



**Provincial Government Western Cape  
Provincial Treasury**

**PROVINCIAL ECONOMIC  
REVIEW & OUTLOOK  
2011**

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# Foreword

The Provincial Economic Review and Outlook (PERO), 2011 provides an overview of the current global, national and provincial economic situation; it identifies a number of key industry and labour market trends that require focused attention and gives a snapshot of selected socio-economic challenges that impact the Western Cape's economy.

This publication of the PERO, as with the more recent ones, published since 2009, is again written during uncertain times in the world economy. There has been continuous change in economic circumstances, expectations and prospects in the global economy in recent months.

At a national level, South Africa's recovery is on track and the current upswing has already lasted longer than the recent downturn. For the Western Cape, the pace of economic growth is expected to pick up towards 2012.

The Western Cape economy continues to be dominated by the services sector (notably finance and insurance and business services) and in the goods-producing sector by the agricultural value chain (including primary production, food processing and beverages).

Dynamics of the Western Cape labour market uncovers, amongst others: first, the fact that in recent years job creation has not kept pace with economic growth, second, that youth unemployment has grown into a serious challenge; and third, that a shortage of skills in the labour force act as a constraint on growth and job creation.

Economic growth has little meaning unless the fruits of growth are distributed fairly among society; growth must have a positive sum outcome with society as whole benefitting. The most sustainable way of achieving such an outcome is to have growth in production accompanied by growth in productive employment opportunities.

While a growing economy can do much to improve the living standards of the population, it is also true that some of the social problems like substance abuse, women and child abuse and interpersonal violence require more direct efforts from the authorities. Such efforts are continuing, and will be strengthened to tackle these challenges.

This Province, in response to the economic environment, has adopted a participatory approach in its implementation of Provincial Strategic Objective 1 which is about creating opportunities for growth and jobs. Areas that are receiving attention include establishing a Western Cape Economic Development Agency, Red Tape reduction, Infrastructure Development, Skills development and the Expanded Public Works Programme.

The annual PERO continues to provide the backdrop for the Western Cape Medium Term Budget Policy Statement and therefore the strong link between the intention/plans of the Western Cape Government to facilitate an economic environment conducive to: firstly grow the economy and secondly sharing the benefits thereof to as a wide spectrum of citizens through job creation.

A handwritten signature in black ink, appearing to be 'AW', written in a cursive style.

**Alan Winde**

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

29 September 2011

# Contents

## Foreword

<b>Chapter 1: Introduction</b>	1
<b>Chapter 2: Economic outlook</b>	
2.1 Introduction	12
2.2 Developments in the global economy	13
2.2.1 Global economic performance	13
2.2.2 Medium-term global economic growth outlook	15
2.2.3 World inflation outlook	18
2.2.4 Risks to the global outlook	19
2.3 Developments in the South African economy	20
2.3.1 Performance of the South African economy	20
2.3.2 Outlook for the South African economy	24
2.3.3 Balance of payments and rand exchange rate outlook	28
2.3.4 Inflation and interest rate outlook	29
2.3.5 Risks to the outlook	31
2.4 Developments in the Western Cape Economy	32
2.4.1 Performance of the Western Cape economy	32
2.4.2 Outlook for the Western Cape economy	34
2.4.3 Risk to the regional outlook	34
2.5 Conclusion	35
Annexure A: Generating industry sector forecasts for the Western Cape economy	36
<b>Chapter 3: Development of the Western Cape economic sectors</b>	
3.1 Introduction	42
3.2 Economic structure, sector growth and structural imbalances	43
3.3 Sector performance and outlook	48
3.4 Rationale of growing exports, regional development policy and the policy capacity of provincial government	52
3.5 Export performance and outlook	54
3.5.1 The composition of Western Cape exports	56
3.5.2 Western Cape exports during the expansion of 2000 – 2007 and subsequent recession	58
3.5.3 The impact of the rand exchange rate	61
3.6 Western Cape export outlook: 2011 - 2015	64
3.6.1 Macro Overview	64
3.6.2 Projected export growth – selected sectors	65

3.7	Western Cape Export Development Policy	73
3.7.1	National Industrial Development Policy	73
3.7.2	Provincial Industrial policy and export-oriented development	74
3.8	Conclusion	77
	Annexure B: Elements of trade and regional (spatial) theory	78

#### **Chapter 4: Labour market dynamics in the Western Cape**

4.1	Introduction	84
4.2	Overview of the Labour Market	85
4.3	The Western Cape Population	88
4.4	The Western Cape Labour Force	91
4.5	Employment in the Western Cape	94
4.5.1	Overview of total employment	94
4.5.2	Formal sector employment	99
4.5.3	Informal sector employment	102
4.6	Unemployment in the Western Cape	107
4.6.1	Unemployment trends and characteristics	107
4.6.2	Unemployment status	113
4.7	Conclusion	115
	Annexure C: Detailed estimates	117
	Annexure C1 Narrow labour force participation rates, 2011	117
	Annexure C2 Provincial unemployment rates, 2011	118
	Annexure C3 Narrow unemployment rates, 2008 and 2011	119
	Annexure C4 Activities of 15 to 24 year olds, 2011	120

#### **Chapter 5: Selected Socio-economic analysis within the Western Cape**

5.1	Introduction	122
5.2	The provincial population	125
5.3	Economic conditions of the population: Poverty and income inequality	126
5.4	Education	127
5.5	Health	130
5.6	Migration trends	134
5.7	Housing and municipal services	137
5.8	Some social ills	140
5.8.1	Inter-personal violence	141
5.8.2	Alcohol and substance abuse	141
5.8.3	Abuse of women	142
5.8.4	Child abuse	142
5.9	Conclusion	143

<b>Appendix</b>	<b>Western Cape Statistics</b>	145
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<b>References</b>		149
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## Tables

Table 2.1	World economic outlook 2011 - 2012	16
Table 2.2	GDP growth per sector	21
Table 2.3	Forecast for selected SA variables (2011 - 2012)	25
Table 2.4	Real final consumption expenditure by households	26
Table 2.5	Biggest contributors to inflation	30
Table 2.6	Western Cape GDP per sector: 2005 – 2010	32
Table 2.7	Economic outlook for the Western Cape (%) real growth in GDP, 2010 - 2015	34
Table 3.1	Western Cape Production: distribution by SIC sector (% of Gross Value Added) in 2010 and relative to RSA (Location Quotients) in 1995 and 2010 (constant 2005 prices)	45
Table 3.2	Real growth of exports of goods and services: 1995 to 2010	63
Table 3.3	Western Cape real export growth: 2000 – 2015	64
Table 4.1	Overview of the Western Cape labour market, 2011	86
Table 4.2	Labour market aggregates, 2008 and 2011	87
Table 4.3	Composition of the Western Cape narrow labour force, 2008 and 2011	91
Table 4.4	Demographic characteristics of employment, 2008 and 2011	95
Table 4.5	Sector decomposition of total employment, 2008 and 2011	98
Table 4.6	Demographic characteristics of formal employment, 2011	99
Table 4.7	Industrial composition of formal employment, 2011	101
Table 4.8	Occupation structure of formal employment, 2011	102
Table 4.9	Demographic composition of informal sector employment, 2011	106

Table 5.1	Some indicators of the relative socio-economic situation in the Western Cape, Gauteng, other provinces and South Africa	124
Table 5.2	Selected indicators of living standards within the Western Cape by region	127
Table 5.3	Educational attainment of the South African adult population (20 years or more) by province, 2007	128
Table 5.4	Average percentage scores by province after re-marking in the 2011 Annual National Assessment	129
Table 5.5	Western Cape infant and under 5 mortality rates, 2007 and 2008, and TB incidence by region, 2010	132
Table 5.6	Perceptions about own health and about public health services	133
Table 5.7	Transfers into Western Cape schools from other provinces, 2010	135
Table 5.8	Type of housing, 2001 and 2007 (per cent of households)	138
Table 5.9	Percentage of households with access to four main municipal services, 2007 - 2009 and with all four services, 2001, 2007 and 2007 - 2009	140
Table 5.10	Drug-related crime and Driving under the influence of alcohol or drugs in the Western Cape in a South African context between 2007 and 2011	142

## Figures

Figure 2.1	Growth in volume of world merchandise trade and GDP, 2000-10 (Annual percentage change)	19
Figure 2.2	2011 first quarter GDP higher than the long term average	21
Figure 2.3	Kagiso Purchasing Managers Index (PMI) drops below 50	23
Figure 2.4	RMB/BER Business Confidence Index	24
Figure 2.5	Fixed investment to GDP ratio deteriorates	27
Figure 2.6	Western Cape vs SA business confidence	33
Figure 3.1	Western Cape real GDPR growth across 9 broad sectors: 2000 – 2010	46
Figure 3.2	Western Cape: Real GDPR growth vs. Employment growth	47
Figure 3.3	Western Cape sector outlook for real GDPR growth, 2011 – 2015	51
Figure 3.4	Real export growth: Western Cape and Rest of RSA, 2000 - 2010	54
Figure 3.5	Western Cape export growth: primary, secondary & services: 2000 - 2010	55



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Figure 3.6	Composition of Western Cape exports: average, 2005 - 2010	56
Figure 3.7	Western Cape exports: sector contribution to cumulative growth: 2000 – 2010	57
Figure 3.8	Western Cape real export growth across sectors, 2000 – 2007	58
Figure 3.9	Real export growth: the Western Cape and the rest of the World: 1995 - 2010	60
Figure 3.10	Western Cape real export growth and the real trade-weighted rand exchange rate	62
Figure 3.11	Share of manufacturing exports in total WC exports: 2010 and 2002	63
Figure 3.12	Western Cape: Contribution to cumulative projected export growth: 2011 - 2015	65
Figure 3.13	Western Cape real export growth: 1996 – 2015	66
Figure 4.1	National employment and narrow unemployment trends since 2008Q1	85
Figure 4.2	Age structures of the South African and Western Cape populations, 2011	89
Figure 4.3	Labour force participation rates, 2011Q1	93
Figure 4.4	Provincial and national unemployment rates, 2011	108
Figure 4.5	Western Cape narrow unemployment rates, 2008 and 2011	109
Figure 5.1	Self perceived health status 2008	134
Figure 5.2	Transfers-in from outside the Province as a percentage of those in each grade, Western Cape 2010	136
Figure 5.3	Municipal Housing Backlog Estimate 2010	139

## Abbreviations

ART	Anti-retroviral treatment
BER	Bureau for Economic Research
BOD	Burden of Disease
BPO	Business Process Outsourcing
BRIC	Brazil, Russia, India and China
COGSI	Cape Oil & Gas Supply Initiative
CSP	Community, Social and Personal
CTBi	Cape Town Boatbuilding and Technology Initiative
DEDT	Department of Economic Development and Tourism
<b>the dti</b>	Department of Trade and Industry
ECB	European Central Bank
EMIS	Education Management Information System
EU	European Union
FAO	Food and Agriculture Organisation
FIFA	Federation Internationale de Football Association
FNB/BER	First National Bank/Bureau for Economic Research
GDP	Gross Domestic Product
GDPR	Regional Gross Domestic Product
GHS	General Household Surveys
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome
ILO	International Labour Organisation
IMF	International Monetary Fund
IMF/EU	International Monetary Fund/European Union
IPAP	Industrial Policy Action Plan
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey
NGP	New Growth Path
NIDS	National Income Dynamics Survey
NIPF	National Industrial Policy Framework
NPC	National Planning Commission
OECD	Organisation for Economic Cooperation and Development
OHS	October Household Survey
PAYE	Pay As You Earn
PERO	Provincial Economic Review and Outlook

PMI	Purchasing Managers Index
PMI	Purchasing Managers Index
PWV	Pretoria-Johannesburg-Vereeniging
QLFS	Quarterly Labour Force Survey
RMB/BER	Rand Merchant Bank/Bureau for Economic Research
SA	South Africa
SARB	South African Reserve Bank
SETA	Sectoral Education and Training Authorities
SIC	Standard Industrial Classification
StatsSA	Statistics South Africa
TB	Tuberculosis
TIMSS	Trends in International Mathematics and Science Study
UIF	Unemployment Insurance Fund
UK	United Kingdom
US	United States
WTO	World Trade Organisation



# 1

## Introduction

In recent years the Provincial Economic Review and Outlook (PERO) was prepared at a time of rapidly changing economic conditions. The 2009 PERO was researched and written at a time of the worst recession experienced in the major countries of the industrialised world since the Great Depression, a recession which also left its footprint on the South African and Western Cape economies. The 2010 PERO was submitted in a more favourable economic environment; although not yet quite out of the woods, South Africa and her major trading partners were recuperating and experiencing real growth. The South African economy and also that of the Province were aided in their economic recovery by hosting the world's premier sporting event, the 2010 FIFA World Cup, which first injected a healthy dose of stadium and infrastructure spending into the economy, subsequently followed by the accelerated economic activity associated with the event itself.

But the reasonable optimism and outlook of stability that prevailed when the 2010 PERO was written were short lived as the 2011 Provincial Economic Review and Outlook is again researched and written during tumultuous times in the world economy. Indeed, one of the big problems experienced for substantial parts of the 2011 PERO has been the virtual continuous change in economic circumstances, expectations and prospects globally.

World financial markets are experiencing extreme volatility in the wake of the credit downgrading by Standard & Poor of the United States and the persistent uncertainty about the sustainability and viability of pulling certain Euro countries out of their fiscal quagmire. South Africa has an open economy, both as far as international trade and capital flows are concerned, and consequently is exposed to the contagion effect of these market fluctuations. The same applies to the economy of the Western Cape, a regional economy revealed to be particularly sensitive to external economic conditions by way of the sharp economic downturn in the economies of South Africa's major trading partners in the industrialised world during 2007/08.

The impact of the exposure of the region's economy to international developments, which are truly external to the influence of the national and Provincial Government, is discussed in Chapter 2. This chapter, in reviewing the global, national and regional economic development and outlook, sets the scene for the 2011 PERO as a whole. What the chapter tells the reader is that the impact of the 2007/08 recession has been severe and that, at the time of writing, the uncertainty that prevails in the economies of our trading partners and in global financial markets represents a fundamental risk factor in considering the future. The possibility of a second recession, that is, the realisation of the fear of the so-called double-dip economic phenomenon, clouds our vision of what the future holds. What the chapter also reveals, is that the Western Cape economy, which in the past has been able to outperform the rest of South Africa in terms of economic growth, has been negatively affected by economic conditions abroad and their impact on an export-dependent regional economy.

The overview and analysis of global economic developments and prospects shows that after declining during 2009, global economic growth recovered robustly to 5.1 per cent during 2010. Economic growth remained strong in the first quarter of 2011, but conditions have since deteriorated significantly.

Global economic growth is expected to have moderated during the second quarter of 2011. Indications are that the growth easing will be fairly broad based with both developed and emerging countries losing momentum, albeit that emerging market growth continues to outperform advanced countries. An analysis of the most important drivers (high commodity prices and the Japanese earthquake) of the second quarter 2011 growth easing indicates that these are unlikely to have as negative an impact on growth during the second half of 2011. The downside risks to the global economy however, remain elevated, more so now than a few months ago. In particular, the ongoing fiscal difficulties in the US and Europe continue to cloud growth prospects.

The International Monetary Fund (IMF) expects the global economy to grow by 4.3 per cent in 2011, marginally lower than the April forecast. However, a slight uptick in the rate of economic growth is expected for 2012. Global risks have become more pronounced since April, in particular the risk posed by high fiscal debt levels in parts of Europe and the United States on the global economic recovery (and to the economic recovery in those countries themselves).

In South Africa, economic activity registered growth of 2.8 per cent in 2010, following the decline in activity of 1.7 per cent in 2009. This growth has been driven primarily by household consumption whilst fixed investment spending remains relatively low.

The Bureau for Economic Research (BER) predicts GDP growth to reach 3.8 per cent in 2011, an improvement on 2010's 2.8 per cent. GDP growth is expected to remain largely unchanged at 3.7 per cent in 2012. However, this means that the pace of economic growth in South Africa still remains lower than that recorded in the period just before the recession. The biggest risk to the outlook stems from developments related to the international economy.

The Western Cape economy, after contracting by 1.4 per cent in 2009, recovered in 2010 with economic growth estimated at 2.4 per cent. This is below the annual average growth recorded by the Province during 2005 to 2009 of 4.3 per cent.

Quantec/BER expects Western Cape GDP at basic prices to accelerate to 3.9 per cent in 2011, from the 2.4 per cent estimated for 2010. The pace of economic growth is expected to pick up towards 2012, before peaking at 4.3 per cent in 2014 and 2015. Overall, economic growth in the Western Cape is expected to average 4.2 per cent per annum over the five-year forecast period. Growth over the period is expected to be primarily driven by the services sector, which is forecast to perform well.

