settlements classified as 'small towns' and the rest of the settlements in the Saldanha Bay Municipal (SBM) area (Hopefield, Langebaan and Paternoster) were classified as 'villages'.

Table 2 SBM town classifications according to CSIR settlement hierarchy

	Saldanha	Vredenburg	St. Helena	Hopefield	Langebaan	Paternoster
CSIR settlement classification	Small town	Small town	Small town	Village	Village	Remote village

[Sources: Saldanha Municipality – Census 2011]

Future social facility requirements

Table 3 below shows the required provisions for Saldanha and Vredenburg for 2022, with corresponding deficits and surpluses of social facilities where they occur. In the table below it is evident that the two towns are generally well serviced. However, educational facilities highlight a very significant deficit in provision for Saldanha and Vredenburg. Overall, the towns or settlements classified as 'village' in Table 2 have current provision of social facilities that are capable of servicing the growth in the villages till 2022. However, further assessments of the educational facility provision should be a priority for the 'village' settlements.

Table 3 2022 Required social facilities, Saldanha and Vredenburg

Facility type	Saldanha current facility provision	Saldanha required in 2022	Deficit/ Surplus	Vredenburg current facility provision	Vredenburg required in 2022	Deficit/ Surplus	Standard thresholds (population
Libraries	2	3	–1	2	3	–1	20 000 – 70 000
Community hall – small	4	5	–1	4	7	–3	Large: >60 000 Small/medium 10 000 – 15 000
Sports (Grassed surface)	5	4	1	6	5	1	15 000
Cemeteries	4	3	1	7	3	4	Small: 4.4 ha/ 25 000 people
Police	1	1	0	2	1	1	60 000 – 100 000
Clinics	2	2	0	3	3	0	24 000 – 70 000
Satellite clinics	n/a	n/a		n/a	n/a		Variable
Primary schools	3	8	–5	2	11	–9	7 000
High schools	1	4	–3	1	6	–5	12 500

From the table above, it is evident that the current number of most social facilities in the two towns is not capable of servicing the growth until 2022. It is important to note that the new facility requirements are based on minimum service levels, where a guideline range is given. This assumes that the existing and future facilities would be of the minimum standard size.

In light of the expected future economic growth, assuming that the industrial projects are developed as expected, there is expected to be an increase in job opportunities, which will attract migration into the area. The population growth rate until 2022 will be approximately 7.6% per annum for the Saldanha Municipality as a whole. This bring about an overall growth in population of approximately 53% in the next seven years, or 60 000 new inhabitants.

Projected population growth

Economic growth forecast is predominantly clustered around Saldanha, Vredenburg and Langebaan in the Saldanha Bay Municipality. The population growth for these towns is projected at 9.8% due to the likelihood that they will absorb the majority of the people migrating into the region. The other remaining settlements are projected to have a lower population of 2.4% (Table 4).

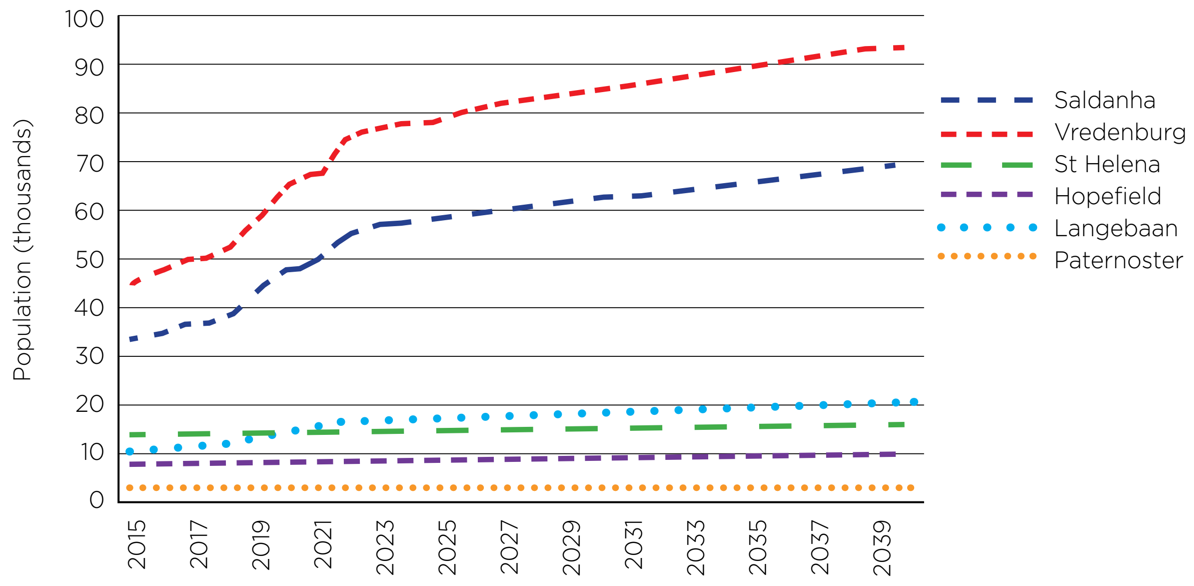
Table 4 Settlement Growth rates 2015 – 2022

Settlement	Growth rate per annum (2015 – 2022)	Percentage distribution of municipal growth per annum
Saldanha	9.8%	36.90%
Vredenburg	9.8%	50.34%
St. Helena	2.4%	1.10%
Hopefield	2.4%	0.60%
Langebaan	9.8%	10.90%
Paternoster	2.4%	0.16%

When compared to the other settlements, the relative population sizes of Saldanha and Vredenburg will impact on the requisite needs for public facilities, particularly as both Vredenburg and Saldanha are projected to surpass the graduation of settlement classification from small towns to medium towns with populations above 60 000.

In the long run, Figure 8 below shows that Langebaan is expected to become the third largest or most populated settlement in the Saldanha Bay Municipality, surpassing St. Helena.

Figure 8 Saldanha Bay Municipality population projections by town (2015 – 2040)

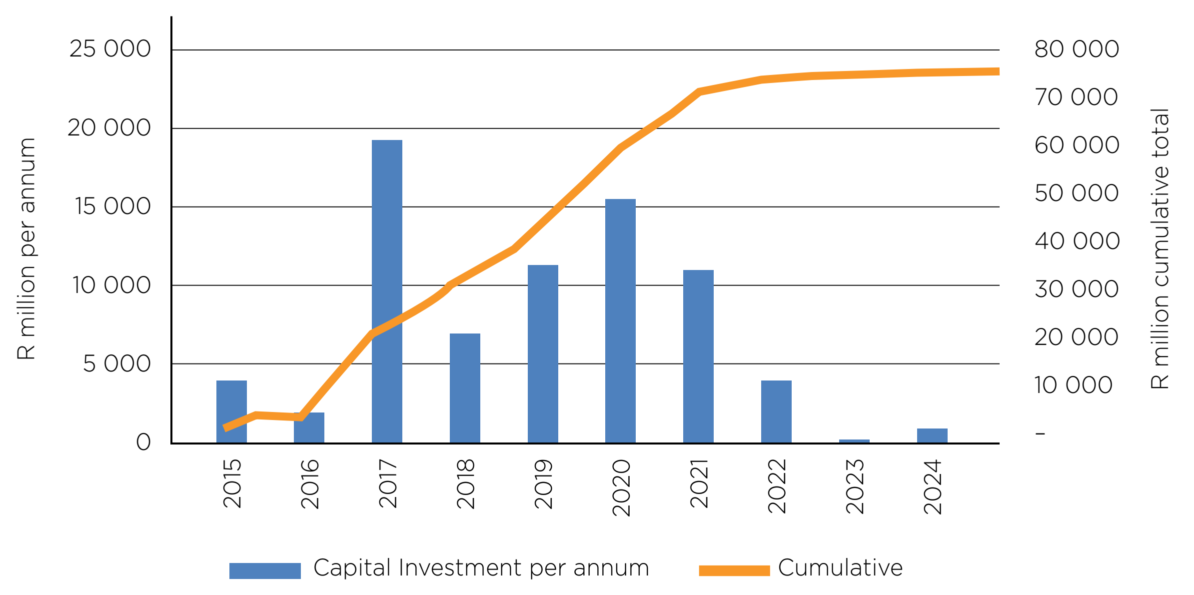


In the medium to long term (2022 – 2040) the required facilities are assessed on the assumption that the marginal population rate of growth will decline, as can be seen in the population projection figure above. With the results obtained in Figure 8 and Table 4 above, educational facilities are going to be a priority in the municipality. Furthermore, new community halls as well as libraries in Vredenburg, St. Helena and Saldanha will be needed.

Regional economic modelling results

Should all proposed projects go ahead, a capital investment amount of approximately R72 billion (in 2015 Rand) is expected to be created in the area until 2023. The figure below shows a significant peak in 2017 for the current phase and most of the investments are shifted to later years. The graph flattens after 2023 because this model only looks at current planned investment.

Figure 9 Projected capital investment



Direct jobs created

The analysis of direct job creation expected to result from the industrial projects is classified using three types of skill levels (equated to educational level) as follows:

- Skilled: Requires a post-school degree or diploma, and typically includes managers, professional and technicians.
- Semi-skilled: Requires some post-matric or school training, but not degree. This can be acquired on the job in necessary.
- Unskilled: Positions that only require some secondary schooling, matric and lower.

Macro-economic analysis of the indirect jobs which might be generated in the provincial and national economy is not considered in this case. The construction phase of the project is expected to result in a maximum of approximately 6 000 jobs depending on the project timing. Operational positions start up only once construction is completed, and all the operating jobs are assumed to be sustainable over the period to 2040, as shown in the figure below. It is expected that approximately 10 500 positions will be created in the operation phase. Overall, approximately 29 000 person jobs are expected to be created over the period.

Figure 10 Direct job opportunities during the construction phase (FTE's per annum)

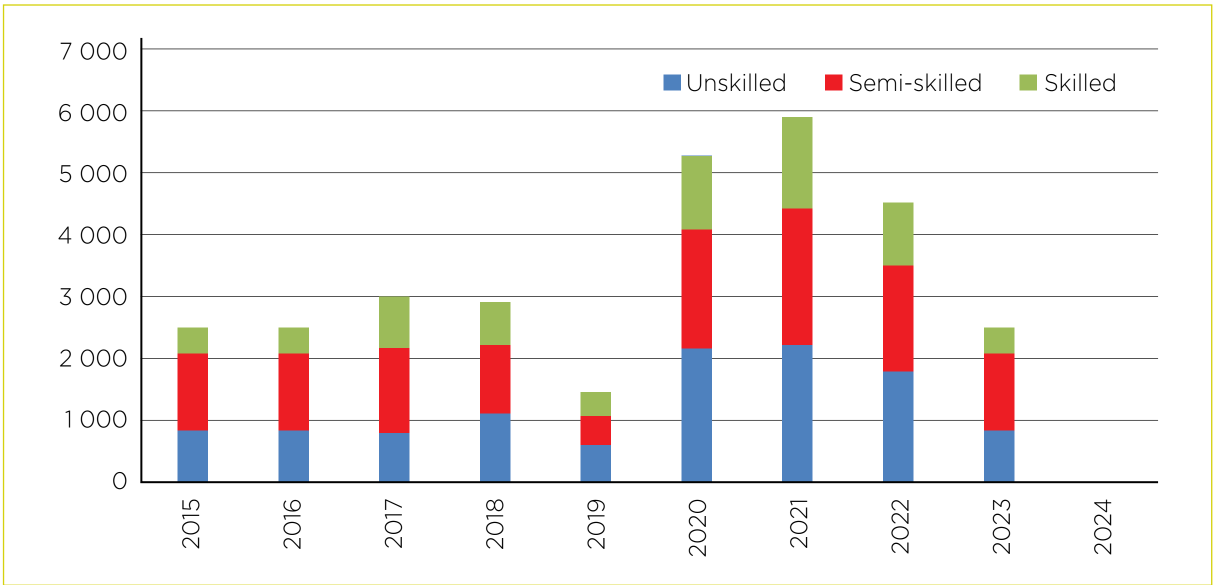
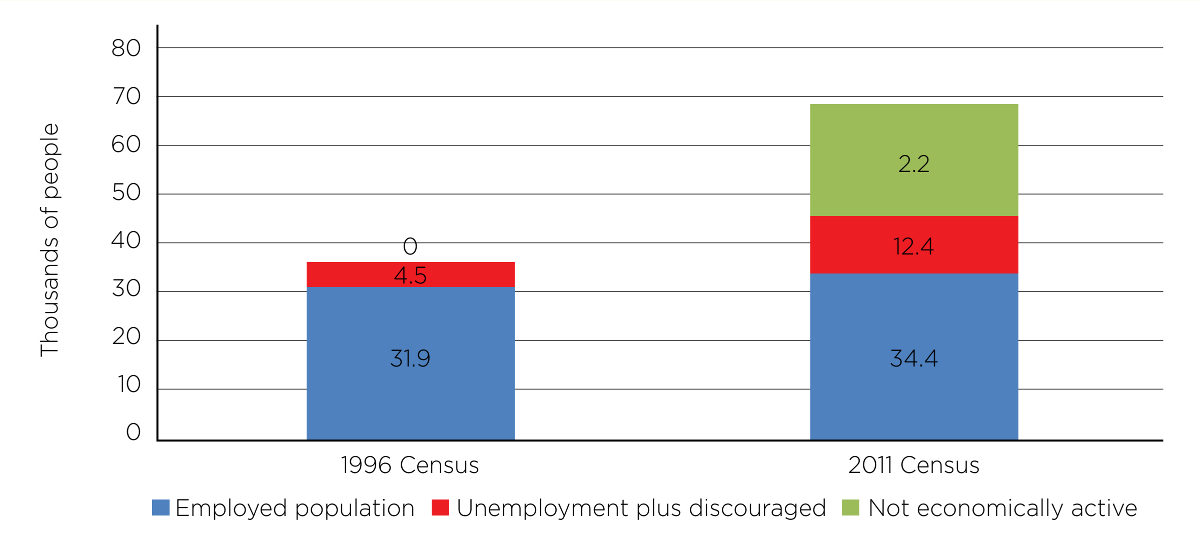


Figure 11 Direct operational jobs created (FTE's per annum)

In order to understand the implications of the potential job creation on the local population, Census 2011 figures were assessed to get an indication of the availability of local workers to fill these positions. The data tells us that approximately 50% of the people in the working age population are not employed, presenting a large potential work force in the area. An analysis of the Census data to determine the 'fit' between the jobs to be created, and the skill set of the currently unemployed population reveals that of the people in the working age population, 34 000 are employed. An additional 12 000 are classified as unemployed or discouraged work-seekers, while an additional 22 000 are not economically active.

Figure 12 Total current employment levels (all skills levels)

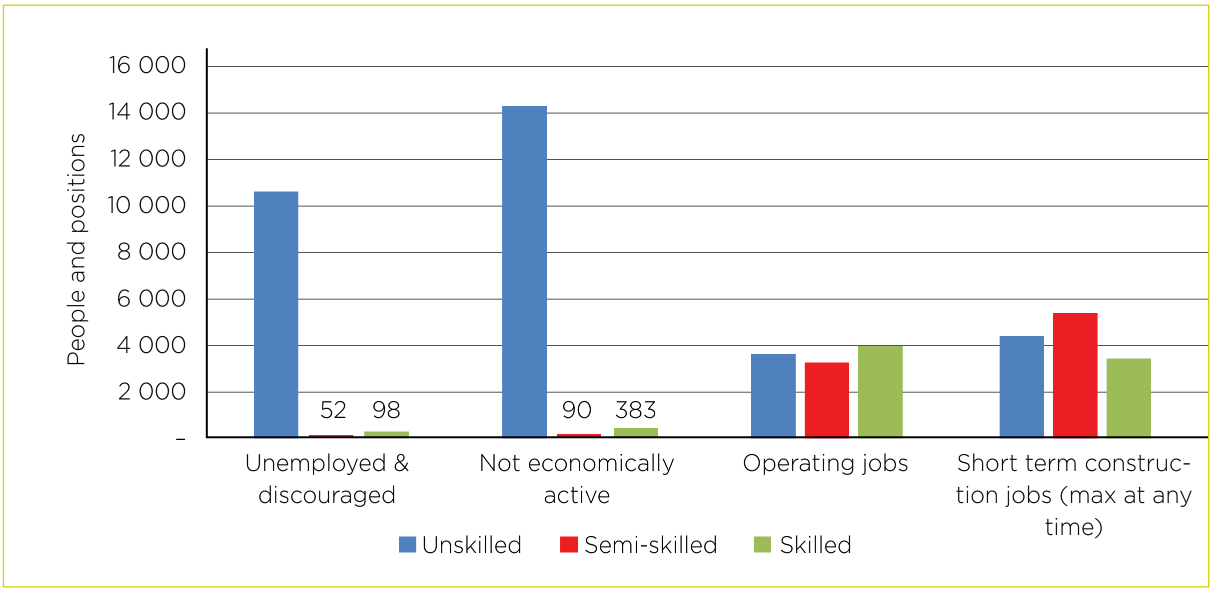


There is thus a pool of labour available to draw from in order to supply the expected increased demand. The figure below shows the extent of local unemployment amongst the unskilled section of the population, and the extremely low levels of skilled and semi-skilled people who are currently unemployed. The majority of the unemployed are unskilled. It is expected that many of the unskilled positions could be filled from the currently unemployed population within SBM.

The unskilled local workers would want to be trained to enable them to fill semi-skilled positions on the proposed projects. This presents an opportunity for upskilling as there are people in demand of training initiatives to upskill themselves and supply labour where it is most in demand (i.e. semi-skilled and skilled sectors).

There is likely to be some degree of in-migration in response to perceptions about job availability. Thus, the expectation is that for each of the skilled and semi-skilled jobs created, one new household will move into the area.

