

**Western Cape Government  
Provincial Treasury**

**Provincial & Municipal Economic  
Reviews and Outlooks  
2014**

**Speech**

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Honourable Premier  
Honourable Speaker  
Honourable members of the Provincial Cabinet  
The Honourable Leader of the Opposition  
Honourable Members of the Provincial Legislature  
Heads of Provincial Departments  
Employees of the Western Cape Government  
Citizens of our Province

Madam Speaker, the overarching theme for the 2014 Provincial Economic Review and Outlook and the 2014 Municipal Economic Review and Outlook is the need for inclusive growth. This is because inclusive, sustainable economic growth is crucial if we want to create jobs and break the cycle of poverty in the Province. This is a top priority of the Western Cape Government.

However, since exiting the global recession of 2008/09, global economic growth has remained under significant pressure. Advanced economies were under strain as a result of weak domestic demand, later exacerbated by fiscal constraints. Meanwhile, emerging and developing economies, led by China kept the global economic boat afloat. However, the roles have changed somewhat over the past few quarters with demand in emerging and developing economies starting to slow, while growth in advanced economies is stabilising.

### **Global Economic Growth**

Global economic growth moderated for the third consecutive year to 3.2 per cent in 2013, from 3.5 per cent in 2012. Advanced economies are showing signs of more robust growth, while downward pressure on growth in emerging and developing economies intensifies.

Speaker at the time the PERO was being finalised, during July 2014, the International Monetary Fund (IMF) was forecasting global output to rise by 3.4 per cent in 2014 and by 4.0 per cent in 2015. However, since then it has been downgraded to 3.3 per cent in 2014 and 3.8 per cent in 2015.

### **South Africa Economic Growth**

The IMF has also downgraded SA GDP 2014 forecasts from 1.7 per cent (July 2014) to 1.4 per cent (in October 2014) while advanced economy growth is expected at 1.8 per cent and emerging economies at 4.6 per cent in 2014.

Madame Speaker, it is clear from these forecasts that South African economic growth is expected to lag behind other emerging economies this year.

This is largely due to the country being plagued by a host of domestic issues - including labour unrest, infrastructure bottlenecks and a persisting current account deficit - which have weighed heavily on economic growth. Many of these problems are largely a result of a failure of leadership at a national level to implement the right policies, many of which are proposed in the National Development Plan, to get our economy growing again.

Growth of only 1.9 per cent was recorded in 2013, falling from 2.6 per cent in 2012. Most of the decline in economic activity during the first quarter of 2014 can be attributed to a 24.7 per cent and 4.4 per cent quarter-on-quarter fall in mining and manufacturing production during the quarter respectively. The fall in mining activity was largely due to labour unrest in the platinum sector which started towards the end of January 2014.

As indicated by the IMF, the situation will not be improving in the near future.

Households and growth in real consumer spending is expected to remain under pressure for the remainder of 2014 as rising inflation, higher interest rates, subdued employment and credit growth weigh on household income.

General emerging market sentiment has, in recent quarters, had a noticeable impact on the South African economy. The vulnerability of the rand remains a key risk.

It is clear that if we want to attract investment into the country, national government needs to introduce policies that will restore confidence in the economy.

### **Western Cape Economic Growth**

Speaker, the decline in national economic growth has also negatively affected growth in the Western Cape.

After accelerating to an annual rate of 3.9 per cent in 2011, economic growth in the Province slowed to 2.9 per cent in 2012. However, this was still 0.3 per cent higher than national growth.

Speaker, the better performance by the Western Cape economy is a result of both the structure and source of economic activity in the Province. The tertiary sector which makes up a greater proportion of the Western Cape economy is also the sector which enabled the Province to outperform the rest of the country.

However, the fact that the Western Cape economy is also more services orientated; means that it is more likely to be negatively affected by a slowdown in consumer spending than the rest of the country. On the other hand, however, the Western Cape is also less exposed to the mining sector and the lack of mining activity which would likely boost provincial growth relative to the rest of South Africa.

The risk to the Western Cape economy posed by the outlook for global growth is mixed. Although positive for the Western Cape in that our major export partners are growing, this outlook too is subject to downside risk. The weaker than expected growth in the US, Euro area and Sub-Saharan Africa will dampen demand for Western Cape exports. On the other hand, the reverse (i.e. faster than expected growth) will provide a boost to exports. Exports could be further supported should the rand exchange rate depreciate by more than expected. The faster growth in advanced economies should boost Western Cape exports.