Key points made in this chapter is that economic growth in South Africa is on track but has been unbalanced with consumption expenditure being the biggest driver, while fixed investment recovery has been poor. The risks posed by the global economy will influence the South African and Western Cape economic outlook. The Western Cape may be disproportionately affected by the slowdown in demand in the US and Europe as these are prominent export destinations for Western Cape export producers. The structural imbalance between the employment growth and economic growth also remains a risk.

In times of international economic decline with its contagious effect on trading nations, one may be tempted to look less favourably on export trade as a growth engine. However, the growth experience of fast-growing countries and regions shows that export orientation in production provides the structure that supports sustainably high growth over the long run. This theme is taken up in Chapter 3, which deals with sector developments in the Province.

In Chapter 3 the focus falls on the economic structure and growth of the Western Cape economy, further highlighting an imbalance between output and employment growth. This is followed by sections discussing the performance of sectors, the rationale of pursuing export-oriented growth, export performance and outlook, and a section that briefly addresses policy issues for the Provincial Government. The logic of having a chapter that focuses on sector growth and development is to dissect the overall growth that features in Chapter 2 and to delve deeper into its sector components. In this PERO the review of sector developments is focused on the export performance and capacity of the Western Cape economy.

The performance of the Western Cape economy in terms of real growth is explained by the strong contribution to growth made by the broad financial and business services sector, growing by 6.5 per cent and creating jobs at a rate of 3.8 per cent annually. Looking ahead, the Province is facing a difficult global economic environment and its leading growth industry, i.e. financial services, is unlikely to repeat the spectacular growth of the 2000s.

The rapid development of service industries has been particularly pronounced in the Western Cape. In the 2010 PERO the review of structural change in the Western Cape economy revealed the dominance of services (the tertiary sector, notably finance and insurance and business services) and in the goods-producing sector, the agricultural value chain (including primary production, food processing and beverages) in the regional economy.

The chapter also shows that there seems to be a link between the historical growth pattern and the structural imbalance in the Western Cape economy, specifically a mismatch between output and employment growth. Whereas the real economy expanded by close to 45 per cent between 2001 and 2010, the regional workforce only grew by close to 16 per cent over this period, which can be interpreted as a structural imbalance in the Western Cape economy.

It is evident that the Western Cape economy is confronted with the same structural problem noted in the second Industrial Policy Action Plan (IPAP2), namely the mismatch that arises in the labour market from growth being concentrated in the skills-intensive services industries rather than in the semi- and unskilled labour absorbing primary and secondary industries. Policy measures should be aimed at both the supply and demand sides of the growth equation, with policies aimed at growing the capacity to produce while addressing this growth at identified demand components, growth in investment (also in infrastructure), growth in the number of workers employed and improvement in the productivity of capital and labour. But an increment in output would be meaningless unless it could be absorbed in growing demand for the output. The demand side of growth has three elements: growth in real income, replacement of imported goods and services (import substitution) and exports.

On sector performance in the Western Cape, a recent study by the Department of Economic Development and Tourism suggest that the high-growth sectors in the Province (e.g. finance & insurance, construction, communication; furniture and transport equipment, including boat building), merely maintained their workforces and leading employment creating sectors (e.g. the broad community, social & personal services sector, the trade sector, electricity, mining, transport and storage, and tourism) exhibited relatively moderate economic growth rates.



A range of primary and secondary industries shed jobs despite the improvement in general economic conditions over the biggest part of the 2000 to 2009 period. This group is led by the job-shedding in the agricultural and clothing and textile sectors; non-metal minerals, electronics, food and beverages, petro-chemicals (all exhibiting below-average growth) and furniture, leather & footwear and automotive (exhibiting high growth).

The tertiary sectors are again leading the economic recovery and benefit from the macro-economic conditions (favourable terms of trade, strong currency, low inflation and interest rates and a buoyant domestic market). The regional manufacturing sector has shed jobs on a large scale over the past decade and this tendency needs to be addressed should the Province want to achieve its socio-economic objectives. This does not mean the tertiary sectors must be neglected, as the growth of these sectors create many jobs.

In examining export performance capacity, government policy instruments that can effectively be used to build export capacity are considered. A provincial government does not have access to the conventional trade and policy measures that only exist at the national level, for example, import tariffs, and in a non-federal constitutional dispensation in particular, little can be done through a range of fiscal incentives. However, world-wide the swing is to supply side measures away from demand side measures such as import tariffs and export subsidies, and in this regard it is argued that a second tier government can have a significant impact on the development of trade and production patterns.

Western Cape exports are dominated by the agricultural, forestry and fishing and food and beverage sectors, i.e. the food value chain. These two subsectors accounted for approximately 37 per cent of exports on average during 2005 to 2010. The remarkable growth of agricultural exports over the past decade led to it dominating the growth of Western Cape exports and it explains 46 per cent of the cumulative growth in the region's exports over the 2000 to 2010 period.

The high export growth sectors, ranging in annual growth rates from 21.1 per cent to 13 per cent between 2000 and 2007, include communication, radio, TV and instruments, furniture, business services, metals, metal products and machinery, and Community, Social and Personal (CSP) services. The average export growth sectors, ranging from 7.7 per cent to 4.7 per cent, include petro-chemicals, finance and insurance, catering and accommodation, transport, automotive products, wholesale and retail trade, electricity, and food and beverages. The low export growers (ranging from 3.3 per cent to a contraction of 8.5 per cent) include construction, mining, non-metal minerals, electrical machinery, wood and paper products, and textiles, clothing and leather goods. The share of textiles, clothing and leather goods in total Western Cape exports shrunk from 6.6 per cent in 2000 to 2.3 per cent in 2007 (and then further to 1 per cent by 2010).

Agriculture and its associated processing industries are by far the largest contributor to Western Cape exports. The rising living standards and food scarcities in populous and fast-growing countries such as China and India present interesting opportunities for agricultural exports to grow. Support for the agriculture value chain must be maintained and even expanded but it is also necessary to recognise the need to diversify the export base of the Western Cape by growing exports of tradable services and manufactures.

Other sectors that make a sizable contribution to the region's exports include, in sequence of their contribution size: metals, metal products and machinery; petro-chemicals, rubber and plastic; finance, insurance and business services; and transport and communication.

Exports expose an economy to international contagion but there can be little doubt that export-oriented development remains the appropriate route for a developing country and for regions within the country to take in search of welfare enhancing growth.

Economic growth has little meaning unless the fruits of growth are distributed fairly among society; growth must have a positive sum outcome with society as whole benefitting. The most sustainable way of achieving such an outcome is to have growth in production accompanied by growth in productive employment opportunities. This means that conditions in the labour market are crucial in determining what can be called the 'quality of growth'.

The dynamics of the Western Cape labour market are analysed in Chapter 4 against the background of conditions prevailing in the national labour market. The analysis uncovers, amongst others: first, the fact that in recent years job creation has not kept pace with economic growth, a problem that was also raised in Chapter 3; second, the fact that youth unemployment has grown into a serious challenge; and third, that a shortage of skills in the labour force act as a constraint on growth and job creation. Also, race continues to be related to outcomes within the labour market, both nationally and provincially. Relative to their share of the labour force, Africans are under-represented within formal employment and over-represented in both informal employment and unemployment.

Chapter 4 highlights the important gains in employment made during the mid-2000s before the international financial crisis sent the South African economy into its first recession in the post-apartheid era. While the effects of the recession on output were short lived, the impact on the labour market has been significant. Indeed, the first quarter of 2011 marked the first time since the second quarter of 2009 that the labour market did not record a year-on-year contraction in employment. The Western Cape has not escaped the labour market turmoil that characterises the national labour market. Indeed, unemployment in the Province has risen rapidly.

The South African labour market has been hard hit in recent years. Around one million jobs were shed after the fourth quarter of 2008 and the number of discouraged work seekers has soared. While employment in the Western Cape has been weak, its decline has been less steep than was the case nationally. The number of discouraged work seekers in the Province has actually declined over the period and, as a result, the lack of job creation translated into rapid growth in narrow unemployment. Amongst the unemployed, rising numbers of job losers and declines in the number of job leavers point to tight labour market conditions.

The narrow definition of unemployment paints a slightly more negative picture of provincial unemployment relative to the national situation by excluding discouraged work seekers. In terms of the narrow definition, the Province is no longer significantly different from the rest of the country. However, the almost complete absence of discouraged work seekers means that there is a wide gap between the Western Cape and the rest of the country in terms of expanded unemployment. That virtually all the unemployed are 'searching unemployed' in the Province points to the existence of conditions facilitating job search itself, but also to a perception of relatively good odds of actually finding employment.

The national patterns of labour market disadvantage - by race, gender, age and education - are echoed within the Provincial labour market. Unemployment rates are highest amongst Africans, followed by Coloureds and then Whites. The disadvantaged positions of young people and of those with poor education within the labour market remain: unemployment amongst 15 to 24 year olds is twice the provincial average of 22.2 per cent, while being a third higher than the Provincial average amongst those with primary or incomplete secondary education.

Sector decompositions of employment in the Western Cape point to considerable weakness in employment in the primary sector, specifically in agriculture, forestry and fishing, echoing national trends. The informal sector is considerably smaller relative to total employment in the Western Cape than is the case in South Africa as a whole. Africans are over-represented in informal sector employment relative to their shares of the labour force, as are men and those with relatively low levels of education. While the sector may be small in the Province, there is scope for growth if suitable policy interventions are made.

Employment creation serves as the principal mechanism that distributes the benefits of economic growth.<sup>1</sup> But it is also true that transfer payments in the form of welfare benefits and the provision of public services raise welfare levels. To capture the impact of all welfare-creating measures it is useful to assess the socio-economic conditions that prevail over time in an area such as the Western Cape. Such a review is presented in Chapter 5. The outcome of a review of socio-economic conditions serves as a reference point in determining development policy and its priorities.

Chapter 5 summarises broad background of the socio-economic situation of the Western Cape population. It shows that the population is generally less poor than in other provinces and that income is slightly less unequally distributed. The City of Cape Town dominates the economy and population of the Western Cape. Two-thirds of the population resides within the metropolitan area, while many commute to the City to work on a daily basis.

In term of education, educational attainment in the Western Cape is high; the average of 10.55 years of education completed in 2007 by 25 year olds is almost two years more than for 55 year olds, educated three decades earlier. High drop-out rates persist for school learners between grades 10 and 12, including those who are not over-aged for their grade. Educational quality in the Western Cape is relatively higher than in other provinces, but still lags that of developed countries. Many primary children do not reach national performance norms in the Annual National Assessment.

Western Cape life expectancy is shown to be low, due to high mortality stemming from the mixture of diseases of affluence and of poverty. This phenomenon is exacerbated by HIV/AIDS deaths and injuries (mainly homicides and traffic accidents). TB is extremely widespread with high incidence in the West Coast region. Deaths from inter-personal violence are particularly high amongst male youths and young men. Almost 2 500 homicides occur annually, many perpetrated on acquaintances. Infant and under-5 mortality is declining, but remains higher than in other middle-income countries.

National data shows a net inflow of fewer than 100 000 migrants to the Western Cape in the past five years, but school data point to higher rates of migration. There are about 25 000 annual transfers to Western Cape schools from other provinces (about 2.8 per cent of learners), especially concentrated in grades 1, 6 and 8.

<sup>1</sup> Considering the causes of growth it is also true that greater employment, like investment, increases the factors of production used to grow the economy. Viewed from the perspective of growth accounting, labour growth is a driving force of economic growth which complements growth in the capital stock (investment) and improvements in the productivity of the factors of production.

Cape Town is the metropolitan area with the second lowest proportion of households in informal housing. Only limited housing progress has been made in the Province since 2001, as was the case nationally. Survey data point to a housing shortage of about 200 000 units, without considering over-crowding. The Western Cape is ahead of all other provinces in terms of providing municipal services of water, sanitation, electricity and refuse removal; 83.3 per cent of all households enjoy all four services.

Pervasive social ills exist in the Western Cape and includes inter-personal violence, with a high homicide rate of 47 per 100 000 population, widespread alcohol and substance abuse, abuse of women exceeding rates at the national level, and high rates of child abuse, family break-up and neglect of children that affects current and future generations.

While a growing economy can do much to improve the living standards of the population, it is also true that some of these problems require more direct efforts from the authorities. Such efforts are continuing, but it appears that success is far more difficult to achieve in these fields than is often acknowledged. In general, the Western Cape compares favourably to the national situation when it comes to average income levels, distribution indicators (the Gini coefficient), and service delivery. However, this is not a reason to be complacent as room for improvement exists.



# 2

## Economic outlook

### Key findings:

- The global economy grew at a robust 5.1 per cent during 2010. This growth continued through the second quarter of 2011. However, indications are that economic growth moderated in the second quarter of 2011 as high commodity prices and the earthquake (and resultant tsunami) in Japan took its toll on global output.
- The outlook for the global economy suggests that the recovery should continue in 2011 and 2012. However, recent economic developments including the downgrade of US debt by ratings agency Standard and Poor's coupled with continued fiscal concerns in Greece, but more recently Spain and Italy have not been supportive of economic growth. In fact, these developments have significantly increased the downside risks to the outlook.
- The sustainability of the global recovery is further hampered by signs that activity in the manufacturing sector is easing along with indications that consumer spending is slowing in the US amidst persistently high unemployment rates. Also, fiscal austerity measures in many advanced economies will also weigh on growth going forward. In emerging economies, monetary policy tightening (especially in China and India) would likely dampen global demand further.
- The recovery in the South African economy seems to be well on track. According to the South African Reserve Bank, South Africa's recession ended in August 2009 (after the downturn started in 2007) and lasted approximately 21 months. This means that the current upswing has already lasted longer than the downturn (approximately 23 months at the end of July).
- This recovery has been relatively unbalanced. The main driver of economic growth since the start of the recovery has been household consumption with fixed investment, although recently picking up, still lagging. Again, questions regarding the sustainability of such a recovery amidst very small increases in employment and credit growth are being raised.

- Economic growth is expected to continue through 2011 and 2012. However, the risks posed by the global economy will influence the SA economic outlook.
- In the Western Cape, economic activity contracted by 1.4 per cent (at basic prices) during 2009. However, the regional economy recovered during 2010, growing at an estimated rate of 2.4 per cent.
- The Western Cape economy is expected to continue expanding with economic growth of 3.9 per cent forecast for 2011. Economic growth is expected to increase to 4.1 per cent in 2012, before peaking at 4.3 per cent in 2013 and 2014. Overall, the Western Cape is expected to grow at an annual average rate of 4.2 per cent forecast for the period 2011 to 2015.

## 2.1 Introduction

The South African economy grew at 2.8 per cent<sup>1</sup> in 2010 following a decline in economic activity during 2009. This growth continued in the first quarter of 2011, but slowed during the second quarter of 2011. However, growth has been rather unbalanced with a sharp rise in final household consumption expenditure being the biggest driver, while fixed investment recovery has been poor. The South African economy also faces increased international risk given sovereign debt concerns in advanced economies and the fact that there are signs that global economic growth is moderating.

The Western Cape economy is also estimated to have returned to positive growth in 2010 following a 1.4 per cent<sup>2</sup> contraction in 2009. However, this is likely to be lower than the national growth rate. The structure of the Western Cape economy is such that developments in the mining sector (which contributed to national growth in 2010) are unlikely to have significantly improved regional economic growth. The regional economy is expected to continue growing and at a slightly higher pace than the national economy in 2011. The GDP of the Western Cape region is forecast to grow at 3.9 per cent in 2011 and 4.1 per cent in 2012. Overall, Western Cape economic growth is expected to average 4.2 per cent per annum over the five-year period 2011 to 2015.

It must be emphasised that the information provided in the chapter is subject to virtually continuous change due to the fluidity and volatility that currently characterises the current global economic environment.

<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.

<sup>2</sup> At basic prices, basic prices is the measure of GDP that does not take into account the value of taxes levied and subsidies received on production.



## 2.2 Developments in the global economy

The global economic recovery continued in the first quarter of 2011, but indications are that global GDP growth in the second quarter of 2011 is likely to have moderated. The outlook for the second half of 2011 has been clouded by recent concerns regarding the sustainability of US and certain European countries' fiscal debt (as illustrated by the recent Standard & Poor's downgrading of US government debt from AAA to AA+).

### 2.2.1 Global economic performance

After declining during 2009, global economic growth recovered robustly to 5.1 per cent during 2010. Economic growth remained strong in the first quarter of 2011, but global economic conditions, as outlined below, have since deteriorated.

Global economic growth is expected to have moderated during the second quarter of 2011. Indications are that the growth easing will be fairly broad based with both developed and emerging economies losing momentum, albeit that emerging market growth continues to outperform advanced countries. An analysis of the most important drivers (high commodity prices and the Japanese earthquake) of the 2011 second quarter growth easing indicates that these are unlikely to have as negative an impact on growth during the second half of 2011. The downside risks to the global economy remain elevated, more so now than a few months ago. In particular, the ongoing fiscal difficulties in the US and Europe continue to cloud growth prospects.