Figure 13 Comparison of local unemployment and possible direct jobs



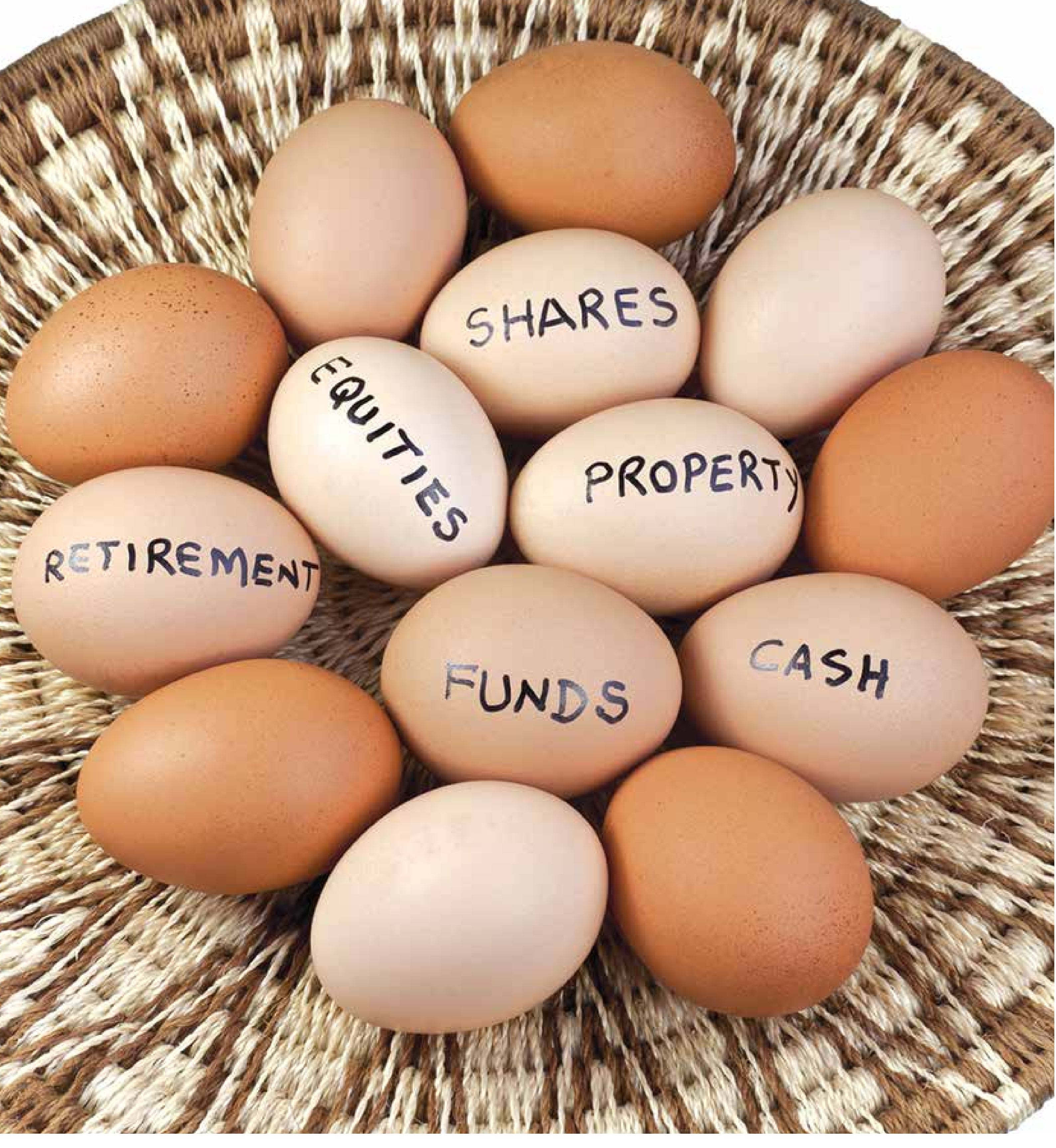
The above figure also shows the mismatch of skills between the possible direct jobs to be created and the skills set of the local unemployed. An overwhelming majority of those who are unemployed and not economically active are unskilled. Meanwhile most of the direct jobs to be created are either in the construction or operating phase of the industrial projects and require semi-skilled or skilled labour.

Given the expected insufficient supply of real estate as well the potential projects, we predict an increase in construction activities. To limit the influx of temporary construction workers, who typically stay in an area after completion of the construction job, projects should be encouraged to use local labour for construction as much as possible.

Conclusion

From the analysis above, several key observations can be made. The intention is to transform Saldanha Bay from being a 'port of last resort' for rig repair to a 'port of first choice'. The new IDZ is expected to give a major boost to the country's industrialisation and acts as a catalyst for sustainable job creation drives that contribute to further trade, innovation, research, technology and economic growth. The demand for real estate is likely to increase in the region due to the projected growth in population and if industry does not supply adequately, then real estate prices will increase which calls for private sector investment in the real estate market.

Apart from in-migration, capital investment amount of approximately R72 billion (in 2015 Rand) is expected to be made and 29 000 person jobs are expected to be created over the period. To maximise local labour absorption, and reduce the need for in-migration, care should be taken to ensure that construction activities use local labour as much as possible. Where possible, unskilled local workers should be provided with suitable training to enable them to fill semi-skilled positions on the proposed projects.



PORTFOLIO INSIGHTS AT THE END OF THE UNIVERSE

RUSSELL BOEZAK

Change and change about

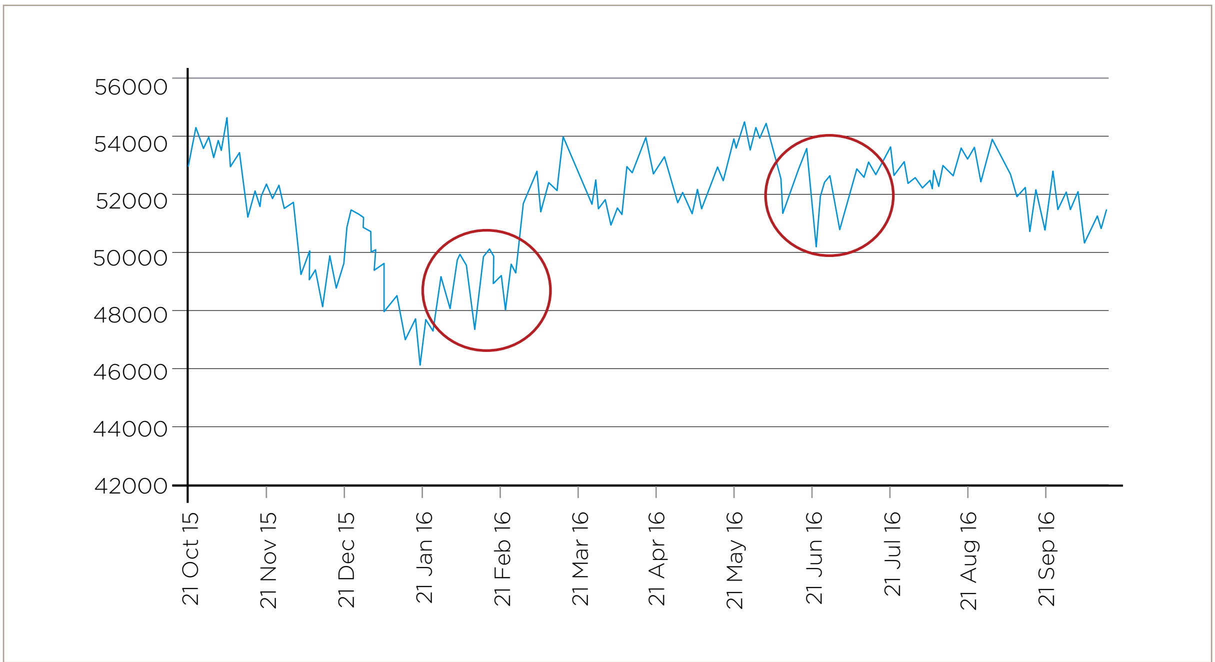
This column, gentle reader, is as much about retail investment in securities – specifically equities – as it is about reflections on personal portfolio management, posture and attitude.

It can be argued that our equities market is highly volatile (and has been for some time). A lens with which we can gauge the average behaviour of the market is the All Share Index (the "ALSI"), which is a set of 164 of our largest companies by market capitalisation out of about 400-odd listed companies. It is quoted in a representative figure that aggregates and normalises the collective share price performance of all the stocks for that day into a single number. We are usually also shown the direction of the market by means of an up or down arrow.

The index can be thought of as the 'backbone' of our stock market, and a useful bellwether as to how the market is doing. The next time you watch the news or see an electronic billboard with market indicators, you'll keep looking out for it every day...

Why the segue? Because our perception of the strength and potential of our companies – as reflected purely by share price – this year has been severe and inconsistent. Figure 14 shows the last 12-months' end-of-day (closing price) for the ALSI.

Figure 14 Successive spike-dip behaviour in ALSI 12 month



Source: Sharenet

I have highlighted two sets of very similar trading patterns, namely a dip of 5%, a recovery by the same amount in the space of a few weeks, a dip again, and another recovery (Figure 14). The same investment/divestment pattern is noticeable a few months later, followed by a flatlining, and then a tapering-off as we lose interest in our holdings. Remember that the buyside/sellside nature of a trade means that both buyer and seller have the opposite view of the prospects of the stock.

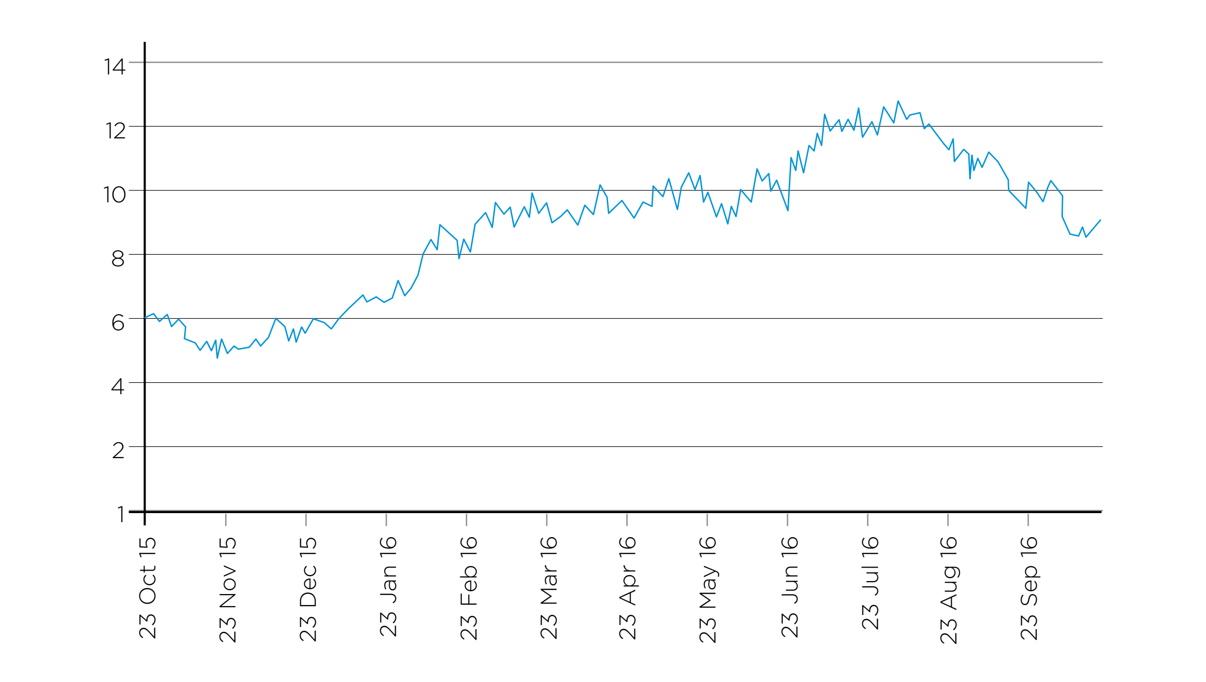
A drop of 5% over a short period of time is not unusual. It is a common reaction if the market is spooked by an unexpectedly poor set of financial results, if a company is fined by a regulator for a breach of governance, or if there is a wider macroeconomic or socio-political event that investors believe could invalidate a company's business model in the short-term. This, dear reader, would be a rational reaction to a common headwind.

To climb back into a position shortly thereafter, only to climb back out, then climb back in again indicates an investor irrationality where investment decisions follow pseudo-insights, such as news, 'stock tips', punditry 'talking up' a share, alleged 'insider insight', etc. It is difficult to see how one really justifies an investment if one holds multiple positions in an equity throughout the year. It means that one does not really understand the company, its performance, or its prospects. This is not investment, nor is it brave, daring and insightful speculation, it is called wasting one's discretionary savings on something one does not understand. Paying off short-term, highly-leveraged credit card or unsecured debt would be a far better investment.

Comparing the NAV (Net Asset Value) of the Old Mutual Gold unit trust (OM-GOL) to the ALSI over the last 12 months, an altogether different story emerges. Although the unit trust is a gold equities basket and not the price of gold (with baked-in USD-ZAR forex variation), it presents a smoothed, ultimately more considered investment trajectory. Looking closer at the date, it reveals that the ALSI has returned an overall performance of the 12 months of 4%, with a peak of 10%. OM-GOL by contrast returned a very healthy overall performance of 48% over the 12 months, at peak an astonishing 139%.

This more than ever proves the adage that gold increases when share price declines. It also validates the importance of the inclusion of the commodity in any share portfolio. Whether it is a gold unit trust (of which there are a few), individual mining shares, or an old-fashioned bullion coin such as a 1oz Krugerrand, the inclusion of the commodity can, as evidenced in the figure below, help against the erosion of portfolio performance if weighed down by what is termed a 'schizophrenic equities market'.

Figure 15 Old Mutual Gold Unit Trust – Stable positive trend



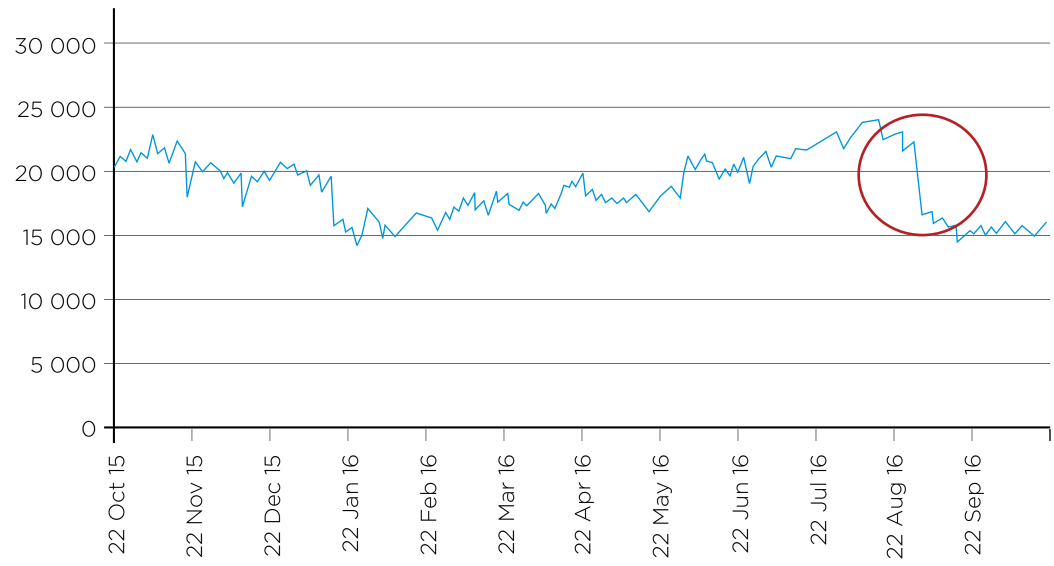
Source: Sharenet

Battle stations

In the chase for alpha – in this case, outperforming the ALSI – or beta – just tracking our index – it is striking how the best investment selection can quickly come undone in the midst of global market turmoil.

Even the strongest of our equities, the most recognised of our brand names, can seemingly lose its value so quickly and so significantly as if to invalidate any and all investment insights, financial statement analysis and annual general reports that preceded the approval of our personal investment case. Let us take Mr Price's share price as an example.

Figure 16 Mr Price 12 month share price performance



Source: Sharenet

A stoically disheartening trading update on Tuesday 31 August precipitated a decline in the share price by 34% in just over two weeks. I surmise from market SENS (Stock Exchange News Service) posts that the predictably sombre reasons of unusually non-inclement winter weather (leading to weaker consumer demand for seasonable clothing), a cumulative supply chain cost increase, as well as muted consumer spending due to consumer overhang (presumably retail consumer over-debtedness).

Au reservoir

This is interesting, dear reader, as is also the market's response. Presumably the retailer has had sales numbers dashboarded from the shop tills across the land, as well as online merchant transactions through to Durban HQ on a second-by-second basis. Surely weather forecasts are predictable with relative certainty throughout a season of three months. This coupled with poor real-time sales numbers should have kicked in a sale or two or three to jumpstart the till and keep the stock rolling. Surely a company as large as Mr P can go back to their vendors, their shipping associates and their Chinese factory partners to try and seek an improvement in the cost of sales line to do their bit to maintain gross, pre-tax profit objectives. Surely they could go back to their banks and renegotiate a basis point or two drop in interest rate at which their trade finance agreements have been negotiated. The bottom line is that Mr P represents an anchor revenue stream in any vendor's income statement – and so if I have to choke on a basis point or two I would, if only on the proviso that we weather the storm together and can return to the negotiating table once we reach the shore. Unsold winter stock can only be shifted a year from now, but the cost of production would be baked into the income statement, and this on the assumption that the 2017 customer will not view the 2016 styles as out of date.

How much of MRP's performance can be attributed to competitors such as Cotton On and Pick 'n Pay Clothing, and how much of this was self-inflicted? It is difficult to say. The better question is: does this represent a significant buying opportunity? Mr Price has broken the R200 a share barrier on more than one occasion, which means that if you are prepared to wait, the potential of a 34% increase in value of an investment today is possible. I must tell you though – I still shop at MRP and do so throughout the year, and their shops are always full. That alone tells me – the retail investor – that the business model is still working today.

Lady bountiful

It is always interesting to note the impact of an expected market-related event. During September we had two; viz. the MPC (Reserve Bank's Monetary Policy Committee) deciding to not increase the repo rate, and the US Federal Reserve kept interest rates flat, the price of oil bumped slightly, and the rand increased its three or four day run of strength. Off the back certainly of Federal Reserve Board Chair Janet Yellen's decision, the London FTSE, the Germany DAX, France's CAC, Spain's Ibex, the Athens market, and finally the JSE All-Share Index all closed higher on the news, us being up by 2% in a single day. Do Janet Yellen, Mark Carney and Lesetja Kganyago speak often? One imagines that central bankers do and have to be in constant contact, in this globalised, interdependent and fragile world.

It is difficult to choose the appropriate stimulus needed to improve economic growth in a manner that is positively felt by the man in the street. The fiscal policy is where government adjusts the tax rate to ensure its infrastructure investments and policy objectives are met, yet also in a manner that does not overbleed the taxpayer. Monetary policy is used by the central bank to, among other things, adjust interest rates to either curb or stimulate spending, borrowing and lending, in a way that supports its GDP growth objectives for the country.

