

**Provincial Government Western Cape  
Provincial Treasury**

**PROVINCIAL ECONOMIC  
REVIEW & OUTLOOK  
2010**



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# Foreword

The 2010 Provincial Economic Review and Outlook (PER&O) provides an overview of our economy over recent years. The information contained herein has been used to guide the provincial administration as it sets its policy priorities for the medium term.

This year's PER&O reaffirms that economies in developing countries are continuing to grow after the recent economic recession. This has resulted in an upward revision of the global economic growth estimates. The South African economy followed some of its major trading partners out of recession during the third quarter of 2009.

Capital inflows have provided an important source of funding but have also partially contributed to the strengthening of the rand against other currencies. The other primary contributor has been the weakness of the US dollar. Monetary policy has adjusted to the strengthening of the currency and weak demand, with interest rates declining in response to lower than expected inflation. The employment situation, however, remains dire and the further shedding of jobs has been identified as a major risk.

Forecasts for the Western Cape suggest that real GDP growth is again likely to outperform the pace of growth at national level, influenced largely by growth in export markets. In the longer run, growth of the Western Cape economy will depend on the development of the dominant sectors of the regional economy. It will also depend on structural transformation in changing sector patterns of growth.

As is the case nationally, inequalities are entrenched in the provincial labour market. Unemployment in our province is the cause of several factors, namely: the inability of the labour market to absorb the numbers of new entrants into the job market; job losses, which occurred as a result of the economic recession; and the mismatch between the skills demand and supply to the labour market. Addressing these challenges will be a key focus area of the Western Cape Government. Special focus will be placed on youth unemployment, which remains a pressing concern in that almost 70 per cent of the unemployed in the Province are under the age of 35 years.

Going forward, we will continue to devise innovative strategies for stimulating economic growth. The Chinese and Brazilian examples, and studies such as the Province's Growth Potential of Towns report, confirm that the engine of economic development lies at the local and regional levels. By targeting dynamic regions, we can unlock the economic growth and social development that we require to grow our Province.



**Alan Winde**

**Minister of Finance, Economic Development and Tourism**

25 November 2010



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# Abbreviations

BER	Bureau for Economic Research
BPO	Business Process Outsourcing
CAD	Current Account Deficit
CCI	Consumer Confidence Index
CMT	Cut, Make and Trim
CPI	Consumer Price Index
CSP	Community, Social and Personal
CTCP	Clothing and Textile Competitiveness Programme
CTFS	Cape Town Film Studios
DEDT	Department of Economic Development and Tourism
EU	European Union
FET	Further Education and Training
FIFA	Federation Internationale de Footbal Association
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GET	General Education and Training
GHS	General Household Survey
IDZ	Industrial Development Zone
ILO	International Labour Organisation
IMF	International Monetary Fund
IPAPs	Industrial Policy Action Plans
IT	Information Technology
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey (Stats SA)
MEDS	Microeconomic Development Strategy
MPC	Monetary Policy Committee
NIPF	National Industrial Policy Framework
OECD	Organisation for Economic Cooperation and Development
PDI	Personal Disposable Income
PER&O	Provincial Economic Review and Outlook
PI	Production Incentive
PMI	Purchasing Managers Index
PPI	Producer Price Index
QLFS	Quarterly Labour Force Survey

RRSA	Rest of South Africa
SARB	South African Reserve Bank
SPVs	Special Purpose Vehicles
Stats SA	Statistics South Africa
<b>the dti</b>	The Department of Trade and Industry (South Africa)
UIF	Unemployment Insurance Fund
UK	United Kingdom
UNIDO	United Nations Industrial Development Organisation
US	United States
USB	University of Stellenbosch Business School
WCEDA	Western Cape Economic Development Agency
WEO	World Economic Outlook
Wesgro	Western Cape Trade and Investment Promotion Agency
WTO	World Trade Organisation

# Executive summary

The average income level of the Western Cape population is significantly higher than the national average and in this sense the Province can be seen as relatively well-off. Nevertheless, the need for rapid economic growth and broad-based economic development remains high in order to alleviate poverty through job creation.

The Province has an open economy, which depends not only on the production of goods and services sold in other provinces but also for export to other countries. Consequently, the economy of the Province closely depends on the state of the global and national economic environment. In Chapter 2 economic conditions in the global and national economy are reviewed prior to a review of Western Cape economic conditions.

After contracting by 0.6 per cent in 2009, the global economy grew at an annualised rate of 5 per cent during the first quarter of 2010. However, in the second quarter of 2010 the global economy faced some significant problems. Public finances in a number of (mainly) Southern-European countries, turned out to be worse than previously thought and indications are that the economic recovery in major economies such as the US and Japan will take place at a noticeably slower pace.

Nevertheless, the good start to 2010 as well as robust growth in developing economies, has resulted in the continued upward revision in the global economic growth estimates published by the International Monetary Fund (IMF). In early July, the IMF adjusted its 2010 global growth forecast to 4.6 per cent from April's estimate of 4.2 per cent. The latest October forecast saw a further upward adjustment to 4.8 per cent. However, the level of growth seen during the early stages of the rebound is unlikely to be sustained. In fact, in October the global lender down scaled the growth projection for 2011 slightly to 4.2 per cent, from 4.3 per cent in July and April. The outlook remains uncertain with a number of risks, including how economies react to the fiscal austerity measures being implemented in a large number of countries.

The South African economy followed some of its major trading partners out of recession during the third quarter of 2009. However, assuming that the global recovery will continue (albeit at a relatively slow rate), the outlook for the South African economy is one of a sustained but gradual recovery from the

global recession. For 2010 as a whole, Gross Domestic Product (GDP) growth is expected to average 3 per cent. The Bureau for Economic Research (BER) has adjusted its GDP growth forecast for 2011 marginally upwards to 3.4 per cent. The 2011 GDP growth acceleration stems mainly from a smaller negative net export contribution (given slower import growth).

The employment situation, elaborated on in Chapter 4, remains dire and an important risk is that the economy continues to shed jobs, a situation that could develop in the wake of recent wage settlements in excess of inflation.

The Western Cape, with an average growth rate of 5.7 per cent between 2004 and 2008, experienced the highest regional average real annual economic growth rate. Growth outcomes for 2009 indicated that although the Western Cape economy contracted by 1.2 per cent, the contraction was somewhat less pronounced than for the South African GDP, which contracted by 1.5 per cent (at basic prices).

Indications are that the Western Cape real GDP growth will average 2.8 per cent in 2010, increasing to 3.2 per cent growth in 2011 and accelerating to an average above 4 per cent between 2012 and 2015. Western Cape growth is again likely to outperform the pace of growth at national level.

The growth outlook for the Western Cape economy is influenced by growth in export markets. Looking ahead, and bearing in mind that exports in 2009 were significantly lower in real terms (having adjusted for inflation) than in 2008 and therefore represents a low base from which to grow. Forecasts anticipate exports of goods and services to grow by an average annual rate of 4.5 per cent during 2009-2013. Manufactured exports are projected to grow by 5.7 per cent during this period.

In the longer run growth of the Western Cape economy will depend on the development of the dominant sectors of the regional economy and on the structural change in changing sector patterns of growth. These issues are discussed in Chapter 3. Much will depend on the provincial government's efforts to encourage and facilitate the growth of selected sectors. These sectors have been identified following the development of the Micro-economic Development Strategy (MEDS) in the Province and are supported by a number of Special Purpose Vehicles. It is expected that the envisaged Western Cape Economic Development Agency will continue to encourage the development of selected sectors, apart from promoting the overall development of the Province.

In assessing the development of economic sectors it is important to consider the structural change and fundamental characteristics of the Western Cape economy. An outstanding feature of this change is the increase during the period 1995-2009 in the relative contribution of services (finance and insurance in particular) to economic activity, matched by a fall in the relative contribution of manufacturing to the Western Cape GDP from 23.4 per cent in 1995 to 16.3 per cent in 2009. From a policy perspective faster growth of

manufacturing is desirable. Although real annual growth in manufacturing output is forecasted from 2009 to 2010, and also over the medium term from 2009 to 2013, the growth rates anticipated are lower than the growth rates forecasted for services, which means that the relative importance of services will increase.

In commodity production the agricultural value chain remains an important sector in which the region has a clear comparative advantage. In manufacturing, the decline of the textiles and clothing sector is a matter for concern but there are positive policy developments that could improve the competitiveness of garment production. In services, the growth in the importance of finance and insurance with its contribution in 2009 of 16 per cent to the Western Cape GDP, is striking, as are the large contributions of wholesale and retail trade and commercial services. In the latter category the growth in the call centre and Business Process Outsourcing (BPO) is notable. Much is also expected of the oil and gas sector with Cape Town being well-placed to benefit from developing into a prominent centre of providing services to the growing upstream oil industry in Africa. Saldanha could also benefit from oil and gas developments, which could be expanded into broader industrial development should the establishment of an Industrial Development Zone prove viable.

In preparing the sector review a problem frequently encountered was the negative impact of the strong rand on export-oriented industries such as yacht building and fruit canning and on industries that have to compete with imports, of which clothing is a good example. While it is generally acknowledged that production of tradable goods and services for export should be a growth engine for the Western Cape economy, an overvalued exchange rate can be a serious constraint. In Chapter 2, however, the expectation of a fall in the exchange rate has been noted.

Economic growth is expected to distribute its benefits through job creation. Chapter 4 addresses labour market issues and points to the fact that although the effects of the global financial crisis took some time to impact on the real economy in South Africa, it is now clear that the labour market has borne the brunt of the adjustment. The collapse in global trade was a key mechanism through which the financial crisis was transmitted to the South African economy, with the economy shedding 6 per cent of jobs nationally between the first quarters of 2008 and 2010. Within the Western Cape, however, the effects have been difficult to discern from the Quarterly Labour Force Surveys. Indeed, aggregate employment in the Province seems to have remained relatively stable on a quarterly basis since early 2008.

As is the case nationally, important inequalities are entrenched in the provincial labour market. They are perhaps more easily detectable in the Western Cape given the Province's unique demographic composition. A consistent labour market disadvantage is revealed for Africans vis-à-vis Coloureds, and for both groups vis-à-vis Whites. Africans are significantly

under-represented in formal employment and significantly over-represented in both informal employment and unemployment, relative to their share of the labour force, while Coloureds are slightly under-represented in informal employment.

At the same time, youth unemployment remains a pressing concern, with almost 70 per cent of the unemployed in the Province being under the age of 35 years. High rates of unemployment amongst young people occur despite the fact that younger generations tend to have superior educational attainment profiles. Young workers in the Western Cape are substantially more likely to be employed in wholesale and retail trade and less likely to be employed in community, social and personal (CSP) services and private households than their older counterparts.

Recent job losses that have been concentrated, nationally, amongst the youth, point to the vulnerability of young workers. The youth are often the first to be laid off when employers are forced to reduce their workforces. This vulnerability is confirmed in the analysis. Young workers are less likely to be employed in permanent positions, are less likely to have employers that make contributions to pension funds or medical aid, and are less likely to be entitled to paid leave. The rapid loss of employment amongst young people that has occurred nationally over the past two to three years should encourage a deeper understanding of the nature of employment growth that occurred during the boom years, with a view to promoting more sustainable employment of young workers. Understanding the underlying causes of youth unemployment is key to the design of more effective policy measures aimed at ensuring that more young people are absorbed into employment. Apart from the various moral and social arguments for greater absorption of young work seekers into employment, the youth represent the South African economy's future workers and investment into these individuals is a social and economic imperative.

The unemployed represent a significant drain on household resources, with the majority of the unemployed across all ages relying on other household members to support them. Where household members are recipients of welfare grants, this has the effect of diluting the grant amount and weakening the ability of these grants to address poverty amongst their target populations. Households consequently become constrained in their spending and investment decisions. Of particular concern is the ability of households to invest in human capital, in terms of both education and health. Without a strong, quality education system that is accessible to all individuals irrespective of socio-economic status, such constraints on human capital investment will only perpetuate the labour market inequalities that characterise the South African labour market.

# 1

## Introduction

The 2009 Provincial Economic Review and Outlook (PER&O) was researched and written at a time the worst recession in the major countries of the industrialised world since the Great Depression was experienced, a recession, which also left its footprint in the South African and Western Cape economies. The 2010 PER&O is submitted in a more favourable economic environment; although the global economy is not yet quite out of the woods, South Africa and her major trading partners are recuperating and experiencing real growth. The South African economy and the Western Cape Province were aided in their economic recovery by hosting the world's premier sporting event, the 2010 Federation Internationale de Football Association (FIFA) World Cup, which injected a healthy dose of infrastructure spending into the economies, and subsequent accelerated economic activity associated with the event itself.

Considered within the context of long term development, the 2010 FIFA World Cup, briefly discussed in Chapters 2 and 3, was a short term event. It added to the capital stock of the economy in the form of infrastructure improvement and also provided a confidence booster in proving that South Africans can efficiently address major challenges. It thus has the potential to positively impact on the long term trajectory of the economy. But the fact remains that it was a once-off event and that the economy is now 'back to business as usual', facing the challenges of growing the economy in a way that will ensure prosperity for all. As may be expected, the 2010 PER&O will consider the impact of the 2010 FIFA World Cup and global economic developments on the economy, both nationally and provincially, but attention will largely fall on the micro-economic foundations of economic development. To this end, special consideration is given to developments and prospects at the level of the sub-sectors of economic activity.

## 1.1 The Western Cape economy: a summary outline

The economy of the Western Cape is characterised by a substantial degree of diversity. In primary production, the long sea board of the Province contributes to a significant fishing industry, while agricultural production is influenced by diversity in geography and climate zones, ranging from winter rainfall areas suitable for intensive farming to the arid conditions of the Karoo that is only suitable for extensive farming. The Province is not rich in terms of known minerals; hence, mining is not a major economic activity.

Geographic diversity and scenic beauty contribute to a substantial tourism potential, with growing numbers of foreign and South African tourists using well-developed service providers and a developed transport infrastructure, which includes the Cape Town International Airport that meets the best in world standards, and a regional airport at George. Cape Town International Airport is the second largest airport in South Africa and has recently been expanded and modernised to cater for the projected annual 14 million visitors expected by 2015. The new terminal demonstrated the ability to operate very efficiently in coping with increased flow of people during the 2010 FIFA World Cup period.

The Province has two deep sea ports. Cape Town Harbour is the most southern major port of the African continent and strategically well located with respect to Atlantic and Indian Ocean shipping traffic to provide services, including repair and diverse engineering services, to the shipping industry. Together with Saldanha the two main ports of the Province are also ideally placed as exit and entry points for trade with countries on the African west coast, including the exploitation of growth opportunities offered by the West Coast oil and gas industry. This compensates for the drawback that the ports face in being far away from Gauteng - the largest market and industrial complex in South Africa - in a country noted for a topography that results in high overland transport costs.

The manufacturing base of the Western Cape is fairly diversified. A vibrant processing industry complements the agricultural sector as primary producer. Agricultural exports, both unprocessed and processed goods, make a substantial contribution to South Africa's commodity exports. The clothing and textile industry has been facing a secular decline, not only nationally but also in the Western Cape, which in the past tended to be an important hub of this industry. Although the Western Cape is not regarded as a centre for heavy industry, notably metal and chemical industries, Chapter 3 reveals that these industries are significant contributors to economic activity.

In Chapter 3 it is emphasised that the Western Cape economy has increasingly become service oriented. Service industries such as retail and wholesale trade, finance, and business services have grown in importance. Much is also expected of specialised services to drive the future growth of the Province.



Viewed in the national context the population of the Western Cape is relatively well-off in terms of average income. According to calculations of the Bureau of Market Research average personal income per capita in the Western Cape was 54.8 per cent above the national average in 2006, second only to that of Gauteng (Bureau of Market Research, 2007). The Western Cape and Gauteng were the only two provinces that recorded average incomes that exceeded the national average. According to these estimates the Western Cape's share in national personal income came to 14.7 per cent in 2006, which is more or less in line with the contribution of the Province to the South African Gross Domestic Product (GDP) in recent years. In 2009 the Western Cape's estimated contribution came to 14.3 per cent of the South African GDP, which is marginally lower than the 14.6 and 14.5 per cent shares in 2004 and 2006 respectively<sup>1</sup>. In terms of gross geographic product the Western Cape remains the third largest province, after Gauteng and KwaZulu-Natal.

## **1.2 Challenges and policy**

Despite being relatively well-off in economic terms, the social challenges facing the Western Cape remains formidable. The number of people that can be described as desperately poor is growing, mainly because of forces such as population growth, in-migration (see section 4.2) and the growth in the labour supply that exceeds the growth in the availability of employment opportunities. A distinguishing characteristic of poverty in the Western Cape is that it is predominantly an urban phenomenon. The growing number of people that find shelter in informal settlements presents the Province with a daunting challenge in service delivery and in providing formal housing. Simultaneously, service delivery forms part of a broader policy approach to encourage fast economic growth and development for the benefit of all.

In common with the rest of South Africa the Western Cape economy is constrained by a shortage of skilled workers. However, the Province is better placed than most to address the skill shortage. The Province has four universities and other tertiary education institutions that do and can increasingly contribute to the requisite skill base and also serve as a basis for private business/university collaboration in developing higher value-added and technologically more advanced industries of the so-called knowledge economy. The Western Cape is also fortunate in having an environment that facilitates in attracting skilled workers from elsewhere.

The Western Cape Provincial Government regards economic growth and the alleviation of poverty through sustainable employment creation as priority objectives. In seeking economic development the focus not only falls on job creation and economic growth, but also on improvements in education,

<sup>1</sup>. Calculations derived from data supplied by Quantec Research.

health services, protection against crime and an expanding social infrastructure (such as housing for the poor) are also considered vital. The Provincial Government believes that a clear focus on the socio-economic welfare of the population as a whole is not only important in its own right but also represents investment in future economic growth and development through improvements in the productivity of workers and industry in general.

The broad-based approach to economic development is reflected in the range of strategic objectives that have been adopted or are currently considered by Government. These provide for a number of goals, incorporated in strategic objectives, that can be generalised in the following terms:

- Increasing opportunities for economic and employment growth, thus reducing poverty;
- Ensuring the sustainability of development through the optimal use of resources and investment in infrastructure;
- Encouraging growth and development of rural areas; and
- Improving social welfare and investment in human capital through improved education outcomes, safe and efficient transport, community safety and wellness in integrated and sustainable settlements, social cohesion and optimal service delivery.

The Provincial Government recently published its Strategic Objective 1: Creating opportunities for growth and jobs. The premise of the 2010 PER&O is to report on developments in the Western Cape in a way that will complement the policy approach adopted for Strategic Objective 1, which can be summarised in the following terms:

- Sound and sustainable economic growth as the foundation of successful development;
- The importance of the private sector, both small and large business, in driving economic growth in a market environment that is globally competitive; and
- The role of corruption-free government in creating and maintaining a business friendly regulatory environment.

### **1.3 Report outline**

The Western Cape economy can be described as being very open in the sense that the production of goods and services are substantially aimed at markets outside of the Province, that is, producing goods and services destined for markets in other provinces and abroad. Consequently, the region's economic activity is, if viewed from the demand side of production, exposed to economic conditions in its main foreign markets and to economic conditions in South Africa, which in turn is affected by conditions in the global

economy. The close integration of the Western Cape economy in the South African and global economy explains why the discussion in Chapter 2 of the Economic Outlook takes the logical route of first reviewing the global economy and then the South African economy before finally focusing on the Western Cape.

The development of the Western Cape economy is taken further in Chapter 3, which considers the sector context within which production and its growth take place and income is created. The chapter is selective in the choice of sectors reviewed. One of the main features of the chapter is the focus on structural change in the Western Cape economy, a process that has been characterised by the relatively faster growth of the service industry. This special focus of the 2010 PER&O is complemented by a contemplation of the policy space within which the Province implements industrial policy, that is, selective sector intervention, which is a hallmark of provincial development policy. Note is taken of the new initiatives the Provincial Government has recently launched within the framework of its strategic objectives, a new approach to sector development that will centre on the activities of the Western Cape Economic Development Agency, which is to be established.

As noted above the focus of provincial policies in their broadest sense is to improve the welfare of society and specifically to address the problem of poverty. This is a dynamic problem covering many facets of economic and social development, but it cannot be denied that the most sustainable means of alleviating poverty is to create an environment that favours sustainable job creation. This requires an understanding of the dynamics of the provincial and national labour market, a topic that is addressed in Chapter 4 of the report.

A novelty introduced in the 2010 PER&O is the statistical annexure at the end of the Report that summarises a number of Western Cape economic and social indicators for a period of five years. In future editions these socio-economic indicators will be updated to give the latest data available for a five year period.



# 2

## Economic outlook

### Key findings:

- The global economy has encountered some challenges on the recovery road. Economic indicators (in particular those concerning consumption expenditure of major advanced economies such as the US and Japan) signaled that while the economic recovery will continue in the second half of the year, the pace of growth is likely to be noticeably slower than that of late 2009 and early 2010.
- Furthermore, as it became evident that public finances in a number of (mainly) southern-European countries were much worse than previously thought, fiscal sustainability was once again placed in the spotlight after taking a backseat during the height of the global economic crisis.
- The risks are that the easing in the rate of global inventory restocking and the phasing out of the unprecedented monetary and fiscal stimulus measures implemented during the global recession will result in a moderation of world growth momentum in the second half of 2010/11.
- The South African economic recession ended during the third quarter of 2009. However, the momentum of the recovery in the domestic economy seems to have peaked during the first quarter of 2010, with second quarter economic growth coming in lower and leading economic indicators (such as survey data) painting a picture of a more moderate pace of growth.
- Assuming the global recovery will continue (albeit at a relatively slow rate), the outlook for the South African economy is one of a sustained but gradual recovery from the global recession.
- The South African employment situation remains dire and an important risk is that the economy continues to shed jobs, which has the potential to undermine the sustainability of economic growth.
- The Western Cape economy has in the past grown faster than the national average. Estimates for 2009 indicate that the Western Cape economy is likely to have contracted by 1.2 per cent, compared to a contraction of 1.5 per cent (at basic prices) at national level.

- The Western Cape real gross domestic product (GDP) growth at basic prices is forecast to average 2.8 per cent in 2010. Regional economic growth is expected to increase to 3.2 per cent in 2011 and to accelerate further to average above 4 per cent between 2012 and 2015 – possibly again outperforming the pace of growth at national level.
- The Western Cape export performance was hard hit by the global recession. Exports of goods and services declined by about 14 per cent from 2008 to 2009. The decline occurred over virtually all sectors. As the world economy recovers export growth is projected to increase.

## 2.1 Introduction

The South African economic recession ended during the third quarter of 2009. South Africa is closely integrated into the global economy through trade and investment and hence followed its main trading partners into and subsequently out of the recession. The national economic recovery was assisted by the stimulus offered by the preparation for and the actual event of the 2010 FIFA World Cup. With the economy still in its recovery phase, much will depend on the sustainability of the recovery in the European Union (EU) and the United States (US).

The Western Cape economy has in the past grown faster than the national average. During 2009 the provincial economy contracted by an estimated 1.2 per cent, compared to a contraction of 1.5 per cent (at basic prices) at national level. There are indications that the Western Cape economy is recovering with the national economy. During the first months of 2010 the region is likely to have underperformed relative to the national economy. However, since the second quarter growth is estimated to have improved and it is anticipated that the average growth rate of the regional GDP (GDPR) between 2010 and 2013 will exceed 3 per cent. This is conditional on the region and South Africa's trading partners being spared the scenario of a relapse in the global economy i.e. falling back into recession.<sup>1</sup>

## 2.2 Developments in the global economy

The global economic recovery, which continued to strengthen in the first quarter of 2010, seems to have encountered some challenges. The latest developments, the medium-term outlook for the global economy as well as the risks (with respect to the implementation of fiscal austerity measures in particular) are discussed in the sections below.

<sup>1</sup>. It must be noted that in the review presented in this chapter all growth rates are annualised i.e. monthly or quarterly growth rates are adjusted to represent a corresponding annual growth rate.

### **2.2.1 Global economic performance**

After contracting by 0.6 per cent during 2009, the global economy grew at a rate of 5 per cent during the first quarter of 2010. Although boosted by double-digit growth in industrial production (as trade flows continued to normalise and inventory restocking supported production), there were also encouraging signs of a pickup in consumption expenditure.

However, the global economic recovery seems to have slowed after the initial growth spurt. It became evident during May that public finances in a number of (mainly) southern-European countries, most notably Greece, were much worse than previously thought. The dire European fiscal dynamics raised fears of debt default(s) and importantly contagion to banks in larger European economies such as Germany and France that hold most of the periphery country debt. As a result of the increased uncertainty, world stock markets declined sharply in the second quarter (compared to the first quarter). Although fears and stock market declines have subsequently subsided, fiscal sustainability has once again been placed in the spotlight after taking a backseat during the height of the global economic crisis. More detail on the fiscal austerity measures and possible impacts/risks are provided later in the chapter.

Furthermore, recent economic indicators (see detail below) of major advanced economies such as the US and Japan signaled that while the economic recovery will continue in the second half of the year, the pace of growth is likely to be noticeably slower than that of late 2009 and early 2010.

#### **Performance of Advanced economies**

Being the epicentre of the global economic crisis, the advanced economies group witnessed a 3.2 per cent contraction in GDP during 2009, with the US economy contracting by 2.6 per cent. Japan and the United Kingdom registered the largest contractions of 5.2 per cent and 4.9 per cent respectively, while the Euro Area contracted by 4.1 per cent (with Italy and Germany registering the most severe declines of 5 per cent and 4.7 per cent respectively).

The initial recovery phase (starting in the second half of 2009 and continuing into the first quarter of 2010) saw robust growth rates which were boosted by the normalisation of trade flows, inventory restocking as well as government stimulus measures. Advanced markets grew at 2.8 per cent in the first quarter of 2010 (relative to the final quarter of 2009), with the US and Japan posting robust growth of 3.7 per cent and 4.4 per cent respectively. The positive impact of inventory restocking and government stimulus measures on a country such as the US has been particularly large. Of the \$89.1 billion increase in US GDP during the first quarter of 2010, \$60.9 billion (almost 70 per cent) was the result of inventory restocking i.e. a bounce back in the value of inventories from low levels following the recession. Furthermore, the US Council

of Economic Advisors estimate that the government stimulus measures contributed between 1.5 and 4 percentage points to GDP growth in the second to final quarter of 2009.

However, given the developments during the second quarter of 2010, recent economic indicators from the major advanced economies have revealed significant momentum loss. US GDP growth slowed to 1.6 per cent in the second quarter and it became evident that consumers as well as businesses have reacted negatively to the phasing out of temporary support measures. The effect on the US housing market after the expiry of the first time home buyers tax credit at the end of April 2010 is a case in point. US new home sales surged in the months leading up to the expiry of the incentive, but plunged by more than 30 per cent in May 2010 to reach an all-time record low. A number of other housing related indicators, including mortgage applications, have been particularly weak in the aftermath of the tax credit expiration. While some pullback was expected after April, the data indicates that (in the absence of support measures) US consumer demand remains fragile.

This view is backed up by slow improvements in the US labour market (with private sector employment growing only modestly) and disappointing growth in real household consumption expenditure (growing in the range of only 1 to 2 per cent since mid-2009). US consumers seem to be hesitant, with household saving as a percentage of disposable income at around 6 per cent in recent quarters. (On the upside, increased saving bodes well for the health of consumer balance sheets, allowing consumers to grow spending when conditions improve.)

Furthermore, the Japanese second quarter GDP growth rose only 0.4 per cent, which was significantly weaker than expected. Final household demand, in particular, disappointed. Net exports made the largest positive contribution to growth. Here too, the expiry of stimulus measures seems to be impacting negatively on durable goods consumption.

The growth performance has not been universally poor, with EU GDP growth rising to 3.9 per cent in the second quarter – from 1.3 per cent in the first quarter. The acceleration in EU growth was mainly a German story, helped by improved exports amid earlier Euro currency weakness. However, it is unlikely that the German economy's strong second quarter performance (expanding by 9 per cent) will be sustained in an environment where growth in the country's major trading partners is moderating. Furthermore, the region's banking sector relies heavily on government support and is vulnerable to any deterioration in the real economy, sovereign debt shocks and funding strains.

### **Performance of developing economies**

Economic growth in developing economies slowed to 2.5 per cent during 2009, from 6 per cent in 2008. The overall growth rate masks important nuances between the countries in this grouping. Firstly, economies with significant trade and other linkages to the developed economies were



affected notably by the global economic crisis. For example, Central and Eastern European economies as well as Latin America and the Caribbean contracted by 3.6 per cent and 1.7 per cent in 2009.

On the other hand, buoyant economies such as China and India weathered the storm. These countries posted growth rates of 9.1 per cent and 5.7 per cent in 2009. The Indian economy was supported by robust domestic demand, while China benefitted from a surge in lending and strong fiscal stimulus. The Chinese economy continued to grow at a robust pace during the first quarter of 2010, expanding by 11.9 per cent before slowing to 10.3 per cent in the second quarter of 2010. However, the rate of growth should ease further in the rest of the year as the government's measures (including increased reserve requirements) to try and prevent the economy from overheating take effect.

### **The age of fiscal austerity**

The growing need to address rapidly rising public debt levels has resulted in a number of countries announcing strict austerity measures to balance the fiscal books. Importantly, the number of countries implementing fiscal consolidation goes further than those facing the biggest fiscal challenges, i.e. Greece, Portugal, Spain, the UK etc. Germany, for example, in June announced a four year €80 billion programme of mostly spending cuts. Although there has been less clarity on the composition, the US will also embark on a fiscal consolidation package. Indications are that the Bush tax cuts of 2001 to 2003 (especially for affluent consumers earning more than \$250 000 per annum) will not be extended, resulting in higher tax rates. Many US states have also been forced to announce higher federal taxes in order to plug budget holes.

At the June 2010 G20 summit in Toronto, Canada, advanced economies committed to fiscal plans that aim to at least halve budget deficits by 2013 and stabilise (or preferably reduce) government debt-to-GDP ratios by 2016.

However, the July IMF World Economic Outlook warns on the issue of the timing of fiscal consolidation. It notes that most "advanced economies do not need to tighten before 2011, because tightening sooner could undermine the fledging recovery, but they should not add further stimulus."

The aggressive removal of fiscal stimuli poses a real risk to the sustainability of the global recovery. Having said that, it is not a foregone conclusion that fiscal consolidation should necessarily be negative for short-term GDP growth. In fact, research done by Alberto Alesina and Silvia Ardagna show that a number of countries (including Denmark and Ireland in the 1980s) have experienced "expansionary fiscal contractions". Hence, fiscal consolidation was accompanied by economic expansion.

In general, expansionary fiscal contractions have been more common in cases where the austerity package has mainly involved spending cuts rather than tax rises. Furthermore, the "successful" countries have combined fiscal retrenchment with currency devaluations/ depreciation and wage cuts, i.e. increased external competitiveness helped to boost exports and compensated for reduced internal/domestic demand. Finally, a gradual approach to fiscal consolidation has proven most successful, while strong global growth is also important.

The current situation is somewhat unique because a large number of countries are implementing austerity measures at the same time. Amongst other things, this limits the potential for competitiveness gains – if all countries devalue their currencies at the same time no one gains.

An IMF analysis of some of the already announced packages in the G20 countries reveal that only in the case of the UK, Canada, Germany and Turkey are the measures mainly focused on expenditure cuts.

Other factors that currently argue against expansionary fiscal contractions include the still fragile nature of the global economy and the fact that developed country interest rates are close to zero, limiting the scope for monetary stimulus to counteract the fiscal restraint.

In sum, while history has shown that fiscal restraint can boost even short-term GDP growth, the current global environment suggests that the most likely outcome is that it will be detrimental to output growth and may even contribute to a growth relapse during the second half of 2010/11.

*Source: Alesina A, S Ardagna, (1998): "Tales of fiscal adjustment". Available at [http://www.economics.harvard.edu/faculty/ardagna/files/Economic\\_Policy\\_1998\\_b.pdf](http://www.economics.harvard.edu/faculty/ardagna/files/Economic_Policy_1998_b.pdf)*

*IMF World Economic Outlook (WEO) Update July 2010. Available at <http://www.imf.org/external/pubs/ft/weo/2010/update/02/pdf/0710.pdf>*

*BER Economic Prospects Third Quarter 2010 Volume 25 No 3*

## 2.2.2 Medium-term global economic growth outlook

Despite the loss of momentum during the second quarter of 2010, the solid start to 2010 (first quarter) as well as robust growth in developing economies have resulted in the continued upward revision in the global economic growth estimates published by the IMF. In early July, the IMF adjusted its 2010 global growth forecast to 4.6 per cent from April's estimate of 4.2 per cent. The latest World Economic Outlook (WEO) released in October 2010 saw further upward adjustment to 4.8 per cent. However, although the global lender increased its 2010 global growth forecast, the projection for 2011 was downscaled slightly in October to 4.2 per cent – from 4.3 per cent in July and April (see Table 2.1).

As discussed above, the risks are that the easing in the rate of global inventory restocking and the phasing out of the unprecedented monetary and fiscal stimulus measures implemented during the global recession could result in a moderation of world growth momentum in the second half of 2010 and into 2011.