#### Performance of advanced economies

Economic activity in advanced economies picked up significantly during 2010, growing by 3 per cent. This is a marked improvement on the 3.4 per cent contraction recorded in 2009. The recovery in Japanese economic activity was the most pronounced at 4.0 per cent (after registering the biggest decline in activity in 2009). Economic activity in Canada and the United States also increased, by 3.2 and 2.9 per cent respectively. At the same time, economic growth in the Euro Area was more tempered at 1.8 per cent. However, within the Euro Area growth differed significantly. The German economy recorded stellar growth of 3.5 per cent (boosted by investment and exports), while the Spanish economy contracted by 0.1 per cent. France and Italy recorded growth of 1.4 and 1.3 per cent respectively.

The US economy expanded for an eighth consecutive quarter in the second quarter of 2011<sup>3</sup>, with the growth rate picking up slightly from 0.4 per cent in the first quarter of 2011 (revised down from 1.9 per cent), to 1.3 per cent. US

<sup>3</sup> Source: US Bureau for Economic Analysis (BEA).

growth remains too weak to ensure sufficient jobs for new entrants into the job market, resulting in the US unemployment rate remaining stubbornly high at above 9 per cent. Furthermore, the troubled US housing market is only showing tentative signs of recovery. As a result, US consumer spending ground to a halt in the second quarter of this year. However, the main concern regarding the US economy is the sustainability of their public finances, given the political disagreement between the Democrats and Republicans on how to rein in bulging US debt levels. The situation led to a downgrade of US government debt from AAA to AA+ status by the rating agency Standard & Poor's, which spurred global market panic<sup>4</sup>. These events are unravelling at a time when economic growth in the US is already struggling to pick up.

Regarding the European economic outlook, the second quarter of 2011 was characterised by renewed investor concern about excessive sovereign debt in peripheral European countries, most notably Greece. During July 2011, the EU and IMF announced a second Greek bailout package, which eased market jitters temporarily. However, the US debt downgrade has since sparked contagion to more prominent (and also heavily indebted) countries such as Spain, Italy and most recently also France. Italian and Spanish bond yields have recently risen sharply and the European Central Bank (ECB) was forced to step in by buying some of these bonds to prevent interest rates rising even higher.

### **Performance of developing economies**

Emerging and developing economies grew by 7.4 per cent during 2010, after growing at a moderate 2.8 per cent in 2009. Developing Asia led the pack by recording economic growth of 9.6 per cent in 2010, with China and India growing at 10.3 and 10.4 per cent respectively. The pace of economic growth also improved in Latin America and the Caribbean, from -1.7 per cent in 2009 to 6.1 per cent in 2010. The Brazilian economy, in particular, recorded exceptional growth of 7.5 per cent in 2010 after a relatively mild contraction in 2009 (only -0.6 per cent). In Sub-Saharan Africa, economic growth of 5.1 per cent was registered in 2010 compared to 2.8 per cent in 2009. Growth in many emerging and developing economies has recovered to pre-crisis levels.

China and India continue to grow at a relatively robust pace. However, even in the case of emerging countries, the growth momentum has eased. The Chinese economy expanded by a robust 9.5 per cent in the second quarter of 2011, but the rate of growth is down from around 12 per cent recorded in the the first quarter of 2010. The moderation can be explained by monetary policy tightening in China – the central bank rate has been raised by 125 basis points (1.25 percentage points) since 2009, while the Chinese central bank has

<sup>4</sup> It should be noted that the downgrade had little impact on the status of US debt (treasuries) as safe havens in uncertain economic times. Since the downgrade the demand for US Treasuries has increased, leading to higher prices and hence lower interest rates.

also increased bank reserve requirements by 450 basis points over the same period. The tighter policy is being implemented in an effort to curb accelerating inflation and prevent the economy from overheating. In a similar vein, the Reserve Bank of India has increased its key policy interest rate by 325 basis points since 2009 to try and stem rising prices. Despite the tighter monetary policy, when adjusted for inflation, the real central bank rate in both China and India remains at very low levels.

### **2.2.2 Medium-term economic growth outlook**

The International Monetary Fund (IMF) and other forecasters expect global growth in 2011 to be slower given the sharp bounce back in economic growth in 2010 (due to factors including the base effects, i.e. growth accelerating from a low base). Other factors also viewed as key contributors to a slowdown in global economic growth in 2011 are the withdrawal of fiscal stimulus measures which in part supported growth in 2010, and the easing in economic growth in emerging market economies as a result of policy action to cool these economies.

The global economy is forecast to grow by 4.3 per cent in 2011, marginally lower than the April forecast. However, a slight increase in the rate of growth is expected for 2012. Global risks have become more pronounced since April, in particular the risk posed by high fiscal debt levels in parts of Europe and the United States on the global economic recovery and to the economic recovery in those countries themselves. The effect of the earthquake in Japan and thereby also on the global manufacturing sector in particular is also a key reason for the revised forecast.

Since the release of the updated IMF forecast in June, economic developments and data have revealed a more pessimistic outlook with US GDP in the first and second quarters more negative and fiscal strain more evident in the US and other developed economies.

Although the drivers of growth quoted by the IMF in June<sup>5</sup> such as accommodative macroeconomic conditions, pent-up consumer demand for durables and strong potential growth in emerging and developing economies remain in place, the downside risks to the outlook are much more amplified. In fact, many private sector forecasters have already downwardly adjusted their outlook for the US and European economies. JP Morgan, for example, has downgraded its forecast for US economic growth to 2.3 per cent for 2011 and for the Euro Area to 1.9 per cent. Following the current developments the IMF is also likely to revise their growth forecast downward for the US and Europe in September 2011.

<sup>5</sup> Updated forecast to the April World Economic Outlook (WEO).

**Table 2.1 World economic outlook 2011 - 2012**

	2009	2010	Projections		Difference from April 2011 projections	
			2011	2012	2011	2012
<b>World Output</b>	<b>0.5</b>	<b>5.1</b>	<b>4.3</b>	<b>4.5</b>	<b>-0.1</b>	<b>0.0</b>
<b>Advanced Economies</b>	<b>-3.4</b>	<b>3.0</b>	<b>2.2</b>	<b>2.6</b>	<b>-0.2</b>	<b>0.0</b>
United States	2.6	2.9	2.5	2.7	-0.3	-0.2
Euro Area	-4.1	1.8	2.0	1.7	0.4	-0.1
Germany	-4.7	3.5	3.2	2.0	0.7	-0.1
France	-2.6	1.4	2.1	1.9	0.5	0.1
Italy	-5.2	1.3	1.0	1.3	-0.1	0.0
Spain	-3.7	-0.1	0.8	1.6	0.0	0.0
Japan	-6.3	4.0	-0.7	2.9	-2.1	0.8
United Kingdom	-4.9	1.3	1.5	2.3	-0.2	0.0
Canada	-2.8	3.2	2.9	2.6	0.1	0.0
Other Advanced Economies	-1.1	5.8	4.0	3.8	0.1	0.0
<b>Emerging and Developing Economies</b>	<b>2.8</b>	<b>7.4</b>	<b>6.6</b>	<b>6.4</b>	<b>0.1</b>	<b>-0.1</b>
Sub-Saharan Africa	2.8	5.1	5.5	5.9	0.0	0.0
Middle East and North Africa	2.5	4.4	4.2	4.4	0.1	0.2
Central and Eastern Europe	-3.6	4.5	5.3	3.2	1.6	-0.8
Developing Asia	7.2	9.6	8.4	8.4	0.0	0.0
China	9.2	10.3	9.6	9.5	0.0	0.0
India	6.8	10.4	8.2	7.8	0.0	0.0
Latin America and the Caribbean	-1.7	6.1	4.6	4.1	-0.1	-0.1
Brazil	-0.6	7.5	4.1	3.6	-0.4	-0.5
Mexico	-6.1	5.5	4.7	4.0	0.1	0.0
<b>Consumer Prices</b>						
Advanced Economies	0.1	1.6	2.6	1.7	0.4	0.0
Emerging and Developing Economies	5.2	6.1	6.9	5.6	0.0	0.3

Source: IMF, *World Economic Outlook: June 2011*

### Outlook for advanced economies

The IMF expects the advanced economies to grow by 2.2 per cent in 2011. This is 0.2 of a percentage point lower than their forecast in April 2011. The biggest negative change in the IMF's forecast was for Japan, which is now expected to contract, compared to growth of 1.4 per cent expected in April 2011. In line with slower than expected growth so far, the growth forecast for the US, is also lower compared to the April forecast (see Table 2.1). In contrast, economic growth in the Euro Area surprised on the upside during the first quarter of 2011 and is now projected to be higher at 2.0 per cent in 2011 (+0.4 percentage points higher) compared to the IMF's April forecast. Most of the growth comes from Germany (0.7 percentage points higher) and France (+0.5 of a percentage point). In the UK, economic growth is expected to be 0.2 percentage points lower (compared to the April forecast) for 2011. Growth in the Italian economy in 2011 is also expected to be lower (-0.1 of a percentage point) compared to April 2011. There are significant downside risks to the forecast more so now than when the IMF released their forecast, which have been highlighted by recent events.

The forecast for advanced economies in 2012 remains unchanged (compared to April 2011) at 2.6 per cent, but masks underlying changes. Downward revisions were made to US (-0.2 of a percentage point) and Euro Area (-0.1 of a percentage point) economic growth forecasts for 2012, as the implementation of necessary fiscal austerity measures weigh on growth. In the US, for example, planned cutbacks in the large US budget deficit are expected to hamper the growth recovery going into 2012 and beyond. In contrast, Japanese growth is expected to bounce back (to around 3 per cent) after the 2011 disruption due to the recent earthquake.

### **Outlook for developing countries**

Growth in emerging and developing economies is expected to slow to 6.6 per cent in 2011, down from 7.4 per cent in 2010. Despite the moderation in growth, these forecasts remain well above that of advanced economies and reaffirm the idea that the global economic performance is now much more reliant on developments in emerging and developing markets than before.

In China, economic growth is expected to taper off in 2011 from the 10.3 per cent recorded in 2010. However, at 9.6 per cent, economic growth remains very high. Fears of overheating as well as the formation of asset bubbles in the Chinese economy have prompted the Chinese central bank to increase interest rates and to raise the reserve requirements on banks. These monetary interventions will no doubt weigh down on growth. In addition, rating agency Moody's has also recently voiced its concern about the rating outlook for Chinese banks as it believes that exposure to local government debt in China may be significantly understated.

The IMF's forecast for the Indian economy also points towards slower growth in economic activity in 2011. Economic growth in India is projected to be 8.2 and 7.8 per cent in 2011 and 2012 respectively.

Economic growth in Sub-Saharan Africa is forecast to be 5.5 per cent in 2011 and to continue increasing in 2012 to 5.9 per cent. Sub-Saharan Africa is the only region where the pace of economic expansion is expected to increase in both 2011 and 2012 as domestic demand remains strong and growth in exports (commodities in particular) as well as infrastructure spending continues.

### 2.2.3 World inflation outlook

The strong rise in commodity prices at the end of 2010/early 2011 had a detrimental impact not only on global GDP growth, but also pushed inflation higher. For example, in May 2011, the headline Organisation for Economic co-operation and Development (OECD) consumer price index (CPI) rose by just less than 3 per cent, the highest level since November 2008.

The acceleration in inflation over recent months has to a large degree been driven by higher fuel and food costs, i.e. factors that cannot directly be controlled by tightening monetary policy. If volatile food and oil costs are stripped from the headline CPI, underlying (or core) inflation has remained very low. Combined with the slow pace of economic recovery in many advanced economies, subdued rates of core inflation have provided the leeway for many developed country central banks to keep policy interest rates at the low levels that were necessary during the 2008/09 global financial crisis.

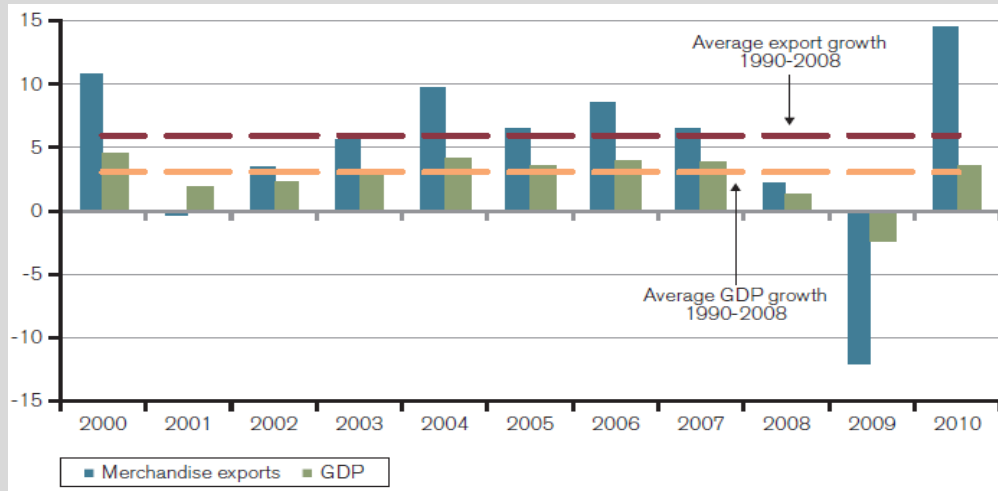
The IMF and many private sector forecasters, such as JP Morgan, project that after accelerating in 2011, consumer inflation in both advanced and emerging countries should moderate during 2012. An important assumption underpinning the view of less price pressure in 2012 is that commodity prices such as oil are unlikely to repeat the sharp gains experienced in the early stages of 2011. Recent uncertainty with respect to the strength of global economic growth should cap oil price gains. Given stronger GDP growth and the higher weighting attached to food prices in their consumer price baskets, the IMF expects inflation in emerging and developing countries (6.9 per cent and 5.6 per cent) on average to be significantly higher than for advanced economies (2.6 per cent and 1.7 per cent) for 2011 and 2012.

#### Trends in global trade

A sharp decline in global demand drove exports lower during 2009 and the recovery in international output, to some degree, supported the recovery in trade during 2010. Global exports grew at a phenomenal 14.5 per cent during 2010. This after world trade had dropped significantly in 2009, declining by 12 per cent from 2.2 per cent growth recorded in 2008. In essence, this returns the level of international exports to their 2008 levels (which was an all-time high). However, a number of factors still weighed on global trade during 2010. According to the World Trade Organisation (WTO) the following factors hampered export growth in 2010:

- Fiscal stimulus measures implemented in a number of countries (which saw the economic recovery take shape much sooner than it otherwise would have), came to an end. This effect was more pronounced towards the latter part of 2010.
- High commodity prices, oil in particular. The oil price hovered around US\$78/barrel - still quite high by historical standards. This resulted in much higher energy prices for households and businesses.
- Continued high levels of unemployment in especially developed economies limited income growth and also domestic demand in those countries.

**Figure 2.1 Growth in volume of world merchandise trade and GDP, 2000 - 2010 (Annual percentage change)**



Source: WTO Secretariat

The overall trade performance mirrored that of global economic developments as trade in developing countries outperformed that of their developed economy counterparts. Trade in developing countries increased by 14.5 per cent, compared to 12.9 per cent in developed countries. This, along with high commodity prices, saw the share of developing economies of world exports reach its highest ever level of 45 per cent.

According to the WTO, the growth in trade started 2010 very strongly but began tapering off slightly in second half of 2010 as news of sovereign debt problems in parts of Europe started surfacing. These problems have persisted in 2011, and will impact negatively on global demand, especially with similar concerns being raised in the US, the world's largest economy.

Source: World Trade Organisation, World Trade Report, July 2011

## 2.2.4 Risks to the global outlook

A number of risk factors as discussed below, can have an impact on the global economic outlook.

- The key risk factor remains the fiscal sustainability of the US and parts of Europe, which should weigh on growth in those economies directly and on the global economy indirectly. Fiscal austerity measures have already impacted negatively on GDP growth in the US. A leading global investment bank estimates that 1 per cent of US final demand growth was lost due to fiscal cutbacks at local, state and federal level during the first half of 2011. With the major fiscal austerity measures still to be implemented (mainly from 2013), this should remain negative for growth.
- The need for US fiscal consolidation has become more pronounced after Standard & Poor's downgrade of US debt following a political standoff between the Democrats and the Republicans, which led to an 11<sup>th</sup> hour decision to raise the US debt ceiling. This demonstrated the fragility and uncertainty regarding global economic growth.