For the retail investor, there are a few opportunities here to highlight. A rates review is in the calendar, and if you read sufficient sentiment you should be able to gauge the decision. If rates are to stay flat or go down, you can expect most shares to increase in value, giving you an opportunity to sell and do some profit-taking. If rates are expected to increase, expect a sell-off and therefore a drop in most equities. Again, if you believe the fundamentals of your holdings to be sound, it could be an opportunity to increase one or two of your positions that are unfairly being tainted by a market-wide lever. This is not necessarily a contrived contrarian move – it just teaches you to believe in your research, your motivation, and your goals. Nothing tests these more than when your stop-loss limits are triggered!

Winner takes all

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

Table 5 Chosen stock update

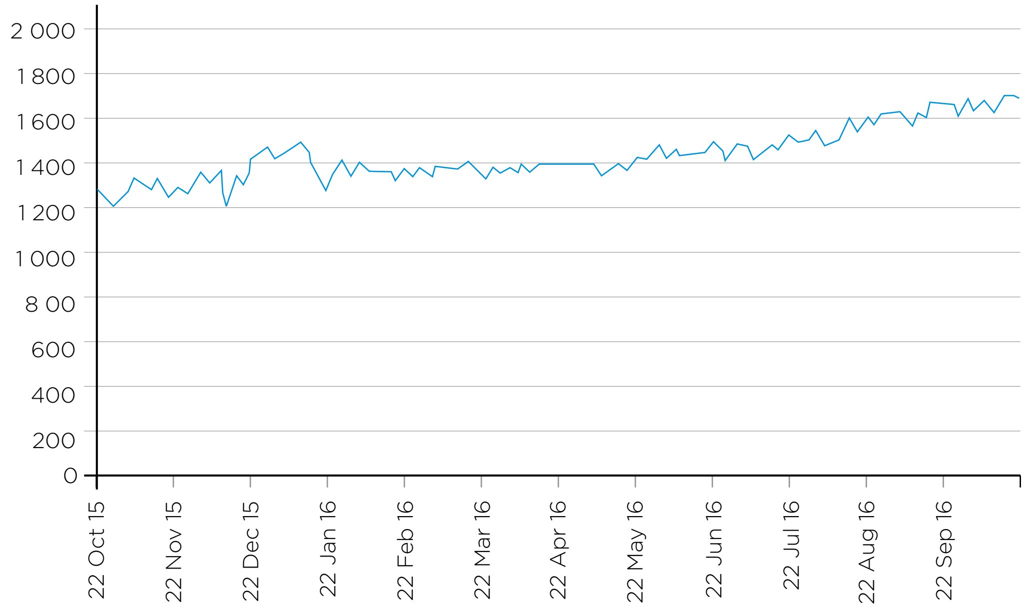
Investment idea	Price at 29-2-2016	Price at 23-9-2016	Change
AdvTech	1357c	1669c	+23%
Calgro M3	1820c	1845c	+1.4%
Jasco	77c	93c	+20.8%
Schroders REIT	2201	2215c	+0.6%
Woolworths	8079c	8035c	–0.5%

Source: Sharenet

AdvTech, the diversified education giant, has had the biggest increase. This could be attributed to safe, predictable revenue streams; sufficient cash to pursue a fairly acquisitive growth strategy; the rest of Africa within which to increase their footprint; and a near-perfectly inelastic demand for their services – because after bond and car repayments, private school fees are typically paid ahead of any other spend, and almost any discretionary purchases will be sacrificed in order to ensure the school fee is covered.

One more chart before we go ...

Figure 17 AdvTech 12 months



Source: Sharenet

After discussing how turbulent the year has been, and looking at how investor sentiment as well as macro events have buffeted the stock market as a whole, the steady performer is sometimes a far better bet than chasing the next ten-bagger. And the above Figure is without the twice-annual dividend built in.

With that dear reader, till next time.

SPOT THE OPPORTUNITY
Growth potential in the global halaal industry

NEZAAM JOSEPH

Introduction

The global halaal industry is one of the fastest growing and most exciting consumer segments in the world, estimated to be worth around USD2.3 trillion (excluding Islamic finance) and growing at a phenomenal rate of 20% annually. Supplying a market of at least 1.6 billion Muslims globally, the industry has expanded beyond just the food sector to include pharmaceuticals, cosmetics, health products, toiletries and medical devices, as well as service sectors such as logistics, marketing, financing, and lifestyle sectors like tourism and fashion.

In recent years the world has witnessed the emergence of a 'halaal economy' triggered by a burgeoning class of affluent Muslims as well as ethical consumer trends worldwide. These developments in the global halaal industry provide a host of lucrative opportunities for local halaal producers in the Western Cape, the province that is home to South Africa's largest Muslim population. Although South African producers already supply recognised and high-quality halaal products to market leaders like Burger King and McDonald's, key opportunities abound for local halaal exporters in the Western Cape to leverage off of competitive advantages and the province's unique Islamic heritage.

Global trends in halaal

Halaal – which strictly refers to what is 'lawful' or 'permissible' under Islamic law – has in recent years become a powerful global market force. Central to the argument to 'go halaal' is the truth that over a certain threshold of consumers, it makes basic business sense to supply halaal products, which are increasingly attractive to Muslims and non-Muslims alike.

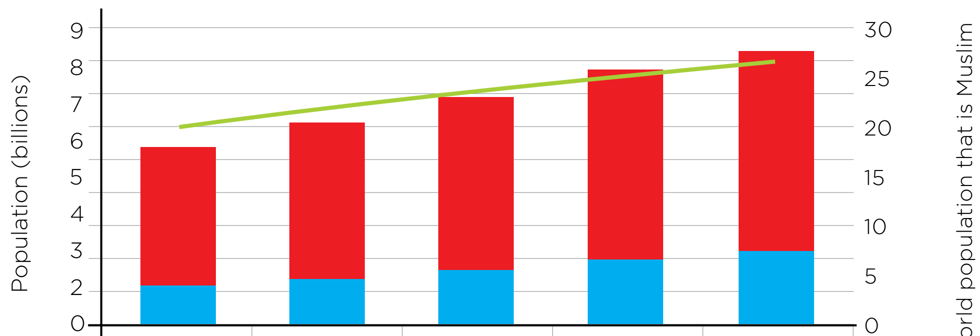
The huge growth potential of the halaal industry is becoming increasingly important to governments and businesses across the world. These opportunities are being driven by a number of key global developments, including:

- the growth in the Muslim population;
- higher disposable incomes and economic growth in Muslim-majority countries; and
- the growing awareness and demand of halaal certified goods.

The growing Muslim population

Islam is the world's second largest religion, and the fastest growing. Currently, Muslims represent an estimated 23.4% of the global population (or 1.6 billion people), and this figure is projected to rise to 26.4% (or 2.2 billion) by 2030, as seen in the figure below. More staggeringly, Muslim youth account for almost half of all Muslims, making up 11% of the world's population.

Figure 18 Muslims as a share of world population, 1990–2030

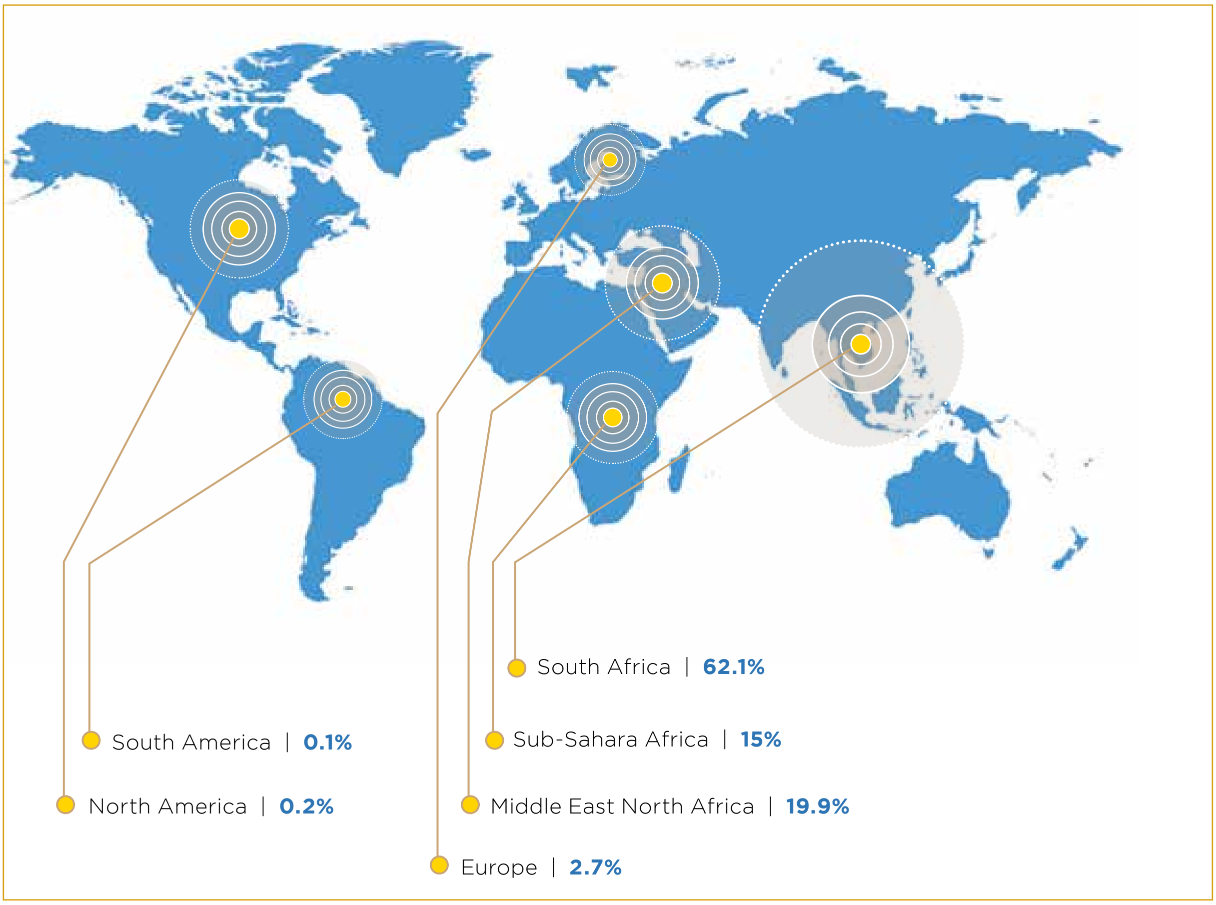


	1990	2000	2010	2020	2030
Non-Muslims	4,2	4,8	5,3	5,8	6,1
Muslims	1,1	1,3	1,6	1,9	2,2
% Muslims	19,9	21,6	23,4	24,9	26,4

Source: pewforum

Two regions with high growth potential in halaal markets are Asia Pacific and the Middle East and North Africa (MENA), home to 62% and 20% of the population respectively. The four countries with the largest Muslim populations are: Indonesia, Pakistan, India, and Bangladesh. Sub-Saharan Africa is the third largest region being home to 15% of the Muslim population. Across Europe and the Americas, Muslims represent significantly smaller minorities at 2.7% and 0.3% of the population respectively. However, these shares are constantly growing, resulting in a growing demand for quality halaal certified goods. Figure 19 illustrates the percentage of Muslims across the world.

Figure 19 The percentage of Muslims across the world



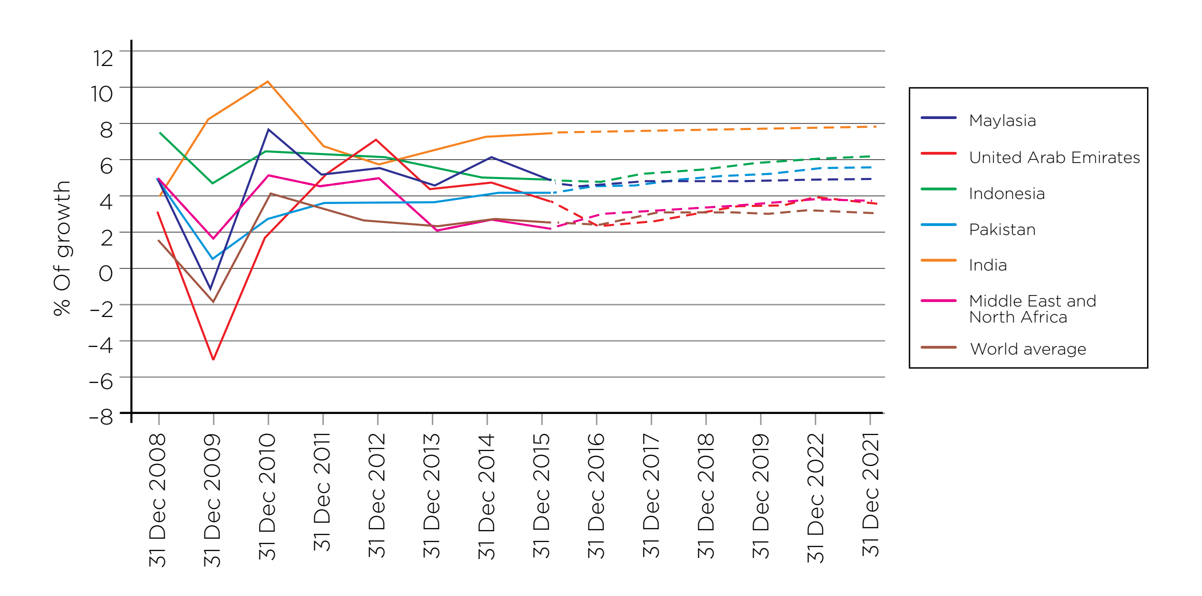
Certification in Muslim-minority countries is especially important as the majority of food markets do not cater for their needs. In some of these countries, demand is outgrowing supply. In the US for example, Muslims are spending USD16 billion a year on kosher (Jewish-compliant) products. This is a clear indication that the shifts in global demographics have opened up huge opportunities for halaal exporters to supply consumers living in Muslim-minority regions.

Higher disposable incomes and economic growth

Alongside the numerous demographic changes within the global Muslim population, one significant feature is that Muslims are becoming relatively richer. This increasing level of income is driving demand for new and differentiated halaal products. Muslims are soon expected to represent the largest share of global consumer spending.

In addition, Figure 20 below shows that Muslim-majority countries in key regions such as the Middle East and Asia Pacific are experiencing rapid economic development, which contributes to rapid growth in demand for halaal products. Apart from higher disposable incomes, increased development is also associated with better education and awareness of global food trends, which strengthen the potential of this market.

Figure 20 GDP growth rates of select Muslim-majority countries



Growing awareness and demand

Studies are beginning to show the emergence of a new halaal consumer: the young, affluent Muslim who demands high quality halaal brands that embrace contemporary globalisation. This new generation of Muslims prefer Western-style products and aspire to modern lifestyles as they integrate into the global economy as consumers, travellers, and investors. The consequence is a growing demand in halaal products and services in sectors beyond just food. Moreover, many of these consumers are consciously seeking out products by brands that conform to Islamic values. These developments have set a new trend in Islamic consumerism amongst the urban middle-classes of large Muslim-majority countries such as Indonesia, Pakistan and Turkey.

There is also a growing number of non-Muslim people that prefer halaal products for ethical reasons such as animal welfare, organic farming practices and environmental awareness. For example, halaal meat in the UK accounts for about 15% of total meat sales, which is far higher than the proportion of Muslims in the country (which is only 5% of the population). Halaal meat is perceived by some to be healthier and more hygienic because the blood is entirely drained from the animal, removing the source of a large amount of bacteria.

Expanding the non-Muslim market requires that producers educate consumers about halaal products, because many non-Muslim consumers are likely to be unsure about what halaal entails and therefore are hesitant to buy these products.

Global halaal standard

Currently, the global halaal industry faces significant challenges around certification and arguably the most pertinent issue remains the need to establish clarity on global halaal standards.

Historically, halaal certification emerged in Muslim-minority countries during the 1960s as a need for Muslim communities to ensure the safety of halaal products whilst fulfilling their religious obligations. Furthermore, certification serves to preserve Muslims' identity and, in turn, guarantee the acceptability of halaal products for export from Muslim-minority to Muslim-majority countries.

As a result, different certification standards have developed within and between different countries. These different standards have led to confusion for consumers, misunderstanding for producers, and even abuse within the halaal certification process. Conflicts over standards and best practices put the industry at risk and can easily translate into significant revenue losses and stagnant growth in the market.

Figure 21 Halaal certification

Source: Australian Broadcasting Corporation

Malaysia and Indonesia, where the World Halaal Council was founded, are considered global leaders in the development of halaal standards, with Malaysia regularly assisting other countries to establish appropriate certification standards.[1] In comparison, in Australia there is widespread anti-certification sentiment due to a lack of transparency around the funding of halaal certification bodies, with protesters arguing that certification unfairly increases the price of all consumer products.[2] The fact remains that in many countries, certification is big business.

Clearly then, significant challenges abound for halaal producers seeking certification and governments hoping to regulate against potentially adverse practices.

A number of reports suggest that, in the absence of government regulation, consumer protection is severely risked by the proliferation of certification bodies. For example, in Japan – where the government does not oversee halaal certification – there is a total of 22 certifying entities, which is similar to Australia's total of 21 certifiers for halaal meat exporters alone.[3] Even amongst analysts of the Japanese halaal industry, there is uncertainty around which of these certification bodies are globally recognised and the belief is that this confuses halaal producers and consumers alike. Simply put, free competition amongst halaal certifiers risks undermining the very purpose of certification, namely to inform and protect the halaal consumer.

Most of Japan's growing USD200 million halaal food produce is imported from Malaysia, where there is only one certification body, The Department of Islamic Development Malaysia. In fact, Malaysia is the only country in the world where the government provides full support in promoting halaal certification via their developmental body, the Halaal Industry Development Corporation.

Halaal certification in South Africa is well over 50 years old and is therefore well-developed. Currently, there are four established halaal certification bodies: The Muslim Judicial Council, the South African National Halaal Authority, the National Independent Halaal Trust, and the Islamic Council of South Africa.