The IMF has noted that these forecasts hinge on the implementation of policies to rebuild confidence and stability. In particular, although advanced economies should focus on fiscal consolidation, consideration should be given to the effect on medium-term growth prospects. To this end, careful fiscal consolidation (both in terms of timing and composition) as well as continued support from monetary policy (through low interest rates) are recommended. Furthermore, the IMF stressed the implementation of financial sector and other structural reforms to enhance growth and competitiveness.

**Table 2.1 World economic outlook 2010 - 2011**

	2008	2009	Projections		Difference from July 2010 projections	
			2010	2011	2009	2010
<b>World output (percentage change y-o-y)</b>	<b>2.8</b>	<b>-0.6</b>	<b>4.8</b>	<b>4.2</b>	<b>0.2</b>	<b>-0.1</b>
<b>Advanced economies</b>	<b>0.2</b>	<b>-3.2</b>	<b>2.7</b>	<b>2.2</b>	<b>0.1</b>	<b>-0.2</b>
United States	0.0	-2.6	2.6	2.3	-0.7	-0.6
Euro area	0.5	-4.1	1.7	1.5	0.7	0.2
Germany	1.0	-4.7	3.3	2.0	1.9	0.4
France	0.1	-2.5	1.6	1.6	0.2	0.0
Italy	-1.3	-5.0	1.0	1.0	0.1	-0.1
Spain	0.9	-3.7	-0.3	0.7	0.1	0.1
Japan	-1.2	-5.2	2.8	1.5	0.4	-0.3
United Kingdom	-0.1	-4.9	1.7	2.0	0.5	-0.1
Canada	0.5	-2.5	3.1	2.7	-0.5	-0.1
Other advanced economies	1.7	-1.2	5.4	3.7	0.8	0.0
<b>Emerging and developing economies</b>	<b>6.0</b>	<b>2.5</b>	<b>7.1</b>	<b>6.4</b>	<b>0.3</b>	<b>0.0</b>
Sub-Saharan Africa	5.5	2.6	5.0	5.5	0.0	-0.4
Middle East and North Africa	5.0	2.0	4.1	5.1	-0.4	0.2
Central and Eastern Europe	3.0	-3.6	3.7	3.1	0.5	-0.3
Developing Asia	7.7	6.9	9.4	8.4	0.2	-0.1
China	9.6	9.1	10.5	9.6	0.0	0.0
India	6.4	5.7	9.7	8.4	0.3	0.0
Latin America and the Caribbean	4.3	-1.7	5.7	4.0	0.9	0.0
Brazil	5.1	-0.2	7.5	4.1	0.4	-0.1
Mexico	1.5	-6.5	5.0	3.9	0.5	-0.5
<b>Consumer prices</b>						
Advanced economies	3.4	0.1	1.4	1.3	0.0	0.0
Emerging and developing economies	9.2	5.2	6.2	5.2	-0.1	0.2

Source: Adapted from the International Monetary Fund (IMF), *World Economic Outlook*, October 2010

### Outlook for advanced economies

The Organisation for Economic Cooperation and Development (OECD) indicated in its latest Interim Economic Assessment report that the expected annual growth in the G7 countries (US, UK, Japan, Germany, France, Italy and Canada) in the second half of 2010 was adjusted downward from the May estimate of 1.8 per cent to an early September estimate of 1.5 per cent.

For 2010 as a whole, the IMF expects output in advanced economies to expand by 2.7 per cent, slightly up from the July projection (of 2.6 per cent), mostly as a result of the stronger than expected growth in the first quarter. On the other hand, the estimate for growth in advanced economies during 2011 has been lowered to 2.2 per cent (from 2.4 per cent expected in July). Despite uncertainty regarding the sustainability of the global recovery, the preconditions for growth in 2011 (such as healthier consumer and business balance sheets) remain in place.

The IMF made a significant downward revision to expected US economic growth in both 2010 and 2011. The US growth projections were downscaled to 2.6 and 2.3 per cent in October – from 3.3 and 2.9 per cent in July.

However, although EU economic growth is still expected to underperform relative to the US given the region's serious fiscal challenges, October saw an upward adjustment in projected growth for the EU region from 1 to 1.7 per cent for 2010 and from 1.3 to 1.5 per cent for 2011. The main reason for the more optimistic 2010 figure was the fact that the IMF dramatically revised the expected growth for the dominant German economy (boosted by exports, as noted earlier) from 1.4 per cent in July to 3.3 per cent in October.

The Japanese and UK economies are expected to expand by 2.8 and 1.7 per cent during 2010 – both these projections were slightly higher than those published in July. The IMF did however revise 2011 growth projections for these economies downwards (to 1.5 and 2 per cent respectively).

### **Outlook for developing countries**

Economic growth in the emerging and developing country group is forecast to accelerate to 7.1 per cent (revised upwards from the July estimate of 6.8 per cent) and 6.4 per cent in 2010 and 2011 respectively. However, these figures mask considerable divergence of growth expectations within this grouping.

Robust economic growth of 9.7 and 8.4 per cent is projected for the Indian economy for 2010 and 2011, with consumer demand supporting high rates of growth. Moreover, the Chinese economy is expected to grow by 10.5 and 9.6 per cent during 2010 and 2011. However, as mentioned earlier, government policies aimed at the prevention of overheating may imply a slightly more pronounced deceleration. Other global analysts (for example The Economist Intelligence Unit and JP Morgan) have recently scaled down their Chinese GDP growth forecasts to below 10 per cent for 2010 and to below 9 per cent for 2011.

Sub-Saharan Africa is expected to experience economic growth of 5 per cent and 5.5 per cent during 2010 and 2011, largely because of improved conditions in the commodity markets and trade linkages with the buoyant Chinese economy. The outlook for central and Eastern European economies is however less optimistic, with growth projections of just above 3 per cent. These economies rely on external demand from the EU, which is projected to remain relatively weak, considering that Germany's growth is boosted by exports and not consumer spending.

Given the export reliance of many countries in the emerging and developing group, these countries will be vulnerable should growth in the advanced economies disappoint.

### **2.2.3 World inflation outlook**

Inflation pressures in advanced economies remain muted given the hesitant and uncertain economic conditions. Headline Consumer Price Index (CPI) inflation in these economies was a mere 0.1 per cent in 2009. Low capacity utilisation (given that actual output levels are well below potential output levels) and well-anchored inflation expectations should contain price pressures in advanced economies. CPI inflation in these economies is projected to average 1.4 per cent and 1.3 per cent in 2010 and 2011. The risk of deflation remains pertinent, particularly in view of renewed uncertainty regarding the robustness of the economic recovery.

Emerging and developing economies face a somewhat different set of circumstances. Firstly, capacity utilisation is significantly higher. Secondly, volatile items like food and energy costs usually have a higher weighting in the inflation indices of these countries. CPI inflation averaged 5.2 per cent in emerging and developing economies during 2009, and is expected to accelerate to 6.2 per cent in 2010 and average 5.2 per cent in 2011. In fact, several emerging economies (such as Brazil) have increased their policy interest rate in response to expanding price pressures.

### **2.2.4 Risks to the global outlook**

The IMF stated in its July update of the World Economic Outlook that while it predicted that the world economic recovery would continue, "it is clear that downside risks have risen sharply." The risks to the global economic outlook pertain not only to the danger of falling back into economic contraction (the double-dip scenario) but also to the risk of a prolonged patch of muted global growth momentum.

It is very rare for a country such as the US to experience a double-dip recession, but there are not a lot of precedents for the current environment where the world is faced with high debt levels and a number of countries are forced to simultaneously implement stringent austerity measures.

Of crucial importance to the evolution of the global growth recovery is that the European debt crisis heralded a change in mainly European Union policy emphasis from trying to sustain the growth recovery to fiscal consolidation in order to ensure long-term solvency and growth. While improved fiscal dynamics are crucial to ensuring long-term sustainable GDP growth, the pace, composition and timing of fiscal austerity measures will be an important factor in shaping the global economic recovery. These issues have been hotly debated across the Atlantic, with Europe favouring an immediate aggressive approach ("frontloaded" action), while other policy makers (including US president Barack Obama) are in favour of more gradual fiscal tightening in order to support the global recovery.

The likelihood that the impact of these measures might be negative for growth is the most significant risk to the global economic outlook. A fine balance has to be achieved, as confidence in public finances (and the balance sheets of banks which are exposed to government debt) needs to be restored (in order to prevent markets from setting in motion a vicious circle of tighter credit conditions and possible effects on the real economy via trade and financial linkages as well as confidence effects) but growth considerations have to be taken into account.

Other risks include a hesitant recovery in the labour market, yielding lingering unemployment, which act as a constraint on general business expectations and on consumer spending. The latter is also negatively influenced by tighter credit conditions and by the efforts of households to re-build their balance sheets (which showed sharp declines in net worth that accompanied the decline in property and equity prices).

Even if these risks do not materialise, the need to recover from over-indebtedness means that growth is unlikely to return to pre-crisis levels anytime soon. Possible upside global risks include higher than expected emerging country growth.

## **2.3 Developments in the South African economy**

After having been dragged into the first recession in 17 years by the onset of the global economic crisis, the South African economy followed some of our major trading partners out of recession during the third quarter of 2009. The initial recovery phase was one of relatively strong momentum, with the mining and manufacturing sectors in particular experiencing strong gains.

However, recent economic data have painted a picture of a more moderate pace of growth. Looking forward, and assuming that the global recovery will continue (albeit at a relatively slow rate), the outlook for the South African economy is one of a sustained but gradual recovery from the global recession.

The sections below summarise the latest economic trends and outlines the outlook for the national economy with particular reference to private consumption expenditure, gross domestic fixed investment, the balance of payments and exchange rates, as well as inflation and interest rates. Finally, the risks to the outlook are discussed.

### **2.3.1 South Africa's economic performance**

The South African economy has just recovered the ground lost during the recession. Between the third quarter of 2008 and the second quarter of 2009 real GDP declined by 2.8 per cent. During the recovery phase (from the third quarter of 2009 to the second quarter of 2010) real GDP increased by 2.7 per cent, resulting in the GDP (at constant 2005 prices, seasonally adjusted and

annualised) being R1.8 billion above the level that existed in the third quarter of 2008.

The momentum of the recovery in the domestic economy seems to have peaked during the first quarter of 2010 when growth of 4.6 per cent was recorded. Corresponding growth rates for the final two quarters of 2009 were 1 per cent and 3.2 per cent. Despite the World Cup spending boost, growth moderated to 3.2 per cent during the second quarter of 2010.

The wholesale, retail, motor trade and accommodation sector grew by 5.8 per cent during the second quarter, compared to 3.3 per cent in the first quarter of 2010. The quarterly growth of the trade sector was the best since a matching 5.8 per cent recorded in the final quarter of 2006, a period when consumer spending was booming. This implies that the soccer festival certainly boosted spending (assisted by the expenditure of foreigners). The transport sector also experienced improved growth (4.5 per cent compared to 2.4 per cent during the first quarter of 2010), which can in all likelihood also partly be linked to the World Cup.

The manufacturing sector made the largest positive growth contribution, adding 1.1 percentage points when factory value added rose by a better than expected 6.9 per cent. The other sectors that supported second quarter growth were finance (adding 0.6 percentage points) and general government (0.5 percentage points). The agricultural sector also performed strongly, experiencing growth of 11.6 per cent.

On the downside, the mining sector plunged by 20.8 per cent (a turnaround from a positive 15.4 per cent in the first quarter), which shaved around 1 percentage point of second quarter GDP growth. Transnet strike-related stoppages and routine maintenance weighed on mining. A normalisation of conditions in the mining sector might see the sector boosting its contribution to third quarter GDP values.

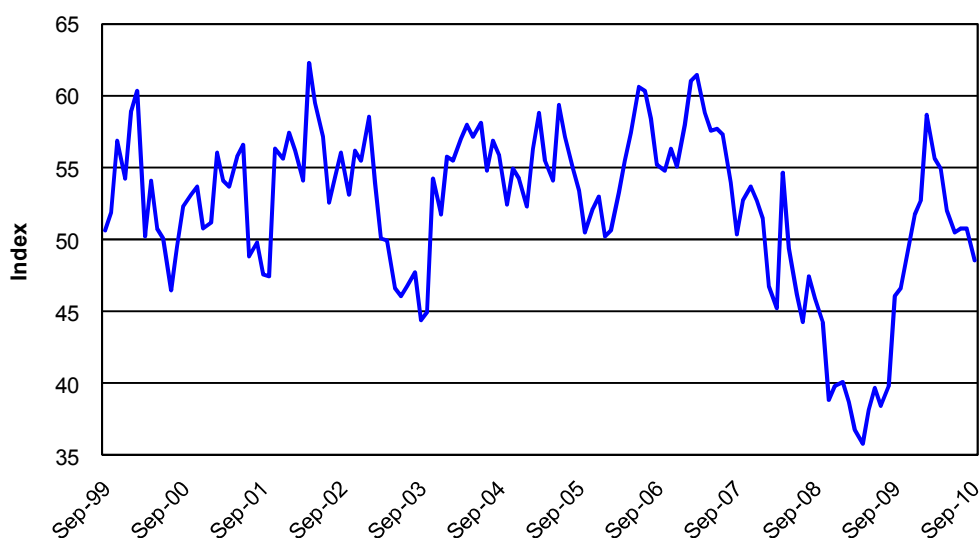
Consumer spending recorded a strong comeback during the first half of 2010. Seasonally adjusted annual real retail sales increased on average by 3.1 per cent between January and June 2010. However, it has to be emphasised that the annual acceleration can to a large degree be explained by last year's low values, which created a low base from which to grow.

Other recent data on the SA economy have been more mixed, indicating that the recovery remains hesitant and uneven. Although July witnessed further growth in retail sales, August figures surprised on the downside by slowing. Furthermore, the construction sector remains under pressure, as is illustrated by continued low business confidence levels of residential and non-residential building contractors as measured by the FNB/BER building confidence index. Building plans passed and completed data from Statistics South Africa (Stats SA) have also only picked up marginally and highlight the

lack of demand for new work – particularly in the non-residential sector – which does not provide much hope for a speedy recovery.

Monthly Stats SA manufacturing production data suggest that the momentum of growth in the manufacturing sector has moderated, slowing from 3.5 per cent in the fourth quarter of 2009 to 1.1 per cent in the second quarter of 2010. This is also demonstrated by the Kagiso Purchasing Managers Index (PMI), a reliable indicator of manufacturing activity, which is currently hovering around the critical level of 50 index points (where a figure below 50 indicates a contraction in activity) – see Figure 2.1. Furthermore, the manufacturing business confidence index of the BER Manufacturing Survey remained low at 30 during the third quarter of 2010. The survey indicated that manufacturing export performance was under pressure during the second and third quarters of 2010.

**Figure 2.1 Kagiso purchasing Managers Index (PMI)**



Source: Kagiso/BER

SA exports had a bad start to the year, declining in real terms by 4 per cent during the first quarter of 2010. Given the uncertain global outlook outlined earlier, as well as the continued strength of the rand exchange rate, it is doubtful how strong the export performance for the rest of the year will be.

Employment conditions have not yet improved. Since the peak in employment in the last quarter of 2008, almost 1.2 million jobs have been lost. Although the bulk – 870 000 jobs – were shed during 2009, losses continued during the first half of 2010 when another 232 000 jobs were lost. Moreover, even the third quarter did not witness an improvement in employment, with the Quarterly Labour Force Survey (published by Stats SA) showing the loss of 86 000 jobs during the quarter.



### The 2010 FIFA World Cup

SA's successful hosting of the 2010 FIFA World Cup – FIFA president Sepp Blatter gave the country nine out of ten for its contribution – and the accompanying upsurge of national pride temporarily took some of the focus away from daily market movements and real economy developments in June and the early part of July. However, the immediate economic benefit of hosting the tournament is not straight forward to gauge.

Pre-World Cup estimates by the auditing firm Grant Thornton indicated that the economic impact of the World Cup in South Africa would contribute 1.7 per cent to South African GDP in 2010. This estimate was based on a total of 373 000 visitors with each overseas visitor staying an estimated 18.7 days.

However, initial post World Cup estimates (based on international air arrival figures and accommodation occupancy rates) indicate that South Africa probably only received around 200 000 unique visitors during June/July 2010, 30 per cent more than the same time last year. The main reasons for the relatively low tourist arrivals were the international recession and crowding out of the usual visitors. Furthermore, South Africa's relatively high hotel prices and a strengthening rand may have adversely affected the country's affordability as a tourist destination.

The sector which benefitted the most during the event was the accommodation sector, although, the retail and transport sectors are also expected to have benefitted from the influx of tourists. Cape Town experienced both an increase in occupancy rates and revenue from accommodation during June (compared to June 2009), the latter increasing by more than 110 per cent.

Overall, the net contribution of the tournament is estimated at R1.2 billion or 0.05 per cent of national GDP.

This estimate takes into account total tourism spend (R2.5 billion), less ticket sales to South Africans (R1.3 billion). Tourism spend was calculated by assuming spending between R11 000 (tourists from neighbouring countries) and R24 310 (other international tourists) on an average 5 day visit.

A realistic multiplier for the tourism sector of two suggests that the total economic effect is likely closer to 0.1 per cent of GDP.

Although the size of the tournament is small relative to the overall size of the economy, the fact that it was countercyclical should also be noted. Furthermore, there are numerous intangible benefits from having hosted the tournament. These include the iconic stadiums, early access to an improved transport system, as well as an improved international image (especially from a business perspective) which is likely to translate into increased tourism trade and investment going forward.

*Source: BER Economic Research Note: "The home team scores! A first assessment of the economic impact of World Cup 2010" No. 10 of 2010*

### 2.3.2 Economic outlook for the South African economy

The latest economic indicators do not signal significant acceleration in the growth momentum of the South African economy. Hence, third quarter economic growth is unlikely to show much (if any) improvement – with only half a month worth of World Cup boost in July.

Exports have so far turned out significantly weaker than anticipated. Combined with the uncertainties surrounding global growth and the impact of the rand appreciation, the result is that net exports are now expected to subtract more from 2010 growth than previously thought.

The Bureau for Economic Research's (BER) forecast for 2010 GDP growth has been lowered to 3 per cent, from the 3.1 per cent projected in July (see

Table 2.2). This is despite an upward revision of consumer spending to 2.7 per cent growth (from 2.5 per cent). The improved consumer outlay forecast is counteracted by a more conservative view on fixed investment, from expected growth of 0.9 per cent in July to an expected contraction of 0.2 per cent. As a result, the forecast for gross domestic expenditure, or GDE (the broadest measure of spending in the economy), has been downwardly adjusted to 4.4 per cent – from 4.7 per cent in July. Another important reason for the downward GDP growth adjustment is the less optimistic view on exports.

**Table 2.2 Economic outlook for South Africa, growth in GDP (%) at market prices, 2010 to 2011**

	2008	2009	Projections		Difference from July 2010 projections	
			2010	2011	2010	2011
<b>Real growth (real y-o-y %)</b>						
Final household consumption expenditure	2.4	-3.1	2.7	3.7	0.2	0.1
Government consumption expenditure	4.9	4.7	5.2	4.1	0.6	0.0
Gross fixed capital formation	11.7	2.3	-0.2	2.6	-1.1	0.5
<b>Real GDE</b>	<b>3.3</b>	<b>-1.8</b>	<b>4.4</b>	<b>4.4</b>	<b>-0.3</b>	<b>0.4</b>
Total exports	2.4	-19.5	4.5	4.4	0.3	-0.3
Total imports	1.4	-17.4	10.0	7.9	-0.2	0.9
<b>Real GDP</b>	<b>3.7</b>	<b>-1.8</b>	<b>3.0</b>	<b>3.4</b>	<b>-0.1</b>	<b>0.1</b>
<b>Inflation (annual averages)</b>						
CPI	11.5	7.1	4.4	5.0	-0.5	-0.7
PPI	14.3	-0.1	6.1	5.8	-0.2	-0.2
<b>Interest rates (annual averages)</b>						
Prime overdraft rate	15.14	11.89	9.96	9.80	-0.16	-0.48
R204 government bond yield	9.09	8.67	8.34	7.71	-0.43	-1.25
<b>Exchange rates (annual averages)</b>						
R/US\$	8.25	8.44	7.38	7.30	-0.22	-0.92
R/Euro	12.05	11.70	9.69	9.22	-0.06	-0.55
R/Pound sterling	15.13	13.12	11.33	10.95	-0.12	-1.05

Source: Bureau for Economic Research, October 2010

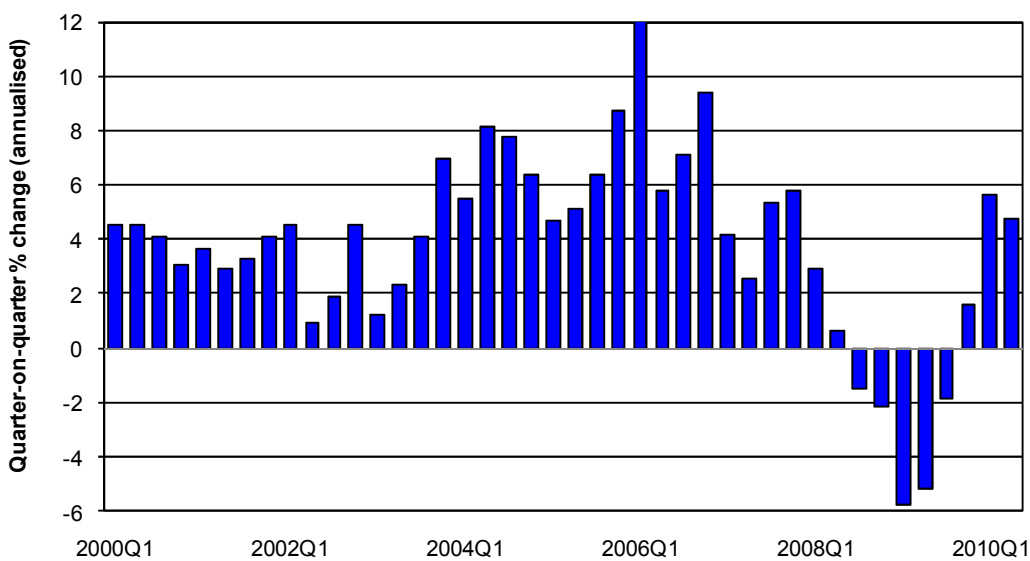
The GDP growth forecast for 2011 was adjusted marginally upwards from 3.3 per cent projected in July to 3.4 per cent. While this year's growth will be boosted by some technical factors, including a projected end to last year's massive inventory liquidation, the forecast for 2011 is based on the view that the more normal drivers of SA growth (personal consumption, investment etc.) will once again dominate. GDE growth is expected to remain around 4.4 per cent in 2011. The 2011 GDP growth acceleration stems mainly from a smaller negative net export contribution (given slower import growth).

The October projection of the National Treasury for GDP growth is 3.5 per cent in 2011 and increases to 4 per cent in 2012 and 4.5 per cent in 2013.

### Final household consumption expenditure

Real private consumption expenditure surged by 5.7 per cent during the first quarter of 2010, up from 1.6 per cent during the preceding quarter. This was the strongest performance since the final quarter of 2007. The strong consumption gains were broad based with outlays on durable (new vehicles, furniture etc.) and semi-durable goods (mainly clothing and footwear) leading growth. However, spending on services lagged. The rate of growth in real private consumption expenditure has since eased to 4.8 per cent during the second quarter (see Figure 2.2).

**Figure 2.2 Growth in real final household consumption expenditure**



Source: South African Reserve Bank

The rebound in consumer spending was influenced by a number of positive developments. Firstly, the growth rate of real disposable income (the key driver of household outlays) accelerated. Secondly, in reaction to the lower interest rates, the household debt service ratio (interest payments as a percentage of disposable income) declined. Furthermore, consumers may have felt wealthier amid rising stock prices on the JSE and the various house price indices indicating a return of house price growth. Finally, consumer confidence has remained relatively high, as shown by the FNB/BER Consumer Confidence Index (CCI) staying around a level of 15 during 2010.

However, the SA economy has lost almost 1.2 million jobs from the employment peak of the fourth quarter of 2008, with lower-income employment being hardest hit. This should limit growth potential for non-durable goods consumption because lower-income consumers spend a larger proportion of their income on food and beverages. Furthermore, pent up demand for durable goods, along with the lower interest rates, should result in consumers continuing to favour outlays on durable and semi-durable goods. But even in the case of durable goods, the annual rate of increase for

big-ticket items such as new passenger vehicles should ease in the second half of 2010. Vehicle sales started to recover towards the end of 2009, resulting in a higher base (and therefore less upside growth potential) than was the case earlier in the year.

The BER has made an upward adjustment to its final household consumption expenditure forecast. Overall consumer outlays in real terms are now expected to increase by 2.7 per cent in 2010, compared to the previous estimate of 2.5 per cent. Because retail selling prices are expected to remain muted in the foreseeable future, retailers are likely to experience tough trading conditions despite improved demand conditions. The projection for consumer spending in 2011 was adjusted upwards only marginally to 3.7 per cent (from 3.6 per cent). The further improvement in 2011 reflects sustained strong growth in personal disposable income (PDI). PDI growth is set to be driven by robust real wage growth in 2010, but during 2011 the improved employment outlook (growth of 1.6 per cent) is expected to provide the impetus.

### **Gross fixed capital formation**

Following three consecutive quarters of decline, real fixed investment (i.e. the money spent on machinery and equipment, the construction of new buildings, road infrastructure etc.) remained largely flat during the first half of 2010.

Private sector fixed investment (around 60 per cent of overall investment) fell further during the first quarter (for the fifth consecutive quarter), albeit at a moderated contraction rate of 0.7 per cent compared to the 2.3 per cent contraction in the final quarter of 2009. The second quarter witnessed a very marginal growth rate of 0.4 per cent. The first quarter decline would have been worse had it not been for investments related to final preparations on the eve of the 2010 FIFA World Cup. The South African Reserve Bank (SARB) mentioned that telecommunications operators (mainly Telkom) upgraded the local network capacity to ensure increased bandwidth capacity during the soccer festival, while investment by the accommodation sector was boosted by additions and alterations to cater for the expected influx of tourists visiting SA during June/July.

The FNB/BER building confidence index reveals that non-residential as well as residential building contractors' confidence remains at low levels. The business confidence index of non-residential building contractors registered 26 during the third quarter of 2010, which is in line with the first quarter level but up from 18 in the second quarter of 2010. The residential building contractors' confidence index recorded 25 in the third quarter.

The latest building plans passed and completed data from Stats SA also highlight a lack of demand for new work, particularly in the non-residential sector. During the first and second quarters of 2010, building plans passed continued to decline by 5 per cent and 35.3 per cent for residential and non-residential buildings, which does not provide much hope for a speedy recovery. Recent building plans passed and completed data (up to August 2010) from Stats SA have however picked up marginally. Residential fixed investment will continue to face the constraint of a supply overhang in the market caused by the earlier building boom and the slow-growing (albeit recovering) consumer demand. While the resumption of house price growth and a recovering trend for mortgage advances indicate a return of housing demand, it seems to reflect trends in the existing property market and not demand for new residential construction.

There are other data that provide a more positive picture of private sector fixed investment. Declines in fixed investment in machinery and equipment (the largest private sector investment category) seem to have bottomed, with levels picking up by 1.2 and 1.1 per cent during the first and second quarters of 2010. Furthermore, since May, private sector credit extension data provided some signs of business demand for credit reviving. However, the private sector is expected to remain hesitant regarding large new investment projects before clearer evidence emerges that the SA GDP growth recovery will be sustained, with the prospect of better corporate earnings materialising. In all, after a sharp decline of 7 per cent in 2009, total real private sector fixed investment is projected to fall by a further 2.9 per cent during 2010 before recovering to just more than 4 per cent growth in 2011.

After surging by almost 41 per cent in 2009, the growth in fixed investment by public corporations (such as Eskom and Transnet) is expected to moderate meaningfully to 9.6 per cent (compared to the previous forecast of 10.5 per cent) in 2010. A decline of 2.5 per cent is projected for 2011. The downward momentum is supported by the completion of World Cup projects, financing difficulties related to the global financial crisis and reports of reviews of the some and timing of Eskom's and Transnet's larger projects.

As was the case during the last quarter of 2009, government fixed investment remained weak in the first half of 2010. Of the nominal R811 billion in public infrastructure investment budgeted for the next three fiscal years, just less than 40 per cent is set to be undertaken by a combination of national government departments, provincial departments and municipalities. However, project postponements seem to be the order of the day: according to construction sector data provider Industry Insight, 161 public sector building projects have been postponed since the start of 2009. These adverse developments may continue for some time and accordingly the BER has revised the forecast for government fixed investment down from a contraction of 4 to 5.3 per cent in 2010. Growth is projected to recover to 5.7 per cent during 2011.

Considering these developments, the BER has taken a softer view on overall fixed investment, from expected growth of 0.9 per cent (in July) to an expected contraction of 0.2 per cent in 2010. Growth of 2.6 per cent is forecasted for 2011.

### **Balance of payments and rand exchange rate outlook**

The rand exchange rate remained resilient in an environment of sharp movements in global financial markets (the US dollar, for example, strengthened by more than 8 per cent against the euro) during the second quarter of 2010. Against the US dollar, the local currency averaged R7.54 in the second quarter, the third consecutive quarter that it has remained around the R7.50 mark. The rand strengthened further during the third quarter to average R7.30/\$ and dipped below the R7/\$ level early October.

Of concern to local exporters is that the fiscal difficulties in Europe and the UK (and the subsequent currency weakness) resulted in the rand gaining almost 8 per cent against the Euro and more than 4 per cent against the Pound during the second quarter of 2010.

An important factor, apart from dollar weakness in general, that may explain the resilience is that foreign investors seem to be rewarding South Africa for its relatively more sound fiscal position, especially if one compares our overall gross government debt level (32.8 per cent of GDP in 2010/11) with a country such as Greece (above 100 per cent). This confidence is further supported by considerable interest rate differentials (interest rates in South Africa are considerably higher than in the US, UK and in the Euro area) that encouraged yield seeking capital inflows into South Africa. According to the JSE, foreigners have bought more than R70.9 billion worth of SA bonds (and R22.2 billion of equities) to date this year, compared to R15.5 billion during the whole of 2009. Commodity prices such as gold also remained firm during the first three quarters of 2010. World Cup related foreign tourism inflows may have been another beneficial currency factor, although it is doubtful whether this had a meaningful impact given the size of the currency market.

The rand should remain well supported for now. The BER expects the rand to average R7.38/\$ in 2010 and R7.30/\$ in 2011, before weakening to an average of R7.73/\$ during 2012. The currency is also forecasted to remain firm against the Euro, averaging R9.69/€ and R9.22/€ in 2010 and 2011.

Although the current forecast is for a move to R8/\$ and beyond only over the next 24 months, the following factors might result in a weaker currency:

- As alluded to in the global economic outlook, the European debt problems have increased the possibility that industrialised country growth in particular will suffer a relapse when the announced fiscal austerity measures are implemented. This should result in heightened risk aversion and may limit capital flows to emerging markets such as South Africa, weighing on the rand.

- An environment characterised by softer global growth has informed a commodity price outlook of little further upside for both base metals and the gold price. Given the dominance of commodities in SA's export basket, subdued mineral prices should help to cap further rand gains.
- The possibility of reduced capital inflows may come at a time when the domestic current account deficit (CAD) is widening amid rising imports as the SA economy continues to recover from the recession. A larger CAD will increase the need for foreign financing.
- Although the US dollar has lost ground against the Euro of late, potential European banking problems linked to the sovereign debt concerns mean that the Euro is set to remain under pressure in 2011. A sustained stronger dollar should be negative for the local currency. However, continued Euro weakness suggests that the rand will remain on a firm footing versus the single currency.
- Although forecasts for the timing of the first interest rate increase in developed countries such as the US and UK have been shifted out, financial markets are expected to start discounting higher rates from the second half of 2011. This may dampen capital inflows, weighing on the rand.
- South African policy makers are likely to increase the rhetoric about the importance of having a more competitive exchange rate. Initiatives in this regard should dampen the appeal of the rand to foreign investors.

As discussed earlier, there are – given the uncertain global outlook – reasonable doubts regarding the potential for strong export growth. While it could be argued that the growth prognosis in a country such as China is currently a better gauge of future South African exports than for example US or European developments, the bulk of South Africa's non-commodity exports are still destined for the EU.

The uncertain growth outlook as well as the view of sustained strength of the rand exchange prompted the BER to forecast relatively mild export growth of 4.5 and 4.4 per cent in 2010 and 2011. Coupled with import growth expected at 10 per cent and 7.9 per cent during 2010 and 2011, this view yields projections for the current account deficit of 4.1 per cent and 5.1 per cent of GDP for these years.

#### **Inflation and interest rate outlook**

The latest official data on the inflation front continued to surprise on the low side. The inflation as measured by the consumer price index (CPI) eased to 3.2 per cent in September, yielding an average of 3.5 per cent for the third quarter – after averaging 4.5 per cent during the second quarter of 2010.