## **Development of the Western Cape Economic Sectors**

Speaker, the Western Cape economy has developed from its agricultural beginnings, with a strong complement of food and beverage producers, to higher value-added manufacturing activity and a range of service activities (including tourism). The contemporary regional economy is, however, still characterised by a strong agro-processing sector.

Construction was the fastest growing sector between 2000 and 2013, most of this growth was centered in the period 2004 to 2007, which was characterised by a residential and non-residential building boom and strong private fixed investment linked to the robust economic growth conditions and an ambitious public sector capital spending drive.

The second fastest growing broad sector was finance, insurance, real estate & business services. The business services sector, the largest subsector, contributed 22.2 per cent to GDP in 2013. Despite the slowdown in recent years, the sector made the biggest contribution to job creation over the 2000 to 2013 period.

The transport, storage & communication sector expansion was driven mostly by strong growth in the communication subsector, driven by the incremental liberalisation of the telecommunications market, new product developments and mobile telephony.

The wide diversity of products underpins why the agriculture, forestry and fishing sector remains a key industry in the Western Cape economy, particularly in the rural areas. Despite its relatively small direct contribution to regional GDP, the Western Cape agricultural sector accounts for 23.4 per cent of national agricultural output. Given that the Province's contribution to national GDP is estimated at 15 per cent in 2013, the Western Cape has a clear revealed comparative advantage in agriculture, which is also revealed in agricultural exports.

The economic contribution of primary agriculture is supported by various value chains as well as forward and backward linkages within the manufacturing and services sector, the latter importantly through tourism. Increasing farmer participation

in the full food value chain via beneficiation of agricultural produce could stimulate inclusive growth and employment creation.

Going forward, the agricultural sector is likely to remain a pillar in the Western Cape economy, especially in rural areas. However, the sector is subject to key risks which could not only dampen short-term growth prospects, but also undermine the longer-term potential of the sector. These risks include a lack of clean water sources, pressure on profitability, land reform policies as well as crime.

Speaker, the NDP has set a target of 20 per cent transfer of agricultural land to previously disadvantaged South Africans by 2030. A more collaborative and concerted effort is required to fundamentally change the agricultural landscape to reflect a modern and inclusive sector. The Western Cape is willing and able to play its part. National Government must however assist by removing the red-tape which poses a real constraint to the future growth of this very important sector of the Western Cape economy.

Speaker, the national annual crime statistics released last month by National Police Minister, Nkosinathi Nhleko, and National Police Commissioner, Riah Phiyega, paints a bleak picture of the South African Police Services' ability to control and combat crime in the Province, despite the commitment from the SAPS to provide better policing service delivery.

The Western Cape Government's commitment to address the scourge of crime remains unwavering. We do however need the National Government to provide the Western Cape with an equitable distribution of SAPS resources in response to the latest crime statistics and policing needs and priorities.

Speaker, tourist spending has a strong, positive and sustainable impact on employment in many sectors and districts of the Western Cape economy. Moreover, the provincial catering and accommodation sector, which is linked to tourism is expected to outperform relative to the Western Cape economy overall. Expressing tourist spending as part of total spending, the so-called tourism product ratio reveals the reach of tourism into other sectors. It depicts why tourism is such an important sector through which to achieve inclusive economic growth. For example, 37 per

cent of spending in restaurants and 31 per cent of spending on sports and recreation are linked to tourism. Tourism is also linked to 'less obvious' sectors such as 16 per cent of all retail automotive fuel sales and 10 per cent of all clothing retail sales.

A positive outlook for tourism demands that attention be given to the general risks to income levels of consumers, both locally and abroad. However, consumers also need the ability and desire to spend in the Western Cape and recently introduced changes to tourist visa requirements could detract from the Province's and the rest of the country's attractiveness. These proposed visa regulations will have disastrous consequences for the whole economy. Local businesses are already dealing with the fallout. This threat to the business, film and leisure tourism industry resulting from these national regulations does not augur well for the Western Cape and we once again urge the national government to reconsider its stance on this issue.