- The European debt situation remains fundamental as Greece and others are forced to adhere to strict austerity measures in order to continuously access IMF/EU funding. Any significant spread of financing difficulties to larger economies such as France and Italy, even if only perceived by markets and leading to a sharp rise in bond yields, holds particular risk. Given the size of these countries' outstanding debt it may be difficult to reverse this situation.
- Also in the US, high unemployment remains a concern. The July US employment data showed that the economy created 117 000 new jobs, the strongest figure since April. However, unemployment still remains high at 9.1 per cent and remains a concern. An improved job market in countries like the US is crucial if private demand is to counter the expected negative government contribution in 2012/13 as US fiscal policy starts to tighten.
- The risks to emerging markets have also increased as some analysts fear a sharp growth easing in China. If realised, it would have a large negative impact on commodity producers such as South Africa. At the other end of the spectrum, the global economy remains at risk of a renewed oil price spike.

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

### **2.3.1 Performance of the South African economy**

Economic activity in South Africa (SA) registered growth of 2.8 per cent in 2010, following the decline of 1.7 per cent in 2009. In its June Quarterly Bulletin, the South African Reserve Bank (SARB) showed that the downswing in the SA business cycle, which included the 2008/09 recession, started in December 2007 and reached a lower turning point during August 2009. Overall, the downward phase of the business cycle lasted 21 months. This is in line with the average duration of business cycle downswings of just over 20 months in the post-World War II era. However, the economy has been in an upward business cycle phase since September 2009, i.e. 23 months, up to the end of July 2011. This means that the current upswing has already surpassed the duration of the most recent downswing.

GDP growth started strongly in 2010, with economic activity rising by 4.8 per cent in the first quarter of 2010. However, the middle part of the year saw a more modest pace of growth (around 2.8 per cent). The fourth quarter of 2010 again registered a robust rate of economic growth of 4.5 per cent.

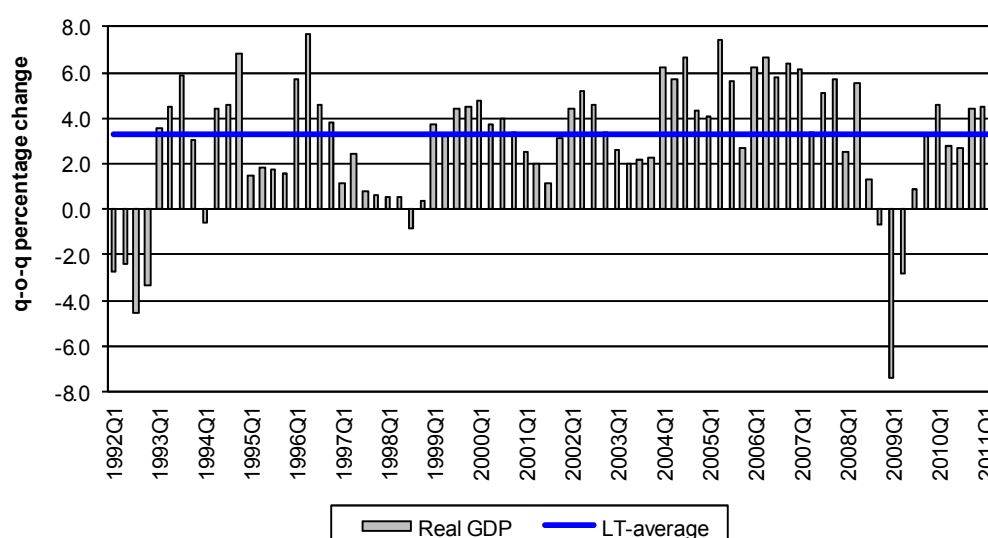


**Table 2.2 GDP growth per sector**

Sectoral breakdown of GDP: q-o-q seasonally adjusted annual rates					
	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2
Agriculture, forestry & fishing	13.6	16.3	12.5	-3.7	-7.8
Mining & quarrying	-24.5	33.7	17.1	-4	-4.2
Manufacturing	5.7	-4.9	4.1	14.5	-7
Electricity, gas and water	-1.7	-2.2	5.6	3.3	0.9
Construction	1	0.8	0.2	0	0.5
Wholesale-, retail-, motor trade and accommodation	6	3.3	3.5	4.4	4.1
Transport, storage and communication	4.5	3	4.2	3.6	4.1
Finance, real estate and business services	4	1.4	1.7	4.8	2.9
Community, social & personal services	4.6	0.5	5.7	1.8	5.7
General government services	3.6	3.1	3.3	2.7	2.8
<b>GDP at market prices</b>	<b>2.8</b>	<b>2.7</b>	<b>4.5</b>	<b>4.5</b>	<b>1.3</b>

Source: StatsSA

Overall, the biggest contributors to economic growth (Table 2.2) in South Africa during 2010 were manufacturing (contributing 0.7 percentage points), followed by the finance, real estate and business services as well as the government sectors (each contributing 0.4 percentage points). The wholesale, retail, motor trade and accommodation industry; the transport, storage and communication industry; as well as the mining and quarrying industry each contributed 0.3 of a percentage point.

**Figure 2.2 2011 first quarter GDP higher than the long term average**

Source: StatsSA

Following on the strong growth in the fourth quarter of 2010, the pace of economic expansion rose further in the first quarter of 2011, with economic growth of 4.5 per cent being recorded. This is significantly above the long-term average (Figure 2.2).

However, the domestic growth momentum weakened significantly during the second quarter of 2011. Statistics South Africa (StatsSA) reported that growth moderated to 1.3 per cent quarter-on-quarter (annualised). Compared with 2010, growth slowed to 3 per cent year-on-year in the second quarter of 2011 versus 3.5 per cent during the first quarter of 2011. As a result, the economy expanded by 3.3 per cent during the first six months of 2011 compared with 2.8 per cent for the 2010 calendar year.

The biggest positive contributors to growth during the second quarter of 2011 was the general government sector (weighting of almost 14 per cent in total GDP during the second quarter of 2011), which added 0.8 of a percentage point to overall growth. The other key growth drivers included finance (0.6 of a percentage point), trade (0.5 of a percentage point) and transport (0.4 per cent of a percentage point). Following a largely unexplained strong performance during the first quarter of 2011, growth in the financial sector slowed sharply to 2.9 per cent from almost 5 per cent during the first quarter of 2011.

The manufacturing sector, responsible for most of the growth during the first quarter of 2011, contracted by 7 per cent quarter-on-quarter *saar*, shaving off just over 1 percentage point from growth during the second quarter of 2011.

However, the nature of the SA economic recovery since the third quarter of 2009 has been very unbalanced. Overall, since the third quarter of 2009, the increase in consumer spending has contributed more than 80 per cent to the GDP growth, while the fixed investment recovery has been poor, also when viewed historically.

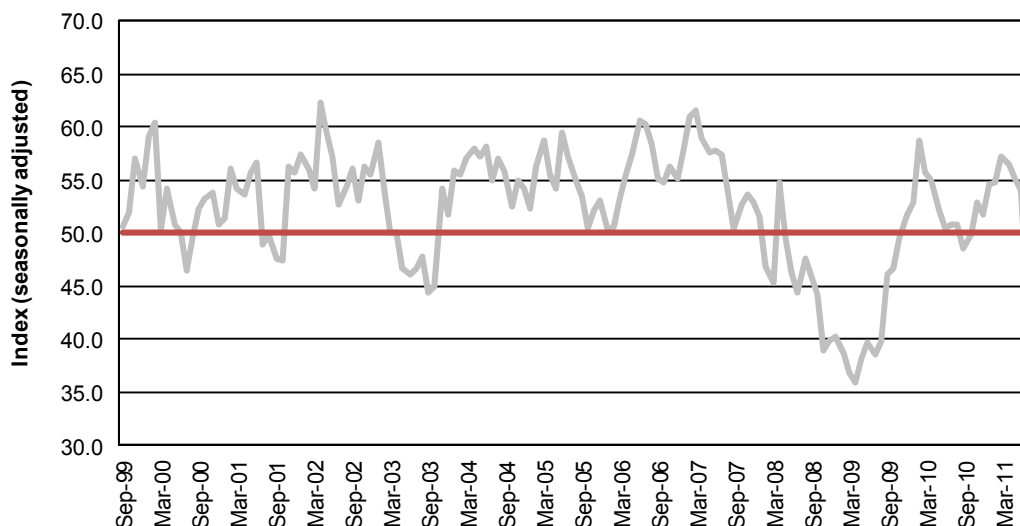
Recent data reveal a slight downturn in economic activity in the second quarter of 2011. According to StatsSA, retail sales in May recorded zero growth, following growth of 10 per cent in April. A large part of the retail spending in April can be attributed to the spate of public holidays during that time. Sales by retailers of household furniture, appliances and equipment managed to grow by 6.3 per cent in May, down from 12.7 per cent in April. Other sub-categories of retail sales which managed to record positive growth in May were: general dealers (4.0 per cent) and retailers in pharmaceutical and medical goods, cosmetics and toiletries (3.8 per cent). The other sub-categories all registered a year-on-year decline in sales with the largest drop recorded amongst retailers in hardware, paint and glass (-8.5 per cent).

Data on building activity in South Africa indicate that the sector remains under strain. According to StatsSA, the value of building plans passed grew at a very sluggish pace of 0.9 per cent during the period January to May 2011, compared to the same period in 2010. However, the data recording the value of buildings completed were even worse. Compared to January to May 2010, the value of buildings completed during the first five months of the year was 6.2 per cent lower. Although the slowdown in building activity was revealed to be in both the residential and non-residential sectors, the decline was much

more pronounced in the non-residential sector (-12.3 per cent) compared to the residential sector (-8.9 per cent). On the positive side, there has been a surge in activity relating to the additions and alterations segment with activity increasing by 5.4 per cent. This data also resonates with the second quarter 2011 First National Bank/Bureau for Economic Research (FNB/BER) building confidence index, which remained unchanged at a very low level of 24 index points. This suggests that the building sector continues to struggle.

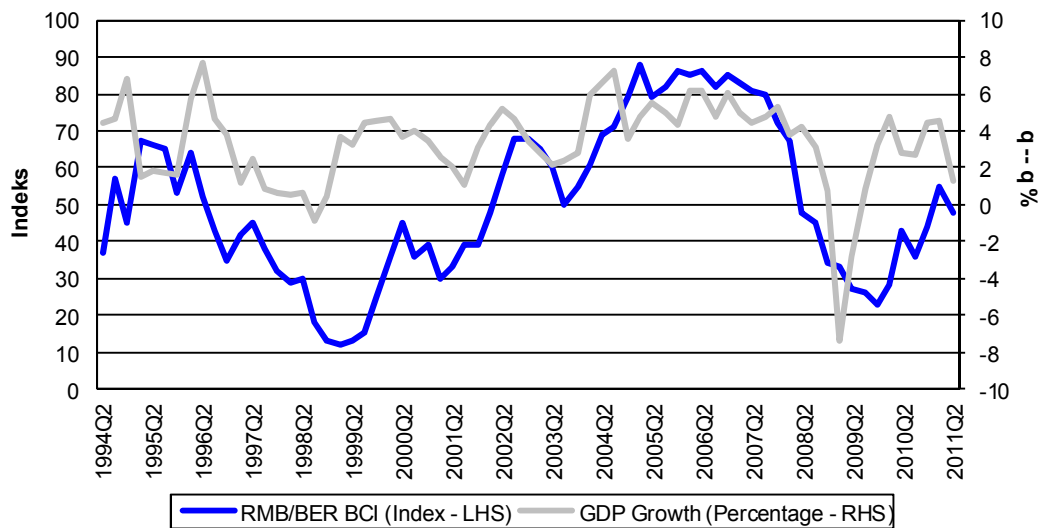
Manufacturing output for May and June 2011 posted a mild improvement, growing by 0.6 per cent, compared to 0.2 per cent in April. The slowdown in manufacturing output is expected to continue. The most recent reading of the Kagiso Purchasing Managers Index (PMI) for July (Figure 2.3) saw a sharp decline to below the neutral 50 index point level. A large part of the decline in sentiment stems from strike action which put a damper on production during July 2011.

**Figure 2.3 Kagiso Purchasing Managers Index (PMI) drops below 50**



Source: BER

The Rand Merchant Bank/Bureau for Economic Research (RMB/BER) business confidence index also registered a decline during the second quarter of 2011, dropping 7 index points from 55 to 48 (Figure 2.4). The business confidence index is a reliable leading indicator for economic growth and suggests an easing in economic activity in the second quarter of 2011, following the robust growth seen in the first quarter of 2011.

**Figure 2.4 RMB/BER Business Confidence Index**

Source: BER

### 2.3.2 Outlook for the South African economy

The actual data released for the second quarter of 2011, as discussed above, suggests that GDP growth in the second quarter of 2011 moderated from the robust 4.5 per cent recorded in the first quarter of 2011.

This is especially important in lieu of the fact that the manufacturing sector, both during 2010 and the first quarter of 2011, was a key contributor to overall economic growth. Furthermore, the July PMI points towards continued strain on manufacturing production beyond the second quarter of 2011.

The BER, at the end of June 2011, predicted GDP growth to reach 3.8 per cent in 2011, an improvement on the 2.8 per cent of 2010. GDP growth is expected to remain largely unchanged at 3.7 per cent in 2012. However, this means that the pace of economic growth in South Africa still remains lower than that recorded in the period just before the recession. As mentioned risks to the downside have become more pronounced given recent developments internationally, raising questions regarding global economic growth.

Table 2.3 below summarises the BER forecast, published in July 2011.

**Table 2.3 Forecast for selected SA variables (2011 - 2012)**

	2010	2011	2012
<b>Final Consumption Expenditure, Households</b>	<b>4.4</b>	<b>4.5</b>	<b>4.1</b>
Durable goods	24.0	12.1	5.1
Semi-durable goods	6.5	5.7	5.7
Non-durable goods	2.1	2.3	3.6
Services	1.9	4.3	3.9
<b>Gross Fixed Capital Formation</b>	<b>-3.7</b>	<b>2.3</b>	<b>4.1</b>
Private residential	-4.7	2.1	4.3
Private excluding residential	-4.4	3.5	5.7
Government	-10.9	-0.1	3.6
Public Corporations	3.5	0.9	0.7
<b>Exports of Goods and Services</b>	<b>4.5</b>	<b>5.0</b>	<b>5.5</b>
Non-gold exports	4.6	5.6	5.9
<b>Interest Rates (fourth quarter averages)</b>			
3 month BA rate	5.70	5.81	7.14
R157	7.24	7.85	8.42
R204	7.93	8.38	8.82
Prime overdraft rate	9.27	9.23	10.50
<b>Inflation (annual average %)</b>			
Producer prices	6.0	7.5	5.4
Consumer prices	4.3	5.2	5.9
Nominal wage rate	11.3	8.7	9.0
<b>Exchange Rates (fourth quarter averages)</b>			
R/US dollar	6.91	6.98	7.45
R/Euro	9.40	9.84	10.06
R/Pound sterling	10.92	11.17	11.66
Yen/R	11.94	12.11	11.66
<b>Gross Domestic Expenditure</b>	<b>4.2</b>	<b>4.9</b>	<b>4.4</b>
<b>Gross Domestic Product</b>	<b>2.8</b>	<b>3.8</b>	<b>3.7</b>
<b>Current Account Balance (R billion, seas. adj.)</b>	<b>-74.96</b>	<b>-96.89</b>	<b>-145.28</b>
<i>(as % of GDP)</i>	<i>-2.85</i>	<i>-3.30</i>	<i>-4.52</i>

Source: BER; July 2011

### Final household consumption expenditure

Consumer demand remained the most important driver of overall GDP growth during the first quarter of 2011, according to the June SARB Quarterly Bulletin. Real consumer spending increased by an impressive 5.2 per cent in the first quarter of 2011, up from 4.8 per cent quarter-on-quarter during the last quarter of 2010.

As was the case in 2010, real spending on durable goods such as passenger cars, furniture and household appliances recorded the strongest growth rate at 20.4 per cent in the first quarter of 2011 (Table 2.4). This category continues to be supported by the low prime interest rate, high consumer confidence, pent-up demand and a strong rand exchange rate. Rand strength is helping to keep durable goods prices at bay.

Real consumer spending on services, including rent, medical services, as well as transport and communication services, increased by 5.1 per cent in the first quarter. This was followed by real consumer spending on semi-durable goods (e.g. clothing and footwear) at 4.4 per cent in the same quarter. The growth in

the consumption of non-durable goods, consisting mainly of food and beverages, continued to lag the other spending categories and only increased by 1 per cent.