Both goods and services inflation was below the 6 per cent upper inflation target band during the third quarter. In September, goods inflation continued

to ease sharply to 1.5 per cent, while services prices also moderated to 5.2 per cent. Core inflation (CPI excluding food and non-alcoholic beverages, petrol and energy) averaged 3.3 per cent in the third quarter, down from an average of 4.4 per cent recorded in the second quarter of 2010.

Low core inflation indicates that underlying price pressures remain muted amid a fair amount of slack in the economy. Furthermore, the sustained strength of the rand exchange rate has been an important factor in the benign price environment as it is helping to keep imported inflation at bay (the positive currency impact can particularly be seen in the prices of durable and semi-durable goods). Also, global inflation (especially in the advanced economies) is expected to be muted as output gaps in many countries are set to remain large.

However, a continued GDP growth recovery should increase capacity utilisation rates and remove some of the current disinflationary pressures in the economy. Furthermore, above-inflation wage settlements (as recently witnessed in the public sector as well as public enterprises such as Eskom and Transnet) are seen as the most important upward inflation risk factor. This is especially the case if the above-inflation wage hikes are not accompanied by productivity gains, a point that has (on several occasions) been emphasised by SARB Governor Gill Marcus. Administered price increases are also seen as a key risk. Finally, while higher global food costs (particularly wheat) are a potential risk, the strength of the rand and SA's bumper maize crop should be strong countervailing forces. In sum, consumer inflation should remain contained for the rest of 2010 (CPI set to average 4.4 per cent) and only build marginally in 2011.

The trajectory for producer inflation (PPI) is somewhat different with most of the upward price momentum expected in 2010 as the PPI comes off a very low base (deflation) in 2009. Because the mining and quarrying component has a large weighting (more than 25 per cent) in the PPI basket, commodity price movements are a key determinant for the index. As noted earlier, major upward mineral price pressure is not foreseen for 2011. Consequently, the PPI is projected to average 6.1 per cent in 2010 and to ease to an average of 5.8 per cent given the uncertain global outlook during 2011.

With domestic inflation well within the inflation target band, a benign outlook for inflation, and recent mixed indicators on the global and SA growth front, the Monetary Policy Committee (MPC) of the SARB reduced the repo rate by a further 50 basis points (bps) at their September 2010 meeting. This brings the cumulative monetary easing since December 2008 to 600 bps and reduced the prime interest rate to 9.5 per cent, the lowest level since 1980. It seems that there might be room for slight (50 basis points) further downward rate adjustment. However, the MPC would want to be sure that the economy is on a more solid footing before starting to tighten monetary policy. At this stage, the first interest rate increase of 50 bps is projected for the third quarter of 2011. Even if the policy rate is to be increased by a total of 100 bps during



2011 as is expected by most analysts, the real (based on the BER's CPI inflation forecast) repo rate will remain accommodative at well below the average level since 1980.

### **Risks to the outlook**

There are external as well as domestic risk factors that may result in a different outcome for the SA economy than is currently forecast. Downside risks have risen sharply on the global front, and pertain not only to the danger of falling back into economic contraction (the double-dip scenario) but also to the risk of a prolonged soft patch in global growth momentum.

Domestically, the employment situation remains dire and an important risk is that the economy continues to shed jobs. On that note, the recent above-inflation wage settlements do not bode well for the employment outlook.

## **2.4 Western Cape economic performance and outlook**

Given the global and national economic context portrayed above, the following section describes the historical performance of the Western Cape economy as well as the outlook for the next five years.

### **2.4.1 Performance of the Western Cape economy**

The Western Cape economy has in the past grown faster than the national average. Table 2.3 tabulates Western Cape real Regional Gross Domestic Product (GDPR) growth (at basic prices) since 2004, as released by Stats SA. The Province experienced the highest regional average real annual economic growth rate between 2004 and 2008 with real regional growth averaging 5.7 per cent (Gauteng GDPR averaged 5.6 per cent during the same period).

These estimates of GDPR were released after a revision and rebasing from 2000 to 2005 prices exercise. The growth rate for 2007 was revised upwards to 6.4 per cent, from 5.8 per cent reported previously. The lower growth in 2008 of 4.3 per cent (at basic prices) was caused by the cyclical slowdown of the national economy (given monetary policy action aimed at containing price pressures as well as the implementation of the National Credit Act) as well as the global economic crisis coming to the fore during the second half of the year. The Western Cape has an open economy that depends on producing goods and services sold in other provinces and abroad as exports. Consequently, the regional economy was directly affected by the slowdown in the national and the global economy.

The performance of the Western Cape economy is driven by growth in the services (excluding government) sector, with particularly the finance, insurance, real estate and business services sector recording strong growth. (The growth force provided by services is discussed in Chapter 3.) Furthermore,

other forces behind the 2008 Western Cape real GDP growth rate were the agricultural and construction sectors, which expanded by 10.6 per cent and 8.5 per cent respectively. Growth in the manufacturing sector was recorded at 1.2 per cent, however, this was significantly below the national average of 2.7 per cent.

**Table 2.3 Western Cape real GDP growth (%), 2004 – 2009**

Description	2004	2005	2006	2007	2008	2009e
	%	%	%	%	%	%
Agriculture, forestry and fishing	2.5	5.9	-5.7	2.4	10.6	2.7
Mining	1.3	5.2	-5.6	0.8	-6.7	-1.8
Manufacturing	5.9	5.3	6.3	5.1	1.2	-8.5
Electricity	8.3	6.3	2.4	3.0	0.3	-4.8
Water	-2.6	2.9	-3.0	1.7	-3.6	3.8
Construction	9.8	12.3	10.7	14.4	8.5	8.1
Wholesale & retail trade	5.1	9.3	5.6	5.5	0.2	-3.6
Catering and accommodation	7.4	7.4	2.1	4.1	-0.1	-2.4
Transport	6.8	9.2	5.1	7.4	2.0	1.9
Communication	4.0	8.9	3.1	5.6	3.8	-2.8
Finance and insurance	13.9	5.6	17.1	14.3	13.1	-0.9
Business services	3.0	3.4	2.3	1.7	1.4	0.8
Community, social and other personal services	1.9	4.3	4.3	5.4	3.4	3.2
General government services	3.0	3.9	2.6	4.0	4.1	3.8
<b>Total GDP (@ basic prices)</b>	<b>5.8</b>	<b>6.1</b>	<b>5.9</b>	<b>6.4</b>	<b>4.3</b>	<b>-1.2</b>
<b>Rand value of real GDP (billion; @ basic prices)</b>	<b>192.9</b>	<b>204.7</b>	<b>216.7</b>	<b>230.5</b>	<b>240.4</b>	<b>237.4</b>

Source: Statistics South Africa (Stats SA) for figures up to 2008; Quantec Research for estimated 2009 figures (e-estimate)

Estimates for 2009 indicate that although the Western Cape economy also contracted last year by 1.2 per cent, the contraction was somewhat less pronounced than for the overall South African economy, which contracted by 1.5 per cent (at basic prices). One of the main explanations is the relatively small share of the mining sector in the Western Cape economy, a sector which contracted by more than 7 per cent nationally during 2009.

In rand value the Western Cape regional GDP is expected to amount to R237.4 billion in 2009 compared to R1595.7 billion for the total South African economy (measured at basic constant 2005 prices).

#### 2.4.2 Outlook for the Western Cape economy

A comparison of the sector composition of the Western Cape and the national economy indicates that although the Western Cape economy is probably recovering along with the national economy, the pace of economic growth in the region is likely to have underperformed during the first quarter of 2010.

The mining and quarrying as well as the manufacturing sectors made the largest contributions to growth at national level in the first quarter of 2010. The contribution of these sectors to the Western Cape's economic performance has declined over the past few years and in the case of mining and quarrying represents less than 1 per cent of total economic activity.

However, Western Cape economic growth is likely to have accelerated in the second quarter of 2010. The regional economy is largely services based with the finance, real estate and business services sectors as well as the wholesale and retail trade, hotels and accommodation sectors dominating. Although these industries grew at rather modest rates during the first quarter of 2010 at national level, they have accelerated during the second quarter.

**Table 2.4 Economic outlook for the Western Cape (%) real growth in GDP, 2009 – 2015**

Description	2010f %	2011f %	2012f %	2013f %	2014f %	2015f %
Agriculture, forestry and fishing	0.3	0.9	1.6	1.6	1.9	2.0
Mining	-0.6	2.0	1.2	1.1	0.9	0.9
Manufacturing	2.3	2.9	3.1	3.1	2.9	2.9
Electricity	3.1	4.1	4.8	4.9	6.4	6.2
Water	2.0	-0.7	-0.7	-0.8	-0.5	-0.5
Construction	2.8	4.1	6.2	6.0	6.6	7.0
Wholesale & retail trade	3.0	2.8	4.1	5.5	5.4	4.9
Catering and accommodation	2.7	2.0	2.7	2.7	2.7	3.0
Transport	3.7	3.2	3.6	3.2	2.8	2.8
Communication	1.3	4.4	4.6	3.2	3.5	3.3
Finance and insurance	4.6	5.3	6.9	7.4	7.2	7.0
Business services	1.8	1.8	2.1	2.5	2.6	2.4
Community, social and other personal services	2.2	2.1	2.7	3.2	3.3	3.2
General government services	3.2	2.6	2.8	3.2	3.2	3.6
<b>Total GDP (@ basic prices)</b>	<b>2.8</b>	<b>3.2</b>	<b>4.0</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>

Source: Quantec/BER Western Cape economic forecast August/September 2010 (f-forecast)

Quantec/BER expects that Western Cape real GDP growth at basic prices in 2010 will average 2.8 per cent. Regional economic growth is forecasted to increase to 3.2 per cent in 2011 and is expected to accelerate further to average above 4 per cent between 2012 and 2015, possibly again outperforming the pace of growth at national level (see Table 2.4).

The **risks to the regional economic growth outlook** include weaker than expected international demand, which could put exports from the region under pressure. Furthermore, job losses in the regional economy threaten the sustainability of economic growth in the Province. Given the challenge of unemployment, especially youth unemployment identified in Chapter 4, this could present an obstacle to improving welfare levels in the Western Cape.

### 2.4.3 Western Cape foreign trade

In Chapter 3 emphasis is placed on the need to encourage export-oriented development in the Western Cape economy. There is clearly room for improvement in this regard if consideration is given to the fact that during 2008 and 2009 the export of goods and services represented about 24 per cent of the Western Cape GDP, which is significantly lower than the 29 per cent for the rest of South Africa. This margin is in fact larger since the Quantec data on which the calculations are based include mineral exports, which in the case of the Western Cape include Northern Cape iron ore exports shipped through Saldanha port, and also some agricultural products from outside the Province (see note 2).

An analysis of the export data summarised in Table 2.5 allows a number of relevant observations. It should be noted that for the purposes of this review mining exports have been excluded to avoid any distortion resulting from the inclusion of Northern Cape iron ore, mentioned above.<sup>2</sup>

- As far as the composition of exports is concerned, a striking feature is the large share of agriculture (18.3 per cent) and processed agricultural products (food, beverages and tobacco, 18 per cent) in total goods and services exports. What is referred to as the food value chain in Chapter 3, therefore, contributes about 36 per cent of the Western Cape export earnings. The comparative advantage that the Province has in these industries is emphasised in Chapter 3. The composition of exports also reveals the importance of services, especially that of finance and insurance and business services that contribute 6.2 per cent and 6.5 per cent of the region's export of goods and services.
- A second observation concerns the impact of the global recession on Western Cape exports. During 2006 to 2008 exports of goods and services increased each year in real terms (constant 2005 prices), but then fell sharply by 14.5 per cent from 2008 to 2009. The decline can be observed across all sectors with food, beverages and tobacco the only substantial sector that experienced real growth (5.9 per cent) in 2009.
- Looking ahead, and bearing in mind that 2009 represents a low base from which to grow, Quantec forecasts anticipate exports of goods and services to grow by an average annual rate of 4.5 per cent during 2009-2013. Manufactured exports are projected to grow by 5.7 per cent during

<sup>2</sup> Caution should be exercised in linking trade data and the region where the exports are produced. In the case of mining exports the decision to exclude exports from Western Cape exports is reasonable. However, in agriculture, for example, the published data cannot be adjusted without a major research effort to ascertain region of origin. Produce exported through Cape Town harbour includes grapes produced in the Northern Cape and Namibia as well as maize from the Free State. Export data, therefore, would tend to overestimate the Western Cape as production origin of the exported produce.

this period. It is very difficult to interpret the 16 per cent annual growth forecast for textiles, clothing and footwear, apart from noting the very low value in 2009 from which growth is expected to take place.

**Table 2.5 Western Cape exports R'million (constant 2005 prices)**

	2006	2007	2008	2009	Sector distribution 2009 %	f2013	Average annual growth %	
							2008-09	f2009-13
Agriculture, forestry & fishing	7 442	8 024	11 637	9 051	18.3	10 470	-22.2	3.7
Mining & quarrying	-	-	-	-	-	-	-	-
Food, beverages & tobacco	8 000	8 756	8 386	8 882	18	9 773	5.9	2.4
Textiles, clothing & leather goods	1 142	905	673	367	0.7	674	-45.5	16.4
Petroleum products, chemicals, rubber & plastic	9 311	8 894	11 330	8 800	17.8	11 156	-22.3	6.1
Other non-metal mineral products	152	176	117	141	0.3	142	20.5	0
Metals, metal products, machinery & equipment	2 095	2 700	2 476	1 697	3.4	2 712	-31.5	12.4
Electrical machinery & apparatus	188	201	178	159	0.3	182	-10.7	3.4
Radio, TV, instruments, watches & clocks	1 132	1 370	1 182	939	1.9	1 565	-20.6	13.6
Transport equipment	1 493	1 707	1 942	1 496	3	1 958	-23	7
Furniture & other manufacturing	1 907	2 360	2 258	1 990	4	2 437	-11.9	5.2
<b>Total: manufactured exports</b>	<b>25 421</b>	<b>27 069</b>	<b>28 539</b>	<b>24 471</b>	<b>49.5</b>	<b>30 598</b>	<b>-14.3</b>	<b>5.7</b>
Construction	26	29	28	22		32		1
Wholesale & retail trade	3 487	3 593	3 439	2 907	5.9	2 980	-15.5	0.6
Catering & accommodation services	1 780	2 046	1 830	1 647	3.3	1 763	-10.0	1.7
Transport & storage	3 391	3 638	3 275	2 736	5.5	2 994	-16.5	2.3
Communication	1 630	1 909	1 779	1 826	3.7	1 780	2.6	
Finance & insurance	3 022	3 515	3 460	3 059	6.2	3 741	-11.6	5.2
Business services	2 679	2 822	3 407	3 230	6.5	4 077	-5.2	6
Community, social & personal services	393	438	422	461	0.9	545	0.9	4.3
<b>General government</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total service exports</b>	<b>16 382</b>	<b>17 960</b>	<b>17 612</b>	<b>15 866</b>	<b>-</b>	<b>17 880</b>	<b>-9.9</b>	<b>3</b>
<b>Total exports</b>	<b>49 271</b>	<b>53 082</b>	<b>57 816</b>	<b>49 410</b>	<b>100</b>	<b>58 980</b>	<b>-14.5</b>	<b>4.5</b>

Source: Quantec Research

Note: Mineral exports have been excluded from the table. Published data incorporate iron ore from the Northern Cape and exported through Saldanha.

## **2.5 Conclusion**

Economic conditions in the Western Cape are closely linked to conditions in the national and global economy. The world-wide recession was responsible for a fall in Western Cape production of 1.2 per cent in 2009. The direct impact of the recession occurred through a fall from 2008 to 2009 of 14.5 per cent in Western Cape exports of goods and services. If the global recovery continues the economic growth of the Province is expected to accelerate, possibly again growing faster than the pace of national growth. Unemployment will remain a problem, which will require concerted efforts to address.

The theme of Western Cape economic development, especially as it relates to the different sectors and the structural change in production, is taken further in Chapter 3.

# 3

## Development of the Western Cape economic sectors

### Key findings

- The Province's industrial policy, compared to that of the national government, has limited policy space but has influence through its institutionalised cooperation with private sector agents.
- During recent years economic activity in the Province has undergone substantial structural change, with a decline in manufacturing in terms of its relative contribution to regional production while the share of service industries have increased substantially. The relative growth of services is responsible for the greater sector concentration in the Western Cape than in the rest of South Africa.
- The agriculture and food processing industry is a sector in which the Province has a revealed comparative advantage, which should be developed further to its fullest potential.
- The manufacturing, textiles, clothing and footwear as sector is experiencing distress in the face of foreign competition. There are however positive factors that can be identified to assist the industry in becoming more competitive. Service industries that are expected to make substantial contributions to economic development include oil and gas (developing fast to service the African upstream oil industry), call centres but increasingly Business Process Outsourcing (BPO), tourism and conference attendance, the film industry, and the finance and insurance industry, which has developed into the largest contributor to the regional GDP.
- The exchange rate of the rand is proving to be a debilitating factor in export-oriented industries such as boat building, agriculture and food processing as well as for industries like clothing that are exposed to strong import competition.
- The shortage of skilled workers and the shortage of potential workers with adequate education in mathematics and science that can be trained appropriately is a constraint in sector development. The important tool

making industry is an example of an industry that suffers because of this constraint. It should be borne in mind that the market for skilled workers is considered not just a regional market but a national and increasingly an international market.

### **3.1 Introduction**

This chapter presents an overview of sector developments in the Western Cape economy. The overview is selective, focusing on those sub-sectors of production that are considered important for the Western Cape, either in terms of the contribution they currently make or the prospects they pose for the future development of the Province and in achieving its goals of economic development. While not denying the important role of the service sub-sectors, emphasis is placed on the need to revitalise manufacturing as a leading growth force in the Western Cape economy. Manufacturing growth and its multiplier impact is crucial to create jobs and to alleviate the unemployment problem, especially among the youth, as highlighted in Chapter 4.

The discussion of sectors and sub-sectors is preceded by a brief review of the policy space that a provincial government has in pursuing an industrial policy of selective intervention in sector development. The provincial government accepts that a clear understanding of its ability to influence the allocation of resources through appropriate and feasible policy instruments is instrumental in planning and implementing development policy.

The discussion of policy space is followed by a short assessment of the structural change of the Western Cape economy. The purpose is to highlight the nature of the region's economy and the major changes that have characterised economic development during recent years. A clear understanding of changes in patterns of economic activity is necessary to discern future developments and the challenges these hold for development policy.

## **3.2 Policy space of provincial government within a national industrial policy**

### **3.2.1 Provincial industrial policy**

The economic policy of the provincial government aims to encourage development across the broad spectrum of economic activity, but it also contains significant elements of sector selectivity. The latter is clearly illustrated in, for example, the Micro Economic Development Strategy (MEDS), which focuses selectively on a range of sub-sectors.

In considering development options an issue that immediately comes to mind is the policy space available to a provincial government as the second in the three-tier system of South African government. Specifically, does a provincial



government have instruments in its policy arsenal to implement a sector-differentiated policy? This question takes us into the realm of industrial policy, which has broadly been defined as “government efforts to alter industrial structure to promote productivity based growth” (Pangestu, 2002: 149). A more extensive and illuminating definition of industrial policy is to define it “as any type of selective government intervention or policy that attempts to alter the structure of production in favour of sectors that are expected to offer better prospects for economic growth in a way that would not occur in the absence of such intervention in market equilibrium” (Pack & Saggi, 2006: 267-8).

In essence the defining features of industrial policy are the selection of sub-sectors with superior growth potential. This implies that government seeks to allocate resources from less productive to more productive use. The argument would be that if left to itself the market will not allocate resources in line with social welfare; that is, market failures in the form of externalities exist that need to be corrected. In the real world of industrial policy multiple objectives are derived from perceived market failures which lead to more than the identification of producers for selective encouragement. In many countries industrial policy incorporates goals such as more balanced regional development by incentivising investment in less developed regions, while capital market and management failures that constrain the development of economic participants such as small enterprises explain the implementation of special small business development programmes. In South Africa, economic empowerment of previously disadvantaged population groups is also an important goal of industrial policy.

#### **Instruments of industrial policy**

Instruments of industrial policy can be divided into three categories: interventions in foreign trade, product market interventions and factor market interventions.

Foreign trade instruments such as selective import tariffs, local content requirements, procurement policies and a range of other non-tariff measures are used to protect domestic producers of import-competing goods that have to compete with imports. On the export side of foreign trade there are instruments that encourage the production of export goods, for example, direct and indirect export subsidies (largely prohibited by WTO rules), and efforts to create an environment that selectively replicates free trade by establishing free trade zones (including export processing zones) and providing tariff rebate provisions that allow industry access to duty free imported intermediate products.

From an intervention perspective the competitiveness of domestic producers in export and home markets can also be influenced by intervention in the foreign exchange market. This is an element of international competitiveness that feature prominently in the public debate on South African economic development policy with some parties arguing that economic development will benefit from a more stable and, specifically, a lower exchange rate of the currency.

Intervention in product markets aims to improve competition in domestic markets. This would include a competition policy implemented by specialised agencies that reacts against market exploitation by dominant firms in product markets characterised by high degrees of producer concentration. Protection against unfair competition by foreign producers selling in the domestic market falls within the broader ambit of competition policy. So-called trade remedies provide protection for domestic producers against dumping of imports and subsidisation of export goods.

A special form of product market intervention is the provision of public goods. There is a growing tendency in the assessment of industrial policy to emphasise the role that government can play to selectively meet the demand for public goods, such as transport infrastructure, and in so doing to support economic growth processes.

Factor (factors of production such as labour and capital) market interventions cover a wide range of measures that encourage investment (capital formation) and the employment and skills of workers. Establishing development finance institutions (development banks) and investment promotion agencies, fiscal incentives in the form of favourable depreciation allowances, and the subsidisation of investment are examples of capital market intervention. Preferential access to investment finance linked to employment targets, tax benefits related to the training of workers, and employment subsidisation are examples of labour market intervention. Intervention in the labour market often has both efficiency and equity considerations; minimum wage requirements have equity as goal while training and education of workers aim to improve efficiency.

Considering the instruments of industrial policy discussed in the box above, it would at first glance seem that a provincial government in South Africa has little policy space with respect to the three categories of intervention. The Western Cape Government would surely like to encourage export production as well as create opportunities to substitute locally produced goods for imports but a provincial government does not have access to conventional trade-based industrial policy measures; these are only available to national government. The same applies to the instruments that are normally used to encourage competition in product markets and those used to intervene in the labour and capital market. Also, a provincial government has no influence over the exchange rate of the rand and the mechanisms that could be used to determine the exchange rate.

However, the fact that the policy space of a provincial government is more confined than that of national government does not mean that a province is incapable of guiding the economic development of its region. In fact, new developments in industrial policy emphasise facets of policy implementation that support a role for a province in influencing the pace and direction of development. Instead of the conventional industrial policy measures the focus of new thinking on industrial policy tends to fall on programmes that assist selected industry clusters by coordinating development within clusters: increasing the supply of skilled workers, improving infrastructure, facilitating the development and absorption of technology, and disseminating information on existing national incentives. Central to such an approach would be the strategic collaboration between the private and public sectors in developing clusters and in identifying those areas in which a country or region has the potential to develop a competitive advantage.

Nothing prevents a provincial government, in close collaboration with the private sector, from playing an active role in designing and implementing an industrial policy within such a policy framework. In fact, it can be argued that a lower level of government, being 'nearer' to industry, is better able than the national government to play an active role in cluster development. A provincial government and its agencies can also play a crucial role in

ensuring that industry is fully aware and capable of accessing development incentives that are available at the national level.

In conclusion, what has been presented here as a rationale for active but 'bottom up' and 'soft' industrial policy at the provincial level explains the reasoning behind the emphasis the Department of Economic Development and Tourism (DEDT) places on Special Purpose Vehicles (SPVs) and the Micro-Economic Development Strategy (MEDS). The SPVs represent an institutional structure which brings provincial government and industry stakeholders together, allowing cooperation, coordination and the transfer of knowledge in support of the development of selected sectors. Essentially, SPVs try to avoid at the level of provincial government what the Harvard group of consultants observed with respect to industrial policy at the national level in South Africa, namely "too much disconnect between the private sector and the government, information (that) does not flow adequately, needs (that) are not well defined, policy instruments (that) are not appropriately targeted, and self-correction mechanisms (that) are not in place" (Hausman, Rodrik & Sabel, 2008: 12). The MEDS is related to SPVs in having identified the sectors where the growth and equity objectives of the Provincial Government should be facilitated through appropriate government assistance. Oil and gas, tourism, call centres and business process outsourcing, information, communication and technology, and creative arts are regarded as priority sectors while boat building, clothing and textiles, metals and engineering, agri-business are seen as significant industries.

In a policy statement on its *Strategic Objective 1: Creating opportunities for growth and jobs*, issued in September 2010, the Provincial Government announced its intention to collapse the SPVs and other public agencies such as Wesgro, Casidra and Cape Town Routes Unlimited into a single entity, the Western Cape Economic Development Agency (WCEDA). This agency is to be external to government and is to be staffed with the business and entrepreneurial skills needed to successfully promote growth in the Western Cape. It is envisaged that the mandate of the agency will include the following:

- Destination marketing for tourism and major events;
- Investment and trade promotion;
- Enterprise development;
- Local economic development;
- Skills development, as a participant in the Provincial Skills Development Forum;
- Sector support as informed by the MEDS research, including support for tourism and agriculture; and
- Asset development.

Clearly, the intention of the proposed institutional reform is not to remove enterprise support by provincial government but to improve institutional efficiency in providing the support.

### **3.2.2 National industrial policy**

It stands to reason that optimal economic development at a provincial level can only be achieved if the provincial government tailors its policies with full cognisance of the policy of central government. As far as industrial policy is concerned provincial policy need not and is not likely to accord fully with national policy since conditions and the growth potential of a region could be significantly different from what applies at the national level. Consequently, it is possible - as is the case for the Western Cape - that sector emphasis could differ from what applies at the national level. However, where appropriate, the Western Cape Government seeks to align its industrial policy with national policies. National industrial policy is formulated within a policy framework introduced in 2007 – the National Industrial Policy Framework (NIPF). However, of particular importance for policy implementation is the roll-out of the NIPF through consecutive Industrial Policy Action Plans (IPAPs), of which the second and current plan, covering the period 2010/11 – 2012/13, was published in February 2010. The Provincial Government has noted that the latest IPAP has a number of important consequences for Western Cape industrial policy and development. There are important cross-cutting action plans that address industrial financing, the leveraging of procurement, development-oriented trade policies and competition policy, which the DEDT will closely consider with the view of dissemination via the SPVs and other development agencies such as Wesgro, and eventually, once operational, the WCEDA. But of particular importance are key action programmes aimed at the development of sector clusters, and in this regard the provincial government appreciates that certain important developments are in line with the competitive advantages of the province. The following are examples of sector-oriented action programmes that are relevant for the Province:

- The introduction of qualitatively new areas of focus is of particular importance: first, metal fabrication and capital and transport equipment that arises from large public investment with key action programmes that could be very important for the firms clustered in two SPVs, namely the Western Cape Tooling Initiative and the Cape Initiative in Materials and Manufacturing; secondly, 'green' and energy-saving industries which fits well with the MEDS; and finally agro-processing, which the Western Cape Government believes to be an important industry in which the Province has a comparative advantage.
- Historically, the textile, clothing and footwear industry has had a firm footprint in the region's economy and for the provincial government the distressing business conditions facing the industry (see section 3.4.3) have been a matter of great concern. The provincial government has taken

note of all the key action programmes aimed at increasing the competitiveness and performance of the sector, specifically the Clothing and Textiles Production Incentive and Competitiveness Programme. Other key action programmes of special interest to the Western Cape include cultural industries (crafts, film and music) and tourism, both of which form part of the MEDS and are relevant to the activities of a number of SPVs such as the Cape Film Commission, the Performing Arts Network, the Visual Arts Network, and the Cape Craft Design Initiative.

The provincial government does not restrict, as far as national policy initiatives are concerned, its attention to relevant facets of the NIPF and the successive action plans. Continuous consideration is given to the menu of development incentives that is available at national level and the use that could be made of these measures to encourage growth. In this regard note should be taken of the renewed consideration to have an Industrial Development Zone (IDZ) established at Saldanha (see section 3.4.3). The DEDT believes that the investor interest shown in the possibility of a Saldanha IDZ and its growth and development in conjunction with the increased use of Saldanha harbour can provide a valuable stimulus to viable regional development.

### **3.3 Structural change of the Western Cape economy: 1995 - 2009**

In reviewing and analysing economic development there is one observable facet that comes near to a natural law, and that is the structural change associated with the process of development, specifically the change in the sector composition of economic activity. Typically, this would be a change in the relative contribution of primary production (often agriculture but also mining) to economic output falling, while that of secondary industry, manufacturing in particular, increases. Normally, the growth in the share of manufacturing will also exhibit a change in the composition of manufacturing output, with technically more advanced, higher value-added products growing in relative importance. At high levels of development the growth in service industries also tend to accelerate, especially those services requiring high levels of worker skills. The review of structural change in the Western Cape economy compared to the rest of South Africa reveals elements that are important when the past, current and future performance of sectors is considered.

**Table 3.1 Annual average growth in GDP (constant 2005 prices)**

	Western Cape	Rest of South Africa
1995 – 2000	2.8	2.7
2000 – 2009	4.3	3.5
1995 – 2009	3.8	3.2

Source: Calculated from Quantec Research data

During the 14 year period, 1995 – 2009, the Western Cape has consistently experienced faster average real growth than the rest of South Africa (see Table 3.1). That the Western Cape has grown faster than the national average is widely known. However, what is not generally appreciated is the structural change in the composition of production that has accompanied the provincial growth process.

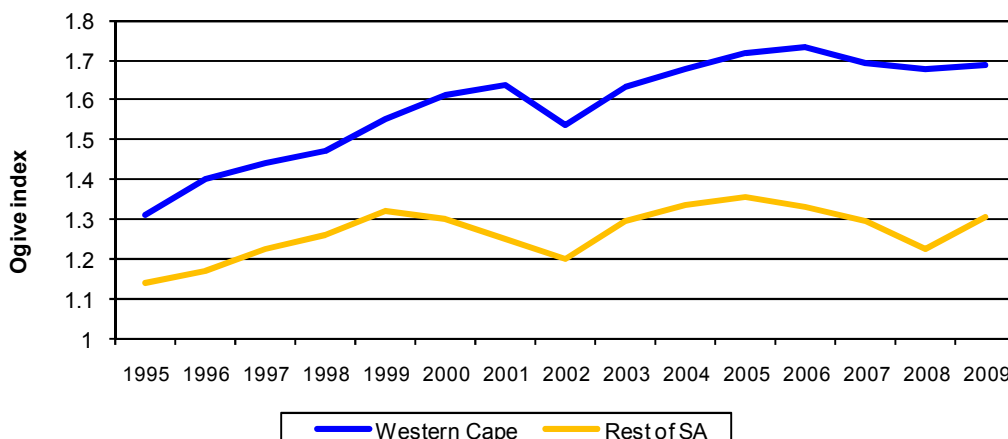
The prominent feature of the Western Cape's growth is that it has been characterised by, compared to the rest of South Africa, a significant degree of concentration in economic activity. This is revealed in the diversification indices (Ogive Index, explained in the box below) shown in Figures 3.1 and 3.2.

#### Ogive index of economic diversification

The Ogive index measures deviations from an equal distribution of sectoral shares among sectors.

$$\text{The Ogive index of diversification} = \sum_{i=1}^N \frac{(s_i - \frac{1}{N})^2}{\frac{1}{N}}$$

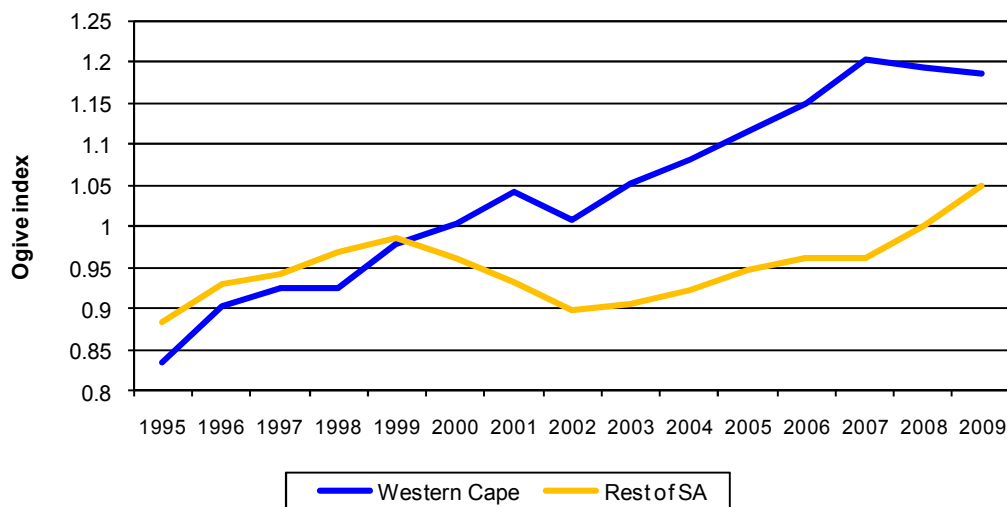
Where N equals the number of sectors and S the percentage share of the sector in production or employment. If the index equals 0, it means that distribution is absolutely equal, say ten sectors each contributing 10 per cent of production. This means that the nearer to 0 the index is, the greater is the degree of diversification. If the index values for two regions or countries are compared and values for the one (A) are higher than for the other (B) this would indicate that economic activity in economy A is more concentrated (less diversified) than in economy B.