1 http://www.nst.com.my/news/2016/04/136635/malaysia-leads-global-halaal-standards-says-italian-halaal-certification-centre
2 http://www.abc.net.au/radionational/programs/bushtelegraph/halaal/5843904
3 http://www.thenational.ae/business/economy/halaal-food-certification-proving-a-problem-in-japan#page1

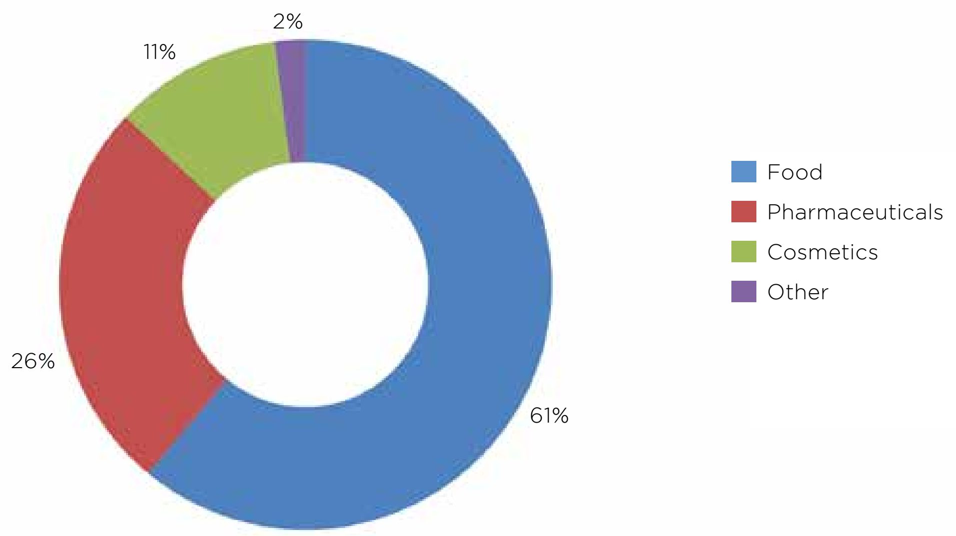
These certification bodies form the backbone of our local halaal industry and ensure that halaal standards are developed with approval by mainstream ulema (Muslim theologians). They certify a wide range of products including meat (beef and poultry abattoirs), medical products, bakery products, canned products, dairy, as well as certifying the compliance of food outlets in the preparing and processing of halaal foods.

Being home to the largest Muslim population in the country, halaal certification is an important concern for citizens in the Western Cape. However, one should remember that while certification processes take place at plants and retailers throughout the country, any regulation, as on a global scale, must be properly coordinated with the support of certification bodies.

Key markets

Figure 22 below indicates the key markets in which halaal certification is prominent.

Figure 22 Key markets



Food and beverages

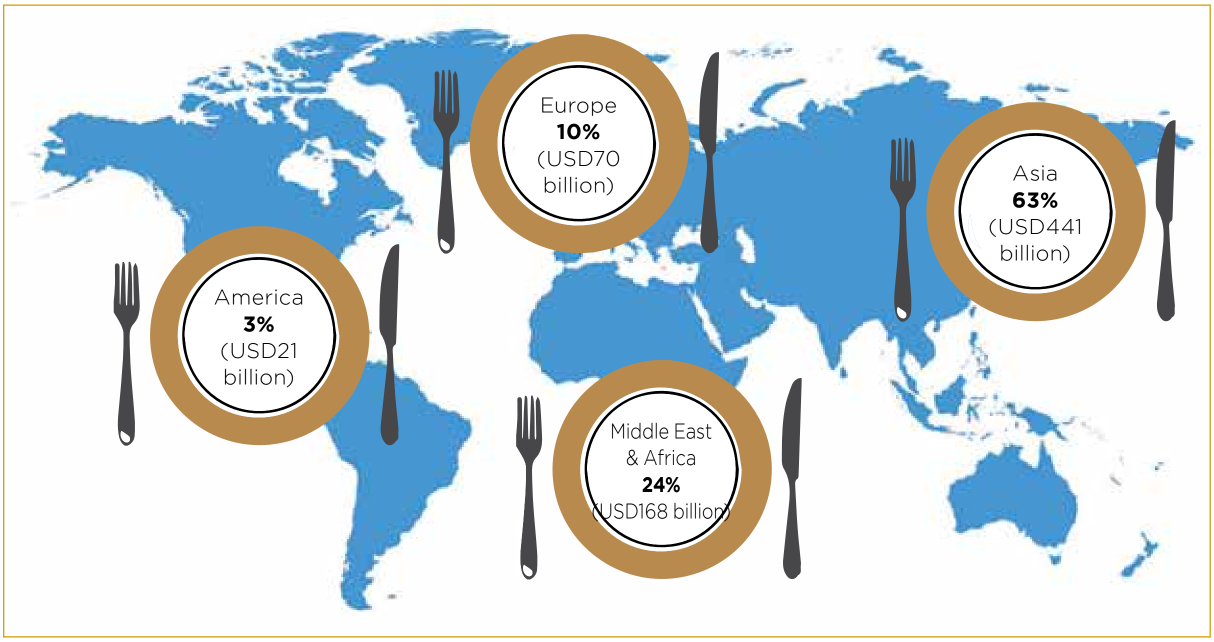
The halaal food market is currently worth USD700 billion – which equates to 16% of the entire global food industry, and this is expected to rise to 20% in the near future. Asia, Africa and Europe account for 63%, 24% and 10% of this food market respectively.

Growth in the sale of fresh meat has, in recent years, been higher for predominantly Muslim countries than regional or global averages. Between 2009 and 2014, the market in the United Arab Emirates (UAE) grew by 33%, Egypt by 28%, Morocco by 19%, Pakistan grew by 54%, Indonesia by 16% and Malaysia by 15%; this is compared to the global average of 13%.[4]

Over the same period chicken fast food sales increased in Indonesia and Malaysia by 77% and 41% respectively, and in the Middle East and Africa sales increased by 56% overall. Burger fast food growth was even more impressive reaching 105% in Indonesia, 82% in Malaysia, 121% in Egypt and 108% in the UAE. Packaged food is also experiencing robust growth in Asia Pacific with Vietnam, Indonesia, Thailand and the Philippines leading the way. This can largely be attributed to a higher disposable income in these regions.

4 Euromonitor International. 2015. Doing Business in the Halal Market: Products, Trends and Growth Opportunities.

Figure 23 Halaal food markets by region



Source: World Halaal Forum and Aranca Research

Several associations have assessed the size of the market in Europe, with estimates varying between EUR40 billion and EUR100 billion. The UK, France and Germany are the main markets for halaal food in this region. Germany is the largest market for Middle Eastern full-service restaurants (EUR2.3 billion in 2014), while the UK is the leader in halaal Middle Eastern fast-food (EUR3.7 billion in 2014) and halaal chicken fast food (EUR2.7 billion in 2014).

Major UK supermarkets such as Tesco, Sainsbury's, Marks & Spencer, Waitrose, Morrisons and many others have expanded their halaal selections from predominantly meat produce to include halaal confectionary, breads, cereals and snacks. Mainstream fast-food outlets such as KFC, Nando's, Subway and Pizza Express have all invested in numerous halaal outlets, and many leading brands such as Kellogg's, Nestle and McCain are beginning to transform their products to accommodate halaal customers and expand their consumer base.

Kingsmill bread in the UK is a perfect example of how a willingness to adapt to demand can increase growth. Whilst other companies suffered severe declines in UK packaged bread, Kingsmill recognised that they could find new avenues for growth within this difficult market by getting their product halaal-certified to appeal to British Muslims. The cost of certification was negligible and widely increased their consumer base.

Pharmaceuticals and health

The second largest halaal market after food is pharmaceuticals. Currently, halaal medicines are estimated to contribute around 27% of total revenue from the global halaal market or USD34 billion. Malaysia has been one of the major contributors in upgrading the processing and quality of halaal pharmaceuticals, followed by Indonesia and Thailand.

Demand also outstrips supply in this industry, and it is growing exponentially, underpinning it as an attractive investment. Furthermore, non-Muslims have also displayed an interest in halaal medicines because they tend to focus on more natural products.

Beauty and fashion

A report in 2012 estimated that if half of the Muslims across the globe spend USD120 on clothing annually, the Muslim fashion industry would be worth USD96 billion. This is increasingly becoming a reality with the growing desire in young and modern Muslim women to wear clothing that is designed in accordance with global fashion trends but is still respectful to Islamic tradition.

The rising interest in Islamic fashion is currently outpacing supply, and shopping experiences for Muslims are often frustrating. In the Gulf region, where disposable incomes are high, there has been an increase in demand for custom-made options to fulfil the current gap in product offerings. Islamic fashion apparel therefore offers a huge opportunity globally, with strong potential for growth, even though it faces many challenges.

Another important market aligned with increases in luxury spending is the halaal beauty and personal care markets. This includes make up, skin care and other beauty products. The halaal personal care market is worth approximately USD13 billion with an annual growth rate of 12%. Western cosmetics often contain alcoholic substances or products derived from animals forbidden by Islam. There is thus a growing demand for halaal substitutes. Halaal beauty products are so far dominated by niche players, most notably Wardah in Indonesia, IBA cosmetics in India and OnePure Beauty in Dubai.

Tourism

The concept of 'halaal-friendly' tourism refers to the lifestyle requirements of primarily Muslim tourists. Halaal holidaymakers would prefer the availability of halaal food options without alcohol; dedicated women and family leisure facilities across tourist destinations like beach resorts; the provision of prayer and hotel rooms in the direction of Mecca; and Muslim heritage tours. The concept of 'halaal-friendly' tourism is becoming an increasingly important consideration for destination marketing. In a recent report, South Africa was rated third in the world for 'halaal-friendly tourism', a perception which can and must be built upon.

Halaal travellers have different needs and aspirations to visit untapped non-Muslim destinations as easily as Muslims countries. Traditionally, halaal tourism has been associated with umrah, hajj and pilgrimage. This was often due to challenges faced in observing religious obligations like daily prayer, halaal food, modesty in behaviour and clothing, as well as cross-gender interactions.

However, changing preferences, a growing affluent middle class, and a rise in the degree of globalisation is making other forms of travel more convenient. This provides an exciting opportunity for the Western Cape to market itself as a unique tourism destination for those halaal travellers.

The halaal tourism market by Muslim spend is estimated to be USD145 billion and is projected to balloon to USD200 billion by 2020. Of this USD145 billion – which already accounts for over 10% of global tourism (UNWTO) – 78% is spent by Muslims from 57 Muslim-majority countries and 22% by tourists from Muslim-minority countries. Staggeringly, over 30% of halaal travellers are between 15- and 29-year-olds. These trends are opening up huge opportunities for tourism in the Western Cape.

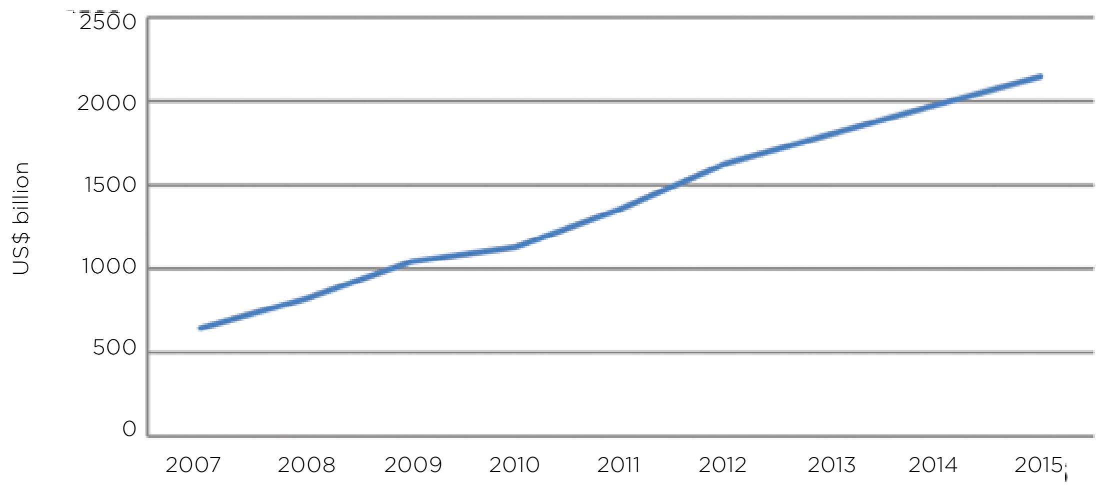
Islamic banking and finance

Over the past two decades there has been strong growth in the number of Islamic banks and financial institutions across the world. These financial institutions are considered 'halaal' in that they operate in accordance with Shari'a law and its practical application.

Islamic banking is an alternative to conventional banking. For example, Shari'a law prohibits the payment or acceptance of interest charges on lending or borrowing money and permits profit and loss sharing, amongst other practices.

Developing since the 1960s, Islamic banking has flourished into an important new market, as the figure below shows. Islamic banks have pioneered products in commercial, investment, offshore, and trust fund banking services offered to Muslims and non-Muslims alike.

Figure 24 The size of the Islamic banking market



Islamic banking is gaining major traction across the globe. In 2010, the South African National Treasury promised certain tax amendments related to Islamic banking, calling Islamic banking 'critical to the expansion of National Treasury's strategy to position South Africa as a gateway into Africa'.[5] This was followed by the successful issuance of a USD500 million Islamic sukuk (bond) in 2014 – the first of its kind in Africa – which was highly oversubscribed and widely praised.[6] Currently, only four South African banks offer Islamic banking services: Absa Bank, alBaraka Bank, HBZ Bank, and FirstRand Bank. This suggests that significant opportunities still abound for niche services in Islamic banking, particularly for customers travelling in and out of South Africa.

Opportunities for the Western Cape

In South Africa, Muslims represent roughly 2.3% of the population, but contribute over 10% to GDP. Whilst this may be small, South Africa is still well-positioned to take advantage of many of the opportunities within the halaal market. This is because South Africa is home to highly advanced and widely acknowledged certification programs, and is also attractive as a gateway into the African halaal market.

The African continent is widely acknowledged to be the halaal product market of the future, due to a large and growing consumer base of African Muslims as well as brisk economic growth on the continent. The Western Cape has further advantages in tourism, clothing manufacturing and agri-processing, as well as being home to the largest proportion of South Africa's Muslim population.

In terms of food, the Western Cape has been in co-operation with Malaysia to initiate the development of a halaal food hub in South Africa. Malaysia has underlined the importance of creating halaal food hubs for specialised and strictly controlled production. This both improves halaal certification reliability and improves the efficiency of the niche sector. Currently, imports from Malaysia total around R875 million, with food and beverages making up a third of that. Even import replacement could therefore be a significant starting point for growing the local halaal market.

5 http://mg.co.za/article/2010-08-31-islamic-banking-could-it-work-for-you and http://www.treasury.gov.za/legislation/bills/2011/Draft%20Explanatory%20Memorandum%20on%20the%20Taxation%20Laws%20Amendment%20Bill%202011.pdf

6 http://ww2.oldmutual.co.za/old-mutual-investment-group/insights/magazines/tomorrow-2015/sa-the-islamic-finance-gateway-into-africa

Furthermore, Dubai has identified South Africa as a perfect location to source most of its food supply needs. Currently the UAE imports more than 80% of its food, with South Africa being the 13th largest food supplier to the region. Focusing on entrenching this relationship will both improve our trade balance and attract investment from Dubai into the South African agricultural sector. Burger King has also solidified plans to build a halaal meat pattie factory in Elsies River in the Western Cape. This facility will have a production capacity of 700 000 patties per month, servicing both the local and export markets. The export market is expected to grow significantly as it expands into the rest of Africa.

South Africa was ranked the third best Muslim-friendly tourist destination after Singapore, and Bosnia and Herzegovina. South Africa's favourable position was seconded in the first halaal tourism conference in Durban in 2013. However, this has not yet translated into us attracting large numbers of Muslim tourists.

We already have strong halaal certification bodies, numerous halaal restaurants and hotels, and a host of halaal friendly destinations and activities. South Africa just needs to do more to market itself as a halaal-friendly destination.

The Western Cape, in particular, has a strong footing in this regard. Further than just the incredible natural beauty which makes it a top tourist destination for non-Muslim tourists, the Cape is also home to extensive Islamic heritage.

The banking and finance sector also hold untapped potential for growth in the halaal market. Currently, only 10–15% of the Muslim population in South Africa uses Islamic banking, which accounts for 3–5% of total banking assets in South Africa. This enables Muslim communities to broaden their financial opportunities within the confines of their religion and it helps to diversify funding and asset bases for the banks.

Conclusion

As industry players rush to grab their portion of the growing halaal industry, competition will rise, placing a premium on efficiency, quality and diversity in coming years. Fostering a competitive advantage in these arenas now will stand the Western Cape in good stead in these markets.

New product development and marketing strategies should be prioritised alongside complying with the formation of a global certification body. This plays a large role for businesses to maintain an expanding pool of customers. It is important to consider the broader industry and to cater for non-Muslim consumers as well, because experts agree that in order for the global halaal industry to really break through, it must be embraced by non-Muslim consumers.

SPOT THE OPPORTUNITY

Dürsots – All Joy & Famous Brands[1]

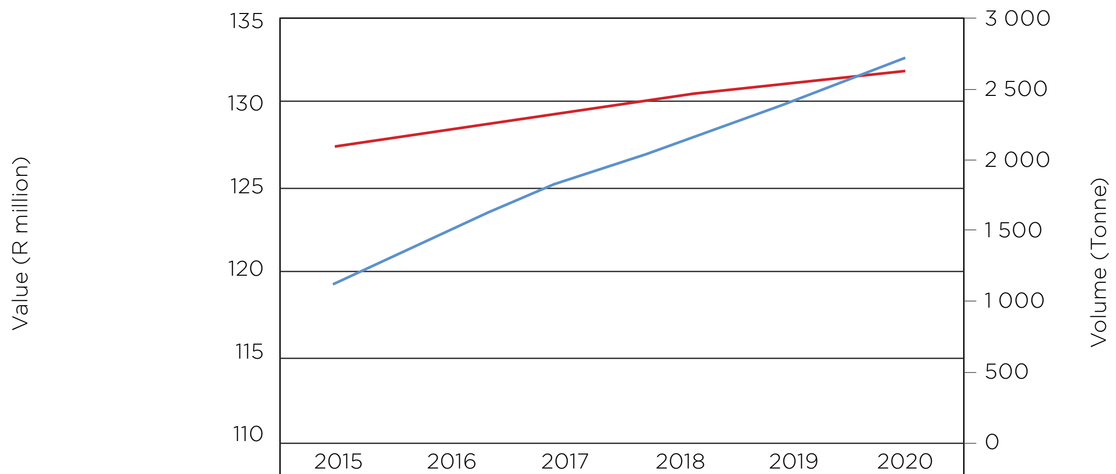
GERSHON OLIVER

There exist limitless opportunities in every industry. Where there is an open mind, there will always be a frontier

Charles Kettering

In recent years, there has been a recurring market shortage of about 30 000 – 35 000 tonnes per annum of (cold break[2]) tomato paste in South Africa resulting from a paucity of domestic manufacturing capacity[3]. Overlaying this is the rising local demand for canned food in tomato sauce and for tomato paste as an ingredient in sauces, condiments and dressings[4]. The figure below shows rising South African forecasts for domestic sales of tomato paste and puree (at constant 2015 prices) from 2015 to 2020. Going forward, it is estimated that local tomato paste and puree real sales will increase by 10.7%, from R119.54 million in 2015 to R132.32 million in 2020. Further, the SA real sales of tomato paste and puree are expected to grow, on average at 2.05% per year over the forecast horizon.