**Table 2.4 Growth in Real final consumption expenditure by households**

Component	2010					2011
	Q1	Q2	Q3	Q4	Year	Q1
Durable goods	13.7	28.8	29.1	24.6	24.0	20.4
Semi-durable goods	2.9	6.4	7.5	9.2	6.5	4.4
Non-durable goods	0.9	2.1	2.4	3.1	2.1	1.0
Services	1.1	1.8	3.0	1.8	1.9	5.1
<b>Total</b>	<b>2.3</b>	<b>4.7</b>	<b>5.5</b>	<b>5.1</b>	<b>4.4</b>	<b>5.0</b>

Source: SARB

The BER's latest retail survey results suggest that, following a bumper 2010 festive season and a solid performance during the first quarter of 2011, the growth in retail sales volumes tapered off slightly during the second quarter of 2011. The BER projects a deceleration in the growth of real consumer spending during the second half of 2011, following a strong rebound in durable and semi-durable goods sales in 2010 and the first half of 2011. Renewed demand as a result of low interest rates, a strong rand, high consumer confidence and very high real wage increases saw a better than expected bounce back in semi-durable and in durable goods sales volumes in particular. Given the BER projection of lower real wage increases during 2011 and no further interest rate reductions, combined with last year's high base, the BER expects the growth in durable and semi-durable goods to slow somewhat during the second quarter of 2011. Furthermore, the BER's projection for a muted recovery in employment growth, coupled with slower growth in real wages, unrelenting increases in petrol and electricity prices and increasing food inflation, all suggest that the growth in real consumer spending on non-durable goods will continue to underperform.

In all, total real household consumption expenditure is expected to rise by 4.5 per cent during 2011. The growth in household consumption expenditure is forecast to moderate closer to 4 per cent in 2012.

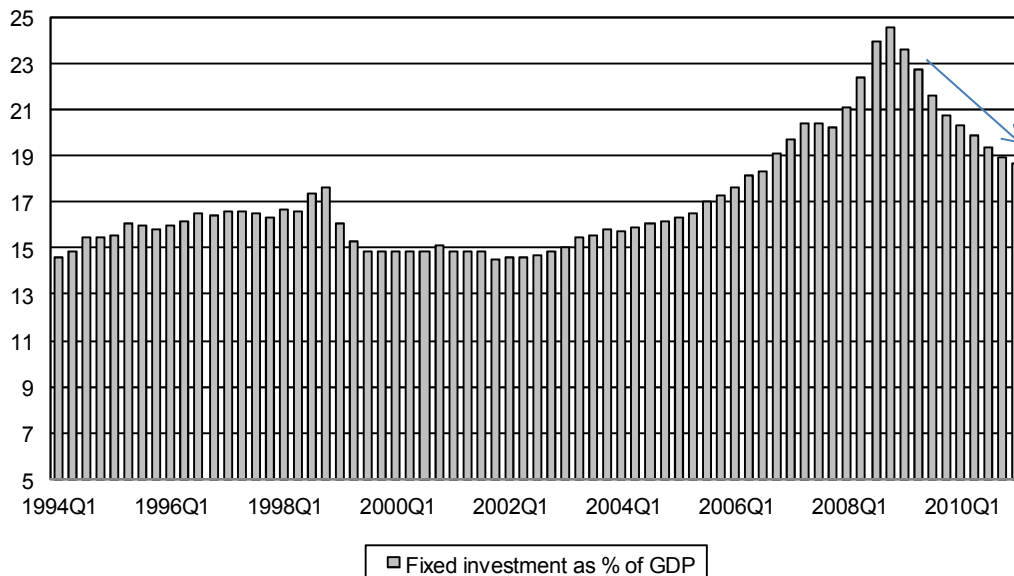
### Gross fixed capital formation

Real fixed investment activity accelerated during the first quarter of 2011 as private business enterprise and public corporations increased outlays, while the decline in general government fixed investment continued to moderate. Overall fixed investment increased by 3.1 per cent, up from 1.5 per cent in the fourth quarter of 2010, with the year-on-year rate accelerating to 1.7 per cent from only 0.2 per cent in the final quarter of 2010.

Although fixed investment activity has picked up momentum, it remains well below the overall economic growth rate. As a result, fixed investment as a percentage of GDP continued to decline in the first quarter of 2011 to 18.7 per cent, down almost 6 percentage points from the peak of 24.6 per cent

reached in the fourth quarter of 2008 (Figure 2.5). The protracted fixed investment recovery is corroborated by the trend in domestic cement sales. According to the SA Cement and Concrete Institute, sales in the first six months of 2011 were unchanged compared to the corresponding period in 2010. The data for the second quarter of 2011 paint a more optimistic picture, being higher by 3.1 per cent after declining for every quarter since the first quarter of 2008.

**Figure 2.5 Fixed investment to GDP ratio deteriorates**



Source: SARB

In terms of the three main fixed investment components, public corporations such as Eskom and Transnet were the strongest performers in the first quarter of 2011. Public corporation fixed investment outlays increased by 6.6 per cent in that quarter. According to the SARB, Eskom's investment in machinery and equipment was boosted by ongoing projects such as the construction of the Medupi, Kusile and Ingula power stations. Eskom's numbers may look less impressive in the second quarter of 2011, following a worker strike at Medupi in May over the use of foreign contract workers.

Fixed investment by Transnet was boosted by the construction of a multi-products fuel pipeline between Durban and Johannesburg, as well as purchases of locomotives as part of the utility's fleet renewal plan. The first quarter of 2011 figures were much stronger than expected.

Total private sector fixed investment recorded a fourth consecutive quarter of growth in the first quarter of 2011, rising by 2.7 per cent. A number of sectors contributed to the rise, including agriculture, mining, transport and communication. Farmers increased investment outlays on agricultural equipment amid improved prospects for agricultural product prices, while the strong rand kept equipment prices at bay. Increased mining investment was

mainly in the form of truck purchases as companies geared up for rising production and shipment of commodities such as coal, chromium and iron ore.

With countries like China expected to continue their fast pace of growth, the price of and demand for commodities should remain firm in the foreseeable future. This should ensure that mining fixed investment remains lively over the forecast period. Judged by the BER's 2011 second quarter manufacturing business survey, the outlook for factory sector capital outlays is less rosy. A net majority of only 1 per cent of the BER's respondents in the manufacturing sector indicated plans to increase investment in machinery and equipment in 12 months time.

Government capital outlays remain the weakest part of the fixed investment story. Government capital investment declined by 2.7 per cent year-on-year in the first quarter of 2011 after having plunged by around 11 per cent during 2010. Importantly, the year-on-year rate of decline continued to moderate. In the first quarter of 2011, this category was a substantial 15 per cent lower compared to the same quarter in 2009. The Quarterly Bulletin of the SARB notes that spending on housing and water treatment facilities and outlays related to the near-completion of the Gautrain rail project provided some impetus to the numbers.

Based on the forecast for the key fixed investment categories, overall real fixed investment growth is projected to increase by 2.3 per cent and 4.1 per cent during 2011 and 2012 respectively, with private sector investment and investment from public corporations being the main drivers.

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

After averaging R7/\$ in the first quarter of 2011, the rand-dollar (R/\$) exchange rate strengthened to an average of R6.77/\$ during the second quarter of 2011. The currency also remained firm against a basket of currencies of SA's major trading partners in the second quarter of 2011. The rand continued to be supported by a robust foreign appetite for investing in SA bonds and equities. Following a rocky start to the year, since mid-March foreigners have invested R55 billion in South African stocks and bonds. About 90 per cent of the foreign inflows went to bond purchases, reflecting SA's superior debt dynamics, especially when compared with many developed and southern-European countries. In all likelihood the sustained low interest rates in the advanced markets also continued to push carry trade flows to emerging markets, including SA.<sup>6</sup>

<sup>6</sup> Carry trade refers to the flow of funds in financial markets with the intention of benefiting from higher interest rates in the destination market rather than in the home market.



The currency has also been boosted by a relatively weak US dollar, robust commodity prices and indications of more sustained foreign direct investment flows. The finalisation of the Walmart/Massmart deal resulted in another R16 billion flowing into SA. However, the SARB absorbed half of this inflow by increasing its foreign exchange reserves.

The robust performance continued in the early stages of the third quarter of 2011. But amid the recent increase in global risk aversion spurred by the US debt downgrade, the rand weakened well above R7/\$. These latest events have once again illustrated the rand's vulnerability to external shocks. At this stage it is unclear how sustained the increased market volatility will be. Although the R/\$ exchange rate is forecast to average close to R7/\$ during the fourth quarter of 2011 (with more pronounced weakness expected for 2012), the BER has warned that the concerns regarding the European sovereign debt situation, weak US GDP growth recovery and the potential for a sharp Chinese growth easing, could see the rand weaken sharply at any time. There are however factors supporting the rand, in particular the fact that advanced economies' central banks are likely to keep interest rates lower for even longer than initially expected.

With economic growth in key SA export markets such as Europe and China set to slowdown in 2011, export growth is projected to remain weak. However, recovering consumer spending and an improved fixed investment outlook in 2012 should result in higher imports. The trade balance is therefore expected to deteriorate over the next 12 to 24 months. Improved JSE listed company earnings mean that foreign dividend and interest payments should also increase, resulting in a projected worsening of the current account deficit from 2.9 per cent of GDP in 2010 to 3.3 per cent and 4.5 per cent respectively during 2011 and 2012. Downside risks to global economic growth also imply that export growth may be slower, and that imports may be less as the recovery in fixed investment remains sluggish.

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

Consumer inflation continued to accelerate in the first half of 2011, reaching 5 per cent in June. This is 1.8 per cent higher than the low of 3.2 per cent reached in September 2010. Core inflation, which excludes the impact of volatile food and petrol prices as well as electricity costs, increased to 3.5 per cent in June 2011 compared to 3.2 per cent September 2010.

Table 2.5 provides an overview of the contribution of the major CPI categories to the annual increase in headline inflation. As was the case three months ago, the contribution of most of the key categories remained largely unchanged between the low point of CPI in September 2010 and May 2011. The two notable exceptions are food and transport, which have mainly been responsible for the inflation increase. This is in line with the global trend explained earlier and reflects the impact of the earlier strong gains for international food and oil prices.

**Table 2.5 Biggest contributors to inflation**

Product group	Contribution (% points)	
	Sep-10	Jun-11
<b>Food and NAB*</b>	<b>0.2</b>	<b>1.1</b>
Alcoholic bev & tobacco	0.4	0.4
Housing and utilities	1.5	1.6
Health	0.1	0.1
<b>Transport</b>	<b>0.0</b>	<b>0.9</b>
Education	0.2	0.2
Restaurants & hotels	0.2	0.0
Miscellaneous	0.7	0.6
All items	<b>3.2</b>	<b>5.0</b>

\* Non-alcoholic beverages

Source: StatsSA

Another classification that clearly illustrates the impact of food and fuel costs is to compare the inflation rates for durable, semi-durable and non-durable goods. The positive price impact of sustained rand strength is most visible in durable goods' pricing. The price of durable goods such as vehicles, as well as furniture and equipment, continued to decline by 2.7 per cent in June.

The strength of the rand is also helping to keep semi-durable goods prices (mainly clothing and footwear) at bay, albeit that this inflation rate moved from -0.4 per cent in September 2010 to 1.8 per cent during June 2011. For this category, the positive exchange rate impact has been diluted by very high international cotton prices and rising Chinese inflation. Significant amounts of domestically sold apparel are imported from China. Since September 2010 non-durable goods, which include food and petrol costs, have been most impacted by rising price pressure. Non-durable inflation increased from 3.7 per cent in September 2010 to 8.5 per cent during June.

In all, overall goods inflation rose from 1.5 per cent to 4.9 per cent over the corresponding period. Services prices in June rose by 5.2 per cent, the same as in September 2010.

Looking ahead, CPI is projected to average 5.2 per cent and 5.9 per cent respectively during 2011 and 2012. The expected CPI trajectory is also more pessimistic with the CPI forecast to peak at a higher average of 6.5 per cent during the fourth quarter of 2011 and the first quarter of 2012, before easing to an average of 6 per cent in the second quarter of 2012 and 5.5 per cent in the final quarter of 2012.

The repo rate has remained unchanged at 5.5 per cent since November 2010 with the prime rate stable at a multi-decade low of 9 per cent. The SARB kept the repo rate unchanged following the January, March, May and July 2011 Monetary Policy Committee (MPC) meetings despite continuous upward adjustments to the central bank's headline CPI forecast. The SARB expects inflation to breach the upper end of the target in the final quarter of 2011 and

to average 6.3 per cent in the first quarter of 2012, before moderating for the remainder of the year.

Despite inflation forecast to move beyond the 6 per cent upper limit of the target band, a number of factors have been noted by the SARB Governor, Gill Marcus, as to why interest rates have not yet been increased. These include the unbalanced nature of SA's growth recovery, the weak state of the domestic job market and continued concern about the outlook for the world economy. The SARB also notes that underlying inflation trends remain moderate.

The BER's projection is that underlying inflation will reach in excess of 5 per cent by mid-2012 and remain around 5 per cent through 2012, two percentage points above current levels. The projected rise in core inflation is the major factor explaining the BER call for normalisation of the repo rate, starting with a 50 basis points increase in November. The BER has since shifted out their expectation regarding the timing of the first interest rate hike to the first quarter of 2012, as global uncertainties prevail.

### **2.3.5 Risks to the outlook**

The most important risks to the SA economy remain external with the major global risk factors heavily influencing the outlook for the South African economy. The regions of the world most in danger (Europe, the US and potentially Asia) are SA's most important trading partners. A sharp growth moderation in Asia or a double-dip recession in Europe and/or the US will have a detrimental impact on SA's export performance.

- Recent developments have illustrated the volatility of the rand. Severe problems in Europe, the US or China as mentioned earlier, also have the potential to increase global risk aversion, resulting in a potential sharp outflow of portfolio capital from SA and a large decline in the value of the rand. As was the case during the global financial crisis of 2008/09, the risks to SA are both on the trade and capital flow side.
- Continued global uncertainties will also have an impact on the employment and investment decisions of local business. This may also exacerbate market jitters and impact on confidence. SA executives (and the country) may suffer a similar fate. Moreover, employment decisions are being made in an environment of above inflation wage demands.

## 2.4 Developments in the Western Cape economy

### 2.4.1 Performance of the Western Cape economy

Turning to the economic performance of the Western Cape economy, economic activity in the Western Cape declined by 1.4 per cent in 2009, which was slightly lower than the 1.5 per cent contraction registered by the national economy (at basic prices).

Regional GDP in the Western Cape grew at an average of 4.3 per cent per annum for the period 2005 - 2009<sup>7</sup>. However, this average was pulled down by the 1.4 per cent contraction in economic activity registered in 2009. The sectors (Table 2.6) which recorded the fastest growth in economic activity (on average) over the 5-year period were: construction (10.5 per cent); finance, insurance, real estate and business services (6.0 per cent); and transport, storage and communication (4.6 per cent). Economic activity in the latter two sectors slowed to below 1 per cent in 2009 at the time of the economic recession.

**Table 2.6 Western Cape GDP per sector: 2005 – 2010**

Description	2005	2006	2007	2008	2009	2010e	5-year average growth (2005 – 2009)	% contribution to GDP, 2009
Agriculture, forestry & fishing	5.9	-5.7	1.6	17.7	-5.5	0.7	2.8	4.0
Mining & quarrying	5.2	-5.6	0.9	-7.1	0.5	-8.8	-1.2	0.2
Manufacturing	5.3	6.3	5.2	2.1	-8.9	3.9	2	16.9
Electricity, gas & water	6.0	2.0	2.4	-3.8	0.5	3.2	1.4	1.5
Construction	12.3	10.7	15.1	8.2	6.1	1.6	10.5	4.7
Wholesale & retail trade, catering & accommodation	9.2	5.2	5.4	0.1	-2.8	2.6	3.4	14.6
Transport, storage & communication	9.0	4.2	7.0	2.3	0.7	3.0	4.6	10.1
Finance, insurance, real estate & business services	4.4	9.4	8.2	7.5	0.5	1.9	6.0	32.5
Community, social & personal services	4.3	4.3	5.4	4.1	-0.5	0.6	3.5	5.3
General government	3.9	2.6	4.0	4.2	3.9	2.4	3.7	10.1
<b>Total</b>	<b>6.1</b>	<b>5.9</b>	<b>6.4</b>	<b>4.5</b>	<b>-1.4</b>	<b>2.4</b>	<b>4.3</b>	<b>100.0</b>

Source: StatsSA/Quantec e = estimate

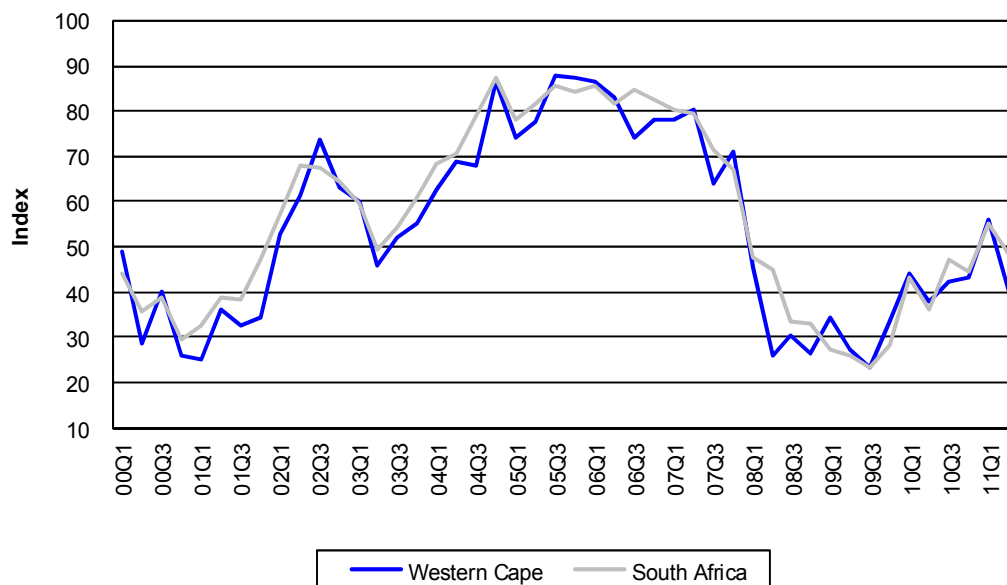
The structure of the Western Cape economy remains more services driven than the national economy. This characteristic of the region's economy is emphasised and further analysed in Chapter 3.