**Figure 3.1 Ogive index for five main sectors (agriculture, mining, electricity, gas & water, manufacturing, services)**

Source: Calculated from Tables 3.2 and 3.3

In calculating the Ogive index for a number of sectors, a greater degree of diversification is indicated by a lower number, approaching zero. In calculating the values shown in Figure 3.1 and 3.2 the share of the respective sectors in GDP is used as indicator. When the index is calculated for the five main sectors in the economy (agriculture; mining; electricity, gas and water; manufacturing; and services) during the period 1995 – 2009, the index for the Western Cape is consistently higher than that of the rest of South Africa, which indicates that the Western Cape economy for the five sectors is more concentrated (less diversified) than the rest of South Africa.

**Figure 3.2 Ogive index, 23 economic sectors**



Source: Calculated from Tables 3.3 and 3.4

Adding ten sub-sectors of manufacturing, eight sub-sectors of services, and electricity, gas and water to agriculture and mining, produces the 23 sectors (these are the sectors listed in Tables 3.3 and 3.4) for which the Ogive index is shown in Figure 3.2. Until 1999 the index for the Western Cape was lower than for the rest of South Africa but since 2000 it has consistently exceeded that of the rest of the country. The Western Cape, compared to the rest of South Africa, was not only becoming less diversified but was doing so at a faster rate than the rest of the country.

What lies behind the increased concentration in Western Cape economic activity? Answers to this question can partly be derived from the information on the sector distribution of production in the Western Cape and the rest of South Africa (RRSA) presented in Tables 3.3 and 3.4. These tables, in addition to highlighting changes over time, also summarise the current distribution of economic activity by sector in the province.

Both the Western Cape and RRSA experienced a persistent fall in the relative share of manufacturing in the market value of production, but the fall appears to have been more severe in the Western Cape. Starting out with a higher percentage share in production in 1995 (23.4 per cent compared to 20.9 per cent for the RRSA) the share of Western Cape manufacturing in regional GDP declined by 7.1 percentage points while that of RRSA fell by 6 percentage points. Nevertheless, the Western Cape still, in terms of percentage contributions, has a manufacturing sector that contributes a larger share of production than RRSA, i.e. 16.3 per cent in 2009 compared to RRSA's 14.9 per cent. It must be emphasised that what is observed here is changes in the relative contribution of manufacturing to production. The real value of Western Cape manufacturing output increased by about 25 per cent from 1995 to 2009.

Within manufacturing, significant falls in the relative contribution to regional product occurred in textiles, clothing and footwear, furniture, and metals and metal products. The contribution of textiles, clothing and footwear to regional production declined from 2.5 per cent during 1995 to 0.8 per cent in 2009 (Table 3.3). In real terms the sector barely maintained its level of output. The sad outcome in terms of employment in this labour intensive sector was that according to Quantec Research data the number of jobs in the sector declined by 36 per cent from 1995 to 2009.

The Western Cape's advantage in producing agricultural products is revealed in agriculture, fisheries and forestry maintaining a larger relative contribution to regional GDP than what applied for RRSA (Tables 3.3 and 3.4). Of course, the share of agriculture should be added to fishing and forestry in assessing the contribution of this primary-producing sector. Furthermore, what is important is that the combined contribution of primary production and processing (food, beverages and tobacco) has maintained a share of about 10 per cent in regional GDP (see Table 3.3). This is significantly higher than what applies for RRSA.

Construction has a substantial share in Western Cape economic activity (5.4 per cent in 2009), a relative contribution that exceeds that of the sector in RRSA (3.6 per cent in 2009). Reviewing the contribution of construction over time (Table 3.3), a decline can be observed until 2001, but since then its share has consistently increased. This growth can in part be ascribed to construction activity related to preparation for the 2010 FIFA World Cup event.

The key feature of structural change in the Western Cape, is the growth in the contribution of services, with this sector's share in regional GDP increasing from 63.2 per cent in 1995 to 70.9 per cent in 2009. In the rest of South Africa (Table 3.4), by comparison, services increased their share in GDP from 61 per cent to 65 per cent during this period. Clearly, the Western Cape has experienced a strong tendency to develop into a service-oriented economy, a change that was concentrated in selected service industries. This growth in relative share, driven by specific sub-sectors of services, explains the increase



in sector concentration alluded to earlier. Finance and insurance, in particular, increased their share in the regional GDP quite substantially, namely from just less than 10 per cent in 1995 and 1996 to more than 16 per cent during 2007 to 2009, while raising its contribution to the output of the South African finance and insurance industry from an estimated 20.6 per cent in 1995 to 22.2 per cent in 2009. The highest regional share (17.1 per cent) was recorded in 2007, after which it has declined by half a percentage point every year to 2009. Other service industries that grew their share include business services, wholesale and retail trade, transport and storage, and community, social and personal services. These growth experiences explain the increase in economic concentration as measured by the Ogive index.

A fall in the relative contribution of an industry (the percentage share in output) does not imply a decrease in the absolute value of real output. It was noted earlier that although the relative share of manufacturing in the Western Cape economy declined, the sector experienced real growth in output. It is all a matter of differences in comparative growth rates.

**Table 3.2 Western Cape gross domestic product, constant 2005 prices**

	Average annual growth rate		
	1995 - 2000	2000 - 2009	1995 - 2009
Agriculture, forestry & fishing	2.9	2.7	2.8
Mining & quarrying	-18.7	-2.4	-4.7
Food, beverages & tobacco	-0.1	2.5	1.5
Textiles, clothing & leather	-2.8	0.8	0.1
Wood, paper, publishing	0.4	1.6	1.2
Petroleum, chemicals, rubber & plastics	7.5	0.6	3.0
Other non-metal mineral prod	-3.3	2.2	0.2
Metals & products	0.8	2.1	1.6
Electrical machinery	3.8	2.7	3.1
Radio, TV & instruments	-1.8	0.2	-
Transport equipment	2.0	3.4	2.9
Furniture and other manufacturing	1.4	1.6	1.6
Electricity	4.1	3.2	3.5
Water	1.5	0.3	0.7
Construction	2.4	8.6	6.3
Wholesale & retail trade	5.9	3.5	4.4
Catering & accommodation	1.6	3.4	2.7
Transport & storage	4.1	4.9	4.6
Communication	12.8	5.5	8.1
Finance & insurance	6.3	10.3	8.8
Business services	2.1	3.1	2.5
Community, social & personal services	3.4	3.6	3.4
General government	-1.5	2.7	0.8
<b>Total</b>	<b>2.8</b>	<b>4.3</b>	<b>3.5</b>

Source: Quantec Research

Table 3.2 above summarises the average annual real growth of the different sectors for the periods 1995 - 2000 and 2000 - 2009. The rates confirm that during 1995 - 2009 the output of finance and insurance grew at an average annual rate of 8.8 per cent during the 14 year period, the fastest of all sectors. This growth rate shifted the industry's position within the 23 sectors identified in the tables from the second largest after business services in 1995 to the largest sector in 2009, contributing about 16 per cent of regional GDP (Table 3.3). Overall, the production growth of the service industries and of construction exceeded that of the other principal sectors. Textiles, clothing and leather goods succeeded in ending the period with a slightly higher level of production, with output in 2009 being only 1.2 per cent larger than in 1995. During a significant number of years real output of this sector actually declined.

In summary, what the available data reveals is that the Western Cape has increasingly become a service oriented economy with finance and insurance, business services and trade being the leading sectors. However, it must again be emphasised that the fast growth of service industries was not accompanied by falling real output of the goods-producing sectors.

The relative decline of manufacturing is nonetheless reason for concern and should be flagged for the purposes of Western Cape development policy. Although a dynamic services sector can be an engine of growth in a regional and national economy the benefits of having manufacturing as a growth sector cannot be denied, especially if export-orientation is expected to be a principal driver of economic growth. In contrast to services, manufacturing is virtually exclusively devoted to the production of tradable goods, that is, goods that can be traded in international markets. Furthermore, the ability to develop and transmit modern technology is a notable feature of manufacturing as is the capacity to create employment opportunities to address the challenge of reducing the unemployment identified in Chapter 4. This can be achieved both directly but also extensively indirectly through a multiplier effect of forward and backward linkages. Such an emphasis on manufacturing as a force of economic growth is in line with the view expressed in a recent United Nations Industrial Development Organisation (UNIDO) report that: "industrialisation is integral to economic development" (UNIDO, 2009: 4). The focus should be on the international competitiveness of industry and on building a growing export base. What applies at the national level also applies in the Province and as UNIDO expressed the country case: "It is no longer realistic to think of a country's industrialisation as an internal process. It is now shaped by the way each country's industry integrates into the global economy" (UNIDO 2009: 39).

It is not possible, given available data, to identify accurately the extent to which the fast-growing service industries are export-oriented in the sense of exporting services not only abroad but also to other regions in South Africa. However, it would seem reasonable to assume that wholesale and retail trade largely sell in the regional market while finance and insurance and business services sell their services not only in but also significantly outside the region in the rest of South Africa, and also abroad. But because the Western Cape is an important tourist attraction it can even be postulated that a significant portion of retail sales are made to visitors, and in this sense represents exports from the region. One can hardly, for example, imagine that purchases in Cape Town's Waterfront shops are not to a substantial extent made by foreign visitors and visitors from other provinces.

The fact that a number of the country's major insurance companies and asset managers have their headquarters in Cape Town supports the contention that finance and insurance earn income by exporting to the rest of the country. The growing call centre and Business Process Outsourcing (BPO) industry would also support the view that business services are an export-oriented industry.

Manufacturing and agriculture in the Western Cape are also by and large export oriented, selling their output in other provinces and in the foreign market. Below, attention will be drawn to the major contribution that Western Cape agriculture makes to South African agricultural and agro-processed exports. The export of deciduous fruit, canned fruit, citrus, ostrich meat, rooibos tea and wine are examples of Western Cape export products that enjoy growing popularity in world markets.

**Table 3.3 Western Cape GDP sector distribution (% of GDP at current prices)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Agriculture, forestry &amp; fishing</b>	6.6	6.3	6.2	6.2	5.8	5.1	5.6	6.7	5.4	4.9	4.3	4.7	5.4	5.2	5.3
<b>Mining &amp; quarrying</b>	0.7	0.6	0.3	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Food, beverages & tobacco	5.2	5.0	5.1	4.8	4.4	4.3	4.3	4.6	4.5	4.5	4.7	4.9	4.7	4.8	5
Textiles, clothing & leather goods	2.5	2.3	2.2	2.0	1.8	1.7	1.5	1.7	1.5	1.5	1.3	1.1	1.0	0.7	0.8
Wood, paper, publishing & printing	2.9	2.7	2.6	2.6	2.5	2.6	2.4	2.3	2.3	2.1	2.1	2.1	2.2	2.0	2.1
Petroleum products, chemicals, rubber & plastic	3.5	3.5	3.5	3.7	3.8	4.1	4.3	4.2	4.4	4.4	3.9	3.4	3.3	3.6	2.9
Other non-metal mineral products	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Metals, metal products, machinery & equipment	3.6	3.6	3.6	3.3	3.0	2.8	2.8	2.8	2.7	2.7	2.7	2.5	2.4	2.4	2
Electrical machinery & apparatus	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3
Radio, TV, instruments, watches & clocks	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Transport equipment	1.4	1.2	1.0	1.3	1.2	1.4	1.5	1.3	1.3	1.3	1.2	1.1	1.0	0.9	0.8
Furniture & other manufacturing	2.8	2.7	2.5	2.4	2.3	2.2	2.3	2.1	2.0	2.1	2.0	2.0	1.9	1.8	1.7
<b>Sub-total manufacturing</b>	<b>23.4</b>	<b>22.3</b>	<b>21.8</b>	<b>21.4</b>	<b>20.1</b>	<b>20.4</b>	<b>20.2</b>	<b>20.2</b>	<b>20.0</b>	<b>19.7</b>	<b>18.9</b>	<b>18.2</b>	<b>17.5</b>	<b>17.2</b>	<b>16.3</b>
Electricity	1.8	1.8	1.7	1.7	1.7	1.6	1.5	1.5	1.7	1.6	1.6	1.6	1.5	1.5	1.6
Water	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Construction	4.1	3.8	4.0	3.8	3.9	3.6	2.8	3.3	3.2	3.4	3.8	4.0	4.3	4.9	5.4
<b>Sub-total electricity, water &amp; construction</b>	<b>6.1</b>	<b>5.8</b>	<b>5.9</b>	<b>5.7</b>	<b>5.8</b>	<b>5.4</b>	<b>4.5</b>	<b>5.0</b>	<b>5.1</b>	<b>5.1</b>	<b>5.5</b>	<b>5.7</b>	<b>5.9</b>	<b>6.5</b>	<b>7.1</b>
Wholesale & retail trade	13.0	13.0	12.7	12.8	13.5	14.7	14.6	13.8	14.0	14.0	14.3	14.2	13.6	13.7	13.6
Catering & accommodation services	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5
Transport & storage	5.7	5.7	5.6	5.6	5.5	5.5	5.3	5.1	5.0	5.1	5.6	5.9	5.7	6.3	6.6
Communication	3.1	3.4	3.6	4.1	4.3	4.6	4.7	4.3	4.8	4.7	4.6	4.1	3.5	3.0	3
Finance & insurance	9.8	9.9	10.8	10.5	12.1	12	12.5	12.9	13.1	14.1	14.2	15.3	17.1	16.5	16
Business services	13.6	13.9	14.1	14.5	14.3	14.4	14.9	14.7	15.4	15.1	15.3	15.0	14.6	14.6	14.4
Community, social & personal services	4.7	4.8	4.8	5.0	5.2	5.4	5.3	5.3	5.4	5.4	5.4	5.4	5.2	5.0	5.2
General government	11.8	12.9	12.8	12.4	11.8	11	10.7	10.3	10.3	10.3	10.1	10.0	9.7	10.0	10.6
<b>Sub-total services</b>	<b>63.2</b>	<b>65.1</b>	<b>65.9</b>	<b>66.4</b>	<b>68.1</b>	<b>69.0</b>	<b>69.4</b>	<b>67.8</b>	<b>69.4</b>	<b>70.1</b>	<b>70.9</b>	<b>71.3</b>	<b>70.8</b>	<b>70.6</b>	<b>70.9</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Value of GDP (R million)</b>	<b>72 895</b>	<b>81 491</b>	<b>90 775</b>	<b>96 446</b>	<b>106 510</b>	<b>119 402</b>	<b>132 508</b>	<b>152 204</b>	<b>167 033</b>	<b>185 598</b>	<b>204 661</b>	<b>228 046</b>	<b>261 784</b>	<b>292 763</b>	<b>311 687</b>

Source: Quantec Research

**Table 3.4 Rest of RSA GDP Sector Contribution (% of GDP at current prices)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Agriculture, forestry &amp; fishing</b>	3.4	3.8	3.6	3.4	3.2	3.0	3.2	3.7	3.1	2.8	2.4	2.6	3.0	2.8	2.7
<b>Mining &amp; quarrying</b>	8.0	7.9	7.5	7.9	8.2	8.8	9.7	10.1	8.6	8.4	8.8	9.8	10.2	11.9	11.3
Food, beverages & tobacco	3.2	3.1	3.1	2.9	2.7	2.7	2.7	2.8	2.8	2.8	2.9	2.9	2.9	2.9	3.2
Textiles, clothing & leather goods	1.2	1.1	1.0	0.9	0.8	0.8	0.7	0.8	0.8	0.8	0.7	0.6	0.5	0.5	0.4
Wood, paper, publishing & printing	2.1	1.9	1.9	1.9	1.8	1.9	1.8	1.9	1.8	1.6	1.6	1.5	1.5	1.4	1.4
Petroleum products, chemicals, rubber & plastic	3.9	3.9	3.9	4.1	4.2	4.6	4.7	4.8	4.9	5.0	4.6	4.0	4.0	4.0	3.5
Other non-metal mineral products	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Metals, metal products, machinery & equipment	4.7	4.7	4.7	4.3	3.9	3.7	3.7	3.7	3.8	3.9	3.9	3.7	3.9	3.8	3.0
Electrical machinery & apparatus	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4
Radio, TV, instruments, watches & clocks	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Transport equipment	1.8	1.5	1.3	1.6	1.6	1.8	2.0	1.8	1.9	1.8	1.8	1.7	1.5	1.3	1.1
Furniture & other manufacturing	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.3	1.2	1.1
<b>Sub-total manufacturing</b>	<b>20.9</b>	<b>19.8</b>	<b>19.5</b>	<b>19.1</b>	<b>18.3</b>	<b>18.8</b>	<b>18.9</b>	<b>19.0</b>	<b>19.3</b>	<b>19.1</b>	<b>18.4</b>	<b>17.3</b>	<b>16.8</b>	<b>16.3</b>	<b>14.9</b>
Electricity	3.3	3.1	3.0	2.8	2.6	2.4	2.2	2.1	2.2	2.0	1.9	1.9	1.8	1.9	2.0
Water	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.6
Construction	3.0	3.0	3.0	2.8	2.5	2.3	2.4	2.1	2.2	2.4	2.6	2.7	3.0	3.3	3.6
<b>Sub-total electricity, water &amp; construction</b>	<b>6.7</b>	<b>6.5</b>	<b>6.4</b>	<b>6.0</b>	<b>5.6</b>	<b>5.2</b>	<b>5.0</b>	<b>4.7</b>	<b>4.9</b>	<b>4.9</b>	<b>5.0</b>	<b>5.2</b>	<b>5.4</b>	<b>5.7</b>	<b>6.2</b>
Wholesale & retail trade	13.2	12.9	12.6	12.3	12.8	13.4	12.8	12.2	12.5	12.7	12.7	12.5	12.1	11.9	12.1
Catering & accommodation services	1.1	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0
Transport & storage	6.5	6.5	6.4	6.2	6.1	6.0	5.9	6.0	5.8	6.0	6.1	6.2	5.9	6.4	6.4
Communication	2.4	2.7	2.9	3.2	3.3	3.5	3.7	3.5	3.9	3.8	3.8	3.5	3.2	2.7	3.0
Finance & insurance	6.4	6.4	7.0	6.9	7.9	7.6	7.7	7.8	7.9	8.3	8.5	9.1	10.0	9.4	9.4
Business services	8.8	9.0	9.3	10.0	9.9	9.8	10.1	10.3	10.7	10.8	11.1	11.0	11.0	10.9	10.9
Community, social & personal services	5.6	5.6	5.7	5.9	6.1	6.3	6.2	6.2	6.4	6.5	6.5	6.4	6.3	5.9	6.0
General government	16.9	17.7	17.9	18.1	17.6	16.7	16.1	15.5	15.9	15.8	15.7	15.4	15.1	15.1	16.2
<b>Sub-total services</b>	<b>61.0</b>	<b>61.9</b>	<b>62.9</b>	<b>63.6</b>	<b>64.8</b>	<b>64.3</b>	<b>63.4</b>	<b>62.5</b>	<b>64.1</b>	<b>64.9</b>	<b>65.3</b>	<b>65.1</b>	<b>64.5</b>	<b>63.3</b>	<b>65.0</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Quantec Research

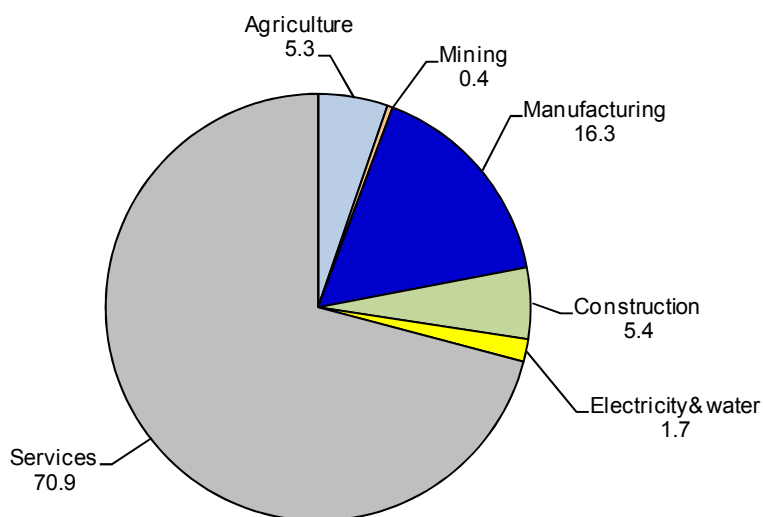
### 3.4 Sector review

In reviewing the performance of the different economic sectors, a broad distinction is drawn between the primary product producers and processing industries (specifically the agriculture, fisheries and forestry, and the food, beverages and tobacco sub-divisions), secondary industry that includes manufacturing, electricity, water and construction, and the tertiary sector which produces services. The mining sector, which is part of primary production, is not reviewed in this section because it is not of substantial importance in the Western Cape economy. Because of data problems, specific attention is also not given to forestry as a primary activity and the further processing of wood.<sup>1</sup> Water and electricity form part of secondary industry and are crucial elements that determine the capacity to grow, but are excluded from the review below because they are not known to be drivers of growth through their direct contribution to income, jobs and trade.<sup>2</sup> In the services industry government services are excluded from the review.

#### 3.4.1 Broad sector distribution and growth of production

Structural change of the Western Cape economy has brought about the sector distribution of production that is shown in Figure 3.3.

**Figure 3.3 Sector distribution of Western Cape GDP, 2009**



Source: Table 3.3

- <sup>1</sup> It is, for example, difficult, especially at the regional level, to distinguish the downstream processing of wood in manufacturing and construction sub-sectors.
- <sup>2</sup> It is not impossible that electricity generation may in future develop into an important and autonomous industrial activity. This could be the outcome of efforts to find alternative sources of electricity to supplement the supply generated by Eskom.

The two largest sectors are services and manufacturing. In section 3.3 it was emphasised that the share of manufacturing had declined substantially and as noted earlier this is reason for concern. Considering the composition of manufacturing and services, and referring back to Table 3.3, the following may be noted:

- Food, beverages and tobacco is by a significant degree the largest manufacturing sub-sector, a position it has maintained over several years. Next in line, but at significantly lower levels, are petroleum products, chemicals, rubber and plastics as sub-sector, closely followed by wood, paper, publishing and printing. Textiles, clothing and footwear used to be a substantial sub-sector in Western Cape manufacturing but its relative contribution has declined substantially to less than 1 per cent of the regional GDP in 2009. The position of the clothing industry is more closely considered in section 3.4.3.
- Finance and insurance is the largest services sector. What is not often realised is that this sector is nearly as big as the whole of manufacturing, having contributed 16 per cent of the Western Cape GDP in 2009 compared to the 16.3 per cent contributed by manufacturing. Finance and insurance is followed by business services and then wholesale and retail trade.

**Table 3.5 Western Cape, recent and forecast production growth (constant 2005 prices) %**

	2008 - 2009	2009 - 2010	2009 - 2013*
Agriculture	2.7	0.3	1.1
Manufacturing	-8.5	2.3	2.9
Construction	8.1	2.8	4.8
Services	-0.1	3.1	3.7

Source: Quantec Research

\* Average annual rate of growth

If note is taken of the average growth rates of production per broad sector (adjusted for inflation) from 2008 to 2009, summarised in Table 3.5, the sharp fall of 8.5 per cent in the real output of manufacturing is conspicuous. Comparing then the forecast growth in manufacturing from 2009 to 2010 (2.3 per cent) and for the period 2009 to 2013 (2.9 per cent) with the forecasts for services (respectively 3.1 and 3.7 per cent) it is clear that the size difference between services and manufacturing is expected to grow. Construction experienced rapid growth from 2008 to 2009, reflecting the final preparations for 2010 FIFA World Cup. The growth rate of construction is expected to decline to 2.8 per cent from 2009 to 2010 and is subsequently projected to increase to a healthy average annual rate of 4.8 per cent during the period 2009 to 2013. Agriculture is forecast to experience low but positive growth until 2013.

### 3.4.2 The food value chain

Tables 3.3 and 3.4 show that primary production of 'agriculture, forestry and fishing' and 'food, beverages and tobacco' contributed nearly a twice larger share of the Western Cape GDP compared to the situation for the rest of South Africa. In conventional trade analysis this would lead to the conclusion that the Western Cape, within the national economy, has a revealed comparative advantage in agriculture and the processing industry. The contention expressed by the Harvard Group, which advised on South African industrial policy, is that mineral beneficiation as a process of adding value to mineral products is not necessarily a sensible strategy. But this argument could not be applied to adding value to primary agricultural products. A number of technical considerations concerning transport costs and perishableness cause a close relationship, both economic and geographic, between primary production and processing. This is revealed in, for example, wine making, fruit, vegetable and fish canning, and the production of dairy products. Because of the close link between primary production and processing, both in terms of quantity and quality of the product, it is advisable to approach primary production and processing as an integrated and coordinated process.

The importance of the food and beverage value chain as an economic force can be highlighted as follows:

- Compared to many other economic activities these industries tend to be labour intensive, characterised by a substantial demand for lesser-skilled workers. In view of the revealed comparative advantage the Western Cape has in the value chain, its development and growth will have benefits in terms of job and income creation. It is also meaningful that Western Cape farms tend to be more labour intensive than the national average. In 2007 the Western Cape contributed 20.8 per cent of gross farm income in South Africa but provided 24 per cent of farm jobs in the country.
- Processing firms that operate in the value chain tend to be located outside the metropolitan area. These firms' prosperity therefore has a significant impact on towns, villages and the rural areas, thus contributing to increasing opportunities for growth and development in rural areas (which is a specific Provincial Strategic Objective).
- The processing of agricultural products holds substantial potential for the development of small, often home-based industries. The proliferation of the small scale production of goods such as jams, processed olives, preserves, bread and dairy products, all available at retail outlets and urban food markets, bears testimony to this potential.
- Agricultural-based production in the Western Cape makes a meaningful contribution to South Africa's commodity exports and the largest contribution of all provinces to agricultural exports. For the Western Cape the food and beverage value chain in 2008-2009 contributed no less than



an average of 51 per cent of the real value of the Province's commodity exports.<sup>3</sup> Building on the world-wide reputation of the Cape as a "brand name" - associated with the Western Cape as the origin of export products such as deciduous fruit, citrus, table grapes, wine, canned fruit, jams, dried fruit products and Rooibos tea - is regarded as an important development route to explore further. In considering growth in these industries sight should not be lost of the strong likelihood that growth in world population and in the rising disposable incomes of the people of countries such as China and India, which outstrip the capacity of these economies to produce food, will create opportunities for agriculture and the associated agro-industry as a leading growth sector.

Modern agriculture and its development is research driven. Measures of such research output are peer reviewed scientific papers, conference papers and, to disseminate knowledge on technology and information to the 6 682 commercial and the 5 660 emerging farmers in the Province, popular articles and public lectures.

As far as current and future prospects of the agricultural, fisheries and beverage value chain is concerned, it is estimated by Quantec Research that the real output in 2010 will be 2.3 per cent higher. For the period 2010 - 2013 Quantec forecasts remain positive with an annual average growth rate of 2.3 per cent anticipated. The situation in agriculture may be influenced by rainfall in 2010, which in October would seem to indicate below average figures for the year. Since the industry is so export-oriented, it is also possible that the continued strength of the rand will have a negative impact on business conditions during the coming season. The effect of the exchange rate as an exogenous variable affecting a specific export-oriented agro-industry – the fruit canning business – is briefly described below.

Within the context of the Western Cape, there are particular sensitive social and economic issues and challenges that exist in the fishing industry. The industry and its impact on a number of small coastal communities will be reviewed in future research of the Provincial Economic Review and Outlook.

The role that aquaculture is playing and increasingly can play in creating jobs and income, while also serving as a conduit for the development of small enterprise is another industry worth noting. South African production tonnage grew at an annual average of 7.8 per cent from 2005 to 2008 and in value terms at an average annual rate of 32 per cent during the same period. Aquaculture production is dominated by the Western Cape in both the marine (primarily abalone) and fresh water (primarily trout) sectors,

<sup>3</sup>. The estimate is based on Quantec Research's estimates of Western Cape exports. The Quantec data was adjusted to exclude the significant exports of the mining industry in the data, which presumably was incorporated because the port of export of Northern Cape iron ore is Saldanha.

accounting for 61 per cent of the total volume (3 664 tons) and 83 per cent of the total value (R327.4 million) of South African output in 2008. Survey results (Britz, Lee & Botes, 2009) indicate that full-time employment by Western Cape aquaculture producers nearly doubled from 535 in 2005 to 1 022 in 2008.

It is widely believed that aquaculture can expand and, furthermore, as noted above, could serve as a useful vehicle for the development of small business. Information on the industry and the constraints it faces, is revealed in a benchmarking survey of the Aquaculture Institute of South Africa (Britz, Lee & Botes, 2009). Of special importance in view of expectations is the “shock finding of the survey that the aquaculture sector is not conducive to small business development due to the strict regulatory environment which is not aligned with sector development initiatives, lack of technical support, and skills development” (Britz, Lee & Botes, 2009: 99). Also, all survey interviews revealed a perception “that the odds are stacked heavily against the entry of small business into aquaculture”, which the authors of the Review identified as something that policy makers who favour small business development as a backbone of job creation and a prosperous society should take seriously (Britz, Lee & Botes, 2009: 54).

#### **Impact of the macro environment on the fruit canning industry**

Three fruit canners, one jam unit and three fruit concentrate factories represent an important industry in the Western Cape, especially in rural areas where it supports the economies of towns (Ashton, Groot Drakenstein, Tulbagh, Paarl, Wellington and Worcester) and the farming communities. In season it employs 11 000 workers, buying fruit from approximately 1 500 farms that supply work to 16 000 people. It exports 85 per cent of its production. The industry’s import propensity (direct and indirect imports) is low, which means that it is, per unit of output, perhaps one of the most significant net earners of foreign exchange in the South African economy.

According to industry representatives the market for their products is not an important constraint but firms experience that the appreciation of the rand has seriously eroded their trading margins. This problem is further complicated by having to do business under conditions of uncertainty caused by exchange rate volatility. On the pricing side of the business equation the industry also faces an asymmetrical situation with respect to tariff barriers. About half the exports are destined for the European Union (EU) where the industry is subject to a tariff quota, being subject to a 10 per cent import duty on exporting within the limit of the quota but subject to the general duty of 20 per cent when exceeding the quota. Imports of canned fruit from the EU into the South African market are not subject to a customs duty.

On the side of input costs the industry is also exposed to forces over which it has no control. The industry depends on borrowing to sustain the seasonal process of production but finds itself in a competitive squeeze since South African interest rates are significantly higher than what applies to their competitors in the USA and Greece. Packaging is a major cost input and in this regard the canners, as downstream users of steel (tinplate), find themselves exposed to large increases in the cost of containers, which can be associated with the lack of competition in the steel and packaging industry. Increases in the cost of sugar (with prices determined by a pricing formula) and in the cost of electricity, water and harbour charges, all compounded by the Transnet strike and the subsequent congestion and shipment backlogs, proved to be debilitating. In total, input costs have increased by about 45 per cent.

The end result is an industry that faces severe competition in its export markets with the commensurate impact on pricing policies while exposed to cost inflation higher than the national average and exchange rate levels that lowers the rand value of export earnings. Current losses of the industry are in the vicinity of R180 million, which could lead to factory closures. As discussed in section 3.2.1 the provincial government has no influence over these forces. However, industry representatives argue that the Province can assist the canning industry in providing support in conveying its situation at the national level and in marketing efforts to assist the canners to develop and expand their entry into the fast-growing markets of China and India. Promoting the Cape as an origin of quality products should be on the development agenda of the provincial government.

### 3.4.3 Secondary industry

This section is devoted to a review of the development of selected manufacturing sub-sectors and construction. Agro-industry, discussed in section 3.4.2, is excluded. The industries selected for review in this section can be explained as follows:

- Clothing is the principal component of the Standard Industrial Classification group 'textiles, clothing and leather' that appear in Tables 3.3 and 3.4. The Western Cape has always been one of the major locations for the South African clothing industry and has served as a very important source of job creation in the Province, which in turn has severe social and economic ramifications for an industry that is facing decline.
- Boat building is a MEDS targeted industry. But apart from this, boat building serves as an example of entrepreneurial spirit, export orientation and of an industry that developed through market forces in a province with a proud maritime history. The industry developed without an initial supply of specialist skilled workers, which in the end is being successfully addressed.
- Tool making, as a matter of first impression, may apart from the fact that it is a MEDS identified industry, appear to be too small for inclusion in the review. However, this engineering industry and the artisanship that goes with it is of fundamental importance in developing a broad-based manufacturing sector. The industry also highlights how skill scarcity can constrain the growth of industry and the importance from an educational perspective of the admission requirements to successfully train artisans.
- Oil and gas, as far as the Standard Industrial Classification is concerned, is included in the manufacturing category 'petroleum products, chemicals, rubber and plastics' in Tables 3.3 and 3.4. It is reviewed under the heading of secondary industry because of the large role that two oil refineries play in the region. However, oil and gas straddles manufacturing and services and it is in the latter group that high but realistic expectations exist for the development of a Cape-based industry that can service upstream oil producers in Africa.