Figure 25 SA forecasts for domestic sales of tomato paste and puree at constant 2015 prices, 2015 – 2020 (R millions, tonnes)



	2015	2016	2017	2018	2019	2020
Value of Sales (LHS)	119,54	122,73	125,4	127,72	130,03	132,32
Volume of sales (RHS)	2 110	2 220	2 330	2 440	2 540	2 650

Source: Euromonitor International (2015)

Whilst local demand for tomato paste has noticeably grown, since 2011 the volume of tomato paste imports from China has accelerated by close to 100%. The figure below illustrates this sharp rise in the volume of SA tomato paste imports, particularly from China between 2011 and 2015.

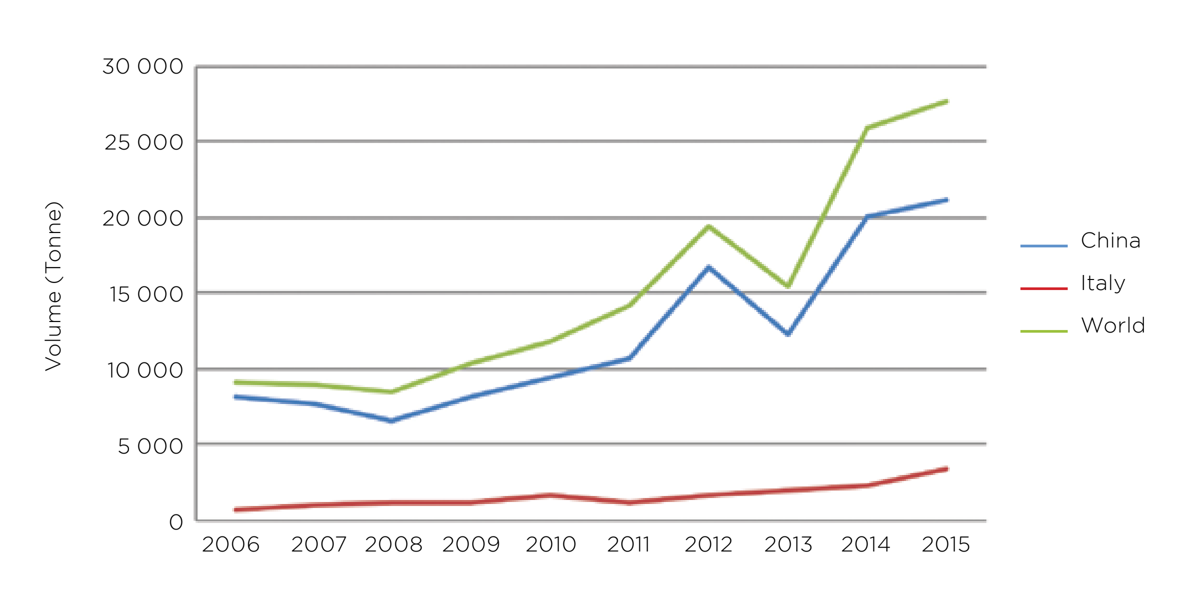
1 We would sincerely like to thank colleagues from **the dti** (Mr Nigel Gwynne-Evans, Ms Imameleng Mothebe and Mr Cliff Rasoesoe), Mr Louw Pienaar from the Western Cape Department of Agriculture and Ms Manini Masithela from ITAC for the research support provided.

2 Simply put, cold break tomato paste requires fresh, chopped tomatoes to be heated at a temperature, ranging from 65 to 75°C whereas hot break tomato paste refers to fresh tomatoes being heated immediately after chopping to a very high temperature, ranging from 85 to 100°C.

3 http://www.bdlive.co.za/business/retail/2016/07/04/famous-brands-spots-gap-buys-practically-unused-tomato-paste-factory

4 See http://www.famousbrands.co.za/news_articles/2016/fb_tomato-paste-plant.php, ITAC (2012)

Figure 26 SA tomato paste, puree and concentrates in powder form[5] imports from selected countries, 2006 – 2015 (tonnes)



Source: ITC (2016)

Given the ***recurrent market shortage*** and ***growing local demand*** for tomato paste from downstream manufacturers, two holding companies namely Dürsots-All Joy and Famous Brands invested in tomato paste processing operations in 2015 and 2016, respectively.

Taking the Bull by the Horn: Dürsots – All Joy and Famous Brands securing their own supply chain

Both holding group companies' intentions are to firstly produce for their internal customers given the paucity of local processing capacity, then address the market shortage and also seek opportunities to export. Intuitively, these firms saw an opportunity to secure their supply chain by owning the producers of key ingredients.

In 2015, Dürsots – All Joy acquired a R100 million tomato paste processing plant in Modjadjiskloof, Tzaneen in Limpopo from Tiger Brands. Soon after the acquisition, new state of the art equipment was procured to bolster its capacity. The processing plant has been in operation since April 2016 and plans to produce 2 000 tonnes of tomato paste per month for the 2016 season[6]. Currently, the processing plant employs 70 people but the intention going forward is to increase this tally to 300[7].

Famous Brands, a restaurant franchisor in the first half of 2016, acquired an almost unused R200 million state-of-the-art (3 500 m^2) tomato paste manufacturing plant formerly called Cape Concentrate located in the Coega Industrial Development Zone. It is affirmed that this plant is the largest in SA and possibly one of the largest in Africa. It has been estimated that this facility could produce about 150 tonnes of tomato paste per day (or approximately 27 000 tonnes for 6 months) to supply tomato paste to amongst others, its 2 600 strong restaurant network. Operations at Famous Brands are expected to commence in early 2017. At present, Famous Brand's immediate challenge is that of sourcing tomato farmers in the Eastern Cape who will furnish them with a sustainable supply of tomatoes[8]. To mitigate this challenge, the Group will tap into their existing Famous Brands Fine Cheese Company farmer base and has also requested the assistance of an agricultural association/company operating in the Eastern Cape (that works with government) to locate existing and new farmers.

5 Harmonised System (HS) 2002.90
6 In Limpopo (Messina) the tomato season runs approximately from March/April – September. In the Cape West Coast (Lutzville), however, the tomato season runs from February – June each year.
7 http://www.fin24.com/Economy/r100m-plant-a-boost-for-limpopo-tomato-farmers-20160525
8 http://www.bdlive.co.za/business/retail/2016/07/05/business-day-tv-sas-tomato-paste-shortage-forces-chinese-imports

Challenge/risk facing the processing plants & industry

A key challenge facing the new tomato processing plants is that of establishing secure and sustainable supply networks, however, both processing plants are in the process of ensuring that. Another key challenge facing local tomato paste processors has been the fierce lower priced competition from abroad, specifically China. Industry experts have advised that South African raw material costs need to be more cost competitive – for the 2016 season raw tomatoes in China cost about $60 per tonne vs SA's $90 – $120, depending on the rand/dollar exchange rate[9]. Worryingly, SA's dollar cost per tonne exceeded the world average of about $77 per tonne over the same period.

To facilitate gains in SA's cost competitiveness of its raw tomatoes, industry specialists have suggested that government provide support to farmers to lower production costs and furnish accurate and robust market information and credible R&D to the industry. The research should be focused on the commercial benefit and the identification of better farming techniques. Further, it was also suggested that to provide more holistic support and protection to the infant domestic industry, government should strongly consider an anti-dumping policy for Chinese imports. From a government perspective, the dti, DAFF and ITAC are working in close cooperation with industry to render long term practical solutions.

Notwithstanding the above, the acquisitions by Dürsots – All Joy and Famous Brands were premised on a sound rationale – they identified an opportunity to secure their supply chain, address a significant market shortage coupled with rising local demand for tomato paste. Thus, the sustainability of these ventures is on a sound footing given that they themselves are their own customer. Notably, these purchases were within the context of major electricity supply improvements and recent labour market and currency trends realising substantive gains for SA cost competitiveness relative to China.[10]

Remarkably, what these acquisitions have also done is create opportunities that stretch right across the tomato value chain.

Potential opportunities in the tomato food value chain

Saliently, the acquisition of these two tomato paste processing firm's present opportunities for growth and jobs directly to the farmers (increased demand for tomatoes); the tomato processing firms (and holding companies), agricultural companies; and the myriad manufacturing/logistical supply chain industries that are involved in the tomato paste producing process. Indirect opportunities for growth and jobs would filter down to the rest of the value chain due to the economic multiplier effect. The figure below presents a simple tomato food value chain.

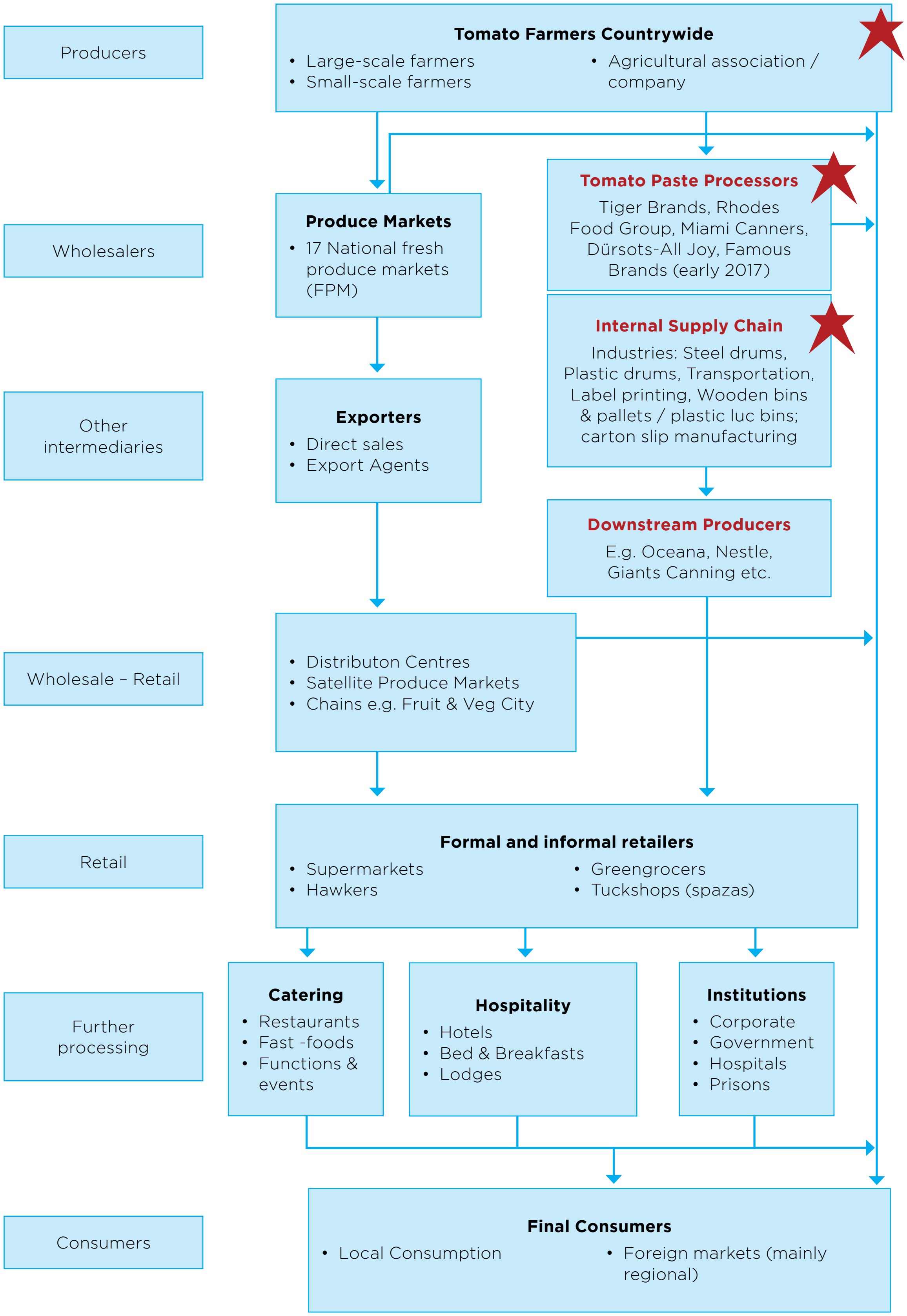
With the acquisition of the processing plants it only stands to reason that job opportunities would be created in the processing plants itself and probably to a lesser extent within the holding companies. Definitely, substantive financial benefit would accrue to farmers (and related agricultural supplier industries) in Tzaneen and Eastern Cape given that the farmers would obtain an instant market for their produce and the potential to develop the said market over time.

In the case of the supply chain between the farmers, the processors and the downstream producers the following manufacturing and/or logistical industries could exploit the following potential opportunities:

- Wooden bins/pallets and the plastic luc box industries – used to transport tomatoes from the farms to the processing plant;
- Steel drum industry: steel drums to store and transport the tomato paste;
- Plastic industry: plastic liner bags and plastic wrapping;
- Manufacturing of the lids for the tomato paste cans;
- Cardboard box manufacturing industry – carton slips used for packaging;
- Printing industry: printing of labels; and
- Transportation industry – transporting the tomato paste from the processing plants to the downstream manufacturers.

9 Information provided by industry expert.
10 See Quarterly Economic Bulletin, Quarter 2, 2016 page 48 for more comprehensive narrative

Figure 27 Simplified tomato food value chain



Source: Adapted from Department of Forestry and Fishing (DAFF)
** denotes where most of the direct growth and job opportunities would be created, 2015.*

INDUSTRY SUPPORT

In the previous QEB we mentioned that we would provide you with more information relating to government support for manufacturing entities – see below.

The *Manufacturing Competitiveness Enhancement Programme* (MCEP), which is managed by the IDC only provides loan funding to existing SA registered manufacturers including those in the tomato value chain [11] to promote competitiveness and ensure job retention in the manufacturing domain. The IDC offers a working capital facility loan of R50 million over a term of up to four years at 4% interest.[12]

Also, **the dti** has initiated a *Black Industrialist Programme*, which is specifically dedicated to the growth and global competitiveness of black-owned manufacturing businesses. It is a requirement that the black industrialist must exercise control over the business and/ or has more than 50% ownership. Financial support includes working capital support, joint venture support, export support; and the provision of investment grants for up to 80% of the cost of required capital equipment capped at R50 million per business.[13]

In conclusion, the purchases by Dürsots-All Joy and Famous Brands to secure their supply chain, address the market shortage and growing local demand for tomato paste has availed numerous direct and indirect opportunities for related (agricultural and manufacturing) industries within the tomato value chain. Myriad opportunities for growth and jobs are available to the commercial farmers (and smallholders), the tomato processing firms (and to a lesser degree the holding companies); the associated agricultural companies; and the various manufacturing/logistical supply chain industries that are involved in the tomato paste producing process.

Indeed, these processing plant acquisitions were based on securing the respective holding companies supply chain and within the context of a significantly more cost competitive South Africa relative to China – significant electricity supply advancements; and recent labour market and currency trends. Thus, the sustainability or robustness of the two processing plants remaining in business is on a sound footing given that they themselves are their own customers.

Notably, recommendations have also been made to government to further assist and mitigate key challenges/ risks to the industry. In line with this, key government departments are working closely with industry to provide tangible and long lasting efficiency enhancing solutions for the infant domestic industry. Lastly, the IDC and **the dti** provides additional assistance to manufacturing firms including those that are involved in their value chain to bolster their capacity, production, growth and competitiveness.

11 Applicable manufacturing trades that can qualify for MCEP – see https://www.thedti.gov.za/mcep_forms/MCEP_SIC_Codes.pdf
12 See http://www.idc.co.za/home/idc-products/special-schemes/manufacturing-competitiveness-enhancement-programme.html
13 See https://www.thedti.gov.za/financial_assistance/docs/BI_Policy2015.pdf

SOME OF THE POSSIBLE CHALLENGES WITH TAXING SUGAR SWEETENED BEVERAGES AS A STRATEGY TO IMPROVE HEALTH OUTCOMES

CELESTE KRIEL

> **"Greater effects on the net energy intake and weight may be accomplished by combining subsidies on fruit and vegetables and taxation of target foods and beverages."**
>
> *World Health Organisation (WHO), 2016[1]*

Increasingly there is recognition that fiscal policies could improve diet. It is clear that there is a relationship between a high calorie diet (which often includes excessive consumption of sugar sweetened beverages (SSBs)), and obesity. Given that SSBs are non-nutritive and energy dense there is an opportunity to introduce policy instruments that can reduce their demand.

The WHO has reviewed existing evidence on fiscal policies aimed at impacting diet. They found that they could accurately and effectively link price policies to their upstream potential to influence purchasing and consumption behaviour. Stemming from this growing body of evidence, in July 2016, South Africa's National treasury proposed a 20% tax on sugary soft drinks (also referred to as sugar sweetened beverages (SSBs)). The proposed tax is applied at R0.0229 (including VAT) per gram of sugar. Our rationale for introducing a tax on SSBs is that it will reduce caloric intake and reduce obesity, which is a risk factor for heart disease, diabetes, stroke and some cancers. The expectation is that the tax will target consumption behaviour (lifestyle), which by extension will lead to improved health outcomes. The reduction in obesity and its related non-communicable diseases (NCDs) is expected to reduce health costs and specifically, the burden on the public health sector.

The framing of the argument for taxing SSBs around a less burdened public health sector ostensibly stems from a focus on the need to overcome obesity, and not to increase the government's tax take. Framing the rationale for the tax on SSBs within a health context that has a reduction in obesity as the ultimate goal is far more problematic than framing it as a revenue stream, because the relationship between the tax and revenue are clear, while the causal link between the tax and reduced obesity is not as clear.

Obesity is driven by complex drivers

When trying to understand the reasons for obesity, it is clear that it is the result of a multitude of highly complex factors. To briefly illustrate the complex drivers of obesity, a review of Devanathan, Esterhuizen and Govender's (2013)[2] work highlights the role that body perception plays in levels of obesity. Perceptions of body image, refers to the subjective sense that people have about their bodies. It encompasses self-perception[3] and attitudes towards their physical appearance. When trying to understand obesity from this perspective it appears that being overweight may have a number of positive connotations. When looking at the body image of some women, the study found that being overweight may be viewed as increasing a woman's desirability to men. Within the context of the AIDS epidemic, obesity may also be driven by perceptions that thinness is associated with an HIV-positive status. Being overweight may also communicate that someone is well taken care of and happy. If obesity is driven by these body perceptions then it is hard to understand how a tax on SSBs would reduce obesity, because it does not speak directly to the driver of obesity. Looking at only this one driver of obesity reveals that self perception of an 'ideal' weight appears to be influenced by multiple factors.