<sup>7</sup> Regional GDP for 2010 is still an estimate.

The drivers of SA economic growth in 2010 suggest that the Western Cape is likely to have grown at a slower pace than the national economy in 2010. This is in part explained by the relatively small contribution of the mining sector in the Western Cape but also by the base effects. The contraction in economic activity registered by the regional economy in 2009 was less pronounced than that for South Africa; therefore the “bounce back” is likely to be more pronounced in South Africa than in the Western Cape. The Western Cape economy is estimated to have expanded by 2.4 per cent in 2010, less than the 2.8 per cent recorded nationally.

Recent economic data for the Western Cape seem to show growth more or less in line with the national economy. Western Cape business confidence for example declined during the second quarter of 2011, in line with national business confidence (Figure 2.6). However, the decline from an index value of 56 in the first quarter of 2011, to 41 in the second quarter of 2011 (15 points), was more pronounced than that recorded for the national economy (from 55 to 48 index points). The decline in business confidence in the Western Cape (as with the national economy) suggests that the pace of economic expansion is likely to moderate in the second quarter of the year, like that of the national economy.

**Figure 2.6 Western Cape vs SA business confidence**



Source: BER

## 2.4.2 Outlook for the Western Cape economy

Quantec/BER expects Western Cape GDP at basic prices to accelerate to 3.9 per cent, from the 2.4 per cent estimated for 2010 (Table 2.7). The pace of economic growth is expected to pick up towards 2012, before peaking at 4.3 per cent in 2014 and 2015. Overall, economic growth in the Western Cape is expected to average 4.2 per cent per annum over the five year forecast period. Growth over the period is mainly expected to be driven by the services sector which is forecast to perform well with domestic demand expected to remain buoyant. Economic growth in the Western Cape is expected to exceed that of the national economy as of 2011 and for the duration of the forecast period. However, the magnitude of the “over-performance” in the Western Cape is likely to be less than in the period preceding the recession.

**Table 2.7 Economic outlook for the Western Cape (%) real growth in GDP, 2010 - 2015**

Description	2011f	2012f	2013f	2014f	2015f	5 year average growth
Agriculture, forestry & fishing	3.1	2.0	2.7	3.3	3.5	2.9
Mining & quarrying	4.4	1.0	0.9	1.1	1.1	1.7
Manufacturing	3.5	3.5	3.5	3.6	3.4	3.5
Electricity, gas & water	1.3	3.3	3.2	3.3	3.2	2.9
Construction	2.1	5.0	6.2	6.5	6.7	5.3
Wholesale & retail trade, catering & accommodation	4.2	3.7	4.1	4.0	4.0	4.0
Transport, storage & communication	5.3	5.4	5.8	5.8	5.5	5.6
Finance, insurance, real estate & business services	4.5	5.0	4.8	5.1	5.2	4.9
Community, social & personal services	3.2	2.8	3.0	3.0	3.1	3.0
General government	2.2	2.3	2.4	2.0	2.0	2.2
<b>Total</b>	<b>3.9</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>

Source: BER/Quantec (f=forecast)

## 2.4.3 Risk to the regional outlook

The risks to the regional outlook are similar to those present on a national and international level. However, the Western Cape may be disproportionately affected by the slowdown in demand in the US and Europe as these are prominent export destinations for Western Cape export producers. Employment growth remains very low and could hamper demand and thereby growth, especially in the Western Cape which is more services orientated.

## 2.5 Conclusion

Global economic growth continued at a reasonable pace in the first quarter of 2011. However, a number of special factors are likely to have weighed on the growth momentum in the second quarter of 2011. Regarding the global outlook, downside risks posed by sovereign debt concerns in the US and Europe coupled with policy intervention in emerging markets have become more pronounced. These concerns have clouded the global outlook tremendously.

On the national front, economic growth in the second quarter of 2011 is likely to have eased following the 4.5 per cent recorded in the first quarter of 2011. Early indications are that growth will remain under pressure for the remainder of the year given volatile and uncertain global conditions. The BER forecasts growth of 3.8 per cent and 3.7 per cent for 2011 and 2012 respectively, but risks are clearly on the downside given global economic developments.

On a regional level, the Western Cape economy is also expected to grow at an annual rate of 3.9 per cent in 2011. Growth in the Western Cape is largely dependent on developments within sectors such as the agriculture value chain, finance, insurance, real estate and business services, manufacturing in general and wholesale and retail trade, catering and accommodation. The sector composition of growth in the Western Cape and the outlook for the different sectors are discussed in greater detail in Chapter 3. The Western Cape is exposed to uncertain global economic dynamics, especially from an export perspective. This theme will be explored in the next chapter.

# Annexure A

## Generating industry sector forecasts for the Western Cape economy

The methodology applied to generate regional forecasts at the sector level consists of three modelling processes, namely:

1. Firstly, a comprehensive macro-econometric forecast of the expenditure side of the national economy was compiled using the BER's macro-econometric model for the SA economy.
2. Secondly, in order to generate supply-side projections, the BER relied on the input-output analysis conducted by Quantec Research. Quantec maintains a RSA Inter-Industry Input-Output model, which is driven by the expenditure (demand-side) macro forecast and links into the regional input-output model.
3. The third leg of the modeling process, involved the Quantec Western Cape Input-Output model.

A brief description of these three models is provided below.

**BER macro-econometric model.** The BER's model contains 135 equations, of which 30 are econometrically estimated equations and 105 are identities and transformations. The latest version of the E-views econometric package, E-Views 7, was employed to estimate the equations and to compile the model. Co-integration techniques were used to estimate the majority of the behavioural equations in the BER's model. These techniques, which are currently used by, inter alia, the SA Reserve Bank and the SA National Treasury to construct macro-econometric models, have several advantages compared to the standard techniques such as Ordinary Least Squares (OLS).

**Quantec RSA Inter-Industry model.** For the purposes of the current project, Quantec utilised an input-output based inter-industry model of the South African economy consisting of 22 industries that can be incorporated recursively into the BER's macro-economic forecasting model. This equation block, a scaled down version of a fully-fledged industry model, utilises the final demand forecast from the BER's macro-economic forecast to estimate economic activity in the various industries to satisfy a specific macro-economic outcome. Behavioural equations in this model are estimated as functions of sector-specific variables. The model is dynamic, with changing



input-output coefficients and with investment dependent upon the rate of output growth. The model forecast a specific sequence of future years, not equilibrium at some future point without specifying the path to the equilibrium. The causation in this specific industry block (as modified for this project) runs from the macro-economic demand totals (as derived from the BER macro-economic model simulations) to the industry detail. The central input-output identities provide structural consistency to the model. The industry block is able to estimate real economic activity and employment by industry; the model output results include: intermediate or inter-industry purchase/inputs; employment by skill level (highly skilled, skilled, semi- and unskilled); labour remuneration; value added (GDP); gross operating surplus; net operating surplus; depreciation charges by asset type (building & construction works, machinery & equipment, transport equipment); gross domestic fixed investment by asset type (building & construction works, machinery & equipment, transport equipment); and capital stock by asset type (building & construction works, machinery & equipment, transport equipment); imports and exports. The industry classification follows the 22 sectors/industries (2-digit Standard Industrial Classification (SIC) scheme) reported by Statistics South Africa. Historical data are available since 1970 at the national level for estimation purposes. The forecasting horizon is typically 5-years although forecasting up to 15-years is possible.

**Quantec Western Cape Input-Output model.** Within South Africa, no official regional input-output tables are compiled. Quantec Research uses non-survey-based methods for regional input-output table development that rely on the national level input-output tables published by Statistics South Africa (StatsSA). The key methodological issue facing any private developer is the limited data availability on specifically inter-regional trade flows to construct regional input-output tables. Currently the non-trade flow data sources for regional input-output development in South Africa include:

- StatsSA labour, financial and production (industry level) data that includes regional information;
- StatsSA financial and non-financial data on municipalities and provinces;
- StatsSA financial data on general government;
- StatsSA household income and expenditure surveys;
- StatsSA population censuses and community surveys;
- South African Revenue Service (SARS) international trade data by origin and destination; and
- Quantec Research standardised regional indicator database.

This report applies a methodology based on a variation of the simple location quotient technique that allows interregional input-output tables to be derived, one for each region, that is: the Western Cape and the rest of South Africa. Location quotients and open and closed multipliers are calculated for 22 production activities (industries). Quantec maintains a comprehensive collection of derived electronic regional socio-economic databases based on StatsSA and SARB primary statistics. These databases facilitates the generation of structured and systematic regional input-output tables greatly. The methodology followed to produce the regional input-output tables for the Western Cape consists of three phases, namely:

- Updating the national South African table to the latest year for which national accounting data is available;
- Regionalisation of the national table into a two region table consisting of the primary region and the rest of South Africa. This is a technical process involving, amongst other, the calculation of non-competitive imports; the calculation of competitive imports; industry aggregation; table balancing; and the inclusion of any superior data and knowledge; and
- Generating the final four quadrant regional table (see Table A1) and calculating the direct and inverse coefficient matrices, multipliers and other economic indicators.

**Table A1 Schematic layout of a two region input-output table**

Output Input		Intermediates		Final demand		Total output
		Region	Rest of RSA	Region	Rest of RSA	
Intermediates	Region	Intraregional intermediates	Interregional exports of intermediates	Locally supplied final demand	Interregional exports of final demand	Output of region
	Rest of RSA	Interregional imports of intermediates	Intraregional intermediates	Interregional imports of final demand	Locally supplied final demand	Output of rest of RSA
Value added	Region	GVA; net indirect taxes; international import		Net indirect taxes; international import		GVA; net indirect taxes; international import in region
	Rest of RSA		GVA; net indirect taxes; international import		Net indirect taxes; international import	GVA; net indirect taxes; international import in the rest of RSA
Total input		Input of region	Input of rest of RSA	Final demand of region	Final demand of rest of RSA	

The industry-by-industry regional tables used for this study (see Table A1) were produced at the following sector aggregations:

- 2 regions, one for the Western Cape and one for the rest of South Africa;
- 22 industries;
- Final demand by 22 industries for household consumption expenditure, government consumption expenditure, capital formation, changes in inventories and exports;
- Value added by 22 industries consisting of labour remuneration, net operating surplus, consumption of capital, indirect taxes on goods and services and subsidies on goods and services; and
- Imports by 22 industries and final demand component.



# 3

## Development of the Western Cape economic sectors

### Key Findings

- The Western Cape economy performed relatively better than the national economy, growing by 4.3 per cent per annum versus 3.6 per cent per annum during the period 2000 to 2009.
- The rapid development of service industries has been particularly pronounced in the Western Cape and the large contribution of wholesale and retail trade, finance and insurance and business services is a notable characteristic of the region's economy.
- Whereas the real economy expanded by close to 45 per cent between 2001 and 2010, the regional workforce only grew by close to 16 per cent over this period, which can be interpreted as a structural imbalance in the Western Cape economy.
- Looking ahead, the Province is facing a difficult global economic environment and its leading growth industry, i.e. financial services, is unlikely to repeat the spectacular growth of the 2000s.
- Western Cape real export growth averaged 5.7 per cent per annum over the period 1995 to 2010, substantially faster than the 2.5 per cent annual growth achieved in the rest of South Africa. Within this period export growth contracted sharply during 2009 in the wake of the global financial crisis and subsequent recession.
- Agriculture and its associated processing industries are by far the largest contributor to Western Cape exports.
- The rising living standards and food scarcities in populous and fast-growing countries such as China and India present interesting opportunities for agricultural exports to grow.
- Support for the agriculture value chain must be maintained and even expanded but it is also necessary to recognise the urgent need to diversify the export base of the Western Cape by growing exports of tradable services and manufactures.

- Other sectors that make a sizable contribution to the region's exports include, in sequence of their contribution size: metals, metal products and machinery; petro-chemicals, rubber and plastic; finance, insurance and business services; and transport and communication.
- Exports expose an economy to international contagion, but there can be little doubt that export-oriented development remains the appropriate route for a developing country and for regions within the country to take in search of welfare enhancing growth.
- In considering the capacity for export policies at the level of a provincial government the emphasis falls on supply side intervention, for example, encouraging and facilitating investment in human capital and investment in and maintenance of infrastructure.

### **3.1 Introduction**

Chapter 2 highlighted the uncertain path of the global economic recovery following the financial crisis and subsequent "Great" recession of 2008/09. The high debt levels and faltering economic recoveries in the Western advanced economies are of particular concern. While the rapid recoveries and sustained robust growth in the BRIC economies (Brazil, Russia, India and China) present new market opportunities, they are fuelling a commodity super-cycle, implying increased demand for South Africa's commodity exports and higher commodity prices as well as leading to currency overvaluation in commodity producing economies like South Africa (SA).

This 'two-speed' global economic recovery and the commodity boom presents a formidable challenge to the Western Cape, a region that is not endowed with mineral resources. Furthermore, Western Cape industry has to contend with an overvalued (and volatile) exchange rate, high raw material prices and having the struggling Western economies as its traditional trading partners. These circumstances create a difficult environment for provincial government policy development aimed at revitalising the growth of the regional manufacturing sector as a means of tackling unemployment and poverty.

Against this background, the current chapter reviews the sector growth patterns and outlook and the prospects of the Province for accelerated economic growth. In the 2010 Provincial Economic Review and Outlook (PERO) the sector review was supplemented with an analysis of the structural change in the provincial economy and of the policy space that a provincial government has in influencing the rate and nature of economic development. An important theme of the 2010 PERO was the importance of diversified growth for the Province and the underlying argument was that a substantial part of this growth will have to find its origin in production for the export market.

The latter two special themes are expanded in the 2011 PERO. The policy space of second tier government is discussed with an emphasis on the need to build export capacity in the Western Cape, following a review of sector growth patterns and sector export performance. The chapter concludes that the Provincial Government has the capacity to grow the export potential of the region.

The chapter addresses a number of main themes: first, the focus falls on the economic structure and growth of the Western Cape economy, highlighting an imbalance between output and employment growth. This is followed by sections discussing the performance of sectors, the rationale of pursuing export-oriented growth, export performance and outlook, and finally a section that briefly addresses policy issues for the Provincial Government.

### **3.2 Economic structure, sector growth and structural imbalances**

Before the recent recession South Africa (SA) experienced a record long economic expansion, lasting from the end of 1999 to 2007. During the second identifiable phase of SA's record expansion (i.e. 2004 – 2007)<sup>1</sup>, both the Western Cape and the national economy achieved high real economic growth. Real GDP growth averaged 6.1 per cent in the Western Cape over this period and 5.2 per cent per annum for the national economy. However, as pointed out in the second Industrial Policy Action Plan (IPAP2) the high growth masks two notable problems:

- While the growth was high by historical standards for SA, it still lagged that of SA's peer middle-and low income developing countries; and
- Unsustainable high rates of credit extension was an important driver of the growth in consumption driven services industries, such as finance, insurance and real estate, transport, storage and communication and wholesale, retail, catering and accommodation. These sectors created the jobs, which tended to be skill-intensive whilst the low- and semi-skilled intensive productive sectors of the economy (such as manufacturing, construction and agriculture) grew at low rates and barely added to their workforces, if at all. The outcome was a high current account deficit (averaging 7 per cent of GDP in 2007) and unemployment not falling below 22.8 per cent despite 5 per cent annual growth between 2005 and 2007 (IPAP2, 2010: 4).

<sup>1</sup> See Venter, JC, 2009.