Speaker, all economic activity, particularly agriculture and tourism, are subject to the increasing pressure exerted by a growing population and economic production on scarce resources and the environment. This represents the realm of the green economy, which poses a constraint on conventional production processes, but also presents a number of exciting development opportunities.

## **Employment**

Employment in South Africa peaked at 14.8 million in late 2008, just prior to the economy going into recession. The impact on the local real economy was initially relatively benign, but the impact on the labour market was dramatic: close to one million jobs were lost during the first nine months of 2009 and total employment eventually reached as low as 13.7 million in the third quarter of 2010.

The Western Cape's population has grown relatively rapidly over the past five years; as a result, there are now 4.2 million potential workers resident in the Western Cape. The Western Cape's population is estimated at approximately 6.1 million in the 2014 mid-year population estimates, representing roughly 11.3 per cent of the national

population. Working-age cohorts account for 67.3 per cent of the Provincial population, while those aged at least 65 years represent 6.2 per cent.

Part of the reason for the growing provincial population is migration, specifically net in-migration from other provinces. Statistics South Africa estimates that the Western Cape has received just over 300 000 more in-migrants than the number of out-migrants who left the Province between 2006 and 2011.

In South Africa, the narrow unemployment rate is estimated at 25.4 per cent in the second quarter of 2014. Including the non-searching unemployed raises the unemployment rate to 33.4 per cent. While in the Western Cape, the unemployment rate is estimated at 23.5 per cent and 24.4 per cent using the narrow and broad definitions respectively.

While, the Western Cape has a lower unemployment rate than the rest of the country, it is concerning that 50.4 per cent of 15 to 24 year olds in the provincial labour force are unemployed highlighting the persisting youth unemployment problem.

### **Population Growth**

The growing population of the Western Cape has increased service delivery pressure on local municipalities and the provincial government despite having limited resources.

The provincial population is predicted to continue to grow by 10.5 per cent between 2014 and 2024 - a total increase of just over 630 000 people. At a district level the pattern of growth is also not even, ranging from a declining population in Oudtshoorn to an increase of 18.6 per cent in Bitou. The City of Cape Town is projected to increase its population by 9.8 per cent over the same period.

However Speaker, despite this pressure, the Province continues to have lower inequality levels than the rest of the country.

In 2011, Gini coefficient registered at 0.58 while the Gini coefficient for South Africa was 0.70. The district municipality Gini-coefficients range between 0.57 and 0.59, with the City of Cape Town topping the scale.

### **Municipal Economic Review and Overview**

Madam Speaker I will now turn my attention to the municipalities and their respective local economies.

The recovery of local economies from the 2008 - 2009 recessions is mixed, with some regions struggling while others show better signs of recovery. Economic growth in Western Cape regional economies is expected to range between 2.1 and 2.9 per cent in 2014, with the Eden and Overberg Districts continuing to grow the fastest in the Province.

Although Eden's real GDP growth declined to 0.3 per cent in 2009 from 5.6 per cent in 2008 it recovered to 3.4 per cent in 2010. Growth accelerated to 5.1 per cent in 2011 before tapering off to 2.5 per cent in 2013. The Eden economy is expected to record a growth rate of 2.9 per cent this year.

The Overberg economy experienced a sharp drop from 7.6 per cent in 2008 to 0.8 per cent in 2009. It rebounded nicely to 5.2 per cent in 2011 but tapered off again to 2.1 per cent last year. It is expected to average 2.9 per cent in 2014.

The Cape Winelands District (CWD) was severely affected by the global recession. The region began to recover in 2010, with real GDP growth coming in at 3.6 per cent in 2011, but tapered off to 1.9 per cent last year and is expected to average 2.4 per cent in 2014.

The Cape Metro showed signs of recovery in 2010 - 2011, but growth tapered off to 1.8 per cent last year and is expected to average 2.2 per cent in 2014.

The West Coast District (WCD) showed strong signs of recovery in 2011 from the 2009 recession, registering a 4.2 per cent real GDP growth rate. However, growth tapered off to 2.1 per cent last year and is expected to average 2.1 per cent again in 2014.

The Central Karoo District (CKD) economy was heavily impacted by the 2009 recession with growth stalling in 2009. The District began to show signs of recovery in 2010 growing by 2.3 per cent. Growth accelerated to 3.9 per cent in 2011 and thereafter tapered off to 1.7 per cent last year and is expected to average 2.1 per cent in 2014.