Furthermore, the intake of sugar may actually not be the single main driver of obesity in South Africa. A study by the South African National Health and Nutrition Examination Survey (SANHANES-1), which was carried out by the Human Sciences Research Council (HSRC) and Medical Research Council (MRC) in 2013, noted that a high energy intake is one of the main risk factors for obesity in both children and adults. The study identified that a high energy intake is driven by a high total fat intake, high saturated fat intake, high refined carbohydrate and added sugar intake, low fibre intake and low intake of fruits and vegetables.[4]

1 WHO (2016).
2 http://www.ncbi.nlm.nih.gov/pmc/articles/PMC4565439/#CIT0016
3 Self-perceptions are ideas that exist in the minds of people about how they are viewed by others.
4 http://www.hsrc.ac.za/uploads/pageNews/72/SANHANES-launch%20edition%20(online%20version).pdf

SANHANES-1 also revealed that 80% of South Africans already consume sugar in moderation. Their survey assessed the dietary sugar intake among South Africans on a scoring scale of 0 to 8.[5] They found that the average score for South Africans was 3.0, which is at the low end of the moderate band. This score indicates that South Africans (on average) do not consume too much sugar. In total, SANHANES-1 found that only 19.7% of South Africans have a high sugar consumption score, 38.2% consume moderate amounts, and the largest share of the population, 42.1%, has a low sugar intake.

What this essentially means is that if the SSB tax is introduced, it will have an impact on people who generally may not need to reduce their sugar consumption.[6]

The possible impact of a tax on caloric intake

Not only does the average South African consume a low level of sugar, the proportion of their sugar intake driven by the consumption of SSBs is low. Sugar from SSBs account for only 3% of South Africa's total energy intake and 97% of calories come from the consumption of other foods and beverages.[7] Additionally, sugar can be consumed in a number of ways.

In order for the tax on SSBs to have the desired outcome of a decline in obesity there has to be no substitution effect and the daily energy consumption of individuals has to decline. It has to be stressed that a key assumption that tends to be made when trying to determine the impact that a tax on SSBs will have on obesity is that the calories not consumed by drinking SSBs are not consumed at all. However, in reality, individuals may change where they get their sugar intake from. They may indeed consume less SSBs but replace these with other high-sugar products, or high energy lower-quality products. Thus, the desired health outcome of reduced obesity will not be achieved if people maintain high caloric diets.

Figure 28 Dietary habits drive health outcomes

5 Where a score of 0–2 implies a person is accustomed to a low sugar intake, 3–5 indicates a moderate sugar intake, and 6–8 shows a high sugar intake)

6 http://irr.org.za/reports-and-publications/articles-authored-by-the-institute/against-the-sugar-tax-2013-politicsweb-23-august-2016

7 http://businesstech.co.za/news/lifestyle/135009/7-questions-for-the-minister-of-health-on-a-proposed-sugar-tax-for-south-africa/

This shortcoming (along with a few others) was identified in the South African study conducted by Manyema *et al.* (2014). The results of Manyema et al.'s study show that a tax of 20% would result in a reduction in energy intake of about 36 kJ per day (approximately half a teaspoon) from our daily average intake of 12 638 kJ.[8]

In addition, the estimates of the numbers of fewer obese South Africans provided in the Manyema article in fact vary widely. It recognises that the reduction in obesity prevalence among men could be as low as 0.4% (not 3.8%), which would result in reduced obesity for only 16 060 males. It also acknowledges that the reduction in prevalence could be as low as 0.3% among women, which would result in reduced obesity for 16 550 females.

These findings show that only 32 610 people would experience a reduction in obesity, instead of the much higher total (222 660) it emphasises. Even though these numbers are speculative, they are quite low and hardly justify a substantial tax on a range of products that does not seem to be driving the high energy intake of the average South African.

There are models that suggest that a tax on SSBs will reduce their consumption and improve weight outcomes. However, there is very little real world evidence that a tax on SSBs would actually have an impact on the intended outcome, which is a reduction in obesity. In uncontrolled, real world, environments individuals may behave very differently from the modelled scenarios.

The tax on SSBs might be the most cost-effective option as an obesity reduction intervention. However, this says nothing about the value for money of the intervention. A comprehensive international study by the McKinsey Global Institute[9] that looks at a range of interventions to address obesity, estimates the cost per DALY (Daily Adjusted Life Years) to investigate which intervention is the best value for money. Findings from this research states that there are 6 out of the 16 interventions that are better value for money than taxes in addressing obesity. The McKinsey study also found that taxes rank 13th out of 16 interventions for effectiveness in reducing obesity. Furthermore, the findings describe taxes and subsidies as notably ineffective strategies for meaningful behaviour change.

The possible impact of a tax on the cost and consumption of SSBs

A core assumption is that the tax will trigger a decline in demand for SSBs, and that lower-income individuals are more sensitive to increases in the prices of SSBs. However, this only holds if the tax translates directly into price increases, and consumers alter their behaviour based on the price increase.

The SSBs tax is to be administered as an excise tax, which means that taxes are payable by the producer upfront (Duty at Source). Whilst this lowers the administrative burden of the tax, it also creates an avenue for the producers to manipulate the price mechanism to their advantage. Producers may decide to treat the tax as an overhead cost and dilute the tax incidence over a range of their products, resulting in general price inflation of a group of products rather than only having a higher relative price of SSBs. This would potentially completely defeat the purpose of the tax and have no impact on the consumption of SSBs.

The elasticity of demand determines how effective a price change will be in reducing consumption. While the evidence suggests consumption of SSBs to be elastic, it is still a low value (1.299) and therefore it requires a large price increase to have a significant impact. One should also be cognisant that this value is not specific to South Africa and rather an estimation based on a review of other countries. Nevertheless, this elasticity of demand may range between different types of consumers and it is unclear which profiles of consumers are more elastic and which are not. It must also be remembered that sugary drinks can be addictive and people may still choose to consume them even if prices increase.

A study conducted in Mexico is often presented as evidence that the tax on SSBs can have a significant impact on the consumption of SSBs. The total sales of SSBs increased in Mexico after the tax was introduced – but this was attributed to population growth, economic factors and weather. If we account for population growth, sales only went up around 1%, a negligible effect at best. Essentially, the reduction by 6% quoted in most studies is the isolated effect of the tax. However, this is eroded by other factors such as economic growth and weather. Had the tax not been in place, however, consumption of sugary drinks may have gone up much more. Regardless, it has not been effective enough to reduce net SSB consumption and therefore points to the fact that we need other interventions to reduce

8 http://businesstech.co.za/news/lifestyle/135009/7-questions-for-the-minister-of-health-on-a-proposed-sugar-tax-for-south-africa/

9 McKinsey Global Institute (2014). Overcoming obesity: An initial economic analysis. Discussion Paper.

obesity.[10] The inference is that whilst basic sales data has shown a decrease in SSB consumption after the tax in Mexico, we cannot infer causality or long-term impacts, whether it is sustainable, or whether the overall consumption of sugar has decreased (i.e. whether Mexicans started buying other sugary substitutes).[11]

In a study conducted in the UK, respondents were asked whether they thought that a 20% increase in the price of SSBs would affect consumption behaviour. Only 18% of the respondents felt that this increase would cause people to drink less SSBs. Many of the responses focused on how people behaved in reality – given that we are not rational economic agents, and that we often buy bad goods like SSBs out of habit and long-standing preferences. Some respondents also stated that they may substitute to lower value soda concentrate that will remain relatively cheaper after the tax but are potentially worse for health.[12]

Essentially, the evidence on the effectiveness and impact of a tax on the consumption of SSBs is very limited. It remains difficult to distinguish between correlation and causation, and to determine whether changes in behaviour will be sustained.

How will the tax on SSBs impact employment and economic growth?

This tax could also have significant negative economic ramifications. In Mexico, around 3 000 jobs were lost during the first quarter of 2014 after the tax was implemented. The SSB tax may have a negative impact on the entire value chain in South Africa - from agriculture (where a number of people are directly employed in the sugar sector alone), through to utilities, construction, the hospitality industry, the wholesale and retail sector, the transport industry, and the financial and business services sector – among others.

The retail sector would be particularly hard hit. Within the retail sector, the impact could fall most heavily on the informal and often home-based 'spaza' shops that rely on soft drink sales for some 15% to 20% of their revenue. The SSB tax would significantly reduce the sales and profit margins of these small enterprises, which could lead to the closure of many of these outlets. Major supermarkets and discount stores could find it easier to absorb the impact, but spaza shops – along with other local and traditional retailers – would be particularly badly affected.[13] The Beverage Association of South Africa and other stakeholders have mentioned the possibility that more than 60 000 jobs may be lost; particularly in the poorer regions of the Eastern Cape and spaza shop owners as well as Nelson Mandela Bay municipality. The introduction of the tax may also negatively affect the sugar cane farmers in KwaZulu-Natal who are already facing difficulties after the drought and competition from cheap imports.

Having said this, it is not necessary that all jobs will be lost. It is possible that there will be a transition to a substitute product or industry. These opportunities have however not been clearly identified and they need to be supported in order to minimise the negative economic and employment impact.

Even though theoretically one could mitigate the economic and employment impacts of the tax, the current global and national environment is very constrained. The South African economy already stands on the brink of a recession with the real risk of the downgrading of its international credit ratings to sub-investment (junk) status. The country also confronts a major crisis of joblessness. No other country that has seen it fit to introduce a sugar tax has confronted an equivalent depressed economic environment and burden of joblessness. Given these prevailing circumstances, South Africa simply cannot afford to put between 55 000 and 60 000 jobs at risk – and especially not when the claimed health benefits of the proposed tax are unlikely to be realised.

10 Instituto Nacional. Why it is not possible to make determinations on the usefulness of the tax on sugar sweetened beverages in Mexico during 2015 using raw sales data. Available: https://www.insp.mx/epppo/blog/4063-tax-sugar-sweetened-beverages.html

11 New Zealand Ministry of Health. Mexican Sugar Tax: Evidence of Impact. Available: https://www.health.govt.nz/system/files/documents/pages/hr20151086.pdf

12 Hannah Timpson, Rachel Lavin & Lisa Hughes (2013). Exploring the Acceptability of a Tax on Sugar-Sweetened Beverages. Available: http://www.foodactive.org.uk/wp-content/uploads/2015/04/Timpson-Lavin-and-Hughes.pdf

13 http://irr.org.za/reports-and-publications/articles-authored-by-the-institute/against-the-sugar-tax-2013-politicsweb-23-august-2016

Can we justify the tax being regressive?

The SSB tax will be a regressive measure with a particularly negative impact on low-income households, which spend a significantly higher proportion of their overall income on food and beverages than higher-income households do.

The policy paper does not adequately justify its regressive nature and the likely unintended consequences of taxing SSBs. Any claims that the negative and regressive impact of the tax on SSBs will be offset by health gains has not been proven, and they are not even likely to impact on obesity given that the tax is expected to reduce total caloric intake by a mere 36 kJ per day. It is almost inevitable that minimal health gains will be realised and instead the SSB tax will merely put further strain on consumers who are already faced with rising inflation, a heavy debt burden, high interest rates, and rising unemployment (with some 500 000 jobs already lost this year).

The justification that the poorest in our society should have to pay disproportionately more towards reducing "pressure on state resources" (end of clause 3.6 in the policy paper) runs deliberately counter to any notion of inclusive growth or development, and might work to increase the vast inequalities in our country.

What are some potential unintended consequences of the tax on SSBs?

The tax on SSBs may actually lead to greater obesity and more unhealthy outcomes. Healthy alternatives are already unaffordable to most of the population. So as individuals spend more of their income on SSBs this may stop them from changing to healthier options and rather just eat up more of their income. One of the studies reviewed in the Public Health England (2015) Sugar Reduction paper showed a potential widening of nutritional inequalities between medium-income and low-income groups. Another showed that a reduction in SSBs resulted in an increase in alcoholic drink purchases.

There may also be challenges with Excise Tax administration: Duty at Source. Whilst it was mentioned that careful attention would need to be paid to updating the tax regularly to account for inflation, there was no mention of the adverse effects of the DAS system. This needs to be highlighted. Duty at Source means that the tax is treated as an overhead lump sum payment, thus there are a few mechanisms that can work against the aim of the government in making sugary drinks relatively more expensive. As mentioned earlier, the producer can absorb this tax by cross-subsiding SSBs with other products, thereby raising the price of all their goods equally rather than only raising the price of SSBs. The other mechanism is that they can choose to keep prices low and demand high by absorbing the tax from their profits rather than putting it on the consumer. This could mean smaller producers that cannot afford to cross-subsidise would go out of business, or producers push lower prices on to the sugar cane farmers.

Conclusion

The rationale of the health benefits for introducing the tax on SSBs appears to be flawed and raises questions as to why the tax should be imposed at all, given its regressive nature. Considering that obesity is driven by a number of factors, and sugar consumption through drinking SSBs is likely not the main driver, a multi-faceted and coordinated approach to tackling obesity is required. A synergy of interventions needs to be better explained to make the tax a viable contributor in the fight against obesity in South Africa.

Taxes on SSBs will be more effective in reducing weight if the revenue generated is dedicated to obesity prevention measures. For example, a one cent per ounce tax on SSBs in New York raised roughly $450 million in new revenue in 2010–11 and roughly $1 billion in 2011–12 for the State. Revenue raised through these taxes went to the New York Health Care Reform Act Resources Fund to support health care and health-related initiatives, such as health promotion and obesity and other chronic disease prevention programs.[14] Dedicating revenue generated from SSBs pricing initiatives to obesity prevention initiatives, including the funding of incentives to promote the consumption of healthier foods, ensures the greatest impact of these initiatives on weight outcomes. At present it is not clear if and how the income from the South African tax on SSBs will be channelled to health programmes to reduce obesity.

14 Mary Winston Marrow, Public Health Law Center (2011). Taxing Sugar Drinks: A Tool for Obesity Prevention, Cost Savings and Health Improvement; and Claire Wang, Y. (2010). The potential impact of sugar beverage taxes in New York.

As suggested by the WHO, cognisance has to be given to the national context before introducing a tax on SSBs. Within the current economic context of low growth and high unemployment levels, serious consideration needs to be given to the timing of the introduction of the tax on SSBs and the impact that it could have on growth and employment. Not only does there not appear to be enough consideration given to this, but the consideration of the impact on SMMEs is superficial. It needs to be borne in mind that a reduction in SSB-demand could also disproportionately impact the bottom line and employment numbers of small operators more than the major distributors.

It is therefore recommended that further analysis should be conducted in this area. A cost-benefit analysis that evaluates whether the cost of slower growth and a reduction in employment outweighs the decline in obesity is required. Given that it has not been strongly established that the tax on SSBs will significantly impact obesity, which is ostensibly the desired outcome of the tax, the potential cost of jobs lost may not be justifiable.

However, should the tax be implemented regardless of all its very real challenges, a plan must be designed to make sure that the coverage, rate, exemptions, implementation, compliance costs and enforcement is continually reviewed. The WHO also recommends that a proper situation analysis, good political advocacy, appropriate objective setting and evaluation, should be part of the multidisciplinary development and implementation of sugar tax policies. The use of the revenue generated by the tax should also be made clear. Furthermore, there should be a more rigorous evaluation and comparison of alternative interventions, as well as a more detailed description of all available complementary interventions. Additionally, the regressive nature of the tax has to be counter-balanced, and consideration has to be given to developing policies to correct the unequal burden it places on lower income households.

Finally, we need to recognise that we may pursue a path of generating tax revenue based on seemingly benevolent reasons for improved health outcomes, but in fact based on flawed rationale.

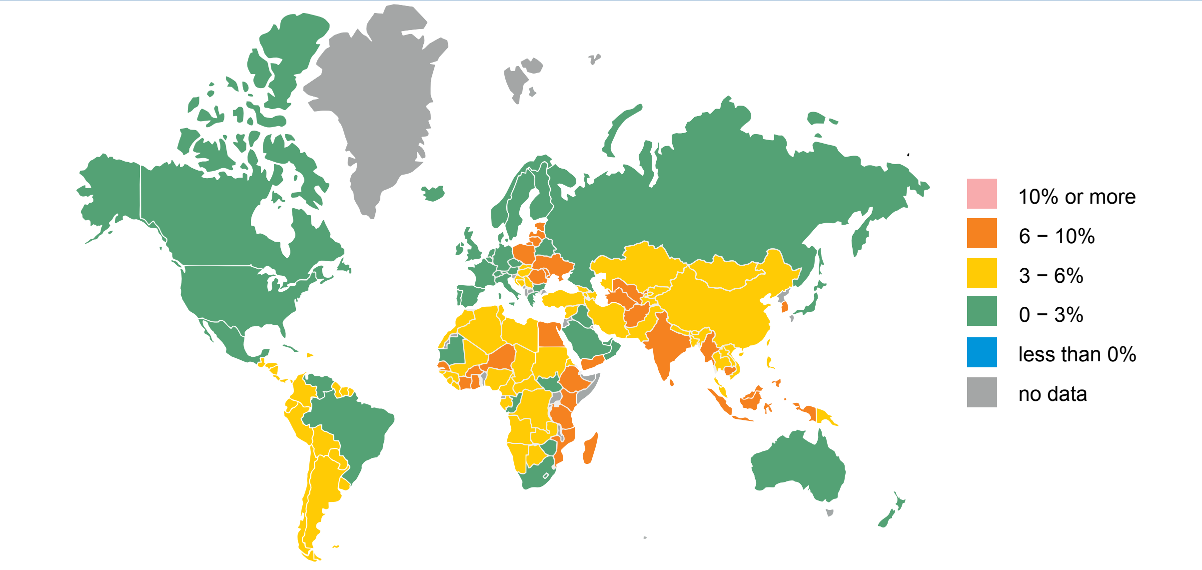
ECONOMIC PERFORMANCE AND OUTLOOK

MIRACLE MANGENA

GLOBAL OUTLOOK

The International Monetary Fund (IMF) reviewed its projected global growth rates downwards to 3.1% for 2016 and 3.4% for 2017. The map below shows the IMF annual percentage change in real GDP growth.