The rapid development of service industries has been particularly pronounced in the Western Cape. In the 2010 PERO the review of structural change in the Western Cape economy revealed the dominance of services (the tertiary sector, notably finance and insurance and business services) and in the goods-producing sector, the agricultural value chain (including primary production, food processing and beverages) in the regional economy. Given these changes the question arises: does this development pattern lead to a mismatch and structural imbalance in the economy, particularly as far as production and employment creation are concerned?

The Important facets and implications of structural change in the provincial economy are summarised in Figures 3.1 and 3.2 and in Table 3.1. Figure 3.1 portrays the fast growth of a number of leading services industries and construction sector. The construction sector more than doubled over the period 2000 to 2010; finance, insurance, business services and real estate grew by more than 80 per cent; transport, storage and communication by more than 60 per cent, which were all well above the average 50 per cent expansion of the region's economy. A closer look at the contribution to gross value added of sub-sectors (Table 3.1, first column) reveals the service orientation of the Western Cape economy, with the services in aggregate responsible for 72.5 per cent to the region's GDP. Within this broad category, there is a dominance of trade, finance and insurance and business services. Looking at growth within the sectors, the fastest growth has also been experienced by service industries, with communications experiencing an average annual growth of 9.8 per cent during 1995 - 2010 and finance and insurance 8 per cent. The latter two sectors maintained their growth performance from 2009 to 2010, with communication growing at 4.5 per cent and finance and insurance at 1.2 per cent<sup>2</sup>.

In the commodity-producing segment of the economy, construction recorded high average growth of 6.5 per cent during 1995 - 2010, but this growth has fallen sharply to 1.6 per cent from 2009 to 2010. However, in spite of its fast long term growth, construction remains significantly smaller than the major service producers; it shares the top position in the commodity sector with food, beverages and tobacco. As far as recent growth in the commodity sectors is concerned, the fast growth between 2009 and 2010 of metal and metal products (10.1 per cent), transport equipment (4.1 per cent) and furniture (11.8 per cent) should be noted.

<sup>2</sup> The source of these and the following growth figures is Quantec Research.



**Table 3.1 Western Cape Production: distribution by SIC sector (% of Gross Value Added) in 2010 and relative to RSA (Location Quotients) in 1995 and 2010 (constant 2005 prices)**

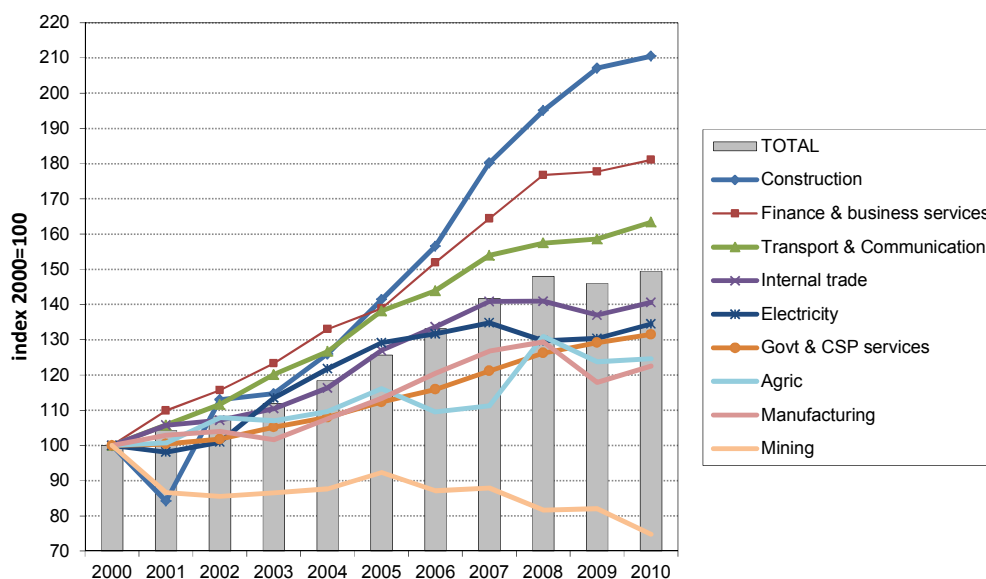
	% GVA	LC 1995	LC 2010
Agriculture, forestry and fishing	3.9	1.79	1.56
Mining	0.2	0.10	0.03
Food, beverages and tobacco	4.5	1.80	1.56
Textiles, clothing and leather goods	1.2	1.67	1.54
Wood and paper; publishing and printing	1.5	1.27	1.07
Petroleum products, chemicals, rubber and plastic	3.5	0.94	0.86
Other non-metal mineral products	0.5	1.00	0.88
Metals, metal products, machinery and equipment	2.5	0.74	0.70
Electrical machinery and apparatus	0.4	0.73	0.72
Radio, TV, instruments, watches and clocks	0.2	0.99	0.99
Transport equipment	1.1	0.73	0.72
Furniture; other manufacturing	1.8	1.21	1.18
Electricity	1.5	0.62	0.71
Construction	4.7	1.35	1.32
Wholesale & retail trade	13.5	1.03	1.08
Catering and accommodation	1.2	1.31	1.39
Transport	5.2	0.99	0.92
Communication	4.9	1.08	1.09
Finance and insurance	16.1	1.36	1.38
Business services	16.3	1.55	1.37
Community, social and personal services	5.2	0.89	0.84
General government	10.1	0.76	0.66
<b>Total</b>	<b>100.0</b>	<b>1.00</b>	<b>1.00</b>

Note: See box below on the Standard Industrial Classification (SIC).

Source: Quantec Research: own calculations

### Standard Industrial Classification

It should be noted that the categories of economic activity identified in Table 3.1 and in similar figures and tables in the PERO 2011 are based on the delineation by official statistical offices, such as Statistics South Africa (StatsSA), in collecting and presenting statistics on production. The International Standard Industrial Classification (ISIC, hereafter referred to as SIC) is a UN sanctioned method of compiling and presenting economic statistics.

**Figure 3.1 Western Cape real GDP growth across 9 broad sectors: 2000 – 2010**

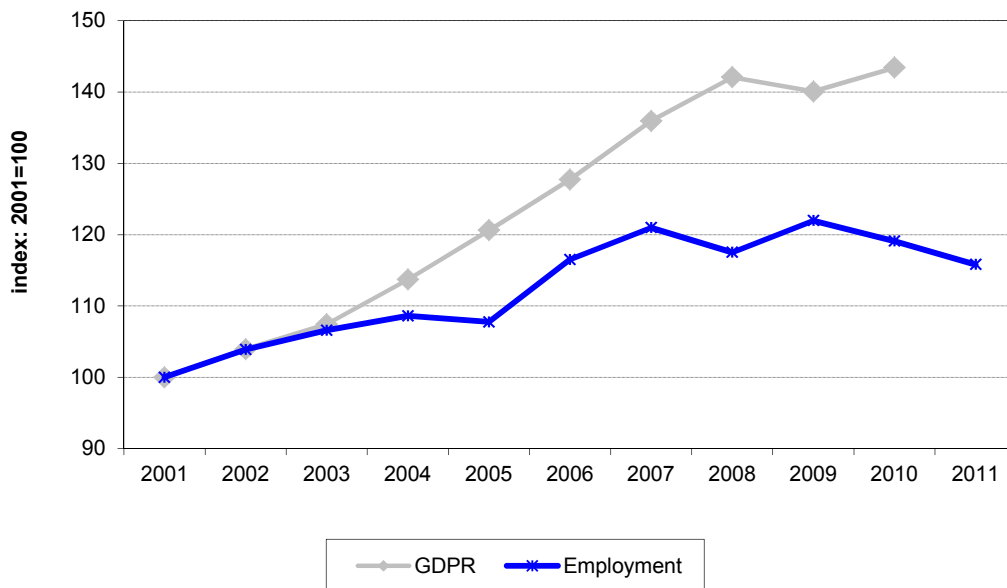
Source: Quantec Research; own calculations

A closer look at the concentration ratios (illustrated by the Location Quotients) reveals changes from 1995 to 2010, but with only finance and insurance and the catering and accommodation having experienced an increase relative to the national picture. The latter reflects the derived benefits of tourism in the Western Cape. The Western Cape and specifically Cape Town is not the financial hub of South Africa but what the small increase in the ratio shows is that in certain spheres of the financial world Cape Town is playing a leading role. As far as agriculture, food and beverages are concerned, it should be noted that the declines in the concentration ratios do not detract from the significance of these subsectors in the Western Cape economy.

The question was posed earlier in the chapter whether the historical growth pattern may have caused a structural imbalance in the Western Cape economy, specifically a mismatch between output and employment growth. Figure 3.2 compares a decade of employment and output growth and is highly suggestive in answering this question. Whereas the real economy expanded by close to 45 per cent between 2001 and 2010 (and outgrowing the national economy), the regional workforce only grew by 16 per cent over this period, that is including the devastating effect of the 2008/09 recession.

Considering the period of economic expansion only (and excluding 2000), i.e. 2001 to 2007, the real economy grew by 35.9 per cent and the workforce by only 21 per cent, i.e. an employment elasticity of 0.58, which is low<sup>3,4</sup>. Such poor employment absorption in otherwise lively economic conditions points to a high degree of capital intensification and/or increase in productivity (of labour, capital and total factor productivity). Employment growth performance is discussed in Chapter 4; however, it is highlighted here in order to underline the serious structural problem facing economic growth in the Province.

**Figure 3.2 Western Cape: Real GDP growth vs. Employment growth**



Source: StatsSA; own calculations

A recent study identified three tendencies behind the poor labour absorption (DEDT, 2011: 22 - 24)<sup>5</sup>:

- <sup>3</sup> The source of the employment data is StatsSA's Quarterly Labour Force Survey (QLFS), which was launched in 2008Q1 and linked to the former biannual Labour Force Survey (LFS; 2001 - 2007). The data points shown in the graph refer to the first quarter data of each calendar year and the year-to-year development should be interpreted with care, particularly over the recessionary 2008 - 2010 period.
- <sup>4</sup> The employment elasticity is defined as the percentage change in employment divided by the percentage change in real GDP, revealing the rate of employment growth per unit of GDP growth. A reading below unity is regarded as low.
- <sup>5</sup> Department of Economic Development and Tourism (DEDT), Provincial Government of the Western Cape: *A macro-economic assessment of the Western Cape Economy's sectoral and industrial growth prospects: 2010 to 2015, including an assessment of inter-industry linkages*, June 2011.

- The high-growth sectors in the Province (e.g. finance & insurance, construction, communication; furniture and transport equipment, including boat building), posting between 7 and 9 per cent real value-added growth over the 2000 to 2009 period, suggesting that they merely maintained their workforces.
- Some leading employment creating sectors (e.g. the broad community, social & personal services sector, the trade sector, electricity, mining, transport and storage, and tourism) exhibited relatively moderate growth rates of between 2 and 4 per cent in real terms, i.e. the employment creating sectors tend to be moderate to average growers. In the services sector the business services and ICT subsectors are exceptions, showing both economic growth of between 5 and 8 per cent and meaningful job growth at a rate of 2 to 5 per cent per annum.
- A whole range of primary and secondary industries shed jobs despite the improvement in general economic conditions over the biggest part of the 2000 to 2009 period. This group is led by the job-shedding that occurred in the agricultural and clothing and textile sectors; non-metal minerals, electronics, food and beverages, petro-chemicals (all exhibiting below-average growth) and furniture, leather & footwear and automotive (exhibiting high growth).

It is evident that the Western Cape economy is confronted with the same structural problem noted in IPAP2, namely the mismatch that arises in the labour market from growth being concentrated in the skills-intensive services industries rather than in the semi- and unskilled labour absorbing primary and secondary industries. Both the global economy and the domestic market expanded strongly over the 2000 to 2007 period, creating favourable conditions for local businesses to expand. While this happened the spill over to the labour market was disappointing. In fact, the growth performance of the manufacturing sector in the region (as well as nationally) is an unsatisfactory one. Whether the sector export performance over this period could be a factor explaining the poor manufacturing performance is an issue addressed later in the chapter.

### **3.3 Sector performance and outlook**

As pointed out in Chapter 2 the global environment renders both the domestic and regional economic outlooks somewhat uncertain. The specific constellation of global forces dictates an economic environment where the rand exchange rate is likely to remain relatively strong with no end in sight of potential volatility. This is more likely to have a negative impact on the tradable goods sectors (import-competing and export producers), whilst services could benefit from relatively lively domestic demand conditions, stimulated by the positive income effects tied to a favourable terms of trade and low inflation and interest rates. It is somewhat worrying that the initial phase of the economic recovery is dominated by the consumer, with business

confidence and fixed investment expenditure lagging and therefore employment creation. In the absence of more meaningful fixed investment expenditure of the labour absorbing kind, the sustainability of the business cycle upswing comes into question. On top of this, many observers now regard a recession in SA's main trading partners, the second of the double-dip phenomenon, as increasingly likely. Should the double dip materialise, South Africa's growth and job creation will suffer.

In the Western Cape, the tertiary sectors are again leading the economic recovery and benefit from the macro-economic conditions (favourable terms of trade, strong currency, low inflation and interest rates and a buoyant domestic market). The regional manufacturing sector has shed jobs on a large scale over the past decade and this tendency needs to be addressed should the Province want to achieve its socio-economic objectives premised on poverty alleviation. This does not mean the tertiary sectors must be neglected, as the growth of these sectors create many jobs. For example, business services (including BPO) contribute and have shown strong employment growth, while wholesale and retail, catering and accommodation, and tourism all respond with job creation in a growing economy. However, special efforts are required regarding the manufacturing industries, faced not only by an adverse track record, but relatively hostile macro-economic conditions. Ultimately the tertiary industries are derived industries, which imply that should the primary and secondary industries struggle, it will have a negative impact on the tertiary sectors as well.

The Western Cape economy has done better than the national economy, growing by 4.3 per cent per annum versus 3.6 per cent per annum during the period 2000 to 2009. The better performance of the Western Cape economy in terms of real growth is explained by the strong contribution made by the broad financial and business services sector, growing by 6.5 per cent and creating jobs at a rate of 3.8 per cent annually. This sector, as well as the wholesale, retail, catering & accommodation sector (including tourism), remain the mainstay of the regional economy; the trade sector grew by an annual 4.2 per cent and created jobs at a growth rate of 3.2 per cent. Transport, storage & communication also made a significant contribution (3.9 per cent per annum real output growth and 1.7 per cent per annum employment growth) as did community, social and personal services (2.6 per cent and 3.2 per cent respectively). The contribution by the manufacturing sector is also substantial (explaining approximately 10 per cent of the cumulative growth in the Province over the 2000s); however, this is mainly due to its size as the growth was anaemic (2.3 per cent) and jobs were shed at a rate of 1.5 per cent per annum in this sector.

Figure 3.3 summarises the sector growth outlook for the Western Cape economy. A range of economic indicators concludes that the regional economic recovery was well-established by the first quarter of 2011. The recovery commenced during the third quarter of 2009 and has been led by

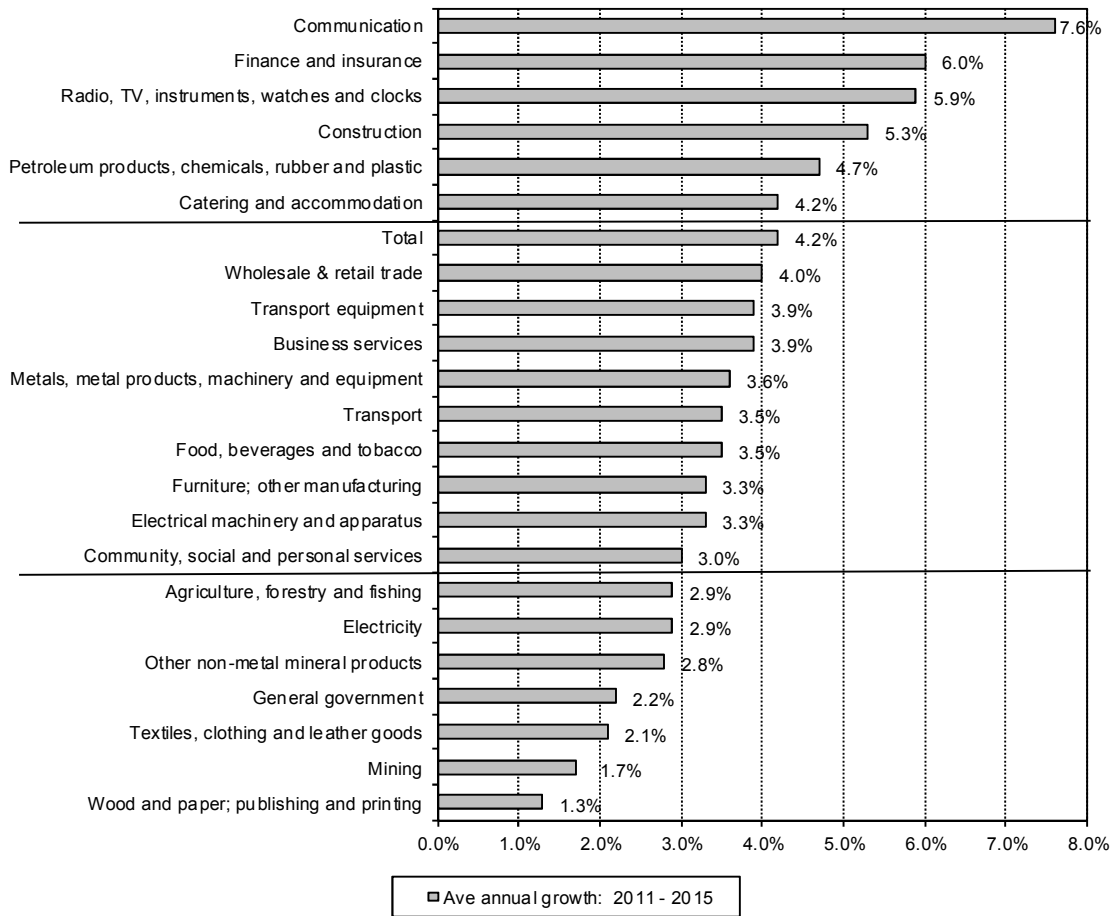
improving business conditions in the tertiary sectors. While manufacturing conditions improved more meaningfully at the start of the year, conditions deteriorated again during the second quarter, impacted by the global uncertainty and a series of labour strikes; furthermore, the building and construction sector is clearly lagging the economic recovery.