- Construction is a significant secondary industry in the Western Cape. It is labour intensive across all skill levels and will continue to play an important role in service delivery with respect to housing and in industrial, trade and infrastructure development.

The review of these selected industries is preceded by a brief discussion of the proposed establishment of an IDZ at Saldanha. Such a zone could play a meaningful role in the industrial development of the Western Cape and in revitalising the growth of the manufacturing sector.

### **Saldanha Industrial Development Zone**

While recognising the growth prospects offered by services (the tertiary sector), and planning to fully utilise this source of development, the provincial government is fully committed to expanding the manufacturing base of the Province. In doing this the dictum of diversifying production and also encouraging the production of more sophisticated (higher value added) products will be followed. Global experience shows this to be the important drivers of development. The provincial government believes that the establishment of an industrial development zone (IDZ) at Saldanha can make an important contribution to the revival of diversified manufacturing growth as a leading source of development but is also convinced that the process must be carefully managed to avoid unrealistic expectations and ensure long term viability.

The DEDT tasked Wesgro to undertake a Pre-Feasibility Study to identify and assess the opportunities in the industrial and business market and ascertain whether there are binding constraints to establishing an IDZ programme, as defined under section 10 of the Manufacturing Development Act (No. 187 of 1993) and as outlined in the Government Notices, No's. R1 224 (2000) and R1 065 (2006). This study was concluded in October 2009. An area for the potential IDZ was provisionally identified in the study and the potential of three industrial clusters were identified:

- A renewable energy production and manufacturing cluster;
- A land-based dry dock, floating dry dock and oil supply base/hub for the oil and gas cluster and a maritime ship building and repair cluster; and
- A steel and minerals production and manufacturing cluster.

Subsequent to this study, Wesgro on 30 July 2010 invited tenders for the *International Scoping of Potential Industrial Opportunities in the Proposed Saldanha Bay IDZ Programme*. The scoping exercise is to focus on the three identified industrial clusters. The outcome of these studies will be an important element in the establishment of an IDZ as a considered exercise with the potential to act as a propulsive force of industrial development and job creation in the West Coast region.

### **Clothing**

The two manufacturing sectors that can be regarded as "traditional" in the Western Cape are agro-industry and clothing and leather. In tracing the history of clothing and footwear in the Province the role of these industries is revealed as having been crucial not only in the Cape Town metropolitan area but, going back to the 1950s and earlier, also as mainstay of economic activity in towns like George and Great Brak River. In section 3.4.2 agro-industry was portrayed as an industry that still has much to contribute to regional growth. Clothing and footwear, by contrast, are in some circles regarded as "sunset" industries, that is, industries that are on a road of inevitable decline, unable to compete against low-cost producers in Asia.

According to Quantec Research data the real output (constant 2005 prices) of Western Cape textiles, clothing and leather products was 6.9 per cent lower in 2009 than in 1995. The forecast is that in 2010 the estimated output of this broadly defined sector will be 1.5 per cent lower than in 2009, while slight growth at an average annual rate 0.7 per cent is anticipated during 2010 - 2013. For the clothing industry, a sales index for the Western Cape clothing industry, supplied by the Cape Clothing and Textile Cluster, indicates that inflation-adjusted sales were 9.6 per cent lower in 2009 than in 2008 with a further decline of 7.6 per cent projected for 2009 - 2010. A positive phenomenon is that the Cut, Make and Trim (CMT) industry has moved in the opposite direction, having experienced 5.2 per cent growth in 2009 year on year with further growth of 1.2 per cent projected for 2010. The same situation applies for employment, with job numbers in Western Cape clothing manufacturing falling, while CMT employment moves fairly sharply upwards.

An important indicator of the level of optimism within an industry is capital expenditure. Capital expenditure of Western Cape clothing manufacturers declined from 4.1 per cent of sales in 2007 to 1.5 per cent in 2008, 0.6 per cent in 2009 and is projected to fall further to 0.6 per cent of sales in 2010. Again, CMT moves in the opposite direction with capital expenditure increasing consistently from 2.7 per cent of sales in 2007 to a projected 3.7 per cent of sales in 2010.

How can the difference in the performance of clothing manufacturers and CMT operations be explained? According to industry sources the difference could be ascribed to structural change within the industry, with relatively large manufacturers converting to CMT. They accept orders from design houses who act on behalf of large retailers. Fabric and designs are supplied and so the manufacturer, who previously purchased and managed supplies of fabric and employed an own design team, converts to CMT. In other words, the CMT is not growing because of subcontracting to small backroom operators but through a change in the operations of large scale producers.

In reviewing the outlook of the clothing industry, three observations are relevant:

- While the poor condition of the industry in general is undisputable there are also Cape clothing manufacturers that are doing well and operating profitably. An area that requires further investigation and that needs to be addressed is why the latter are performing well in an industry that is regarded as being in general decline and what lessons do their experiences hold.
- Industry specialists point to the fact that the clothing value chain is buyer driven, with buyers seeking goods at the lowest prices. However, there are expectations that fast products (fashion determined products) hold out hope for the clothing industry.

- There is also renewed confidence that the recently announced Clothing and Textile Competitiveness Programme (CTCP) and its core funding mechanism, the Production Incentive (PI), can transform the industry to higher levels of competitiveness and sustainable growth in the long run. This Programme complements the five other core projects of the Clothing and Textile Customised Sector Programme (CSP), namely a skills development plan, broad-based black economic empowerment, a technology and innovation plan, the review of import tariffs on raw material, and the combating of customs fraud.

### **Boat building**

While textiles and clothing have been under pressure since the mid 1990s, considerable enthusiasm existed for boat building as an expanding growth industry in the Western Cape. Ocean-going yachts are luxury goods and as may have been expected the industry was bound to be affected by the world-wide recession.

The industry is, as far as bigger boats are concerned, largely export-oriented, especially in the construction of catamarans of which about 90 per cent are exported. What is interesting is that boat building reacted with a lag to the global recession, with new orders falling to dismal levels in mid-2010. According to an industry source five companies attended the Miami Boat Show in February 2010, a prime marketing occasion, but in contrast to previous years found that no orders were placed. During the second half of 2010 boat builders were starting to experience cash flow problems when cash inflows generated by staged payments (starting with a deposit when an order is placed and then further payments as the work progresses) started tapering off.

The situation that the industry faces in export markets is reportedly exacerbated by the competition of French builders. France has large boat building firms that received financial assistance from government to see them through the recession. These companies have surplus stock, which are sold at low prices. Again, in discussion with industry representatives, the debilitating impact of the exchange rate features prominently and the point is made that with the strong rand it is even more difficult to compete with these foreign competitors.

It would appear that the boat builders face a number of constraints and challenges:

- The industry should improve its marketing effort by building brand names in the international market.
- Boats are sold at foreign exhibitions, which are expensive to attend, considering that it costs between a R100 000 and R140 000 just to get your exhibition boat to the boat show. The Department of Trade and Industry (**the dti**) scheme that funds attendance at international exhibitions helps,

but it is not fully utilised because cash flow problems are experienced by first having to fund your attendance up-front and then having to claim the benefit afterwards.

- Boat builders are still struggling to improve productivity. The experience is that the same output can be maintained with fewer workers.
- The industry is very dependent on Portnet and the harbour infrastructure is not adequate. The lease on the boat launching facility expires in 18 months and currently efforts are made to negotiate an extension.
- The industry feels that it is difficult to convey to government what the business is all about. Unlike a motor car or truck, building and selling a yacht is selling a lifestyle. In the Export Council the industry is grouped with manufacturing and engineering, and while this may be appropriate from a production perspective the market in which boat builders operate is fundamentally different.

In addressing these challenges the industry can rely on a number of favourable conditions and factors.

- Boat builders are resilient, with owner-managed firms run by so-called 'boaties', people who love boats and entered the industry because of this interest. The resilience was illustrated by the fact of only one company failing during the economic downturn. There has been some retrenchment of workers but in view of the productivity concern alluded to earlier this could be regarded as overdue.
- The training of skilled workers has been improved by the introduction of a three year Yacht and Boat Building Certificate at NQF levels 2, 3 and 4.

It can be anticipated that once the global economic recovery has picked up steam the prospects of the yacht building industry will improve.

### **Tool making**

The tool making industry is not widely appreciated by the general public since the industry produces goods for industry and not products that are consumed or used by the public. Few people, for example, will know that a tool maker was responsible for making the form used by the packaging industry to produce the plastic containers in which yoghurt is sold to consumers. Unfortunately also, too few school leavers know that to become a toolmaker artisan is a financially and satisfying profession for which the formal training has mathematics and science as admission requirements. Qualified tool makers furthermore find it convenient to establish their own businesses and to contribute as independent producers to the growth of manufacturing industry, an economic sector that cannot prosper without the capital equipment that toolmakers create. If the Western Cape is to revive manufacturing performance as a strong growth force and if this to be done

by producing goods higher up the value scale across a wide range of sub-sectors, a healthy and growing tool making industry is an imperative.

A challenge that the tool making industry faces is to create production capacity. In this industry, perhaps more so than in others, capacity depends on having qualified artisans available. Hence, the focus falls on attracting suitable candidates for training in sufficient numbers. But having sufficient supply capacity requires the industry to develop its market in the face of foreign competition. In this regard the industry is facing the competition of firms buying their tooling in China, a competitive downside that is exacerbated by the strong currency. However, this is the one industry in which the strong rand at least also has an upside; all tooling steel is imported and in this respect the high value of the rand helps to keep down costs.

A problem that exists in the industry is to encourage cooperation by relating the size of producers to the size of available business. The tool making industry is characterised by a large number of relatively small businesses, which individually cannot accept large orders for moulds. To address this problem the Western Cape Tooling Initiative, the industry SPV, is currently involved in establishing a mould making cluster. The intention is to encourage competing engineering firms to cooperate by working in a collective capacity to take on large orders.

Another problem related to the size of the firms is management skills. Many tool making firms came about, as alluded to earlier, by artisans leaving large firms and establishing their own businesses. The problem is that these entrepreneurs are highly skilled in tool making but lack management skills such as financial management and costing, strategic planning, project management and personnel management. To address this problem the Western Cape Tooling Initiative is actively involved in arranging training for managers/owners by partly funding courses attended at the University of Stellenbosch Business School (USB). In addition the SPV is also arranging evening sessions in which consultants train industry delegates in aspects such as project management.

### **Oil and gas**

The oil and gas industry in its totality straddles the two broad sectors of manufacturing and services. On the manufacturing side the Western Cape is home to two major refineries. The Chevron Refinery in Cape Town, one of South Africa's four oil refineries, provides jobs to more than 300 workers. PetroSA's gas-to-liquid refinery in Mossel Bay is a leading gas facility. The company has committed substantial funding to finding new gas resources. This includes a 35 per cent stake in prospecting rights in the Bredasdorp Basin off the Southern Cape coast. If significant new reserves of gas are not found, contingency planning is in place to import gas in order to keep the refinery running at optimum capacity.



Although the two refineries and their activities remain important, great optimism exists for the expansion of Cape Town (and Saldanha) as a hub that provides services to the oil and gas industry. Upstream oil and gas production is growing fast in Africa, both off-shore and on-shore. On the West Coast the West African production has been firmly established and is expanding even further. Development is moving in a southern direction with Angola growing into a prominent producer. Eastern Africa, with on-shore developments in Uganda, is also showing potential in oil production. The growing importance of Sub-Saharan Africa as a source of crude oil has important positive spin-offs for the Western Cape, specifically Cape Town.

- Cape Town has the potential to become the logistical hub that acts as a point of location for the distribution of the equipment and services that the upstream oil and gas industry require. Halliburton (a company with more than 50 000 employees in approximately 70 countries that is one of the world's largest providers of products and services to the upstream oil and gas industry) is, for example, considering the possibility of locating its African distribution centre in Cape Town.
- On the marine side of service delivery Cape Town harbour is establishing itself as a repair facility dedicated to the oil and gas industry. A major step was the investment in 2006 by MAN Ferrostaal in fabrication and repair facilities for oil tankers and drilling platforms at Saldanha and a refurbishment hub in the Port of Cape Town. This part of the service industry is not skill constrained and offers many contract jobs that are not skill intensive such as cleaning, painting and cutting. Industry observers believe that the effective marketing of the Port as repair facility is a more important constraint.
- Cape Town can compete with other centres globally as a location of regional head offices. This will require skilled workers but good local universities can supply skilled workers while the social infrastructure (schools and medical services, for example) and a pleasant environment will prove attractive to foreign workers.

### **Construction**

The construction sector in the Western Cape has seen tremendous growth over the past few years, in line with that of the national economy. In 2009 approximately 20 per cent of national construction sector activity took place in the Western Cape, contributing R16.819 million to provincial GDP. This represents 5.4 per cent of the regional GDP, which is considerably higher than the 3.9 per cent share of construction in the South African GDP. Furthermore, the construction sector grew at an average annual rate (constant 2005 prices) of 10.8 per cent during 2004 – 2009, an exceptionally high rate of growth that is expected to taper off to 2.8 per cent in 2010. Quantec Research forecasts for the industry's real output imply an average annual growth rate of 4.8 per cent during the period 2009 to 2013 (Table 3.5).

The growth in the sector recorded over the past few years was primarily as a result of the provision of much needed social and economic infrastructure as well as projects geared towards the 2010 FIFA World Cup. However, the pace of activity in the construction sector in the Western Cape, as noted above, slowed in recent years. Much of the decline in building activity during 2008 - 2009 came from the residential sector where higher interest rates, stricter credit requirements and declining house prices started weighing down on the demand for new homes. The value of residential buildings completed during 2009 decreased by 4.5 per cent year on year, compared to an increase of 6.9 per cent during 2008. On the other hand, the value of non-residential buildings completed continued to rise, mainly as a result of continued investment by the public sector. Overall, the value of buildings completed decreased by 1.7 per cent during 2009.

The outlook over the short-term also suggests continued pressure on the local construction sector. The value of building plans passed fell by 29.4 per cent year on year in 2009 after recording only a modest decline in 2008. The revival of strong growth in construction industry, in the aftermath of work completed in preparation for the 2010 FIFA World Cup, will be linked closely to the business cycle and consequently to the demand for commercial buildings and housing, as well as public investment in infrastructure.

#### **3.4.4 Service industries**

In section 3.4.3 attention was drawn to the high expectations that exist for Cape Town and also Saldanha to serve as service delivery hubs for the oil and gas industry. This could give more impetus to the service sector, noted for a number of other fast growing sub-sectors, as a growth engine of the Western Cape economy.

Like the review of secondary industry the discussion of sub-sectors in this section is selective. It represents a mix of large and smaller industries with a substantial growth potential. The large industries include finance and insurance and tourism. The latter cuts across industries identified in the Standard Industrial Classification, for example accommodation and catering and retail trade. Wholesale and retail trade, as sector, is not reviewed because growth in this sector is largely derived from growth in other sectors. Call centres and business process outsourcing form part of business services and although already significant contributors to income and employment high expectations exists for the export-oriented growth of this sub-sector. The same applies for the growing film industry.

##### **Finance and insurance**

A surprising facet of the Western Cape economy is the fact that finance and insurance is the leading sector, not only in the services industry but in the regional economy overall. In 2008/09 finance and insurance in the Western Cape contributed approximately 22.5 per cent to the South African finance

and insurance industry's GDP contribution, which far exceeds the 14.3 per cent contribution of the Western Cape economy as a whole to the South African GDP. Using the elementary technique borrowed from shift-share analysis the 16.5 per cent contribution of finance and insurance to the Western Cape GDP far exceeds the 10.4 per cent contribution of the national finance and insurance industry to the South African GDP. The Western Cape, therefore, has a strong revealed comparative advantage in finance and insurance.

The growth of finance and insurance is expected to remain robust. Quantec Research estimates anticipate 4.6 per cent growth for this sector from 2009 to 2010, which is significantly higher than the growth of 1.7 per cent predicted for the sector in the rest of South Africa. During 2009 – 2013 average growth of finance and insurance is expected to be 5.8 per cent per annum in the Western Cape compared to 4.4 per cent predicted for the rest of South Africa.

To a significant extent the reasons for the revealed comparative advantage are historical. Large insurance companies started their businesses and hence located their head offices to Cape Town. These include Sanlam, Metropolitan Life and on short term insurance side, Santam. Old Mutual, an old Cape firm, also had its South African head office in Cape Town until fairly recently, but having relocated to Johannesburg it now only retains some administrative head office functions in Cape Town.

But Cape Town is also a favourite location for leading asset managers. In part this can be ascribed to the ability that modern electronic communication and information systems offer participants in the financial markets to establish their operations in a pleasant environment and still have immediate, on-time access to information and transactions. Past are the days, for example, of on-the-floor trading on the Johannesburg Stock Exchange. Although the head office of the Johannesburg Securities Exchange Ltd. is in Johannesburg, stockbrokers trade on-line from offices in Cape Town and even in towns such as Stellenbosch, Paarl, Hermanus, George and Knysna, allowing clients, including asset managers, instant access to markets. Add to this, regular flights between Johannesburg and Cape Town and the number of direct flights between Cape Town and foreign destinations, and the Cape becomes even more attractive as location for financial sector firms.

This sector is primarily a source of highly skilled employment and it cannot serve as a direct source of unskilled and semi-skilled employment growth. Nevertheless, if the indirect impact of the growth of finance and insurance on the demand for both skilled and unskilled labour is considered, the sector can make a meaningful contribution to employment creation and the alleviation of poverty in the Western Cape.

## Tourism

The service industry is foremost in the public mind because Cape Town is nationally and globally recognised as a prominent tourist and conference destination. The city has already achieved an iconic status as an international brand. However, a notable feature of Western Cape tourism is the diversity it offers visitors beyond what Cape Town has to offer. The tourist menu includes the Cape Winelands, the Cape Garden Route and the Klein Karoo, the Overberg region, the Cape West Coast and the Groot Karoo. The Province offers the tourist diversity, each destination and route with its own character and folklore. It is difficult to quantify the impact of tourism by sector because tourists spend money across different service industries such as catering and accommodation, retail trade and transport. Of these three sub-sectors catering and accommodation is likely to be most closely associated with tourism and can reasonably serve as an indicator of the growth of tourism. Spending money on a holiday is to some extent a luxury and consequently tourism is sensitive to general economic conditions, which explains the 2009 decline in real terms of 2.4 per cent in the contribution of catering and accommodation to the regional GDP. The 2010 FIFA World Cup, however, provided a welcome respite from recessionary conditions; according to Quantec Research estimates, catering and accommodation grew by 2.8 per cent in 2010. During 2010 - 2013 annual average growth is forecast to be 2.4 per cent.

The positive impact of the 2010 FIFA World Cup was seen in the growth of visitor numbers during the period of the tournament, especially when matches took place in Cape Town. Hotels and guest houses in the city, especially those near the stadium, experienced a significant increase in occupation levels compared to previous years. However, two observations should be made. The first is that in general the economic impact of the 2010 FIFA World Cup has not been as large as widely anticipated. One estimate is that the net contribution of the event to the economy is in the order of 0.1 per cent of the South African GDP (Du Plessis and Venter, 2010). The second observation is that Gauteng, given the number of stadia at close proximity and the ease of access by road and air to other stadia, benefitted more than other host cities. This is reflected in in hotel occupancy rates in June 2010 that came to 51.7 per cent for Cape Town hotels compared to 77.3 per cent for Gauteng hotels (Du Plessis and Venter, 2010).

But perhaps more important from a development perspective is that the 2010 FIFA World Cup proclaimed the attraction of the Cape as a tourist destination not only to the actual visitors in 2010 but through the media to the world market. This advertisement is likely to pay off in increased tourist flows in years to come. With such future tourist flows in mind there is some concern that price increases could damage the potential growth of the industry. Although price increases cut across all service providers, the room rates of 3 to 5 star hotels illustrate the situation. Between June 2006 and June 2009 average

rand room rates in Cape Town, adjusted for inflation to constant 2006 prices, increased by about 12 per cent, but from June 2009 to June 2010 under the influence of 2010 FIFA World Cup expectations the average rate escalated by 173 per cent (Du Plessis and Venter, 2010).<sup>4</sup> The global and national tourist market is highly competitive and it will be unfortunate if the Cape industry suffers because it is perceived to be an expensive destination.

A further problem facing the industry is the excess supply of hotel rooms that finds its origin in the economic upswing that lasted until 2008 and the positive impact this had on tourism and expectations for the industry. However, the serious slow down in economic activity after 2008 and the increase in the supply of rooms that came onto the market with a lag is currently the cause of a mismatch between demand and supply.

An activity that must be seen separate but as related to tourism is conference attendance. Cape Town and other centres in the Western Cape such as the Spier Estate near Stellenbosch and the Arabella Hotel near Kleinmond are attractive conference venues that are growing in popularity among foreign and South African conference organisers. The Cape Town International Conference Centre has developed into a world renowned conference venue that annually accommodates 40 international congresses, exhibitions and other events. Plans to expand the capacity of the Centre to accommodate 80 events annually are making rapid progress. Again, congress attendants are not only an important economic injection during the time of the event but serves as excellent publicity for the Province that will pay off in terms of future tourist visits.

### **Call centres and Business Process Outsourcing (BPO)**

Call centres and BPO have been identified as key sectors in the economic development of the region and are amongst the fastest growing in the Western Cape. Estimates put the contribution of the sector to the regional economy at about R3 billion, providing employment to more than 40 000 agents in the Cape Town area. According to industry observers the number of agents employed could increase to 85 000 in five years time. However, the industry does face challenges, namely a lack of good communication skills of matriculants and the ubiquitous problem of poor mathematical skills.

The industry operates in a very competitive global market. The approach is not to compete purely on a cost basis but rather to attract investors that seek a high-value, low-risk business environment. Investors are taking note of these attractions. Of more recent importance for BPO is the decision by Amazon to

<sup>4</sup> According to industry sources the rates have already started to come down. However, the strong Rand remains a problem for the industry as far as room rates are concerned, with rand rates converting into high foreign currency rates, notably those calculated in US dollar, Pound Sterling and the Euro.

establish a customer support centre for the German and North American market in Cape Town. There are also expectations that Cape Town can serve as a launching pad into Africa for IT outsourcing.

In the industry current developments point to a movement away, in relative terms, from call centres (voice activities) to the provision of back office services. This will require a greater skill base and in this regard it is anticipated that the solid base that the province has in quality tertiary education can be a strong competitive advantage.

### **Film industry**

With its range of superb and varied locations, affordable production costs as well as competitive technology, capable technicians, and post-production facilities, it is not surprising that the Western Cape has developed into a centre of growth for the film industry (feature films, television, tv commercials and stills photography). The film industry is labour intensive, with each production creating jobs across a wide spectrum of occupations.

The Western Cape, with the City of Cape Town as the focal point, faces serious competition in the global market with many countries and cities vying for custom. Cape Town's competitiveness will receive a significant boost when the Faure-based Cape Town Film Studios (CTFS) opens for production towards the end of 2010. This facility with its 7 000 square meters of stages, set construction workshops, a film laboratory and production offices on site has already attracted the attention of major world players such as Warner Brothers and Disney. It is expected that the world class facilities of the CTFS and the ability to provide film makers with substantial cost savings will give Cape Town a competitive edge in attracting film makers, and also encourage the growth of domestic film making.

## **3.5 Conclusion: The Western Cape and export-oriented growth**

In conclusion, an important theme that runs through this chapter needs to be re-emphasised, namely that diversified economic growth is important for the Province and that a substantial part of this growth will have to find its origin in production for the export market. This requirement cuts across all sectors, from agriculture and agro-industry to broader-based manufacturing and the services industry. Often services are regarded as primarily non-tradable. The experience of the Western Cape, however, reveals that tourism, call centres and BPO, financial services, transport and the film industry create growth opportunities by producing services that are exported.

Creating an environment in which producers of tradable goods and services can operate competitively in the national and global economy is a prerequisite for the creation of jobs to address the unemployment problem,

especially among the youth. The problem of unemployment is extensively highlighted in the next chapter.

The Provincial Government understands that it has special role to play in creating a business environment that will assist broad-based, export-oriented development, focusing on:

- The development of a provincial vision and brand;
- The development of a corruption-free and efficient public sector that eliminates red tape;
- Creating a regulatory environment that is efficient and growth accommodating; and
- Formulating an infrastructure and asset development strategy.

These elements represent the essence of the *Provincial Strategic Objective 1: Creating opportunities for growth and jobs*.

However, what has also become clear in recent times is the debilitating effect that the strong rand has on export industries. The appreciation of the currency on the basis of portfolio capital inflows are proving damaging to the many export-oriented industries across all sectors. The Western Cape economy, which to a large extent depends on export industries, is suffering from what is known as "Dutch disease" in a rather acute form. As noted earlier the Province has no influence in the foreign exchange market and also has no position on decisions pertaining to the exchange rate mechanism, but can only express the wish "that this too will pass". In view of the forecasts noted in Chapter 2 a return to more realistic levels is anticipated, but this will not address the other exchange rate challenge that export and import-competing producing has, and that is the problem of volatility.

A final observation with respect to building an export base needs to be made and that concerns port facilities. Cape Town has an international airport that meets international standards and can cater to the needs of industries that depend on transporting low mass/high value goods. However, most Western Cape export and import trade enter and exit through Cape Town Harbour and according to industry the services that this facility provides are not consistently of an acceptable standard. This therefore represents an area where the Provincial Government through the appropriate channels and in consultation with industry should engage with Transnet and Portnet on the need to continue their efforts to improve the port facilities and the connecting rail and other transport links.





# 4

## Labour market dynamics in the Western Cape

### Key findings:

- In 2010, the Western Cape is estimated to be home to around 5.2 million residents (10.4 per cent of the national population). Of these, approximately 3.5 million individuals were of working age.
- Employment was virtually unchanged between 2008 and 2010 at 1.9 million. Provincial employment is dominated by Coloured workers who account for 56 per cent of employment.
- Formal employment is concentrated within four industries: community, social and personal services, wholesale and retail trade, and financial and business services (all in the tertiary or services sector) and manufacturing. Around three-fifths of the employed are in skilled occupations, while 16 per cent are in high skilled occupations.
- The Province's informal sector is relatively small, accounting for 11.5 per cent of total employment.
- Around one-fifth of the Provincial labour force is unemployed according to the narrow definition. The majority of the unemployed are Coloured, as of the proportion total population, or do not hold matric certificates.
- Race continues to be correlated with labour market outcomes in the Province. Africans are under-represented amongst the formally employed and significantly over-represented in both informal employment and unemployment. Coloureds are proportionally represented in formal employment and unemployment, but slightly under-represented in informal employment.
- Youth are under-represented in employment and over-represented in unemployment compared to their older counterparts.
- Young workers are over-represented in wholesale and retail trade, an industry that has a relatively large informal sector.

- The unemployment rate amongst 15 to 34 year olds is estimated at 27.4 per cent in 2010, more than twice that of older labour force participants (12.9 per cent).

## 4.1 Introduction

The labour market remains central to the poverty and inequality challenges that confront South African society today. Without job creation and improvements in access for all South Africans to employment, massive inequality will remain ingrained in the South African socioeconomic context. Following several years of slow employment growth and rapid expansion of the labour force, unemployment levels and rates rose substantially. The expanded unemployment rate peaked around 42 per cent between September 2002 and February 2004 (Yu 2008). As labour force growth subsided and economic growth breached four per cent per annum from 2004 onwards, the economy began to add jobs and, importantly, began to absorb significant numbers of previously unemployed individuals into employment.

The recent international financial crisis and the resulting global recession, however, put a stop to employment growth. Between the first quarters of 2008 and 2010, the national economy shed 813 000 jobs. Not only were large numbers of jobs lost, but the majority of them appear to have been lost predominantly by groups that were already marginalised within the labour market, particularly the youth and the less educated.

This chapter investigates recent labour market trends in South Africa and, in particular, the Western Cape. Using the Quarterly Labour Force Surveys (QLFS), which commenced in the first quarter of 2008, the two-year period ending in the first quarter of 2010 is reviewed, a period during which the labour market effects of the domestic economic recession have been plainly evident. Section 4.2 provides a brief description of the Western Cape's population – the population structure and growth trends playing an important role in influencing the size and nature of the current and future labour force. Section 4.3 presents aggregate labour market indicators, while sections 4.4 and 4.5 investigate employment and unemployment respectively. Finally, section 4.6 focuses on the youth labour market in greater detail, providing an analysis of the current labour market conditions facing young people and looking at some of the issues they confront.

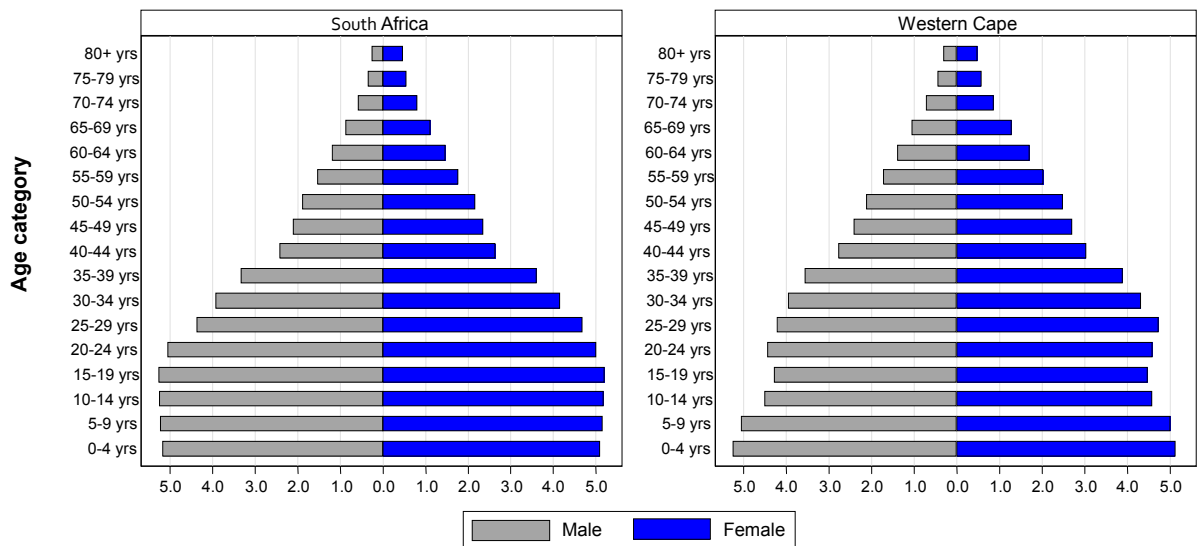
## 4.2 The Western Cape population

Statistics South Africa estimates that the Western Cape is home to just over 5.2 million residents, or 10.4 per cent of the country's population, making it the fifth most populous province behind Gauteng, KwaZulu-Natal, the Eastern Cape and Limpopo (own calculations, Statistics South Africa 2010b: 4). The Provincial total fertility rate for the period between 2006 and 2011 is estimated at 2.46 births per woman, marginally lower than the preceding five year

period and almost exactly equal to the national average of 2.48 births per woman (Statistics South Africa 2010b: 10).

Broadly speaking, the Western Cape's population does not differ substantially in its basic structure compared to the national population. Approximately 29.5 per cent of the Province's population is aged below 15 years (compared to 31 per cent nationally), 64.8 per cent (64 per cent nationally) are aged 15 to 64 years, and 5.7 per cent (5 per cent nationally) are older than 64 years. These figures do, though, point to a slightly older population in the Western Cape than nationally, as well as a slightly larger share of the population of working age. A more detailed comparison of the national and Provincial population pyramids (Figure 4.1) confirms this: The Provincial population pyramid is narrower than the national pyramid particularly between the ages of 10 and 29 years, and is broader at all ages from 30 years and upwards.

**Figure 4.1 Population structures of South Africa and the Western Cape, 2010**



Source: Own calculations, Statistics South Africa 2010b

As populations age, large numbers of individuals begin entering the working age population. This represents both an opportunity and a threat. The large number of potential workers that can contribute to the economy is the opportunity: with falling dependency ratios, an improvement in living standards and the creation of financial space for greater investment in human capital, particularly of children, may result. The threat lies in the fact that the economy may not be able to generate sufficient work opportunities to absorb new labour market entrants into productive work, resulting in rising unemployment, poverty and inequality. This combined opportunity and threat points to the need for policies that work efficiently and effectively to equip young people with the necessary skills required for employment, while at the same time ensuring that an appropriate economic environment is created and maintained to facilitate greater employment.