Figure 29 Real GDP growth - annual percentage change



Source: IMF - World Economic Outlook

The table below looks at selected IMF growth projections for a number of regions and leading economies in these respective regions:

Table 6 IMF global growth outlook

				PROJECTIONS	
		2014	2015	2016	2017
World output		3.4	3.1	3.1	3.4
Advanced Economies		1.9	1.9	1.8	1.8
United States		2.4	2.4	2.2	2.5
Euro Area		0.9	1.7	1.6	1.4
	Germany	1.6	1.5	1.6	1.2
	France	0.6	1.3	1.5	1.2
	Spain	1.4	3.2	2.6	2.1
United Kingdom		3.1	2.2	1.7	1.3
Emerging markets and developing economies		4.6	4.0	4.1	4.6
	Russia	0.7	–3.7	–1.2	1.0
	China	7.3	6.9	6.6	6.2
	India	7.2	7.6	7.4	7.4
	Brazil	0.1	–3.8	–3.3	0.5
Sub-Saharan Africa		5.1	3.3	1.6	3.3
	Nigeria	6.3	2.7	–1.8	1.1
	South Africa	1.6	1.3	0.1	1.0

Source: IMF WEO update, July 2016

The key transition underpinning the above projections is the decision by the United Kingdom to leave the European Union (Brexit). Although uncertainty continues to hover, the real fear is that the decision by the United Kingdom (UK) would negatively impact on trade between the UK and some countries in the European Union (EU). Growth in emerging markets is projected to be 4.1% for 2016 and 4.6% for 2017. The global inflation remains subdued due to lower commodity prices and somewhat weak demand.

Although 2015 saw a rise in interest rates in some economies, they remained relatively low, with a number of central banks having their policy rates near zero. Inflationary pressure in emerging markets is mainly pronounced in commodity exporting countries which experienced currency depreciation. Whilst growth projection for China and India remains relatively high, growth in Brazil and Russia is projected to remain in the negative in 2016.

United States

The IMF's revised growth forecast for the US economy remains robust at 2.2% in 2016 and 2.5% in 2017. This growth forecast is on the background of a decent expansion of 2.4% recorded in 2015. Growth performance in the second quarter of 2016 in the US was relatively subdued at 1.2%. It was much attributed to a fall in inventories and a decline in business investment linked to the decrease in projects in the shale oil industry. The employment statistics in the US have been very encouraging in the last two years, with 2.6 million jobs created in 2014 and 2.9 million jobs created in 2015, thus pushing the economy closer to full employment as evidenced by the decline in unemployment rate from around 10% in 2009 to 5% in 2015. Employment data released for the month of August indicates that the US economy added a robust 255 000 jobs in July and unemployment rate remains at 4.9%.

Brexit impact on Eurozone

The EU remains the centre of focus ever since the decision by the UK to leave the European Union (the decision popularly known as the 'Brexit'). The perceived impact of the decision has led to the revision of growth forecasts to 1.4% in 2017, 0.2 percentage points lower than the previous forecasts of 1.6%. Although the full impact of the Brexit is still uncertain, the IMF revised growth projections for the UK downwards to 1.7%, 0.2 percentage points lower than the previous forecast of 1.9% for 2016, and a significant 0.9 percentage points downward revision for 2017, which leaves the 2017 forecast at 1.3%. This projection is an optimistic one based on the assumption that the EU endorses the Brexit with minimum disruption.

The other two strong economies in the EU: Germany and France, are projected to perform relatively closer to the region's average growth rate, while Italy is projected to underperform. Spain is however projected to perform well above the average.

Africa

In sub-Saharan Africa, challenging macroeconomic conditions, lower oil receipts and droughts accounted for the downward revision of growth projections in some economies. The growth rate in Nigeria was revised downwards by 4.1 percentage points to a negative 1.8% for 2016. The key factors underpinning the contraction in Nigeria are: foreign currency shortages as a result of lower oil receipts, low power generation, and weak investor confidence. Growth in Southern Africa will be constrained by climate-related factors, such as drought.

Commodities

The global prices of commodities have been a major cause of concern for a number of emerging and developing economies, who rely heavily on production of commodities to sustain their economies. Poor performance of commodities has constrained a number of economies. The main reason for this performance has been oversupply of key commodities, making it difficult to spur the prices up. Fear of the trend continuing remains real.

Slight improvements in oil prices were attributed to a decline in excess oil supply, mainly due to a gradual slowdown in non-OPEC production and some supply disruptions (especially in Nigeria and Canada).

As for gold, uncertainty emanating from Brexit has to a large extent contributed to the upward trend of its price.

NATIONAL

The national economy is experiencing severe constraints. Post the 2008/9 financial crisis induced recession, growth remained pedestrian. The economy expanded by 1.3% in 2015, this was the slowest rate of increase post-2008/9 recession. The slow growth in 2015 was attributed to the impact of electricity shortages and drought. For 2016, the IMF projects a growth rate of 0.1% for South Africa. This projection is (amongst other factors) built on the possible impact of Brexit on the SA economy given the high level of trade and investment between the two countries. In line with the IMF projections, the South African Reserve Bank (SARB) revised its initial growth forecast for 2016 upwards from 0% to 0,4%. One of the possible reasons for the low growth rate is the high levels of household debt. If, however, one considers some positive developments such as improving commodity prices, firming of the Rand and the improving energy situation, there is still potential for a better than expected growth rate.

In the first quarter of 2016, the economy contracted by 1.2% before rebounding by 3.3% in the second quarter. The second quarter performance was key in ensuring that the economy does not fall into a technical recession. The main sectors that contributed to the positive growth in GDP in the second quarter were:

- manufacturing (8.1% growth and contributed 1 percentage point to GDP growth),
- mining and quarrying (11.8% and contributed 0,8 of a percentage point to GDP growth), and
- finance, real estate and business services (2.9% and contributed 0.6 of a percentage point to GDP growth).

Apart from the above sectors that contributed positively to overall growth in GDP, agriculture, forestry, fishing, and electricity, gas and water all contracted during the second quarter.

In addition to the expansion in a number of sectors, exports increased by 18.1% in the second quarter, which led to the economy registering a trade surplus.

Gross earnings paid to employees increased by 0.01% between March and June 2016 and 6.2% on year on year basis. The table below tracks the changes in gross earnings by industry:

Table 7 Gross earnings by Industry

Industry	Jun 2015	Mar 2016	Jun 2016	Qtr-to-Qtr change	Year-on-Year change	Qtr-to-Qtr change	Year-on-Year change
	Rands (Million)					Percentage	
Mining	27 465	28 248	29 075	827	1 610	2.9	5.9
Manufacturing	54 698	56 224	57 095	871	2 397	1.5	4.4
Electricity	6 039	6 517	6 562	45	532	0.7	8.7
Construction	22 060	21 306	22 476	1 170	416	5.5	1.9
Trade	68 961	71 912	72 246	334	3 285	0.5	4.8
Transport	31 344	30 436	31 970	1 534	626	5.0	2.0
Business services	123 188	140 970	128 450	-12 520	5 262	-8.9	4.3
Community services	158 926	167 698	175 469	7 771	16 543	4.6	10.4
Total	492 681	523 311	523 343	32	30 662	0.0	6.2

Source: StatsSA

Almost all sectors except the business services recorded positive increase in gross earnings on a quarter to quarter basis between 2016Q1 and 2016Q2. Average monthly earnings paid to employees in formal non-agricultural sector increased by 3.7% on a quarter to quarter basis from R17 396 in February to R18 045 in May 2016.

The first half of the year saw inflation overshooting the 3–6% band. The CPI inflation rate was 6.3% in June before declining to 6% in July. Although it further declined to 5.9 in August (falling within the band), the SARB has cautioned that risk to outlook remains high. The fall in commodity prices, the prudent decision by SARB not to hike interest rates and the firming of the currency have all contributed in easing inflationary pressures.

For much of 2015 and the first quarter of 2016, the Rand to Dollar exchange rate depreciated from around R11.50 (early 2015) to R16.00 (end of 2015), then peaked at R17.99 (early 2016). Two key transitions saw the Rand strengthening in June and August 2016: the first being the Brexit, which sent sentiments of more accommodative monetary policy and propelling emerging market currencies higher; and the second being the positive response to a key democratic process following successful local government elections. These transitions, in addition to avoiding a credit rating downgrade by rating agencies, led to the stabilisation in the currency (at least for now). The risk to credit rating downgrading seems to be resuscitating again, with Moody's placing some state owned enterprises under review.

In terms of the labour market, Table 8 below presents key labour indicators for the period 2016Q1 and 2016Q2.

Table 8 Key labour market indicators

	Apr–Jun 2015	Jan–Mar 2016	April–Jun 2016	Qtr-to-Qtr change	Yr-on-Yr change	Qtr-to-Qtr change	Yr-on-Yr change
	Thousand					Percentage	
Population aged 15–64 years	35 955	36 431	36 591	160	636	0.4	1.8
Employed	15 657	15 675	15 545	–129	–112	–0.8	–0.7
Unemployed	5 230	5 723	5 634	–90	403	–1.6	7.7
Not economically active	15 068	15 033	15 412	379	344	2.5	2.3
Unemployment rate	25.0	26.7	26.6	–0.1	1.6		
Absorption rate	43.5	43.0	42.5	–0.5	–1		
Labour force participation rate	58.1	58.7	57.9	–0.8	–0.2		

Source: StatsSA

The rate of unemployed marginally declined from 26.7% in 2016Q1 to 26.6% in 2016Q2. Other key indicators: the absorption and labour force participation rates, also declined by 0.5 and 0.8 percentage points (respectively) between the first and second quarter.

At sector level, Table 9 below summarises the changes in employment levels.

Table 9 Employment by industry

Industry	Apr–Jun 2015	Jan–Mar 2016	April–Jun 2016	Qtr-to-Qtr change	Year-on-Year change	Qtr-to-Qtr change	Year-on-Year change
	Thousand					Percentage	
Total	15 657	15 675	15 545	–129	–112	–0.8	–0.7
Agriculture	869	869	825	–44	–44	–5	–5
Mining	446	471	447	–24	1	–5.1	0.3
Manufacturing	1 756	1 645	1 712	67	–45	4.1	–2.5
Utilities	136	110	111	1	–25	0.6	–18.4
Construction	1 401	1 362	1 388	25	–3	1.9	–0.9
Trade	3 119	3 158	3 136	–22	18	–0.7	0.6
Transport	922	901	862	–39	–60	–4.4	–6.5
Finance and other business services	2 164	2 227	2 220	–6	56	–0.3	2.6
Community and social services	3 548	3 671	3 544	–127	–4	–3.5	–0.1
Private households	1 292	1 257	1 296	39	4	3.1	0.3

Source: StatsSA

Manufacturing and construction created significant net employment when comparing 2016Q1 and 2016Q2. Primary sectors (agriculture and mining) and tertiary services sector had significant job losses during the same period.

Data from the Quarterly Employment Survey (QES) also shows that employment in the formal sector declined by 0.7% in the second quarter, losing 67 000 wherein the largest portion was from Community Services where 48 000 jobs were lost. Considering the fact that community services include government employment, this decline is not a major surprise given the austerity measures introduced by the government.

The overall view on the labour market performance remains a cause for concern more so when viewed on the backdrop of the GDP expansion in second quarter, the economy grew but lost employment.

Credit rating downgrade

The economy managed to avoid a credit rating downgrade earlier this year. The general effect of a credit rating downgrade is that it impacts on debt financing pushing the cost of debt (interest rates) to be paid by borrowers (including, in this case, government municipalities, banks and corporates) up. Thus, all stakeholders embarked on a well-coordinated approach aimed at persuading credit rating agencies not to downgrade South Africa's credit rating.

On the basis of previous comments from major rating agencies (although a number of factors are considered on credit rating reviews) it seems the fundamental concerns involve: fiscal discipline, management and governance of the state-owned enterprises, and economic growth.

The decision by Futuregrowth, one of the country's leading bonds investing institutions, to withhold lending to a number of state-owned enterprises (SOEs) sent a signal of a possible credit rating downgrade. Further to this, Moody's then placed some SOEs on review in early September. Part of the reason for Moody's decision was the perceived governance and management issues in the SOEs concerned. Such perceptions will lead to growing unwillingness by financial institutions to lend to SOEs.

However, Moody's credit rating (at the moment) is two notches above the threshold between investment and junk grade. This may suggest that should Moody's review lead to a downgrade (mostly likely by a single notch), it will still place South Africa's government debt within investment grade. If, however, S&P or Fitch also decide to downgrade South Africa as well, we will be moved to junk status.

Another important consideration that should be factored in is that the decision to review SOE credit ratings does not necessarily mean that a credit rating downgrade will definitely happen. The second quarter GDP performance managed to rescue the economy from a possible recession. The pressure is now on the economy to maintain the growth momentum over the third quarter.

Econometrix[1] suggests that even if South Africa's credit rating is downgraded by S&P to the highest junk status credit rating, it is not certain that a fallout with financial markets would follow. Econometrix further noted that both Brazil and Russia have seen their credit ratings downgraded to junk status and yet the spreads between their bond yields and those of US Treasury bonds are smaller than the corresponding spreads between South African government bonds and US bonds. To this end, Econometrix concludes that a credit rating downgrade to one notch below investment grade need not be disastrous and that the probability of a downgrade has already been largely discounted in South African markets.

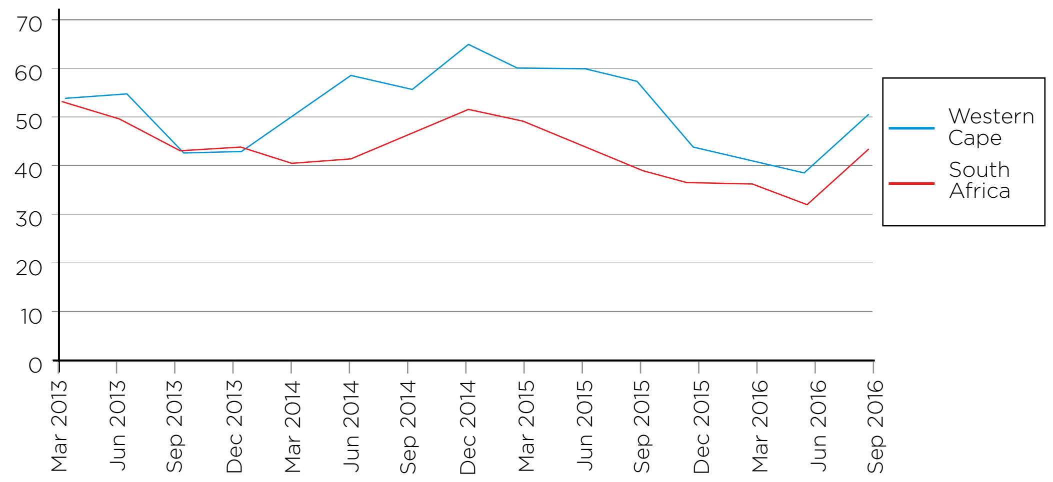
1 Econometrix Bulletin Vol 261/(70)

WESTERN CAPE

Business Confidence

Business confidence in the province rebounded in the third quarter to 50 index points after low performance in the second quarter of 2016.

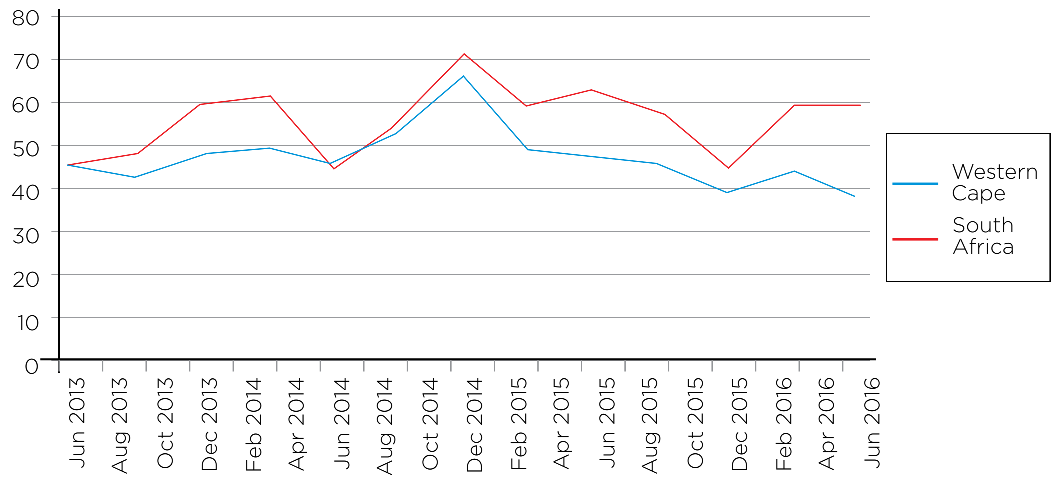
Figure 30 Business Confidence Index



Source: BER

The building sector continues to record high rates of Business Confidence Index, recording 59 index points in June 2016. Figure 31 below traces the building business confidence since June 2013:

Figure 31 Building Confidence Index

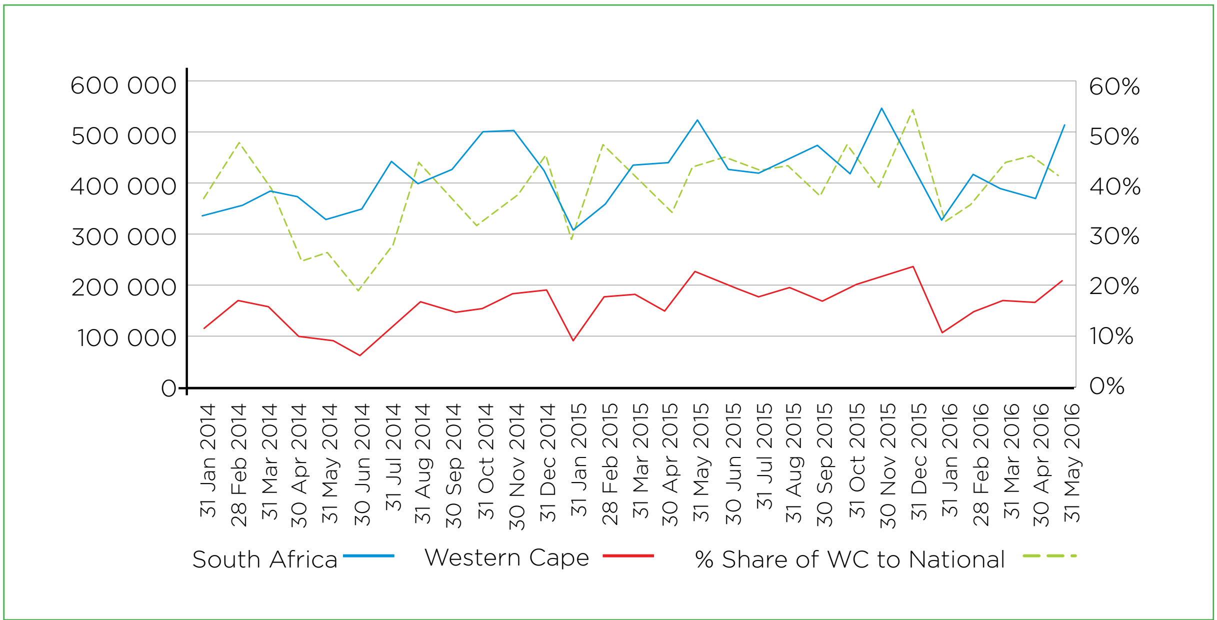


Source: BER

In the building sector, the total number of business plans completed for both residential and non-residential remained fairly high in the first half of the year. This seems to align with the high business confidence in the sector (for the Western Cape it is 50 Index points, which reflects positive confidence).