Speaker, over the next five years (2014 - 2019), sectors which are expected to perform better include construction, finance & business services, transport & communication as well as manufacturing. The wholesale, retail trade and accommodation sector also has a potential to grow higher.

In the Cape Metro, construction, wholesale & retail & accommodation, transport & communication and the financial & business services sectors all grew above or equal to average during 2000 - 2013. It is expected that the construction sector will be the highest growth sector and will be closely followed by the transport, storage & communication sector and the finance and business services sector.

Between 2010 - 2013 employment levels in the finance & business services sector recovered to 100 per cent or more of the pre-recession peaks in most local municipalities. Breede Valley, Laingsburg and Hessequa municipalities are all over 80 per cent of their pre-recession employment peaks, but they have not recovered fully.

Employment recovery in the manufacturing sector between 2010 - 2013 was over 75 per cent close to the pre-recession peaks in most local municipalities, with the exception of Saldanha Bay and Cederberg municipalities.

The agriculture sector still faces challenges with regards to job losses as shown by the poor employment recovery levels as none of the municipalities have managed to reach their pre-recession employment peak levels.

Lay-offs among semi & unskilled workers in agriculture, construction and manufacturing between 2000 - 2013 are a cause for concern. However, the services sector showed an increase in the employment of semi & unskilled workers. The

finance and business services sector has recorded some gains in employment during the recovery period.

For the Cape Metro, the sustained job losses in manufacturing and construction during the economic recovery period are also cause for concern, as these, combined with those in agriculture and some in services, exceeded the net job gains in the other services sectors, notably business services. The Metro is faced with the provincial-wide challenge of closing the growing gap between skills-intensive labour demand associated with a sophisticated modern economy and the available labour supply.

In the Eden District, the overheating property sector in the preceding years resulted in a major construction slump in which many workers lost their jobs even during the economic recovery period. Steep job losses also continued in the agriculture and manufacturing sectors, exacerbating the skills mismatch in the labour market. The growth in the services sector overshadowed the losses in the agriculture, manufacturing and construction sectors.

In the Overberg, deep retrenchments continue to occur in the agriculture and construction sectors, worsening the skills mismatch in the local labour market. Over the years, the region has developed a vibrant financial and business services sector, which is also a key source of employment. In all municipalities within the District, manufacturing employment remained 10 - 15 per cent below their pre-recession peaks by the end of last year.

In the Cape Winelands District, net retrenchments in key sectors such as agriculture, manufacturing and construction continued during the first four years of the economic recovery. One fifth of the region's workforce is employed in the agriculture sector. It is critical that the services sector be expanded so as to absorb and upskill semi and unskilled workers. The services sector added substantial semi and unskilled jobs despite its general skills intensity.

At the West Coast District, unemployment has been increasing. There is a great need to employ, train, retrain and upskill workers as the agricultural, manufacturing

and construction sectors have shed semi and unskilled labour on a large scale, not fully compensated for by the net job creation in the skills-intensive services industries.

In the Central Karoo region a contraction in employment over the period 2000 - 2013 was experienced. Net job losses characterised the construction sector, which combined with agriculture, account for the bulk of semi and unskilled labour retrenchments in the region.

The informal sector tends to absorb job losses in the formal sector and serves as a kind of dualistic labour market, where informal employment acts as a residual 'sponge' that soaks up unskilled, surplus labour from the formal sector.

Sectors and municipalities witnessing large net retrenchments in the formal economy, tended to experience an inflow in their informal counterparts, revealing a de facto counter-cyclical role for the informal sector. For example, in the Cape Metro, the recession caused significant net job losses (61 000) in the formal sectors of the regional economy while there were 59 000 net jobs created in the informal sector over the same period.

Speaker, regions experiencing high economic growth are also seeing improvements in socio-economic conditions, and conversely, economies struggling to grow are not seeing improvements in socio-economic conditions.

The Cape Metro economy grew at a faster rate than the population (2.6 per cent per annum), which has led to rising per capita incomes. This indicates higher average standards of living for the inhabitants of the City. The Cape Metro boasts the second-fastest increase (between 2001 and 2011) in per capita income compared to the other metro's in the country.