Apart from natural population growth, another factor contributing to the Western Cape's growing share of the national population is migration. Gauteng and the Western Cape are the country's only real receiving provinces insofar as net migration is concerned. Net in-migration to the Western Cape is estimated at almost 95 000 individuals, compared to over 360 000 in Gauteng (Statistics South Africa 2010b: 13). Total migration flows for the Western Cape are estimated at around 206 000 in-migrants compared to 111 000 out-migrants. Gauteng and the Eastern Cape are the two most important provinces in terms of provincial migration flows both into and out of the Western Cape. Gauteng is estimated to have received more than 40 000 migrants from the Western Cape, with 49 100 individuals estimated to have moved in the opposite direction, while the figures for the Eastern Cape are 30 000 and 103 000 respectively (Statistics South Africa 2010b: 13).

Migration holds both benefits and costs for both receiving and sending regions, a fact that is important in the case of the Western Cape as it receives a diverse mix of individuals and households. While the migration of labour within South Africa is often viewed in a negative light by receiving regions, it is often forgotten that such migration of labour represents an opportunity for receiving regions to satisfy skills shortages and may boost sending regions in terms of reducing local surplus labour and creating and sustaining remittance streams to poverty-stricken households and areas.

#### **A brief overview of labour market definitions**

**Working-age population:** *Comprises all individuals aged between 15 and 65 years, whether or not they are economically active.*

**Labour force:** *Comprises all individuals within the working-age population who are willing and capable of working, and therefore includes the employed and the unemployed.*

**Employed:** *Includes all formal and informal employment. The employed are also referred to as the workforce.*

**Unemployed:** *Comprises all working-age individuals who were not employed seven days prior to the interview, but were available to work, and actively sought employment or had taken steps to start their own business during the four weeks prior to the interview. This is known as the narrow or official definition of unemployment.*

**Discouraged work seekers:** *Are unemployed individuals who did not report taking active steps to find employment or start their own businesses.*

**Expanded unemployment:** *Comprises all working-age individuals who were not employed seven days prior to the interview, but were available to work. The expanded unemployed therefore includes all individuals unemployed according to the narrow definition of unemployment AND all discouraged work seekers.*

**Labour force participation rate:** *Represents the proportion of the working-age population who are members of the labour force (i.e. who are either employed or unemployed).*

**Unemployment rate:** *Represents the proportion of the labour force who are unemployed. Both narrow/official and broad/expanded unemployment rates can be calculated.*

**Informal sector:** *The informal sector is comprised of (1) employees who are not registered for income tax and work in establishments employing fewer than five individuals; and (2) employers, own account workers and individuals helping unpaid in household businesses that are not registered for either income tax or value-added tax.*

**Formal sector:** *Statistics South Africa describes formal sector employment in the QLFS questionnaire as employment “where the business, institution or private individual is registered in some way with the government or statutory bodies to perform the activity. Registration may involve collecting taxes (e.g. PAYE), making UIF contributions or having a business licence” (Statistics South Africa 2008a: 40).*

### 4.3 The labour force

For the analysis that follows, estimates are derived from the Quarterly Labour Force Survey (QLFS), unless otherwise stated. As the name suggests, these are surveys conducted four times a year with the key focus being the measurement of the labour market. The QLFS differs markedly from its predecessor, the Labour Force Survey (LFS), which was conducted bi-annually, making comparisons across the two surveys difficult. As a result, for the sake of consistency of comparisons, the decision was made to analyse only QLFS data, with the period between the first quarter of 2008 and the first quarter of 2010 representing the longest period available for analysis, namely two years.

Unfortunately, the relatively short period of analysis and the fact that the QLFS sample is slightly smaller than that of the LFS, means that it is often difficult to say with a reasonable degree of certainty that changes observed in the data are not simply due to the survey's sample. In other words, observed changes are often not statistically significant due to overlapping confidence intervals (explained below). As far as possible, details for both the Western Cape and the country as a whole are provided. Where sample sizes become small, the focus is on a snapshot for the first quarter of 2010, rather than comparisons over time.

#### **Use of confidence intervals in statistical analysis**

*Confidence intervals are calculated because the datasets used are from sample surveys and the possibility therefore exists that the estimates generated will not be truly representative of the entire population.*

*The confidence intervals indicate the likely range within which the estimate should fall, if one was to resample the same population and calculate these estimates from the new data. This range is therefore a valuable marker and should be given as much attention as the point estimate.*

*The confidence intervals become particularly useful when making comparisons across data points. If the intervals overlap, one cannot say with a certain degree of confidence that a statistically significant change has occurred.*

*Source: PER&O 2005*

**Table 4.1 Overview of the Western Cape labour market, 2010<sup>1</sup>**

	Working Age Population		Employed		Narrow Unemployed		Narrow Labour Force		Narrow Labour Force Participation Rate %	Narrow Unemployment Rate %
	Number ('000s)	Share %	Number ('000s)	Share %	Number ('000s)	Share %	Number ('000s)	Share %		
<b>Total</b>	<b>3 545</b>	<b>100</b>	<b>1 918</b>	<b>100</b>	<b>489</b>	<b>100</b>	<b>2 407</b>	<b>100</b>	<b>67.9</b>	<b>20.3</b>
<b>By Race</b>										
African	1 009	28.5	505	26.3	193	39.5	698	29	69.2	27.7
Coloured	2 001	56.4	1 071	55.8	270	55.1	1 341	55.7	67	20.1
White	501	14.1	322	16.8	26	5.3	348	14.5	69.6	7.5
<b>By Gender</b>										
Male	1 694	47.8	1 031	53.8	261	53.4	1 293	53.7	76.3	20.2
Female	1 851	52.2	887	46.2	228	46.6	1 115	46.3	60.2	20.5
<b>By Age Group</b>										
15 - 24 year olds	926	26.1	249	13	160	32.8	409	17	44.2	39.2
25 - 34 year olds	988	27.9	647	33.7	177	36.2	824	34.2	83.5	21.5
35 - 44 year olds	765	21.6	542	28.3	92	18.8	635	26.4	82.9	14.5
45 - 54 year olds	524	14.8	343	17.9	51	10.4	394	16.4	75.2	12.9
55 - 65 year olds	342	9.6	136	7.1	9	1.8	145	6	42.5	5.9
<b>By Education</b>										
No education	58	1.6	28	1.4	4	0.8	31	1.3	53.5	12
Grades 0 - 8	832	23.5	364	19	124	25.4	488	20.3	58.6	25.4
Grades 9 - 11	1 188	33.5	551	28.8	195	39.8	746	31	62.8	26.1
Grade 12	969	27.3	607	31.7	130	26.5	737	30.6	76.1	17.6
Diploma/ Certificate	286	8.1	214	11.2	23	4.6	237	9.8	83	9.6
Degree	163	4.6	129	6.7	11	2.3	140	5.8	86.1	8

Source: Own calculations, Statistics South Africa (2010c)

Notes: 1. Figures reported here are for the first quarter of 2010.

2. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Approximately 3.5 million individuals were of working age in the Western Cape in early 2010, up by 87 000 over the period and representing 11 per cent of the national working age population (Table 4.2). Nationally, employment fell by 813 000 between the first quarters of 2008 and 2010, a three per cent decrease annually, whereas in the Western Cape, employment remained virtually unchanged at 1.9 million individuals. Thus, although the knock-on effects of the global economic crisis are strongly evident in total employment nationally, this is not true of the Western Cape.

Official unemployment figures indicate an increase in unemployment numbers nationally. The narrow labour force decreased by 695 000 workers nationally over the period, while the number of discouraged workers increased by 661 000, or 25 per cent per annum. Nationally, therefore, the impact of the recession is visible in falling employment numbers over the

<sup>1</sup> The official, or narrow, definition of unemployment used by Statistics South Africa (2008a: 8) defines the unemployed as individuals aged 15 to 64 years who: (a) were not employed in the reference week; (b) actively looked for work or tried to start a business in the four weeks preceding the survey interview; and (c) would have been able to start work or would have started a business in the reference week.

period with a concomitant rise in *broad* unemployment rather than narrow unemployment. In other words, instead of the recession's unemployment effect being seen in growth amongst the searching unemployed, growth has been concentrated amongst the non-searching unemployed. Estimated changes in unemployment in the Province were statistically insignificant, irrespective of definition.

**Table 4.2 Labour market aggregates, 2008 and 2010**

	2008	2010	Change	Average Annual Growth Rate
	'000s	'000s	'000s	(%)
<b>Western Cape</b>				
Working age population	3 458	3 545	87	1.2
Employed	1 904	1 918	14	0.4
Narrow unemployed	419	489	71	8.1
Narrow labour force	2 323	2 407	85	1.8
Broad unemployed	467	540	73	7.6
Broad labour force	2 371	2 458	87	1.8
Discouraged worker seekers	48	51	3	2.9
<b>South Africa</b>				
Working age population	30 794	31 561	768	1.2
Employed	13 649	12 836	-813	-3.0 †
Narrow unemployed	4 193	4 312	119	1.4
Narrow labour force	17 842	17 148	-695	-2.0
Broad unemployed	5 371	6 151	780	7.0 *
Broad labour force	19 020	18 987	-34	-0.1
Discouraged worker seekers	1 178	1 839	661	24.9 *

Source: Own calculations, Statistics South Africa (2008b; 2010c)

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2010 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Figures reported here are for the first quarter of the respective years.

The labour force represents the supply of labour in an economy. The demographic characteristics of the narrow labour force are presented in Table 4.3. The Western Cape labour force numbered 2.4 million individuals in 2010, and is dominated by Coloured individuals, who number just over 1.3 million. The remainder of the labour force is comprised of Africans and Whites in a ratio of approximately two to one, as well as a very small proportion of Asians. Males account for nearly 54 per cent of the labour force in 2010, while around half are younger than 35 years. Just six per cent of the labour force is aged 55 years or older.

The largest group in the labour force in terms of educational attainment comprises those with grade 9 to grade 11 education (31 per cent), slightly outnumbering matriculants. Although the educational characteristics of the labour force cannot be said with certainty to have changed, it does appear that the trend towards improved educational attainment within the labour force has continued, as the share of those with incomplete General Education and Training (GET) educations (i.e. less than grade 9) declined as a share of the labour force.

**Table 4.3 Composition of the Western Cape labour force, 2008 and 2010**

	2008		2010		Change '000s	Average Annual Growth Rate (%)
	'000s	Share %	'000s	Share %		
<b>Narrow Labour Force</b>	2 323	100.0	2 407	100.0	85	1.8
<b>Race</b>						
African	687	29.6	698	29.0	11	0.8
Coloured	1 250	53.8	1 341	55.7	91	3.6
White	370	15.9	348	14.5	-22	-3.0
<b>Gender</b>						
Male	1 265	54.5	1 293	53.7	27	1.1
Female	1 058	45.5	1 115	46.3	57	2.7
<b>Age</b>						
15 - 24 year-olds	438	18.9	409	17.0	-29	-3.4
25 - 34 year-olds	799	34.4	824	34.2	26	1.6
35 - 44 year-olds	594	25.6	635	26.4	41	3.4
45 - 54 year-olds	353	15.2	394	16.4	41	5.7
55 - 65 year-olds	140	6.0	145	6.0	5	1.9
<b>Education</b>						
No education	43	1.9	31	1.3	-12	-14.8
Grades 0 - 8	542	23.3	488	20.3	-54	-5.1
Grades 9 - 11	691	29.7	746	31.0	55	3.9
Grade 12	666	28.7	737	30.6	71	5.2
Diploma/Certificate	217	9.3	237	9.8	20	4.5
Degree	135	5.8	140	5.8	5	1.8

Source: Own calculations, Statistics South Africa (2008b; 2010c)

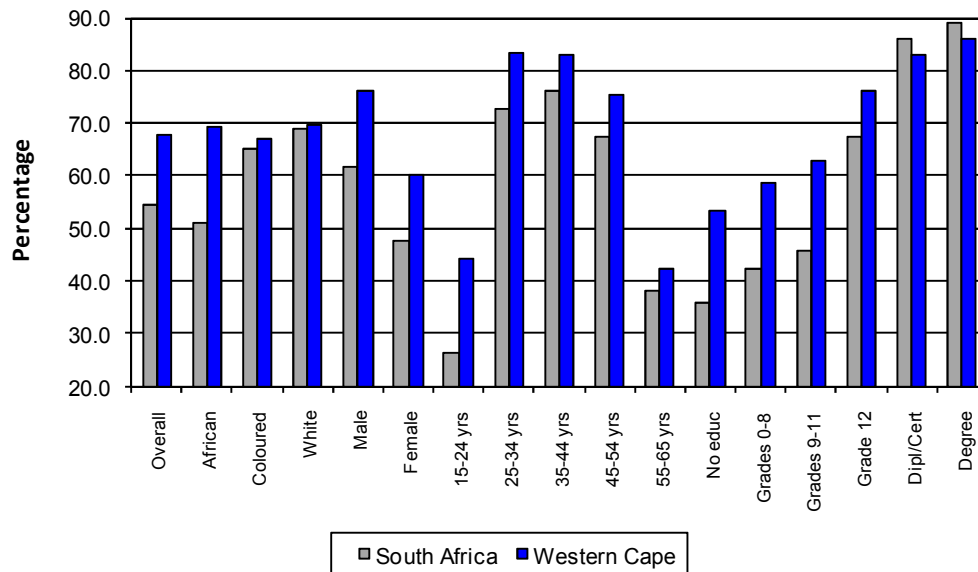
Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2010 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. No changes reported here are statistically significant at either of these confidence levels.

2. Figures reported here are for the first quarter of the respective years.

3. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

The decision to enter the labour force is influenced by various factors, with the likelihood of an individual participating in the labour force referred to as the labour force participation rate (LFPR). The LFPR is defined as the proportion of working age individuals who are labour force participants. In almost all the demographic categories presented here, the LFPR is higher in the Western Cape than in South Africa (Figure 4.2). The total Western Cape LFPR is 13.6 percentage points higher than the national rate, at 67.9 per cent in 2010. Thus, more than two-thirds of working age individuals in the Western Cape participate in the labour market. Within the different race groups, LFPRs are in the Western Cape are very similar, ranging between 67 per cent and 70 per cent. However, Africans in the Western Cape are substantially more likely to participate in the labour market: at 69.2 per cent, the Provincial LFPR is 18.2 percentage points higher than nationally.



**Figure 4.2 Labour force participation rates, 2010**

Source: Own calculations, Statistics South Africa (2010c)

Note: Detailed estimates can be found in the appendix.

Males are significantly more likely to participate in the labour force than are females, while labour force participation is most likely amongst the prime working ages from 25 years to 44 years. In contrast, labour force participation is least likely amongst the youngest and the oldest age groups, who are more likely to be engaged in education or have exited the labour force through retirement respectively.

Higher levels of educational attainment are correlated with higher rates of labour force participation, a phenomenon that may be at least partly related to superior returns to education at higher levels of attainment. While LFPRs at higher levels of educational attainment are very similar between the Western Cape and the country as a whole, there is an increasingly large gap between them as educational attainment falls. Thus, although there is no statistically significant difference between the Western Cape and South Africa as a whole in the LFPRs of those with post-secondary education, there is a gap of 8.6 percentage points for matriculants and a gap of 17.5 percentage points for those with no education. It is not clear why this should be so, but it may perhaps be related to the high rates of unemployment in other provinces that may discourage labour force participation, especially amongst the less educated.

## 4.4 Total employment

### 4.4.1 Overview

Nationally, total employment decreased by 813 000 workers between 2008 and 2010 (Table 4.4). This change is chiefly attributable to a decline of 725 000 in the number of African workers, representing almost nine-tenths of the overall decrease, with wholesale and retail trade, manufacturing and agriculture accounting for more than 90 per cent of all jobs lost. Both males and females experienced large decreases in employment levels, with male employment falling by over half a million during the two year period, at an average annual rate of -3.5 per cent.

While employment growth over the past five years was generally broad-based and saw widespread employment gains, it appears that the youngest and least educated labour force participants may have tended to be absorbed into relatively less secure forms of employment, or may be perceived by employers to be less productive relative to their peers. Workers younger than 35 years and those who have not completed grade 9 accounted for the vast majority of job losses.

**Table 4.4 Composition of total employment, 2008 and 2010**

	2008		2010		Change '000s	Average Annual Growth (%)
	'000s	Share %	'000s	Share %		
<b>WESTERN CAPE</b>						
<b>Total Employment</b>	<b>1 904</b>	<b>100.0</b>	<b>1 918</b>	<b>100.0</b>	<b>14</b>	<b>0.4</b>
<b>Race</b>						
African	512	26.9	505	26.3	-7	-0.7
Coloured	1 029	54.1	1 071	55.8	42	2.0
White	351	18.4	322	16.8	-28	-4.1
<b>Gender</b>						
Male	1 063	55.8	1 031	53.8	-32	-1.5
Female	841	44.2	887	46.2	46	2.7
<b>Age</b>						
15 - 24 year-olds	279	14.7	249	13.0	-31	-5.7
25 - 34 year-olds	638	33.5	647	33.7	9	0.7
35 - 44 year-olds	534	28.0	542	28.3	9	0.8
45 - 54 year-olds	321	16.8	343	17.9	23	3.5
55 - 65 year-olds	132	6.9	136	7.1	5	1.7
<b>Education</b>						
No education	36	1.9	28	1.4	-8	-12.5
Grades 0 - 8	432	22.7	364	19.0	-68	-8.2
Grades 9 - 11	526	27.6	551	28.8	26	2.4
Grade 12	555	29.1	607	31.7	53	4.6
Diploma/Certificate	200	10.5	214	11.2	15	3.6
Degree	131	6.9	129	6.7	-2	-0.8

	2008		2010		Change '000s	Average Annual Growth (%)
	'000s	Share %	'000s	Share %		
<b>SOUTH AFRICA</b>						
<b>Total Employment</b>	13 649	100.0	12 836	100.0	-813	-3.0 †
<b>Race</b>						
African	9 522	69.8	8 797	68.5	-725	-3.9 †
Coloured	1 557	11.4	1 539	12.0	-18	-0.6
White	2 107	15.4	2 016	15.7	-91	-2.2
<b>Gender</b>						
Male	7 646	56.0	7 117	55.4	-529	-3.5 †
Female	6 003	44.0	5 719	44.6	-284	-2.4
<b>Age</b>						
15 - 24 year-olds	1 657	12.1	1 337	10.4	-321	-10.2 *
25 - 34 year-olds	4 645	34.0	4 292	33.4	-352	-3.9 †
35 - 44 year-olds	3 604	26.4	3 588	28.0	-16	-0.2
45 - 54 year-olds	2 589	19.0	2 506	19.5	-83	-1.6
55 - 65 year-olds	1 155	8.5	1 114	8.7	-41	-1.8
<b>Education</b>						
No education	554	4.1	406	3.2	-148	-14.4 *
Grades 0 - 8	3 101	22.7	2 455	19.1	-646	-11.0 *
Grades 9 - 11	3 504	25.7	3 360	26.2	-144	-2.1
Grade 12	3 897	28.5	3 920	30.5	23	0.3
Diploma/Certificate	1 576	11.5	1 632	12.7	56	1.8
Degree	854	6.3	895	7.0	41	2.4

Source: Own calculations, Statistics South Africa (2008b; 2010c)

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2010 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Figures reported here are for the first quarter of the respective years.

3. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Provincial employment in 2010 remains dominated by Coloured workers (55.8 per cent of employment). Males too account for the majority of employment (53.8 per cent), while workers between the ages of 25 and 44 years represent more than 60 per cent of total employment in the Province. In terms of educational attainment, over 30 per cent of the employed have completed grade 12, while a slightly smaller proportion have not completed the Further Education and Training (FET) phase (i.e. have attainments of grades 9 through 11).

Although there are no statistically significant changes in the levels of employment in the Province, the evidence tentatively points to similar changes in employment in the Western Cape as has occurred nationally insofar as age and educational attainment is concerned.

Aggregate figures often mask important differences in the experiences of sub-groups. The remainder of this section analyses a more detailed sector disaggregation of employment trends, with the often-volatile agricultural sector and the domestic work sector separated out from the non-agricultural sector. At the same time, formal and informal employment is distinguished within the agricultural and non-agricultural sectors.

Statistics South Africa describes the informal sector as having two components: “[employees] working in establishments that employ less than five employees, who do not deduct income tax from their salaries/wages; and ... [employers], own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax” (Statistics South Africa 2010d: xvii).

Nationally, employment contracted in both the agricultural and the non-agricultural sectors, while domestic work remained stable between 2008 and 2010 (Table 4.5). Agricultural employment contracted much more sharply than non-agricultural employment, with informal agricultural employment contracting most rapidly – a 45 per cent decline. Similarly, within non-agricultural employment it has been the informal sector that has borne the brunt of job losses, shedding 311 000 jobs at an average rate of 6.9 per cent per annum. Although the estimates point to contractions in formal employment in both the agricultural and non-agricultural sectors, these declines are neither statistically significant nor as rapid as is observed in the informal sector. Despite accounting for 16.4 per cent of total employment nationally, the informal sector accounted for 47 per cent of all jobs lost.

**Table 4.5 Sectoral composition of total employment, 2008 and 2010**

	2008		2010		Change '000s	Average Annual Growth Share %
	'000s	Share %	'000s	Share %		
<b>WESTERN CAPE</b>						
<b>Total Employment</b>	<b>1 904</b>	<b>100.0</b>	<b>1 918</b>	<b>100.0</b>	<b>14</b>	<b>0.4</b>
<b>Agriculture</b>	<b>182</b>	<b>9.5</b>	<b>177</b>	<b>9.2</b>	<b>-5</b>	<b>-1.3</b>
Formal Agriculture	173	9.1	172	8.9	-1	-0.4
Informal Agriculture	9	0.5	6	0.3	-3	-20.7
<b>Non-Agriculture</b>	<b>1 619</b>	<b>85.1</b>	<b>1 614</b>	<b>84.1</b>	<b>-6</b>	<b>-0.2</b>
Formal Non-Agriculture	1 426	74.9	1 414	73.7	-13	-0.4
Informal Non-Agriculture	193	10.1	200	10.4	7	1.7
<b>Domestic Work</b>	<b>103</b>	<b>5.4</b>	<b>127</b>	<b>6.6</b>	<b>25</b>	<b>11.3</b>
<b>SOUTH AFRICA</b>						
<b>Total Employment</b>	<b>13 649</b>	<b>100.0</b>	<b>12 836</b>	<b>100.0</b>	<b>-813</b>	<b>-3.0 †</b>
<b>Agriculture</b>	<b>805</b>	<b>5.9</b>	<b>652</b>	<b>5.1</b>	<b>-153</b>	<b>-10.0 †</b>
Formal Agriculture	643	4.7	564	4.4	-80	-6.4
Informal Agriculture	162	1.2	88	0.7	-73	-26.1 *
<b>Non-Agriculture</b>	<b>11 679</b>	<b>85.6</b>	<b>11 013</b>	<b>85.8</b>	<b>-665</b>	<b>-2.9</b>
Formal Non-Agriculture	9 352	68.5	8 997	70.1	-354	-1.9
Informal Non-Agriculture	2 327	17.0	2 016	15.7	-311	-6.9 *
<b>Domestic Work</b>	<b>1 166</b>	<b>8.5</b>	<b>1 171</b>	<b>9.1</b>	<b>5</b>	<b>0.2</b>

Source: Own calculations, Statistics South Africa (2008b; 2010c)

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2010 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Figures reported here are for the first quarter of the respective years.

The Western Cape, though, has a very small informal sector. In 2010, the informal agricultural sector was virtually non-existent, while the informal non-agricultural sector employed just 200 000 individuals, or 10.4 per cent of total

employment. This was more than five percentage points lower than the national share of 15.7 per cent. As a consequence, at these relative sizes, employment trends in the formal sector largely drive overall employment trends in the Province. Agriculture accounted for 9.2 per cent of Provincial employment in 2010, considerably higher than is the case nationally.

#### 4.4.2 Formal sector employment

The formal sector accounts for the majority of employment in the Western Cape (82.6 per cent) and nationally (74.5 per cent). Africans dominate formal employment nationally, accounting for 62 per cent of the total (Table 4.6). Whites account for just under 20 per cent of formal employment, while 13.4 per cent are Coloured. The remainder – just under five per cent – are Asians. In contrast, in the Western Cape, the majority of formal employment is accounted for by Coloureds (56.7 per cent), while 23.2 per cent are African and 18.9 per cent are White.

Formal sector employment is dominated by males, although females are relatively less outnumbered in the Western Cape than nationally. This may be due to various reasons, including the relatively high proportion of females in the Province employed in formal agriculture (42.6 per cent), manufacturing (41.6 per cent) and finance (47 per cent), as well as the virtual absence of the male-dominated mining industry in the Province.

The age structure of formal sector employment is very similar between the Western Cape and South Africa as a whole. Formal sector employment is dominated by 25 to 44 year olds, who account for 62.3 per cent provincially. The main difference in the age structure of formal employment between the Western Cape and the country as a whole occurs outside of this age group: the former are slightly more likely to be under the age of 25 years than the national latter.

**Table 4.6 Demographic characteristics of formal employment, 2010**

	South Africa		Western Cape	
	'000s	(%)	'000s	(%)
<b>Total Formal Employment</b>	<b>9 561</b>	<b>100.0</b>	<b>1 585</b>	<b>100.0</b>
<b>Race</b>				
African	5 929	62.0	368	23.2 *
Coloured	1 280	13.4	900	56.7 *
White	1 905	19.9	300	18.9
<b>Gender</b>				
Male	5 655	59.2	883	55.7 *
Female	3 905	40.8	702	44.3 *
<b>Age</b>				
15 - 24 year-olds	1 007	10.5	213	13.4 *
25 - 34 year-olds	3 294	34.5	539	34.0
35 - 44 year-olds	2 671	27.9	449	28.3
45 - 54 year-olds	1 794	18.8	276	17.4
55 - 65 year-olds	794	8.3	108	6.8

	South Africa		Western Cape	
	'000s	(%)	'000s	(%)
<b>Education</b>				
No education	171	1.8	14	0.9 *
Grades 0 - 8	1 289	13.5	251	15.8
Grades 9 - 11	2 278	23.8	446	28.1 *
Grade 12	3 328	34.8	533	33.6
Diploma/Certificate	1 514	15.8	199	12.5 *
Degree	875	9.2	125	7.9

Source: Own calculations, Statistics South Africa (2010c)

- Notes: 1. An asterisk (\*) denotes a statistically significant difference at the 95 per cent level of confidence between the South African and Western Cape shares of formal employment, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.
2. Figures reported here are for the first quarter of 2010.
3. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Those employed in the formal sector also differ somewhat from their counterparts in the rest of the country in terms of educational attainment. While relatively few of the formally employed in the Province have no education (0.9 per cent compared to 1.8 per cent nationally), the proportion with diplomas and/or certificates is also lower (12.5 per cent compared to 15.8 per cent). Relatively more formal sector workers in the Province's report having incomplete FET education (28.1 per cent compared with 23.8 per cent nationally), while estimates also point to Provincial formal employment possibly lagging in terms of the proportions with degrees. This is at least partly related to differing educational profiles across industries and differing relative industry size.

In 2010, the major industries in terms of formal employment in the Provincial economy are community, social and personal (CSP) services, which includes government, and wholesale and retail trade, which each account for around 22 per cent of formal employment (Table 4.7). These two industries are also the largest employers nationally, providing work for 44.7 per cent of workers in the first quarter of 2010. Manufacturing, financial and business services and agriculture, forestry and fishing, each account for double-digit shares of Provincial formal employment. These five sectors account for almost 87 per cent of formal employment in the Western Cape. The tertiary sector as a whole dominates both national and Provincial formal employment, accounting for around two-thirds of formal employment.

**Table 4.7 Sector distribution of formal employment, 2010**

	South Africa		Western Cape	
	'000s	(%)	'000s	(%)
Agriculture, forestry and fishing	564	5.9	172	10.8 *
Mining and quarrying	294	3.1	1	0.1 *
<b>Primary Sector</b>	<b>858</b>	<b>9.0</b>	<b>173</b>	<b>10.9</b>
Manufacturing	1 516	15.9	261	16.5
Electricity, water and gas	68	0.7	8	0.5
Construction	767	8.0	120	7.6
<b>Secondary Sector</b>	<b>2 351</b>	<b>24.6</b>	<b>389</b>	<b>24.5</b>
Wholesale and retail trade	1 885	19.7	348	22.0
Transport, storage and communication	575	6.0	83	5.3
Financial and business services	1 491	15.6	241	15.2
Community, social and personal services	2 395	25.0	350	22.1 †
<b>Tertiary Sector</b>	<b>6 347</b>	<b>66.4</b>	<b>1 023</b>	<b>64.5</b>
<b>Total</b>	<b>9 561</b>	<b>100.0</b>	<b>1 585</b>	<b>100.0</b>

Source: Own calculations, Statistics South Africa (2010c)

Notes: 1. An asterisk (\*) denotes a statistically significant difference at the 95 per cent level of confidence between the South African and Western Cape shares of formal employment, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

2. Figures reported here are for the first quarter of 2010.

An investigation of the occupational structures of formal employment reveal no statistically significant differences between the Western Cape and South Africa as a whole in the first quarter of 2010 (Table 4.8). Of the almost 1.6 million formal sector workers in the Province, 16.4 per cent are employed in high skilled occupations, 61.1 per cent in skilled occupations and 22.5 per cent in elementary occupations. These proportions are statistically indistinguishable from the structure of formal employment nationally.

**Table 4.8 Occupational structure of formal employment, 2010**

	South Africa		Western Cape	
	'000s	(%)	'000s	(%)
Managers	889	9.3	151	9.5
Professionals	642	6.7	110	6.9
<b>High Skilled</b>	<b>1 532</b>	<b>16.0</b>	<b>261</b>	<b>16.4</b>
Technicians	1 380	14.4	215	13.5
Clerks	1 373	14.4	245	15.4
Service and sales	1 325	13.9	195	12.3
Skilled Agriculture	61	0.6	9	0.5
Crafts	1 145	12.0	187	11.8
Operators	873	9.1	119	7.5
<b>Skilled</b>	<b>6 157</b>	<b>64.4</b>	<b>968</b>	<b>61.1</b>
Elementary	1 872	19.6	356	22.5
<b>Low Skilled</b>	<b>1 872</b>	<b>19.6</b>	<b>356</b>	<b>22.5</b>
<b>Total</b>	<b>9 561</b>	<b>100.0</b>	<b>1 585</b>	<b>100.0</b>

Source: Own calculations, Statistics South Africa (2010c)

Notes: 1. An asterisk (\*) denotes a statistically significant difference at the 95 per cent level of confidence between the South African and Western Cape shares of formal employment, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

2. Figures reported here are for the first quarter of 2010.

The largest occupational category in Provincial formal employment is that of elementary workers. This occupational category's relative importance within the Province can be linked to the relatively large proportion of employment accounted for by agriculture, forestry and fishing – a full 9.4 per cent formal employment in the Province is accounted for by elementary workers in agriculture, forestry and fishing, compared to 4.5 per cent nationally. Clerks (15.4 per cent of formal employment), technicians (13.5 per cent), service and sales workers (12.3 per cent) and crafts workers (11.8 per cent) combined with elementary occupations to account for three-quarters of formal employment in the Western Cape.

The issue of skills is an important one. Decades of wilful neglect of the education system for Africans, Coloureds and Asians have left South Africa with a relatively weak skills base and a varying quality of education both across and within cohorts. At the same time, South Africa's growth path that, over the past half century or more, has tended to favour large-scale capital intensive forms of production, has resulted in a long-term shift in the nature of labour demand towards skilled labour and away from unskilled labour (Bhorat and Hodge 1999). Increasing demand for skills has been characteristic of economic development in South Africa since at least the 1960s, and has been further reinforced by rapid technological change across a broad range of industries. Labour shortages at the upper end of the skills ladder and massive labour surpluses and unemployment at the lower end have contributed to a substantial gap in remuneration, which, given racial inequalities as far as skills are concerned, has contributed strongly towards income inequality. Indeed, Bhorat *et al.* (2009) estimate that wage and salary income accounted for three-quarters of overall income inequality in 2005.

The centrality of education and skills to the poverty and inequality challenges facing South Africa has meant that considerable policymaking effort and financial resources have been directed towards these issues. However, the South African educational system continues to struggle to produce the types and quantities of skills demanded by employers. The education system remains a weakness relative to other countries: in the latest *Global Competitiveness Report 2010 - 2011*, South Africa is ranked 125<sup>th</sup> for quality of primary education, 130<sup>th</sup> for quality of the educational system, and 137<sup>th</sup> for quality of maths and science education out of 139 countries (World Economic Forum 2010). On a positive note, though, South Africa is ranked 26<sup>th</sup> for the extent of staff training.

Many have argued that the resolution of the unemployment problem hinges on the resolution of the educational challenges facing the country: if the problems in education were addressed and more learners completed grade 12 and post-secondary education, unemployment would decline as employers desperate for skilled workers hired them. However, this has not been borne out by experience. Unemployment amongst matriculants, for example, has risen substantially over time, from 27 per cent according to the



expanded definition in 1995 to 40.7 per cent in 2002, and as high as 55.7 per cent amongst African matriculants (Bhorat and Oosthuizen 2006). It was only with the advent of the sustained higher levels of economic growth experienced prior to the recent recession that the economy really began to create substantial numbers of jobs. Thus, the role of insufficient aggregate demand in explaining current levels of unemployment is emphasised.