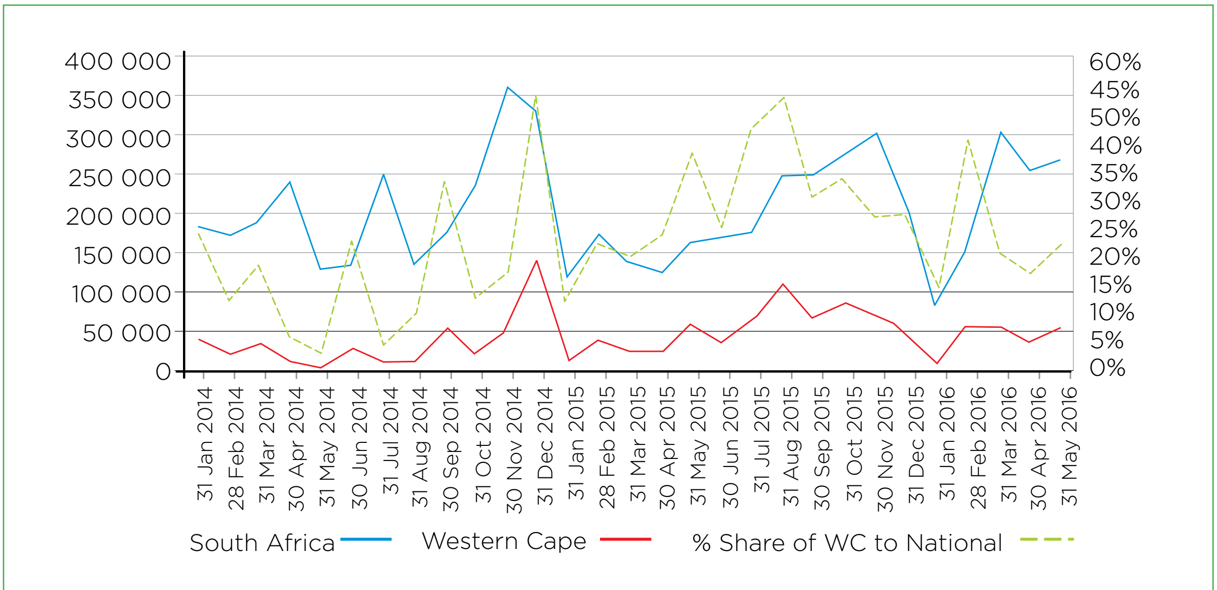
The graphs below track the trend for both residential and non-residential plans completed since 2014.

Figure 32 Total residential plans completed



Source: Quantec

Figure 33 Total non-residential plans completed



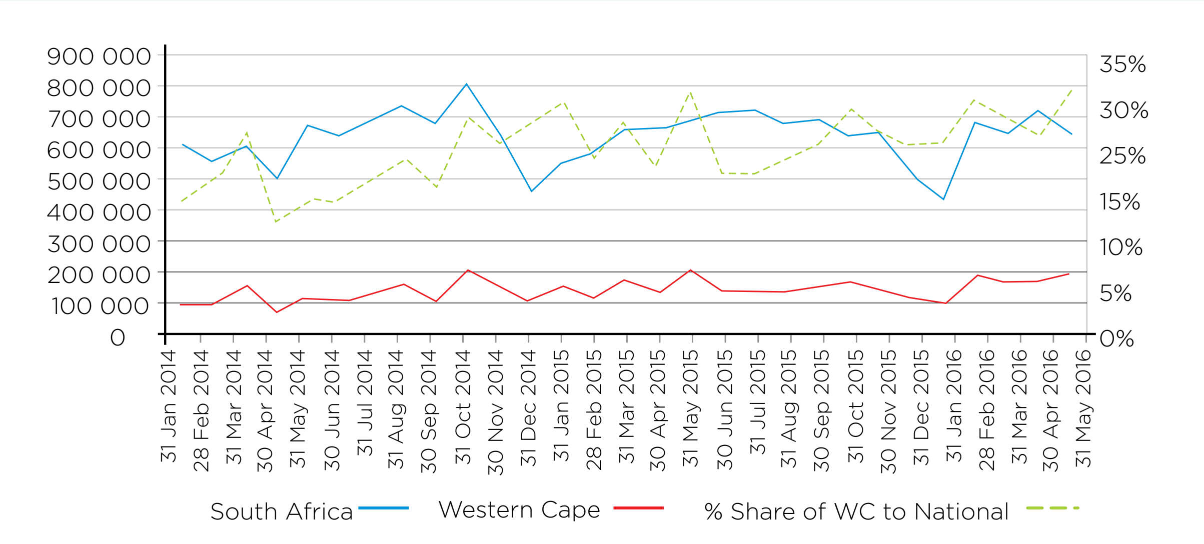
Source: Quantec

The underlying trend from both residential and non-residential plans completed reflects a dip at the beginning of every first quarter, followed by a subsequent recovery thereafter.

As of the end of May 2016, approximately, 20% of non-residential plans completed and over 40% of residential plans completed in the entire country were from the Western Cape.

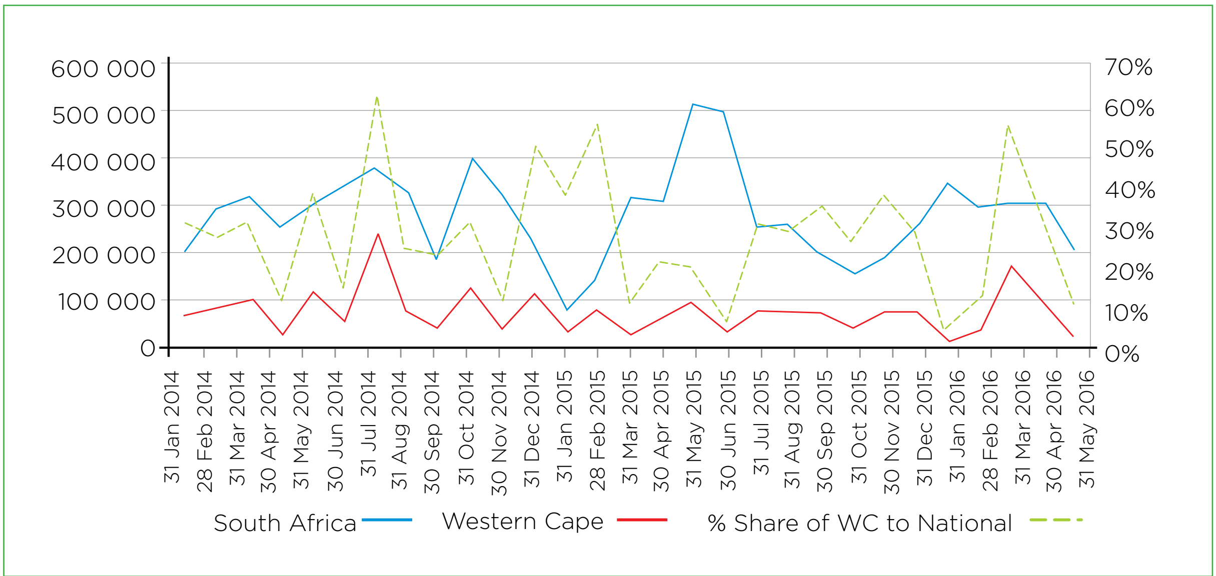
For building plans passed: at national level, both residential and non-residential plans passed declined, whilst at provincial level, total residential plans passed remained fairly constant at approximately 200 000, which is a slight increase after the January decline.

Figure 34 Total residential plans passed



Source: Quantec

Figure 35 Total non-residential plans passed



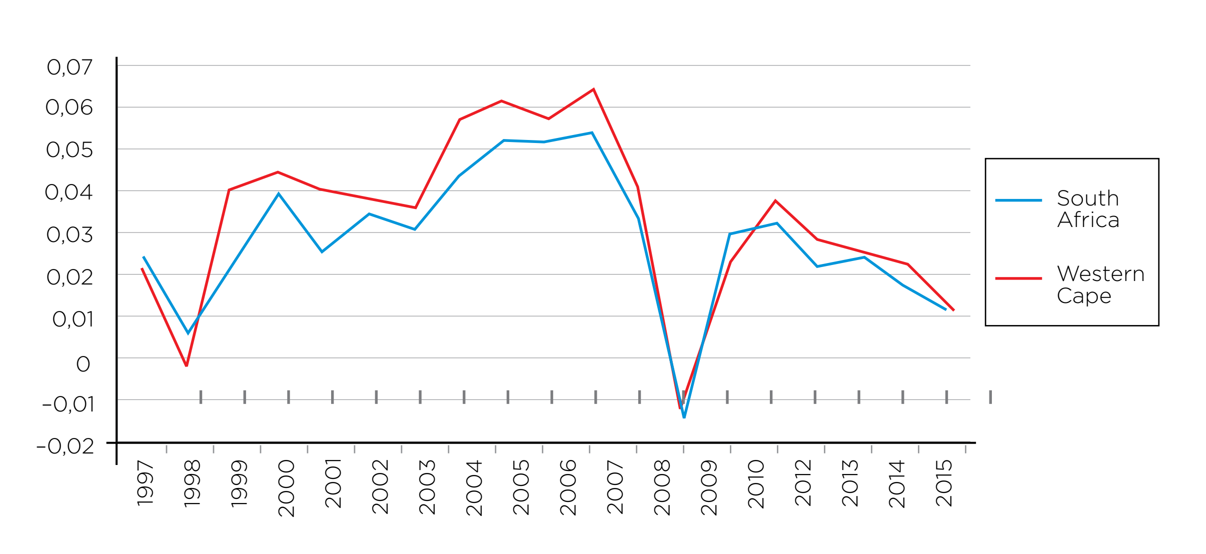
Source: Quantec

The key observation from the business confidence is that plans completed and plans passed viewed together with the labour market performance shows that the construction sector expanded by 3.3% in 2016Q2, creating 7 000 net jobs. The outlook for the sector seems positive given that the business confidence in the sector is above 50 index points (any measure below this shows negative confidence).

Economic performance – GVA

The average annual growth rate of the Gross Value Added (GVA) remained subdued at slightly above 1% in 2015. Growth outlook for 2016 at national level is well below 1%. The graph below tracks GVA annual average growth rate at constant prices (2010):

Figure 36 GVA average annual growth (at constant 2010 prices)



Source: IHS

In terms of economic performance by sector, the financial sector contributed significantly to the overall output for the province. The table below summarises sector performance.

Table 10 WC sector performance by GVA

Gross Value Added (GVA–R) at current prices (R1 000)						
	2010	2011	2012	2013	2014	2015
Agriculture	14 523 566	15 602 885	15 721 167	16 574 762	18 220 050	18 592 457
Mining	884 578	930 523	1 066 198	1 200 865	1 110 639	1 108 961
Manufacturing	55 382 816	56 375 461	60 583 682	66 169 348	70 643 368	72 482 165
Electricity	7 443 099	8 593 875	10 803 304	11 940 998	12 942 745	13 296 507
Construction	14 643 830	18 933 439	21 494 402	26 316 634	26 776 633	28 370 255
Trade	53 607 974	65 508 872	64 546 516	74 356 613	79 278 742	84 372 910
Transport	35 029 940	38 581 508	43 288 802	47 227 726	51 257 736	53 478 974
Finance	98 686 677	103256 267	114 859 965	119 340 224	123 364 317	130 997 833
Community services	58 367 141	65 202 251	70 801 415	76 507 352	82 085 140	87 435 564

Source: IHS

The table below shows that the Food, Beverages and Tobacco subsector recorded a steady growth in GVA

Table 11 GVA for selected subsectors

Western Cape: Gross Value Added by Region – Constant 2010 prices (R 1000)							
	Food, beverages and tobacco products	Textiles, clothing and leather goods	Wholesale and commission trade	Sale and repairs of motor vehicles, sale of fuel	Hotels and restaurants	Post and telecom-munication	Real estate activities
2010	21 047 415	3 096 826	17 972 055	6 149 908	4 206 527	11 868 757	29 172 578
2011	21 151 541	3 018 209	18 742 937	6 833 898	3 864 201	12 257 758	30 006 977
2012	21 424 946	3 012 046	19 698 623	7 294 769	3 899 597	12 599 657	30 438 228
2013	21 248 772	3 126 875	20 291 230	7 477 431	3 983 767	13 044 542	30 897 368
2014	21 647 280	3 115 773	20 595 497	7 403 434	3 917 511	13 542 042	31 229 369
2015	22 155 096	3 084 103	21 318 171	7 074 505	3 907 119	13 765 707	31 914 463

Source: IHS

Labour market

The labour market performance review is based on the Reserve Bank's projection of 0.4% economic growth for 2016, a high inflation rate of 7% (currently outside the 3 – 6% band) and high interest rates (which impact on consumption).

Employment

The Western Cape Province recorded a 3.8% decline in net employment on a quarter to quarter basis from 2 356 000 to 2 266 000 between 2016Q1 and 2016Q2. On a year-on-year basis, the rate of employment increased by 0.4%, thus creating 9 000 jobs. The key sector that performed consistently in terms of employment in the Western Cape Province on both quarter-to-quarter and year-on-year basis was the manufacturing sector. The sector created grew by 11.7% on a quarter-to-quarter basis creating 33 000 jobs in 2016Q2. On a year-on-year basis, it grew by 16.1% creating 44 000 jobs. The construction sector also fared well, growing by 3.3%, creating 7 000 jobs in 2016Q2. On a year-on-year basis it grew by 2.3%, creating 5 000 jobs.

The table below summarises employment performance by sector:

Table 12 Changes in employment levels

Changes in employment levels by sector				
Sector	National (Total)		Western Cape	
	Qtr-to-Qtr (2016Q1 – 2016Q2)	Yr-on-Yr (2015Q2 – 2016Q2)	Qtr-to-Qtr (2016Q1 – 2016Q2)	Yr-on-Yr (2015Q2 – 2016Q2)
Agriculture	–44 000	–44 000	–42 000	–29 000
Mining	–24 000	1 000	–2 000	–2 000
Manufacturing	67 000	–45 000	33 000	44 000
Utility	1 000	–25 000	–1 000	–7 000
Construction	25 000	–3 000	7 000	5 000
Trade	–22 000	18 000	–23 000	–34 000
Finance & other business services	–6 000	56 000	–32 000	41 000
Transport	–39 000	–60 000	–9 000	–5 000
Community & social services	–127 000	–4 000	–25 000	–8 000
Private household	39 000	4 000	5 000	3 000
Totals	–129 000	–112 000	–90 000	9 000

Source: StatsSA

The Finance and Other Business Services sector did not perform well in 2016Q2, contracting by 7.7%, but on a year-on-year basis the sector grew by 11.7%, creating 41 000 jobs. The trade sector remained one of the sectors that lost employment on both the quarter-to-quarter and year-on-year basis. Although the main reasons are not yet clear, one can only speculate that increase in interest rates coupled with the increase in inflation could have impacted on retail services.

An analysis of employment by sector reveals that the agriculture sector at both national and provincial levels consistently lost employment on both a quarter-to-quarter and year-on-year basis. This is not surprising given that the country faced the worst drought in a century.

The weak labour market in the second quarter of 2016 also saw the rate of unemployment in the province increase from 20.9% in 2016Q1 to 22.2% in 2016Q2. On a year-on-year basis, the rate increased by 0.5 percentage points from 21.7% in 2015Q2 to 22.2% in 2016Q2. The province remains the second lowest in terms of unemployment rate in the country after Limpopo that had an unemployment rate of 20.6% in 2016Q2.

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

Table 13 Unemployment rate by Province

	Official unemployment rate					Expanded unemployment rate				
	Apr–Jun 2015	Jan–Mar 2016	Apr–Jun 2016	Qtr-to-Qtr change	Yr-on-Yr change	Apr–Jun 2015	Jan–Mar 2016	Apr–Jun 2016	Qtr-to-Qtr change	Yr-on-Yr change
	%			Percentage points		%			Percentage points	
South Africa	25.0	26.7	26.6	–0.1	1.6	34.9	36.3	36.4	0.1	1.5
Western Cape	21.7	20.9	22.2	1.3	0.5	24.1	23.0	24.6	1.6	0.5
Eastern Cape	29.1	28.6	28.6	0.0	–0.5	42.5	44.6	43.8	–0.8	1.3
Northern Cape	32.7	27.8	27.4	–0.4	–5.3	41.1	38.7	39.8	1.1	–1.3
Free State	31.4	33.9	32.2	–1.7	0.8	38.9	39.4	38.1	–1.3	–0.8
KwaZulu-Natal	20.4	23.1	22.6	–0.5	2.2	36.3	38.8	39.7	0.9	3.4
North West	25.2	28.1	27.3	–0.8	2.1	40.1	43.1	42.6	–0.5	2.5
Gauteng	26.8	30.2	29.5	–0.7	2.7	31.3	33.3	33.0	–0.3	1.7
Mpumalanga	27.2	29.8	28.8	–1.0	1.6	39.1	41.2	41.0	–0.2	1.9
Limpopo	18.9	18.3	20.6	2.3	1.7	39.0	38.5	38.6	0.1	–0.4

Source: StatsSA

The Western Cape Province has the lowest expanded unemployment rate in the country of 24.6% in 2016Q2, which translates to 11.8 percentage points lower than the national average of 36.4%.

Apart from employment and unemployment trends, other key labour market indicators such as the labour absorption rate – which recorded a decline of 2.4 percentage points from 54.3% to 51.9% – also outperform the national average of 42.5%.

Debt level is another key indicator which impact on consumption. The number of civil summonses issued for debt in the Western Cape Province declined by about 7% from 11 126 to 10 303 summonses between June and July 2016. This decline suggests that household debt may be slowing as inflation was easing down to within the SARB band. The decision to keep the Repo rate unchanged may have assisted in maintaining inflation.

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