The Cape Winelands District experienced rising living standards over the past decade due to the fact that the economy grew faster compared to population growth, which led to higher per capita incomes in the region. The proportion of households that are indigent has fallen from 2011 to 2014 and the increasing HDI from 2001 to 2012 is an indication that economic growth is being translated towards human development within the Cape Winelands District. However, despite

substantial improvements, poverty levels are still relatively high and need to be addressed.

In Eden District, the economy grew at a faster rate than the population, which has led to an increase in per capita incomes in the region. This indicates higher average standards of living for the inhabitants of the region. All municipalities shared in this trend, except Hessequa. Nonetheless, the Eden District has the highest levels of youth unemployment (29.3 per cent) amongst the districts within the Province.

The economy grew at a faster rate than the population within the Overberg District which has led to an increase in per capita income in the region. This indicates higher average standards of living of the inhabitants of the region, which is true for all Overberg municipalities. The increasing Human Development Index (HDI) between 2001 and 2012 is an indication that the rapid economic growth is being translated towards human development within the Overberg District. Nonetheless, the proportion of households that are living in poverty has fallen only slightly between 2001 and 2010.

Given a relatively low population growth rate (1.3 per cent per annum, 2001 - 2011), per capita incomes in the Central Karoo District have risen as the economy grew at a faster rate (4.0 per cent per annum). This indicates higher average standards of living for the inhabitants of the region.

In the West Coast District per capita income only increased in Saldanha Bay Municipality, while it declined for all the other municipalities in the region between 2001 and 2011.

### **Implications of the above for policy, planning and budgeting in the Western Cape and its local municipalities**

Speaker, the above has the following implications for policy, planning and budgeting in the Western Cape and its local municipalities.

Due to the modest growth outlook, the economic review and outlook over the next few years does not show significant economic growth. The South African and Western Cape economy are consistently showing signs of a 'middle income trap'

which are low investment, slow growth in the secondary industry, limited industrial diversification and poor labour market conditions.

Therefore finding new markets to increase and maintain export growth which could focus on the areas in which we have a comparative advantage such as agro-processing and tourism with a focus on value chains is a strategic option. However, a holistic approach should be taken and the manufacturing sector as well as the tertiary sector remains key.

Efforts to improve well-being and social equity through economic development, growth and job creation are threatened by inadequate responses to environmental risks and ecological scarcities. Inclusive growth cannot be sustainable if green economy issues are not comprehensively considered.

Province's ramping up domestic demand is also important which implies increasing employment and decreasing unemployment.

Apart from the need to accelerate employment growth, key challenges for policymakers are to ensure that employment gains going forward are more sustainable, are more aligned to the profile of our available human resources, and are more resilient in the face of economic downturns. This will be key to ensuring that the benefits of economic growth are truly shared by all.

The challenge is to move to growth based on high productivity and innovation. This requires investments in infrastructure and education and links to one of the biggest constraints which is the issue of lack of appropriate skills.

In the context of the Western Cape mutually reinforcing synergies can be achieved by the combination of space-neutral policies (policies that include equal education, equal public health and access to markets and work) aimed at the development of human capital (education and health, etc.), social infrastructure and access to markets with place-based policies aimed at local institution building and the utilisation of local knowledge and initiative.

## **Conclusion**

Speaker, in conclusion, it is clear that South Africa and the Western Cape is facing tough times. It is also clear that while the Western Cape is doing better than the rest of the country it can do even better if it were not hamstrung by some of the policies of the national government. Three examples of this are policies relating to visas, policing and the development of our harbours.

The Western Cape is willing and able to address these challenges head on and reiterates its commitment to implementing the National Development Plan.

The Western Cape will continue to find innovative ways of creating sustainable jobs for the people of Western Cape as this is the only way in which we can meaningfully address the scourge of poverty and restore dignity to the citizens of the Western Cape. Our response: a carefully crafted plan of action and several new interventions will form the basis of our 2014 Medium Term Budget Policy Statement which I will deliver in this house in November.

Speaker, I now table the 2014 Provincial Economic Review and Outlook and the 2014 Municipal Economic Review and Outlook for deliberation by this Legislature.

I thank you.

Ivan Meyer  
Minister of Finance  
Western Cape Government