As a relatively open economy, labour demand in South Africa is impacted by the ability of firms to compete with international producers, whether in foreign markets or our own. As a coastal Province with significant international trade links, this is certainly true of the Western Cape too. Edwards (2006), for example, finds that the impact of trade on labour varies across regions, noting that “[open] trade with developed economies is likely to benefit less-skilled labour, while trade with low-income countries should benefit skilled labour”. From a policymaking perspective, then, it is essential to understand how our international trade – both exports and imports – impacts on demand for different types of labour and to ensure that appropriate policies are designed and implemented to mitigate some of the negative effects experienced by firms and workers.

### **4.4.3 Informal sector employment**

As noted, Statistics South Africa defines the informal sector as being made up of “[employees] working in establishments that employ less than five employees, who do not deduct income tax from their salaries/wages; and ... [employers], own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax” (Statistics South Africa 2010d: xvii). This section investigates some of the demographic characteristics of informal employment in greater detail.

Internationally, measurement of the informal sector is complex and often problematic. As a result, estimates of informal employment may be inaccurate in their inability to capture the full range of informal activities. At the same time, respondents in household surveys would often not classify their activities as falling within the informal sector and questionnaires must therefore be designed in such a way as to best capture the varied economic activities that people engage in. Not only are respondents often unable to classify their activities themselves, many do not even view the activities that they perform as employment.

Of the 1.8 million employed individuals in the Western Cape in 2010, approximately 200 000 are active in the informal sector (Table 4.9). This represents 11.5 per cent of total employment, which is relatively small compared to the national proportion of 18 per cent. In line with the different racial profile of its population, the informally employed in the Western Cape are predominantly Coloured, while Africans account for 37.2 per cent. Thus, Africans are over-represented amongst the informally employed, while Coloureds and Whites are under-represented. As with formal employment,

males dominate within the informal sector although it appears that the Province's informal sector may have a greater proportion of males than is the case nationally.

**Table 4.9 Composition of informal employment, South Africa and the Western Cape, 2010**

	South Africa		Western Cape	
	('000s)	(%)	('000s)	(%)
<b>Formal Employment</b>	9 561		1 585	
<b>Informal Employment</b>	2 104	100.0	205	100.0
<b>Race</b>				
African	1 798	85.5	76	37.2 *
Coloured	163	7.7	106	51.8 *
White	107	5.1	20	9.6
<b>Gender</b>				
Male	1 193	56.7	129	62.8
Female	911	43.3	76	37.2
<b>Age</b>				
15 - 24 year-olds	248	11.8	28	13.4
25 - 34 year-olds	703	33.4	72	35.0
35 - 44 year-olds	546	26.0	56	27.1
45 - 54 year-olds	414	19.7	36	17.3
55 - 65 year-olds	194	9.2	15	7.2
<b>Education</b>				
No education	135	6.4	6	3.0 †
Grades 0 - 8	638	30.3	58	28.4
Grades 9 - 11	700	33.3	63	30.6
Grade 12	465	22.1	56	27.1
Diploma/Certificate	108	5.1	15	7.1
Degree	18	0.8	2	1.1

Source: Own calculations, Statistics South Africa (2010c)

Notes: 1. An asterisk (\*) denotes a statistically significant difference at the 95 per cent level of confidence between the South African and Western Cape shares of informal employment, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

2. Figures reported here are for the first quarter of 2010.

There appears to be no difference in the age profiles of individuals employed in the formal and informal sectors. This is true both nationally and provincially and there appears to be no direct relationship between age and the likelihood of being employed in the informal sector. Almost half of those engaged in informal sector employment in the Western Cape are younger than 35 years, while around 60 per cent of informal sector workers are aged between 25 and 44 years. There is little difference between the Province and the country as a whole in terms of the educational attainment of the informally employed. If anything, it appears that those employed in the informal sector in the Western Cape may have a slightly superior educational profile compared to their counterparts elsewhere in the country.

#### 4.4.4 Summary

The labour market impact of the domestic economic recession is evident in the decline in employment of over 800 000 jobs nationally between 2008 and 2010. Job losses were typically experienced by Africans, males, the youth and the poorly educated. In contrast, estimates from the QLFs reveal no significant change in aggregate employment levels in the Western Cape over the period. Although sample size issues prevent much being said with confidence regarding changes in employment in the Province, indications are that jobs may have been lost amongst the youngest and least educated of the Province's workforce.

Employment in the Western Cape is dominated by the formal sector and Coloureds account for the majority of formal employment. Employment in the Province is concentrated within four major industries – CSP services, wholesale and retail trade, manufacturing, and financial and business services – and three-fifths of the employed were employed in skilled occupations. In aggregate, the skills profile of Provincial formal employment does not differ from the national profile, although there are some differences at sector level, most notably in agriculture, forestry and fishing, and construction.

The informal sector in the Province is relatively small within the national context, accounting for just over 10 per cent of Provincial employment. While informal employment is still dominated by Coloured workers, Africans are significantly over-represented in the informal sector. Informal sector workers are also typically less educated than those in the formal sector.

Current projections foresee a considerable shift in Provincial employment over the next five years to 2015, in line with varying output growth rates across sectors. It is anticipated that employment will grow rapidly in utilities (averaging 5.1 per cent per annum), financial and business services (4.4 per cent), CSP services (3.6 per cent) and wholesale and retail trade (3.1 per cent). All but one of these sectors growing above the Provincial average of 2 per cent per annum, namely utilities, are already major employment sectors in the Province. In contrast, employment is expected to contract significantly in agriculture, forestry and fishing (-5.1 per cent per annum) and manufacturing (-2.6 per cent). By 2015, employment in the Western Cape is, therefore, expected to be considerably more services-oriented, with more than three-quarters of Provincial employment in the tertiary sector.

This structural change in the Province's economy represents an important challenge to policymakers who will be required to design and implement policies aimed at facilitating the continued shift of employment to the tertiary sector.

### Income from Employment

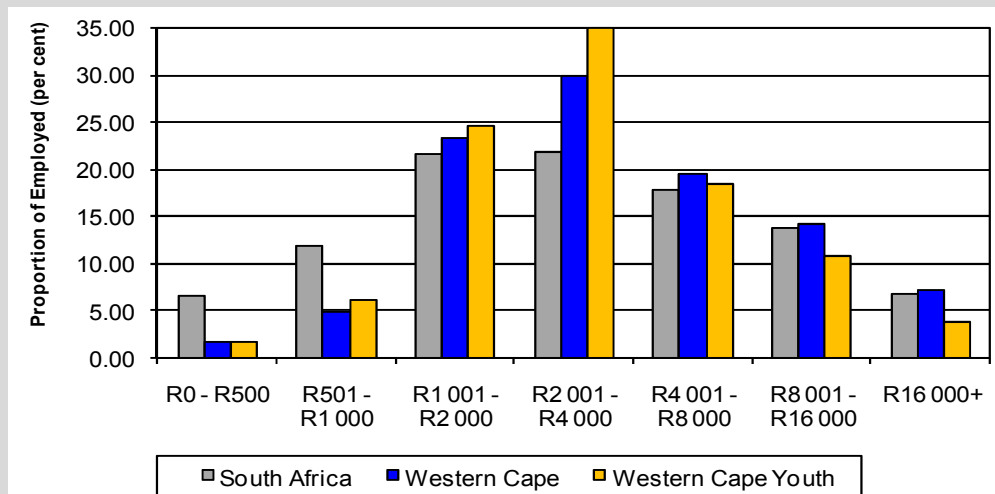
The level of employment is a key macroeconomic variable in all economies. However, many of the questions asked in labour market analyses go beyond the quantitative description of employment numbers, to the numerous quality issues surrounding employment. One of these quality issues is remuneration, which is viewed as key to understanding, and addressing, poverty and inequality in South Africa.

The Labour Force Surveys included numerous questions on remuneration, allowing detailed analysis of wage trends. However, when the Quarterly Labour Force Survey replaced the LFS in 2008, it omitted all questions relating to remuneration, making even the most basic individual-level analysis of income from employment impossible.

The General Household Survey (GHS) represents an alternative source of information on remuneration, although it suffers from not having as detailed a labour market module as the QLFS, nor is it conducted over a full quarter like that survey. Nevertheless, it provides a recent indication of labour market income.

The figure below shows the distribution of the employed across various monthly earnings categories. The figure shows that Western Cape workers are generally distributed further towards the right (higher income categories) than is the case for South Africa, while Western Cape youth tend to be distributed more narrowly than the other two groups. Less than two per cent of Western Cape workers earn up to R500, compared to 6.5 per cent in South Africa as a whole. Similarly, at 12 per cent of the employed, South Africans are more than twice as likely as those in the Western Cape to earn between R501 and R1 000. At the upper end of the distribution, more than seven per cent of workers in the Western Cape report earning more than R16 000, slightly higher than the proportion in South Africa as a whole. At incomes below R8 000, young workers in the Province appear to be better off than the country as a whole, but slightly disadvantaged relative to the total Western Cape workforce. Relatively more employed Western Cape youth earn between R501 and R4 000 than non-youth in the Province.

**Figure 4.3 Distribution of employed across earnings categories, 2009**



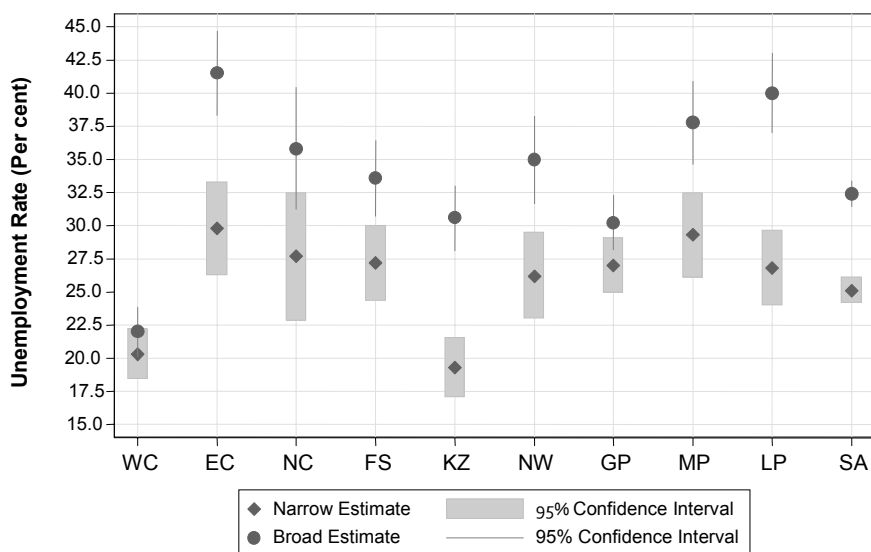
Source: Own calculations, Statistics South Africa 2010a

## 4.5 Unemployment in the Western Cape

The unemployed are defined as those individuals who, at the time of the interview, had not been employed during the previous seven days but were available to work. Furthermore, in order to be viewed as unemployed, these individuals need to have been actively seeking employment or have taken active steps to start their own business during the four weeks prior to the interview. This particular definition is known as the narrow definition of unemployment and has been designated the official definition of unemployment by Statistics South Africa. The expanded or broad definition of unemployment is similar to the official definition, but does away with the requirements of active job search or efforts to start a business.

The exact definition of unemployment used makes a relatively small difference in the estimates of unemployment in the Province. In contrast, the number of discouraged work seekers nationally is relatively large, widening the gap between the narrowly and broadly unemployed and impacting on comparisons between estimates for the Western Cape and for the country as a whole. In this section, the official definition of unemployment is utilised.

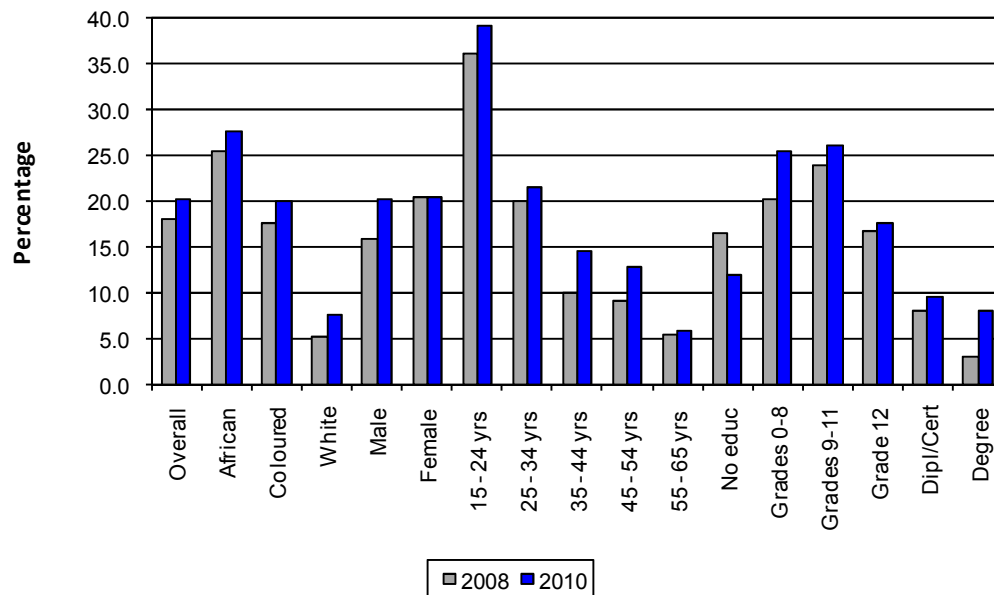
The unemployment rate remains a central measure of labour market performance. In 2008, the narrow unemployment rate nationally was 23.5 per cent, while the expanded rate was 28.2 per cent. By the first quarter of 2010, narrow and broad unemployment rates had reached 25.1 per cent and 32.4 per cent respectively. Relative to other provinces, the Western Cape has a low unemployment rate: in 2010, the narrow and expanded unemployment rates were 20.3 per cent and 22 per cent respectively (Figure 4.4). KwaZulu-Natal is the only other province with as low a narrow unemployment rate as the Western Cape, although this situation changes considerably when using the broad definition. Otherwise, narrow unemployment rates are rather similar across provinces, generally ranging between 25 per cent and 30 per cent, while expanded unemployment rates show greater variation.

**Figure 4.4 Provincial and national unemployment rates, 2010**

Source: Own calculations, Statistics South Africa (2010c)

Note: Detailed estimates can be found in the appendix.

The overall unemployment rate for the Province masks considerable variation, a fact in which the Province is not unique (Figure 4.5). In 2010, more than one-quarter (27.7 per cent) of the African labour force was unemployed, compared to 20.1 per cent of Coloureds and 7.5 per cent of Whites. Relative to the Provincial average, the unemployment rate for Africans was therefore around 40 per cent higher than the average, while that of Whites was around one-third of the average rate. The unemployment rates for males and females were virtually identical. There is a considerable body of evidence in the post-apartheid era that points to inferior labour market outcomes for females in South Africa, and the apparent equality between males and females observed here is likely therefore to be related to sampling error.

**Figure 4.5 Western Cape unemployment rates, 2008 and 2010**

Source: Own calculations, Statistics South Africa (2008b; 2010c)

Note: Detailed estimates can be found in the appendix. No changes over the period are statistically significant.

The likelihood of being unemployed is revealed to be negatively correlated with age: younger individuals are more likely to be unemployed, while older individuals are less likely to be unemployed. Approximately 40 per cent labour force participants aged 15 to 24 years were narrowly unemployed. The unemployment rate continues to fall as age increases such that only six per cent of those aged 55 to 65 years were unemployed in 2010.

Finally, the relationship between education and labour market outcomes is evident in the general pattern of falling rates of unemployment as educational attainment rises. Those with incomplete school education are most likely to be unemployed, with unemployment rates of around 25 per cent. Matriculants fare better than average, while those with diplomas or certificates and those with degrees have rates of unemployment below ten per cent.

Unemployment rates provide an indication of the likelihood of being unemployed, although it must be noted that the likelihood of being unemployed can only properly be understood through econometric analyses. On the other hand, unemployment shares are also key to understanding the unemployment situation, by revealing which groups account for the largest shares of unemployment. In the first quarter of 2010, there were 4.3 million unemployed labour force participants in South Africa, of whom just under half a million resided in the Western Cape (Table 4.10). Although the estimates imply that the number of officially unemployed individuals increased both nationally and provincially, neither of these changes is statistically significant.

The racial composition of unemployment in the Western Cape broadly follows the demographic make-up of the Province, with Coloureds accounting for 55.1 per cent. However, the differing rates of unemployment observed amongst the different race groups imply unemployment shares above or below their labour force shares. Africans constitute nearly 40 per cent of the unemployed in the Province, although they comprise just 29 per cent of the labour force and 26.3 per cent of the employed. Whites account for 14.5 per cent of labour market participants and 16.8 per cent of Provincial employment, yet only represent 1 in 20 of the unemployed.

**Table 4.10 Composition of the unemployed, 2008 and 2010**

	2008		2010		Change '000s	Average Annual Growth (%)
	'000s	Share %	'000s	Share %		
<b>WESTERN CAPE</b>						
<b>Total Unemployment</b>	<b>419</b>	<b>100.0</b>	<b>489</b>	<b>100.0</b>	<b>71</b>	<b>8.1</b>
<b>Race</b>						
African	176	41.9	193	39.5	18	4.9
Coloured	221	52.8	270	55.1	49	10.5
White	19	4.6	26	5.3	7	16.6
<b>Gender</b>						
Male	202	48.3	261	53.4	59	13.6
Female	216	51.7	228	46.6	12	2.7
<b>Age</b>						
15 - 24 year-olds	159	37.9	160	32.8	2	0.6
25 - 34 year-olds	160	38.3	177	36.2	17	5.1
35 - 44 year-olds	60	14.3	92	18.8	32	24.1 †
45 - 54 year-olds	32	7.7	51	10.4	19	26.1 †
55 - 65 year-olds	8	1.8	9	1.8	1	5.4
<b>Education</b>						
No education	7	1.7	4	0.8	-3	-27.6
Grades 0 - 8	110	26.3	124	25.4	14	6.2
Grades 9 - 11	165	39.5	195	39.8	30	8.6
Grade 12	112	26.6	130	26.5	18	7.9
Diploma/Certificate	17	4.2	23	4.6	5	14.2
Degree	4	1.0	11	2.3	7	65.2
<b>SOUTH AFRICA</b>						
<b>Total Unemployment</b>	<b>4 193</b>	<b>100.0</b>	<b>4 312</b>	<b>100.0</b>	<b>119</b>	<b>1.4</b>
<b>Race</b>						
African	3 646	87.0	3 705	85.9	59	0.8
Coloured	367	8.8	428	9.9	61	8.0
White	117	2.8	129	3.0	12	4.8
<b>Gender</b>						
Male	1 984	47.3	2 165	50.2	181	4.5
Female	2 209	52.7	2 147	49.8	-63	-1.4
<b>Age</b>						
15 - 24 year-olds	1 418	33.8	1 339	31.1	-79	-2.8
25 - 34 year-olds	1 671	39.8	1 773	41.1	103	3.0
35 - 44 year-olds	700	16.7	781	18.1	81	5.6
45 - 54 year-olds	308	7.4	331	7.7	23	3.6
55 - 65 year-olds	96	2.3	87	2.0	-9	-4.9



	2008		2010		Change '000s	Average Annual Growth (%)
	'000s	Share %	'000s	Share %		
<b>Education</b>						
No education	99	2.4	78	1.8	-21	-11.2
Grades 0 - 8	965	23.0	819	19.0	-146	-7.8 *
Grades 9 - 11	1 605	38.3	1 687	39.1	82	2.5
Grade 12	1 255	29.9	1 402	32.5	146	5.7
Diploma/Certificate	192	4.6	236	5.5	44	10.9
Degree	47	1.1	50	1.2	2	2.5

Source: Own calculations, Statistics South Africa (2008b; 2010c)

- Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2010 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.
2. Figures reported here are for the first quarter of the respective years.
3. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

While 25 to 44 year olds accounted for the largest shares of employment, for unemployment the largest age groups are those below 35 years: almost 70 per cent of the unemployed in the Province were younger than 35 years of age. Despite this concentration of unemployment amongst the youth, it is clear that unemployment has surged amongst those aged between 35 and 55 years of age between 2008 and 2010. Although the absolute numbers are relatively small, it is estimated that unemployment for this age group grew by approximately one-quarter per annum over the two-year period. No evidence of this age-biased rise in unemployment is observed nationally.

The majority of the unemployed do not have matriculation certificates. In 2010, individuals without matriculation certificates accounted for 66 per cent of the unemployed, with those with grades 9 to 11 alone accounting for almost 40 per cent of unemployed people in the Province. From their side, matriculants without any post-secondary qualifications accounted for 26.5 per cent of the unemployed, while accounting for 33.6 per cent of formal employment. Although the changes in unemployment levels across educational categories are not statistically significant, there appears to be signs of a shift towards greater unemployment amongst the better educated. Rates of growth in unemployment numbers appeared to be higher for holders of diplomas or certificates than for those in lower educational categories, although these are admittedly off very low bases.

**Latest Estimates of Labour Market Aggregates: Second Quarter of 2010**

Since this chapter was written, the QLFS data for the second quarter of 2010 has been released. Although the data is not significantly different to that of the first quarter of 2010, it is worth noting the main labour market aggregates here, for the sake of completeness.

The QLFS estimates Provincial employment at just under 1.9 million individuals in the second quarter of 2010, while narrow unemployment is estimated at around 520 000. Although the quarter-on-quarter changes are not statistically significant, it appears that Provincial employment may be edging lower, while unemployment (irrespective of definition) edges upwards.

The Western Cape's narrow unemployment rate in the second quarter of 2010 is estimated at 21.8 per cent, compared to the national rate of 25.2 per cent. Broad unemployment is estimated at 23.6 per cent and 32.7 per cent respectively for the Province and the country as a whole.

**Table 4.11 Latest estimates of labour market aggregates: second quarter of 2010**

	Western Cape		South Africa	
	2010 Q1 '000s	2010 Q2 '000s	2010 Q1 '000s	2010 Q2 '000s
Working Age Population	3 545	3 564	31 561	31 607
Employment	1 918	1 875	12 836	12 777
Narrow Unemployment	489	522	4 312	4 312
Narrow Labour Force	2 407	2 397	17 148	17 089
Expanded Unemployment	540	580	6 151	6 221
Expanded Labour Force	2 458	2 454	18 987	18 998
Discouraged Workseekers	51	58	1 839	1 908
Narrow unemployment rate	20.3	21.8	25.1	25.2
Expanded unemployment rate	22.0	23.6	32.4	32.7

Source: Own calculations, Statistics South Africa (2010c d)

Notes: 1. No quarter-to-quarter changes are statistically significant.

**4.6 Youth labour market experiences**

Internationally, young people are generally at a disadvantage in the labour market and are more often unemployed than their older counterparts. In many countries, the youth unemployment rate is several times that of other adults (Bhorat and Oosthuizen 2007: 392). Globally, it is estimated that, in 2008, 12.1 per cent of youth<sup>2</sup> were unemployed, compared to 4.3 per cent of adults, while preliminary estimates for 2009 are 13.4 per cent and 5 per cent respectively (International Labour Office 2010b: 47). This puts the ratio of youth to adult unemployment rates at approximately 2.7: 1 globally, with regional estimates ranging from 1.9: 1 in sub-Saharan Africa and as much as 4.5: 1 in South-East Asia and the Pacific (own calculations, International Labour Office 2010b: 47). In South Africa in the first quarter of 2010, the comparable ratio is 2.5: 1 – the unemployment rate for 15 to 24 year olds is estimated at 50 per cent, compared to 20.6 per cent for adults (those aged 25 to 64 years) (own

<sup>2</sup> Although the South African definition of youth extends to age 35, the definition employed by the International Labour Organisation and reported on here includes only those aged 15 to 24 years.

calculations, Statistics South Africa 2010c). Apart from its various psychological and social consequences, youth unemployment has a significant direct economic cost: it was estimated in 2004, for example, that halving youth unemployment in sub-Saharan Africa would boost output by between 12 per cent and 20 per cent of GDP (International Labour Organisation 2004: 2).

### Why Focus on Youth?

“Youth unemployment and situations in which young people give up on the job search or work under inadequate conditions incur costs to the economy, to society and to the individual and their family. A lack of decent work, if experienced at an early age, threatens to compromise a person’s future employment prospects and frequently leads to unsuitable labour behaviour patterns that last a lifetime. There is a demonstrated link between youth unemployment and social exclusion. An inability to find employment creates a sense of uselessness and idleness among young people that can lead to increased crime, mental health problems, violence, conflicts and drug taking. The most obvious gains then, in making the most of the productive potential of youth and ensuring the availability of decent employment opportunities for youth, are the personal gains to the young people themselves.

The second obvious gain to recapturing the productive potential of underutilised youth is an economic one. Idleness among youth can come at great costs. The loss of income among the younger generation translates into a lack of savings as well as a loss of aggregate demand. Some youth who are unable to earn their own income have to be financially supported by the family, leaving less for spending and investments at the household level. Societies lose their investment in education. Governments fail to receive contributions to social security systems and are forced to increase spending on remedial services, including on crime or drug use prevention efforts and on unemployment benefits in the countries where they exist. All this is a threat to the growth and development potential of economies. Focusing on youth, therefore, makes sense to a country from a cost-benefit point of view. Young people might lack experience but they tend to be highly motivated and capable of offering new ideas or insights. They are the drivers of economic development in a country. Foregoing this potential is an economic waste.”

*Source: International Labour Office 2010a: 6*

### 4.6.1 Overview

In the Western Cape, the youth population – those aged between 15 and 34 years – accounts for around 54 per cent of the working age population compared to nearly 60 per cent nationally (Table 4.12). South African youth employment has contracted rather rapidly between 2008 and 2010 at an average annual rate of 5.5 per cent, considerably higher than the overall rate of contraction. More than 80 per cent of jobs lost nationally since 2008 were lost to workers under 35 years. At the same time, broad unemployment has grown by 6.3 per cent per annum over the period, the result of a massive increase in the number of discouraged work seekers.

**Table 4.12 Youth labour market aggregates, 2008 and 2010**

	2008	2010	Change	Average Annual Growth Rate (%)
	'000s	'000s	'000s	
<b>Western Cape</b>				
Youth population	1 895	1 914	19	0.5
Employed	918	896	-22	-1.2
Narrow unemployed	319	338	18	2.8
Narrow labour force	1 237	1 234	-3	-0.1
Broad unemployed	355	374	19	2.7
Broad labour force	1 272	1 270	-2	-0.1
Discouraged workers	35	37	1	1.5
<b>South Africa</b>				
Youth population	18 161	18 470	308	0.8
Employed	6 302	5 629	-673	-5.5 *
Narrow unemployed	3 088	3 112	24	0.4
Narrow labour force	9 390	8 741	-649	-3.5 †
Broad unemployed	3 902	4 411	509	6.3 *
Broad labour force	10 204	10 040	-164	-0.8
Discouraged workers	814	1 299	485	26.3 *

Source: Own calculations, Statistics South Africa (2008b; 2010c)

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2010 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

2. Figures reported here are for the first quarter of the respective years.

No statistically significant changes are observed in the various labour market aggregates at a Provincial level. Nevertheless, estimated changes in all aggregates are in the same directions provincially as nationally – employment appears to have fallen, unemployment and discouragement to have risen.

#### 4.6.2 Youth employment

Estimated at just under 900 000, employment of 15 to 34 year olds accounts for almost half of Provincial employment (Table 4.13). Although Coloureds dominate both youth and non-youth employment, employed youth are considerably more likely to be African than their older counterparts. Conversely, the White share of youth employment, at 12.4 per cent, is more than eight percentage points lower than this group's share of non-youth employment.

**Table 4.13 Composition of youth and non-youth employment in the Western Cape, 2010**

	Youth		Non-Youth	
	'000s	(%)	'000s	(%)
<b>Total Employment</b>	896	100.0	1 022	100.0
<b>Race</b>				
African	291	32.5	214	20.9 *
Coloured	485	54.1	586	57.4
White	111	12.4	211	20.6 *
<b>Gender</b>				
Male	476	53.1	555	54.3
Female	420	46.9	467	45.7
<b>Education</b>				
No education	7	0.7	21	2.1 †
Grades 0 - 8	117	13.1	247	24.1 *
Grades 9 - 11	270	30.1	282	27.6
Grade 12	353	39.4	255	24.9 *
Diploma/Certificate	100	11.2	114	11.1
Degree	40	4.4	89	8.7 *

Source: Own calculations, Statistics South Africa (2010c)

Note: An asterisk (\*) denotes a statistically significant difference between the estimated shares of youth and non-youth employment at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

There appears to be little difference in the gender composition of employment amongst youth and non-youth, with females accounting for slightly less than half of total employment. There are, however, clear differences in the educational attainment of the employed when controlling for age. Amongst youth, 39.4 per cent of the employed have completed grade 12, while less than 15 per cent have not completed the GET phase, which ends with grade 9. In contrast, amongst non-youth, 24.9 per cent have completed matric and 24.1 per cent have not completed the GET phases. Older workers are three times more likely than their younger counterparts to have no education, and twice as likely to have degrees. Thus, while older individuals may have an advantage over the youth insofar as work experience is concerned, it appears that in many instances young people have the advantage of higher educational attainment.

Given their differing educational profiles, it is possible that young people are engaged in employment in different types of sectors compared with their older counterparts. Such differences may not arise simply due to educational differentials, but may also relate to the opening up of a greater range of opportunities for young people, changing preferences and aspirations, as well as economic and technological change that may limit or facilitate the employment of young people. In general, though, the overall sectoral distribution of employment is not dissimilar for the two age groups (Table 4.14). The tertiary sector accounts for slightly more than two-thirds of employment for youth and non-youth alike, while the secondary sector employs between 20 and 25 per cent of the workforce. Youth may be slightly under-represented in the secondary sector and over-represented in the primary sector relative to

non-youth, although these differences do not pass the test of statistical significance.

**Table 4.14 Sectoral distribution of youth and non-youth employment in the Western Cape, 2010**

	Youth		Non-Youth	
	'000s	(%)	'000s	(%)
Agriculture, forestry and fishing	94	10.5	83	8.1
Mining and quarrying	1	0.2	-	0.0
<b>Primary Sector</b>	<b>96</b>	<b>10.7</b>	<b>83</b>	<b>8.1</b>
Manufacturing	124	13.8	165	16.2
Electricity, water and gas	3	0.3	5	0.5
Construction	64	7.1	84	8.3
<b>Secondary Sector</b>	<b>191</b>	<b>21.3</b>	<b>255</b>	<b>24.9</b>
Wholesale and retail trade	247	27.5	171	16.8 *
Transport, storage and communication	37	4.1	63	6.2
Financial and business services	135	15.1	133	13.0
Community, social and personal services	146	16.3	234	22.9 *
Private Households	45	5.0	83	8.1 †
<b>Tertiary Sector</b>	<b>610</b>	<b>68.0</b>	<b>684</b>	<b>67.0</b>
<b>Total</b>	<b>896</b>	<b>100.0</b>	<b>1 022</b>	<b>100.0</b>

Source: Own calculations, Statistics South Africa (2010c)

Note: An asterisk (\*) denotes a statistically significant difference between the estimated shares of youth and non-youth employment at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

Three industries stand out. Firstly, youth are over-represented in wholesale and retail trade, an industry with a substantial informal sector. However, interestingly, youth are not over-represented relative to non-youth in the informal wholesale and retail trade sector – approximately 45 per cent of informal employment in both age groups is located in wholesale and retail trade – and it is therefore their high degree of involvement in formal wholesale and retail trade that drives the youth's over-representation in this industry. Secondly, young workers are under-represented within the CSP services sector, which accounts for 16.3 per cent of youth employment compared to 22.9 per cent of non-youth employment. Thirdly, youth are less likely than earlier generations of workers to be domestic workers (engaged in the private households sector).

While formal sector employment differences underlie the over-representation of youth in wholesale and retail trade and their under-representation in CSP services, youth are not more likely than non-youth to be employed in the informal sector overall. Just over 10 per cent of employment amongst both age groups is located in the informal non-agricultural sector in the Western Cape, while nearly 75 per cent is located in the formal non-agricultural sector.

As relatively new entrants into the labour market, many young people may not have much knowledge of rights and possible benefits associated with employment. At the same time, within the context of high rates of unemployment, young people may be forced to accept marginal forms of employment, with little formal structure and protection. This problem is further

compounded by uneven power relationships in many employer-employee relationships and where young people may feel compelled to make significant concessions in order to secure employment.

Table 4.15 presents data on the degree to which workers have access to certain benefits and the security of their employment. Young workers do not find themselves at a disadvantage relative to their older counterparts as far as written contracts are concerned, nor are they less likely to be covered by unemployment insurance. Roughly 75 to 80 per cent of workers, irrespective of age, are employed in terms of a written contract, while approximately 60 per cent are covered by the Unemployment Insurance Fund (UIF) in that their employers make the relevant contributions.

**Table 4.15 Employment conditions and benefits of youth and non-youth in the Western Cape, 2010**

Per cent of employed	Youth	Non-Youth
Written Contract	79.3	75.6
Permanent Position	62.0	70.3 *
Pension	34.8	48.1 *
UIF	62.4	58.5
Medical Aid	18.1	29.5 *
Paid Leave	59.8	66.1 †

Source: Own calculations, Statistics South Africa (2010c)

Note: An asterisk (\*) denotes a statistically significant difference between the estimated shares of youth and non-youth employment at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

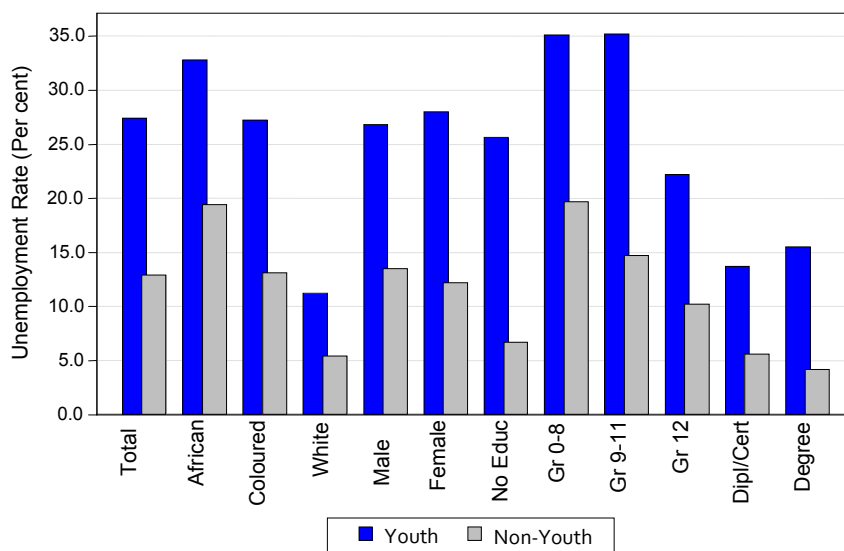
However, young workers in the Province lag older workers in other respects. Fewer youth are employed in permanent positions than are older workers - 62 per cent compared to 70.3 per cent respectively. Although this is not a very large difference, it does point to a lower degree of job security enjoyed by younger workers. Similarly, approximately 18 per cent of workers under the age of 35 years receive medical aid contributions from their employers, compared to 29.5 per cent amongst the non-youth. Employed youth also lag slightly in terms of entitlement to paid leave. Finally, and an issue that can have longer term consequences, only one-third of young workers report that their employers contribute to a pension or retirement fund on their behalf, while this is true of almost half of employed individuals aged 35 years and older. This is an important finding given the importance of early provision for retirement and the potential future fiscal burden where such provision is neglected.

### 4.6.3 Unemployment amongst the youth

Unemployment is dominated by the youth both nationally and within the Western Cape. While 15 to 34 year olds account for half of the labour force in the Province, they represent two-thirds of the Province's unemployed. This high share of unemployment is a combination of the youth's relatively high rate of unemployment, as well as its relatively large share of the working age population and the labour force.

During the first quarter of 2010, the narrow unemployment rate amongst Western Cape youth is 27.4 per cent, more than double the 12.9 per cent rate for older labour force participants. Disaggregating this age group further reveals a strong relationship between age and the unemployment rate: 39.2 per cent of 15 to 24 year olds are unemployed, which is almost twice the rate of 21.4 per cent of 25 to 34 year olds. The race, gender and educational patterns of uneven access to employment observed at an aggregate level are broadly replicated amongst youth (Figure 4.6). Almost one-third of young Africans in the Province are unemployed, compared to just over one-quarter of Coloured youth and one-tenth of White youth. Unemployment amongst female youth is marginally more common than amongst their male counterparts. In terms of education, between 20 per cent and 35 per cent of youth labour force participants with up to grade 12 education are unemployed, while 15.5 per cent of young graduates (i.e. degree-holders) are also unemployed.

**Figure 4.6 Youth and non-youth unemployment rate in the Western Cape, 2010**



Source: Own calculations, Statistics South Africa (2010c)

Note: Detailed estimates can be found in the appendix.



Importantly, the figure confirms that rates of unemployment are higher amongst youth than amongst non-youth across race, gender and education. In fact, all differences are statistically significant, apart from the estimates for Whites, those with no education and those with diplomas and/or certificates. From a policy perspective, where alleviating the highest incidence of unemployment is concerned, it is evident that poorly educated African females are likely the best target group.

Just over half (53.8 per cent) of unemployed youth are Coloured, while 42 per cent are African (Table 4.16). These proportions are similar to those of older unemployed individuals. While African youth account for around 15 per cent of the Provincial workforce, they represent close to twice that proportion of Provincial unemployment. Similarly, Coloured youth account for 25 per cent of employment and 37 per cent of unemployment. Young people generally are marginalised from employment and the problem appears to be particularly acute amongst African youth.

**Table 4.16 Composition of youth and non-youth unemployment in the Western Cape, 2010**

	Youth		Non-Youth	
	'000s	(%)	'000s	(%)
<b>Total Unemployment</b>	338	100.0	152	100.0
<b>Race</b>				
African	142	42.0	51	33.8
Coloured	182	53.8	88	58.2
White	14	4.2	12	8.0
<b>Gender</b>				
Male	175	51.7	87	57.1
Female	163	48.3	65	42.9
<b>Education</b>				
No education	2	0.7	2	1.0
Grades 0 - 8	63	18.8	61	39.9 *
Grades 9 - 11	146	43.3	49	32.1 †
Grade 12	101	29.9	29	19.1 †
Diploma/Certificate	16	4.7	7	4.5
Degree	7	2.2	4	2.6

Source: Own calculations, Statistics South Africa (2010c)

Note: An asterisk (\*) denotes a statistically significant difference between the estimated shares of youth and non-youth employment at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

Amongst unemployed youth, the gender split is quite even, although this is not true of those aged 35 years and older. The bulk of the unemployed are located differently in terms of educational attainment, the variation all occurring in the primary and secondary schooling bands. For youth unemployed, 43.3 per cent fall within the grade 9 to grade 11 category, while 29.9 per cent have matriculation certificates. In contrast, 39.9 per cent of non-youth unemployment fall within the grade 9 to grade 11 category, while 32.1 per cent have not attained grade 9. Stated differently, nearly 75 per cent of unemployed non-youth have not matriculated, while the proportion that

have not completed grade 9 is 40.9 per cent (compared to 62.8 per cent and 19.5 per cent respectively for youth).

The reasons for high youth unemployment have received much attention, both internationally and in South Africa, with various explanations proffered. One reason for the high rate of unemployment amongst the youth in many developing countries is that job creation in these economies has simply been unable to keep pace with rapid population and/or labour force growth, resulting in growing numbers of young people marginalised from employment. Indeed, in South Africa during the late 1990s and early 2000s, employment grew at roughly the same rate as did output, but this was significantly below the rate of growth in the labour force (Oosthuizen 2006). Mlatsheni (as referred to by Altman 2007) offers various possible reasons for high rates of unemployment amongst young people in South Africa when compared to older labour force participants.

First, since young workers are often the most recently employed within firms, they are the first to be laid off. Second, young work seekers are inexperienced in and ill-equipped for job search and lack networks that are important for securing employment. Bannerjee *et al.* (2008) note that "job search is more effective for [Whites and Asians] than it is for Africans and Coloureds", noting that 50 per cent of Africans who are actively seeking employment are still seeking employment six months later, compared to only 30 per cent of Whites.

Third, young work seekers that have sufficient familial resources may be picky and may choose to wait until the 'right' job comes along. This reason for high youth unemployment typically relates to the issue of reservation wages (i.e. the wage below which an individual will choose not to work), and the fact that young people in particular may have an inaccurate understanding of labour market conditions or unrealistic expectations of their earnings potential that cause them to withhold their labour from the market. Previous studies of the South African situation have generally not found much evidence to support this notion. Bannerjee *et al.* (2008) note that, in the context of falling returns to education as educational attainment levels rise, unadjusted wage expectations may result in unemployment amongst young people. However, they also note that, between the ages of 20 and 40 years, more than half the unemployed indicated that the reason why they were not working was that they could not find any work, which may weaken the reservation wage argument. Taking a slightly different approach to the issue, Rankin and Roberts (2010) investigate youth unemployment and reservation wages taking into consideration the fact that larger firms tend to pay higher wages than smaller firms. They find that "a significant proportion of the [youth], particularly the youngest, have reservation wages that are higher than what they could reasonably expect to earn in small firms" (Rankin and Roberts 2010).

Fourth, young work seekers do not have the resources to travel longer distances to find employment and may therefore be limited to searching for employment in areas that have little to offer. Related to this finding, Klasen

and Woolard (2009) find that the unemployed are forced “to base their location decisions on the availability of economic support rather than on the best location for employment search”. Since familial support, particularly household grant income, is often rural-based, the unemployed migrate away from urban areas to areas where employment prospects are poor and where job-search activities are difficult and costly.

More broadly, the International Labour Office (2010a: 54) identifies four key areas where young people experience labour market barriers. The first area is that of skills mismatches, where young people are unable to secure work due to the fact that they do not possess the requisite skills and competences. Although commonly understood in the context of technical and academic requirements, skills mismatches may also exist in non-technical skills – skills like literacy and numeracy, as well as soft and life skills. Barriers linked to labour demand are the second type and, apart from the usual idea of insufficient growth in jobs, encompasses discriminatory attitudes and behaviours on the part of employers against young people. Thus, “[lack] of job experience, insufficient exposure to a working environment and negative stereotypes often take their toll on the youth” (International Labour Office 2010a: 54).

The third set of barriers relates to job search and the information gaps that may arise between jobseekers and employers. As the International Labour Office (2010a: 54) notes, “inadequate” job matching leads to sub-optimal job allocations, especially among the most disadvantaged jobseekers that lack access to job networks and social capital”. Finally, the fourth set of barriers relates to the creation and growth of new businesses, specifically in terms of access to capital, be it financial, physical or social. Here, it is important to distinguish between opportunity-driven (or choice-driven) entrepreneurial activity, and necessity-driven activity, the latter often being in marginal and low-return activities despite inherent risks. The International Labour Office (2010a: 55) notes that difficulties often stem from “lack of personal savings and resources, lack of securities and credibility, [and] lack of business experience and skills”. Barriers to engagement in entrepreneurial activity or self-employment may operate at various different levels and individuals may face several binding constraints. In research focussing on young people in Khayelitsha in 2005, important barriers to entering self-employment identified included crime, risk of business failure, lack of access to start-up capital, transport costs, community jealousy if successful and low levels of expected profit (Cichello *et al.* 2006).

The Quarterly Labour Force Survey makes it possible to divide the unemployed into those who are unemployed because they have lost their previous job, those who are unemployed because they have left their previous jobs voluntarily, new labour market entrants, recent re-entrants, and those who last worked more than five years ago. In the first quarter of 2010, the bulk of youth unemployment consisted of job losers (46.8 per cent) and new entrants (34.6 per cent) (Table 4.17). This fits our expectations of this segment of the

labour market: youth are employed in less secure positions and job losses in this age group have been substantial, while the transition from education to labour force participation (and often unemployment) is characteristic of youth. This profile of unemployment status, though, differs considerably from that of non-youth. Amongst older unemployed individuals, the majority (63.7 per cent) are job losers, while a substantial proportion are individuals who last worked more than five years ago.

**Table 4.17 Unemployment status of youth and non-youth unemployed, Western Cape, 2010**

	Distribution within Age Groups		Distribution across Age Groups	
	Youth	Non-Youth	Youth	Non-Youth
Job loser	46.8	63.7 *	62.0	38.0
Job leaver	7.4	10.4	61.2	38.8
New entrant	34.6	2.3 *	97.1	2.9
Re-entrant	4.2	0.8 †	92.2	7.8
Last worked 5+ years ago	7.1	22.8 *	40.8	59.2

Source: Own calculations, Statistics South Africa (2010c)

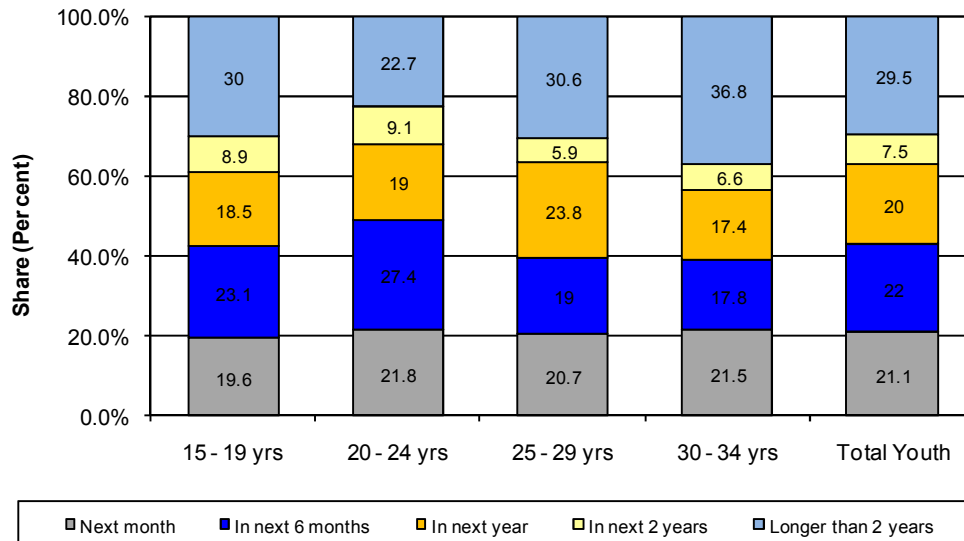
Note: An asterisk (\*) denotes a statistically significant difference between the estimated shares of youth and non-youth employment at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.

Just under two-thirds of all job losers and job leavers are youth. New entrants are almost exclusively young while the same is true of re-entrants. On the one hand, this latter observation may suggest either that older economically inactive individuals find it much easier to find employment when they re-enter the labour market, possibly due to existing networks or experience, or that older individuals are simply more likely to transition from inactivity (or non-searching unemployment) directly to employment. The latter might imply that labour market re-entry amongst older individuals is not, as one might expect, predominantly due to reasons of economic necessity. However, it may also be due to the fact that non-youth are more likely to have been economically inactive for more than five years – for example, for reasons related to child-rearing – rather than having been absent from the labour market for a shorter period of time. Indeed, almost 60 per cent of the unemployed who last worked more than five years ago are non-youth.

Little information is available from nationally representative surveys regarding youth perceptions of the labour market and of their views surrounding the favourability of labour market conditions. One survey that does ask respondents about their views of the labour market is the National Income Dynamics Survey (NIDS), which is a nationally representative panel survey that tracks sampled households over time. This survey asks unemployed respondents to indicate whether they thought there was a realistic possibility of them finding work in given periods within the next two years. Approximately 30 per cent of unemployed youth nationally did not believe there was a realistic possibility of finding employment within the two years after the survey

(Figure 4.7). Roughly 20 per cent of unemployed young people believed there was a realistic possibility of finding work in the next month, while similar proportions were observed for finding work in the next six months and in the next year respectively.

**Figure 4.7 Expectations of chance of finding employment by age, 2008**



Source: Own calculations, Southern Africa Labour and Development Research Unit 2008

Note: Respondents were asked to indicate whether they believed there was a realistic possibility of finding employment in the next month, the next six months, the next year or the next two years. Those unemployed individuals who answered “no” to all four questions are grouped within the “Longer than 2 years” category. These are national figures.

Interestingly, optimism regarding finding employment within a month did not vary across the four age groups between 15 and 34 years, remaining at roughly 20 per cent of the unemployed in each age group. Those aged 20 to 24 years were quite optimistic, with 49.2 per cent believing there was a realistic possibility of finding employment within the subsequent six month period, compared to 43.1 per cent overall. At the same time, individuals in this age group were least likely to respond no to all four questions (i.e. to expect that finding employment would take longer than two years). The proportion of respondents answering no to all four questions rises as age increases, such that 22.7 per cent of 20 to 24 year olds did not believe there was a realistic possibility of finding work within the next two years, rising to 36.8 per cent of 30 to 34 year olds. While perceptions of the odds of finding work are just that, perceptions, it should be noted that they may impact on the types of job search activities undertaken and, more importantly, into the effort put into job search.

### Unemployment and Youth in Metropolitan South Africa

The Centre for Development and Enterprise (2008) commissioned in 2006 a survey of young people between the ages of 15 and 35 years residing in the three largest metropolitan areas of South Africa, namely Johannesburg, Cape Town and eThekweni. Within each city, 500 individuals were sampled. The survey, the results of which were published in the report entitled “*South Africa’s ‘door knockers’: Young people and employment in metropolitan South Africa*”, investigated issues relating to employment and unemployment and focussed on economic, demographic, social and psychological factors.

The study found that all parents want their children to be successful, but African parents appear to push the hardest: “[more] than parents of other race groups, they expect their children to support them and other relatives” (Centre for Development and Enterprise 2008: 31). The study also finds that amongst unemployed youth, African parents most stress the completion of their children’s educations. Most unemployed youth do not seem to be surrounded by pessimistic peer groups, but rather by friends who encourage them to find a job. Individual drive appears to be a key driving force behind success: “[individuals] who expect themselves to achieve at the highest level ... are more likely to be successful” (Centre for Development and Enterprise 2008: 31). Unsuccessful individuals are less optimistic, and seem to value happiness less than do those who are successful. One of the youth’s main expectations of government is job creation.

The results of the values impacting young people indicate that the key values distinguishing the successful from the unsuccessful in Cape Town were hard work, honesty and trust. The unsuccessful were less enthusiastic about positive values than those who achieved success. The former rated access to money, contacts, networks, and luck more highly than the successful. Risk-taking is rated lower by the unsuccessful compared to those who have achieved success, maybe because their experiences with risk-taking have not been as positive. Those who are successful are prepared to take risks, while the unsuccessful are more likely to ask for assistance from the government in providing employment. Even though the values between the successful and unsuccessful differ, all young people reported high levels of ‘good’ values such as honesty, commitment and respect.

A tertiary education was found to be the key educational factor distinguishing the successful: 94 per cent of youth with tertiary educations are either employed or are furthering their education, while the university qualifications associated with the best odds of finding employment were identified in descending order as law, physical science, business sciences and engineering. Fine arts and humanities, and the social and health sciences were viewed as being least beneficial insofar as finding employment is concerned (Centre for Development and Enterprise 2008: 32).

## 4.7 Conclusion

The South African labour market has been through a difficult period. The 2007 global financial crisis plunged major developed economies into recession and, as a consequence, few economies have managed to escape unscathed. While the effect of the recession was relatively quickly felt in output terms, the full labour market impact took slightly longer to materialise. Nevertheless, over the period covered here – the first quarter of 2008 until the first quarter of 2010 – 6 per cent of jobs totalling more than 800 000 were lost nationally. Within the Western Cape, however, the Quarterly Labour Force Surveys do not reveal any significant change in employment. Indeed, aggregate employment in the Province seems to have remained relatively stable on a quarterly basis since first quarter 2008.

As is the case nationally, important inequalities are entrenched in the Provincial labour market. They are perhaps more easily detectable in the Western Cape given the Province's unique demographic composition. Analysis of racial shares of the labour force, aggregate employment, formal employment, informal employment and unemployment reveal a consistent disadvantage for Africans vis-à-vis Coloureds, and for Coloureds vis-à-vis Whites. Thus, Africans represent 29 per cent of the Provincial labour force, 26.3 per cent of Provincial employment, 23.2 per cent of Provincial formal employment, 37.2 per cent of Provincial informal employment and 39.5 per cent of Provincial narrow unemployment. In other words, Africans are significantly under-represented in formal employment and significantly over-represented in both informal employment and unemployment. Coloureds are proportionally represented in aggregate and formal employment, as well as unemployment, but slightly under-represented in informal employment. Herein lies a critical challenge for the Province.

At the same time, youth unemployment remains a pressing concern. More than 25 per cent of 15 to 34 year olds are unemployed according to the narrow definition of unemployment, while amongst 15 to 24 year olds the rate is almost 40 per cent. As a result, almost 70 per cent of the unemployed in the Province are under the age of 35 years. High rates of unemployment amongst young people occur despite the fact that younger generations tend to have superior educational attainment profiles (apart from tertiary education). Young workers in the Western Cape are substantially more likely to be employed in wholesale and retail trade and less likely to be employed in CSP services and private households than their older counterparts. The youth are, interestingly, not more likely than the non-youth in the Western Cape to be employed in the informal sector.

Recent job losses that have been concentrated, nationally, amongst the youth point to the vulnerability of young workers. The youth are often the first to be laid off when employers are forced to reduce their workforces. This vulnerability is confirmed in the analysis above: young workers are less likely to be employed in permanent positions, are less likely to have employers that make contributions to pension funds or medical aid, and less likely to be entitled to paid leave. The rapid loss of employment amongst young people that has occurred over the past two to three years, and for which there appears to be some evidence in the Province, should serve as justification for further analysis of the nature of employment growth that occurred during the boom years, with a view to promoting more sustainable employment of young workers. In this regard, the QLFS as a panel dataset represents a useful tool that, over time, should help us to understand some of the dynamics (or lack thereof) implicit in youth unemployment.

Understanding the underlying causes of youth unemployment is key to the design of more effective policy measures that will hopefully be able to ensure that more young people are absorbed into employment. Apart from the various moral and social arguments for greater absorption of young work seekers into employment, the youth represent the South African economy's future workers and investment into these individuals is a social and economic imperative.

The unemployed represent a significant drain on household resources, with the majority of the unemployed across all ages relying on other household members to support them. Where household members are recipients of welfare grants, this has the effect of diluting the grant amount and weakening the ability of these grants to address poverty amongst their target populations. Households consequently become constrained in their spending and investment decisions. Of particular concern is the ability of households to invest in human capital, in terms of both education and health. Without a strong, quality education system that is accessible to all individuals irrespective of socioeconomic status, such constraints on human capital investment will only perpetuate the labour market inequalities that characterise the South African labour market.



## Appendix Detailed estimates

### Appendix A Narrow labour force participation rates, 2010

	South Africa		Western Cape	
	Estimate	95% Confidence Interval	Estimate	95% Confidence Interval
<b>Overall</b>	54.3	[53.372; 55.290]	67.9	[66.238; 69.582]
<b>By Race</b>				
African	51.0	[49.898; 52.116]	69.2	[65.716; 72.673]
Coloured	65.1	[63.390; 66.800]	67.0	[65.028; 69.023]
Asian	58.4	[55.336; 61.547]	57.8	[39.409; 76.214]
White	68.8	[66.908; 70.762]	69.6	[65.795; 73.331]
<b>By Gender</b>				
Male	61.6	[60.439; 62.782]	76.3	[74.417; 78.181]
Female	47.7	[46.671; 48.695]	60.2	[57.999; 62.465]
<b>By Age Group</b>				
15 - 24 year olds	26.4	[25.276; 27.482]	44.2	[41.082; 47.271]
25 - 34 year olds	72.8	[71.580; 74.109]	83.5	[81.026; 85.937]
35 - 44 year olds	76.2	[75.032; 77.390]	82.9	[80.300; 85.519]
45 - 54 year olds	67.2	[65.826; 68.612]	75.2	[72.023; 78.365]
55 - 65 year olds	38.3	[36.500; 40.008]	42.5	[37.621; 47.289]
<b>By Education</b>				
No education	36.0	[33.706; 38.357]	53.5	[40.618; 66.357]
Grades 0 - 8	42.4	[40.966; 43.736]	58.6	[55.233; 62.042]
Grades 9 - 11	45.7	[44.474; 46.980]	62.8	[60.016; 65.653]
Grade 12	67.5	[66.229; 68.780]	76.1	[73.431; 78.721]
Diploma/Certificate	85.9	[84.418; 87.337]	83.0	[79.243; 86.747]
Degree	88.9	[86.531; 91.218]	86.1	[81.375; 90.896]

### Appendix B National and provincial unemployment rates, 2008 and 2010

	Narrow Unemployment Rate		Expanded Unemployment Rate	
	Estimate	95% Confidence Interval	Estimate	95% Confidence Interval
<b>2008</b>				
Western Cape	18.0	[16.116; 19.947]	19.7	[17.779; 21.596]
Eastern Cape	28.0	[24.308; 31.791]	36.7	[33.476; 39.898]
Northern Cape	24.9	[20.166; 29.565]	31.1	[26.413; 35.763]
Free State	25.0	[22.509; 27.467]	28.7	[26.086; 31.349]
KwaZulu-Natal	22.7	[20.763; 24.610]	26.7	[24.696; 28.775]
North West	22.2	[19.574; 24.868]	31.6	[28.483; 34.634]
Gauteng	22.6	[20.863; 24.420]	25.6	[23.821; 27.417]
Mpumalanga	23.6	[21.127; 26.145]	30.2	[27.458; 32.883]
Limpopo	31.7	[28.499; 34.849]	37.6	[34.431; 40.847]
South Africa	23.5	[22.611; 24.390]	28.2	[27.335; 29.142]
<b>2010</b>				
Western Cape	20.3	[18.431; 22.228]	22.0	[20.126; 23.823]
Eastern Cape	29.8	[26.299; 33.272]	41.5	[38.295; 44.695]
Northern Cape	27.7	[22.877; 32.453]	35.8	[31.233; 40.452]
Free State	27.2	[24.326; 30.016]	33.6	[30.724; 36.429]
KwaZulu-Natal	19.3	[17.109; 21.562]	30.6	[28.113; 32.988]
North West	26.2	[23.012; 29.484]	35.0	[31.667; 38.253]
Gauteng	27.0	[24.956; 29.085]	30.2	[28.202; 32.285]
Mpumalanga	29.3	[26.107; 32.481]	37.8	[34.641; 40.877]
Limpopo	26.8	[23.996; 29.628]	40.0	[36.998; 43.007]
South Africa	25.1	[24.175; 26.112]	32.4	[31.417; 33.373]

**Appendix C Western Cape narrow unemployment rates, 2008 and 2010**

	2008		2010	
	Estimate	95% Confidence Interval	Estimate	95% Confidence Interval
<b>Overall</b>	<b>18.0</b>	<b>[16.116; 19.947]</b>	<b>20.3</b>	<b>[18.431; 22.228]</b>
<b>By Race</b>				
African	25.5	[22.039; 29.043]	27.7	[24.141; 31.198]
Coloured	17.7	[15.226; 20.140]	20.1	[17.732; 22.514]
Asian	19.2	[0.896; 37.492]	1.6	[-1.057; 4.252]
White	5.2	[3.128; 7.280]	7.5	[4.729; 10.288]
<b>By Gender</b>				
Male	16.0	[13.872; 18.119]	20.2	[17.968; 22.466]
Female	20.5	[18.028; 22.904]	20.5	[17.971; 22.950]
<b>By Age Group</b>				
15 - 24 year olds	36.2	[31.852; 40.605]	39.2	[34.550; 43.892]
25 - 34 year olds	20.1	[17.109; 23.071]	21.5	[18.723; 24.250]
35 - 44 year olds	10.1	[7.833; 12.345]	14.5	[11.646; 17.423]
45 - 54 year olds	9.1	[6.775; 11.399]	12.9	[10.207; 15.667]
55 - 65 year olds	5.5	[2.513; 8.534]	5.9	[2.637; 9.181]
<b>By Education</b>				
No education	16.6	[7.633; 25.611]	12.0	[1.369; 22.650]
Grades 0 - 8	20.3	[16.835; 23.784]	25.4	[21.526; 29.352]
Grades 9 - 11	23.9	[21.010; 26.828]	26.1	[22.825; 29.379]
Grade 12	16.7	[13.902; 19.579]	17.6	[15.055; 20.182]
Diploma/Certificate	8.0	[4.730; 11.295]	9.6	[6.061; 13.067]
Degree	3.0	[0.616; 5.463]	8.0	[3.801; 12.197]

**Appendix D Western Cape narrow unemployment rates by age group, 2010**

	Youth		Non-Youth	
	Estimate	95% Confidence Interval	Estimate	95% Confidence Interval
<b>Overall</b>	<b>27.4</b>	<b>[24.643; 30.095]</b>	<b>12.9</b>	<b>[10.973; 14.892]</b>
<b>By Race</b>				
African	32.8	[28.212; 37.328]	19.4	[14.359; 24.356]
Coloured	27.2	[23.608; 30.872]	13.1	[10.784; 15.396]
Asian	3.5	[-3.435; 10.435]	-	-
White	11.2	[5.297; 17.065]	5.4	[2.947; 7.939]
<b>By Gender</b>				
Male	26.8	[23.475; 30.205]	13.5	[11.021; 15.997]
Female	28.0	[24.124; 31.793]	12.2	[9.695; 14.777]
<b>By Education</b>				
No education	25.6	[-3.869; 54.970]	6.7	[-1.680; 15.104]
Grades 0 - 8	35.1	[27.788; 42.486]	19.7	[15.363; 24.109]
Grades 9 - 11	35.2	[30.139; 40.162]	14.7	[11.754; 17.695]
Grade 12	22.2	[18.604; 25.883]	10.2	[7.097; 13.356]
Diploma/Certificate	13.7	[7.328; 19.975]	5.6	[2.344; 8.911]
Degree	15.5	[5.326; 25.760]	4.2	[0.972; 7.421]

# Annexure

## Western Cape Statistics

Indicator	GDP – total Rm	GDP – Agriculture Rm	GDP – Manufacturing Rm
2004	216 300	8 382	36 767
2005	229 150	8 876	38 733
2006	242 731	8 370	41 157
2007	257 835	8 572	43 267
2008	268 257	9 479	43 798
2009			
Average annual growth	4.80	2.62	3.82

Indicator	GDP - Electricity, gas and water Rm	GDP - Construction Rm	GDP - Wholesale and retail trade Rm
2004	3 279	6 849	29 533
2005	3 477	7 691	32 236
2006	3 546	8 514	33 926
2007	3 649	9 740	35 758
2008	3 651	10 566	35 829
2009			
Average annual growth	2.27	10.85	4.26

Indicator	GDP - Transport, storage and communication Rm	GDP - Financial and business services Rm	GDP - Community and social services Rm
2004	19 168	57 856	10 663
2005	20 897	60 411	11 122
2006	21 775	66 090	11 596
2007	23 212	71 512	12 226
2008	23 862	77 090	12 643
2009			
Average annual growth	4.90	6.65	3.71

Indicator	GDP – Government Rm
2004	19 971
2005	20 751
2006	21 295
2007	22 138
2008	23 035
2009	
Average annual growth	3.07

Indicator	Building plans passed: Province - Western Cape: All buildings R'000	Building plans passed: Province - Western Cape: Residential buildings R'000	Building plans passed: Province - Western Cape: Non-residential buildings R'000
2004	12 714 338	7 485 592	1 780 108
2005	18 464 988	9 551 617	3 317 868
2006	17 345 425	8 037 725	3 256 823
2007	18 526 949	8 692 352	3 506 052
2008	17 372 089	8 063 874	3 613 514
2009	12 261 287	4 936 990	2 375 782
Average annual growth	-0.59	-5.67	5.58

Indicator	Building plans passed: Province - Western Cape: Additions and alterations R'000
2004	3 448 638
2005	5 595 503
2006	6 050 877
2007	6 328 545
2008	5 694 701
2009	4 948 515
Average annual growth	7.25

Indicator	Building completed: Province - Western Cape: All buildings R'000	Building completed: Province - Western Cape: Residential buildings R'000	Building completed: Province - Western Cape: Non-residential buildings R'000
2004	5 491 949	3 543 936	643 850
2005	8 286 668	5 460 381	1 016 076
2006	10 550 878	6 455 298	1 444 926
2007	12 381 016	6 905 910	2 558 415
2008	13 427 640	6 592 344	2 867 334
2009	13 205 877	6 005 474	3 289 662
Average annual growth	23.41	11.58	68.49

Indicator	Building completed: Province - Western Cape: Additions and alterations R'000
2004	1 304 163
2005	1 810 211
2006	2 650 654
2007	2 916 691
2008	3 967 962
2009	3 910 741
Average annual growth	33.31

Indicator	Electricity consumption	Air traffic (Arrivals)	Air traffic (Departures)
2004	21 491	-	-
2005	21 445	3 637 296	3 680 226
2006	22 382	3 892 740	3 921 455
2007	23 410	4 467 141	4 502 231
2008	23 245	4 338 173	4 369 647
2009	22 583	4 125 761	4 146 771
Average annual growth	0.85	2.69	2.54

Indicator	Crop estimates	Vehicle sales (Number of units)	Percentage of households living in informal settlements
2004	520 000	40 859	8
2005	645 000	51 199	9
2006	730 000	58 074	12
2007	812 000	50 061	11
2008	860 000	34 105	12
2009	675 000	23 959	9
Average annual growth	4.97	-6.89	

Indicator	Percentage of households without mains electricity
2004	31
2005	28
2006	44
2007	45
2008	40
2009	32



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