While the recovery path could remain hesitant, real Western Cape production growth is projected to accelerate from an estimated 2.4 per cent in 2010 to 3.9 per cent in 2011 and between 4.1 and 4.3 per cent in 2012, 2013 and 2014. The average growth over the 2011 to 2015 period is estimated at 4.2 per cent (see section 2.4.2). While the region's faster growth rate relative to the national economy is projected to continue, this margin may decline and the level of growth is likely to be well below that of the 2004 - 2007 period. The Province is faced with a very different global economic environment and its leading growth industry, i.e. financial services, is unlikely to repeat the spectacular growth of the 2000s.

Considering the sector picture forecast for the 2011 to 2015 period, three groups of industries are identified, namely the high-growth sectors, the medium/average growth sectors and the low-growth sectors. It needs to be emphasised that the sectors classified in this way include only those for which real value added growth rates could be quantified; there are a number of smaller industries growing rapidly off a low base for which growth projections could not be quantified.

- The *high-growth sectors*, projected to grow by between 4.2 and 8 per cent annually (2011 - 2015), include: communication (7.6 per cent); finance and insurance (6 per cent); radio, TV and instruments (5.9 per cent); construction (5.3 per cent); petro-chemicals (4.7 per cent); and catering and accommodation (4.2 per cent).
- The *medium/average growth sectors*, projected to grow by between 3 to 4.2 per cent annually, include: wholesale, retail, catering and accommodation (4 per cent); transport equipment (3.9 per cent); business services (3.9 per cent); metals, metal products and machinery (3.6 per cent); transport and storage (3.5 per cent); food and beverages (3.5 per cent); furniture and other manufacturing (3.3 per cent); electrical machinery and apparatus (3.3 per cent); and other CSP services (3 per cent).
- The *low-growth sectors*, i.e. subsectors projected to grow by less than 3 per cent annually are: agriculture, forestry and fishing (2.9 per cent); electricity (2.9 per cent); non-metal minerals (2.8 per cent); government (2.2 per cent); clothing, textiles and leather goods (2.1 per cent); mining (1.7 per cent); and wood, paper, printing and publishing (1.3 per cent).

**Figure 3.3 Western Cape sector outlook for real GDP growth, 2011 – 2015**



Source: Quantec Research; own calculations

The stellar performances of a number of small industries, growing off a small base, but with huge potential, are not revealed in these growth statistics. These include the aquaculture industry, the (upstream) oil and gas subsector, boat building, crafts, call centres/BPO, arts and culture and film making. Although relatively small, these industries all make an important contribution to the growth and development of the Western Cape economy.

The structural trend over the past decade in the Western Cape, namely a rising contribution by the tertiary sectors of the regional economy, is expected to continue. The Province has a revealed comparative advantage in a number of these sectors (e.g. finance and insurance, business services, wholesale and retail trade and tourism) and the macro-economic environment is expected to benefit them. For the most part these services sectors are dependent on inter-industry sales and have strong links with the household sector and other provinces.

While manufacturing prospects remain less than desired, there is a serious intent, both from national and provincial government, to address the under-performance of a number of industries. There is a relatively long list of strong backward-linked secondary industries and industries with above-average

employment potential, which require the attention of the policy authorities. It will be shown in the next section that a disappointing export performance during the 2002 to 2010 period at least partly explains the relatively poor overall manufacturing growth performance. The precipitous decline of manufacturing exports in aggregate Western Cape exports is a cause for concern. While the recession had a devastating impact, the outlook appears hostile for manufacturing exports. The question is to what extent manufacturing exporters can be assisted by the policy authorities. This question will be addressed at a later point in this chapter.

### **3.4 Rationale of growing exports, regional development policy and the policy capacity of provincial government**

Before the export performance of the Western Cape is reviewed, a question that will address the rationale of development policy needs to be asked: why should policy makers encourage or facilitate export-oriented growth and can this reasonably be expected of a provincial government considering the policy instruments that it has available? The logic of international trade, exports and imports, is grounded in the benefits to be derived from the division of labour and hence, specialisation. Specialisation, which causes efficiency in production, results in surplus production that has to be traded. Adam Smith, who brought this to the fore in his classic work, *The Wealth of Nations* (1776),<sup>6</sup> argued that the size of the market can be a constraint. This situation applies to the individual worker and firm but can be extended to apply to a town, region and nation. Essentially, what Adam Smith has argued is that the wealth of the individual and the nation is determined by specialisation and consequently trade.

In the wake of Adam Smith's ground-breaking work many other theoretical developments refined our understanding of the role of trade in economic activity with the most recent work that emphasises the existence of external economies, integrating trade theory and economic geography. These developments are briefly discussed in the annexure to this chapter.

Although specialisation and trade (domestic and international) do not in themselves represent a dynamic theory of economic growth and the role of trade in this regard, it can be concluded that specialisation and the trading of a growing surplus of production can only be accommodated in an expanding market. Applied to a region such as the Western Cape the implication is clear. Growth in the Province can be facilitated on the demand

<sup>6</sup> Smith wrote as follows: "When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for" (Smith, first published 1776, this publication in 1970: 121).



side of the growth equation by growth in output aimed at markets that are external to the region, that is, exports to other regions of South Africa and through exports, as conventionally understood, to foreign markets. Since the global market is so much larger than the relatively small South African market, it stands to reason that growth in production to be sold abroad through exports, although a more difficult exercise, provides much more growth potential than production to be sold in the rest of South Africa, thus providing growth opportunities for the Province and ultimately South Africa.

Focusing on the export market should not lead to the conclusion that the rest of South Africa cannot provide a market for output growth. A substantial part of the growth of processed agricultural goods, financial services and tourism in the Western Cape, for example, bears testimony to the potential that "exports" to other regions have in facilitating regional growth. However, the argument presented here is that the global market provides the scope for a quantum change in growth.

Having considered these explanations the next issue to address is their relevance for regional development policy, in particular the question of what a provincial government could do to encourage export-led economic growth. As a point of departure one needs to first acknowledge that a provincial government does not have recourse to the conventional trade and industrial policy instruments available to national government. A provincial government cannot conclude binding international trade agreements (for example, preferential trade agreements), nor can it implement an export-friendly import tariff policy or direct or indirect export subsidies such as preferential rail rates. However, in this regard it is important to bear in mind that even national governments have had their trade policy space constrained by the WTO Agreements that determine the multilateral framework for international trade relations. The current situation is that developing countries do not have the same room for manoeuvre that was available to the fast-growing economies of South-East Asia when they launched their outward-looking developing strategies during the 1960s and 1970s. Currently, with the effective prohibition of direct and indirect export subsidies the emphasis falls on the policies to expand the supply side of export production, and it is in this respect that a second and third tier government can come into their own.

Once the spotlight is focused on the supply side of production lower-order governments such as the Western Cape Provincial Government do have the capacity to make a difference to the competitiveness of export producers. This challenge is addressed in section 3.7. The next sections (section 3.5 and 3.6) review the recent export performance and outlook.

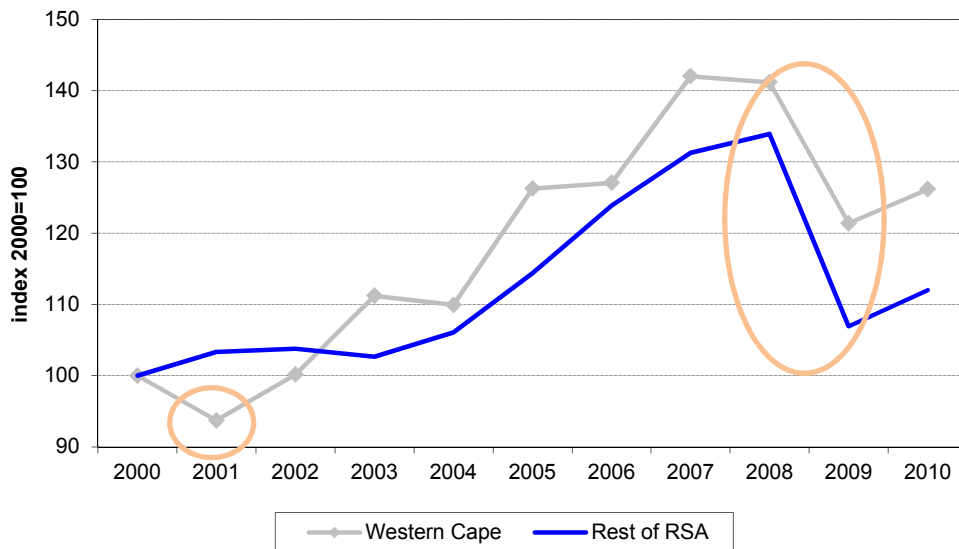
### The supply and demand side of economic growth

The growth in production has a supply and demand dimension. On the supply side, growth in production requires an expansion of an economy's capacity to produce more goods and services. This would include growth in investment (also in infrastructure), growth in the number of workers employed and improvement in the productivity of capital and labour. But an increment in output would be meaningless unless it could be absorbed in growing demand for the output. The demand side of growth has three elements: growth in real income, replacement of imported goods and services (import substitution) and exports. Policy measures should be aimed at both the supply and demand sides of the growth equation, with policies aimed at growing the capacity to produce while addressing this growth at identified demand components. From a pro-active policy perspective growth in real income is not a likely policy route since it implies that the end is used as a means to attaining the end: real income by definition equals real output, the growth of which is the end outcome sought. Hence, demand-focused policies concentrate on import substitution and export growth.

## 3.5 Export performance and outlook

Western Cape real export growth averaged 5.7 per cent per annum over the period 1995 to 2010, substantially faster than the 2.5 per cent annual growth achieved in the rest of SA. During this period, the Western Cape share of national exports increased from 7.3 to 11.1 per cent. The regional economy's exports are sensitive to developments in our trading partner economies.

**Figure 3.4 Real export growth: Western Cape and Rest of RSA, 2000 - 2010**



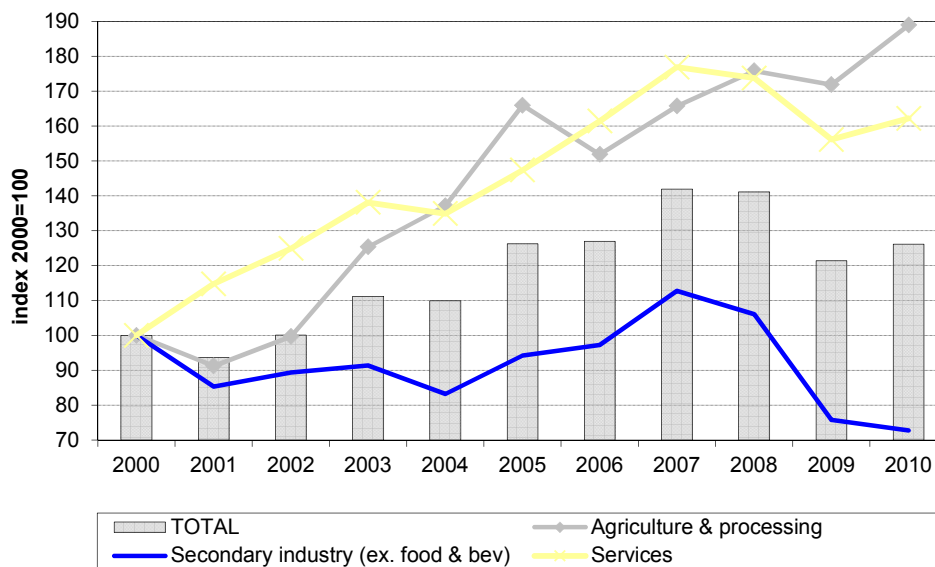
Source: Quantec Research; own calculations

Figure 3.4 above shows that export volumes contracted sharply during 2009 in the wake of the global financial crisis and subsequent recession, as well as during 2001 at the time of the previous (mild) global recession. Real export growth tapered off from 11.8 per cent in 2007 to -0.6 per cent in 2008, and then fell sharply by 14 per cent in 2009. It is estimated that exports have recovered in 2010, achieving a 3.9 per cent overall growth rate. Real export growth in the Province averaged 4 per cent annually during the period 2000 -

2010. While this is double the growth rate of exports outside of the rest of South Africa (2 per cent), it remains a relatively modest performance.

The impact of the 2008/09 global recession is visible in the secondary sector in particular (Figure 3.5). The level of real secondary sector exports, excluding food and beverages, declined by close to 40 per cent between 2007 and 2010. Services exports in real terms contracted by a milder 7.8 per cent over this period while primary sector exports, including food and beverages, continued to grow (experiencing strong growth in 2008 and 2010, but contracting by 9 per cent in 2009)<sup>7</sup>.

**Figure 3.5 Western Cape export growth: primary, secondary & services: 2000 - 2010**



Source: Quantec Research; own calculations

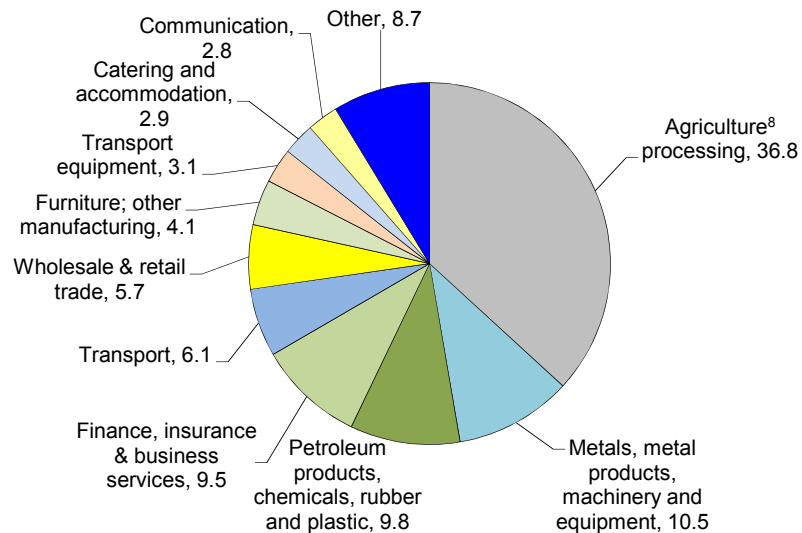
The precipitous recessionary decline in secondary sector exports wiped out all the gains registered since 2000, ending the decade close to 30 per cent below the 2000 level (i.e. when food & beverage exports are excluded). Agricultural & processing exports (i.e. including food & beverage exports), on the other hand, the mainstay of Western Cape exports, increased almost twofold between 2000 and 2010. The export of services also ended the decade 62 per cent above the level at the start of the decade. These broad trends in the Western Cape export performance are given more attention below, but first, the composition of the region's exports is considered.

<sup>7</sup> The reason for combining food and beverages, which in the Standard Industrial Classification (SIC) form part of manufacturing, with primary agricultural output are the close links that exist between processing industries and primary (farm gate) production in the food value chain. Well known examples include processed meat products, wine, fruit juice, fruit and vegetable canning, dried fruit, and packaged Rooibos tea. Concentrating on the whole value chain also eliminates certain ambiguities that arise in empirical reviews on the classification of specific products such as wine.

### 3.5.1 The composition of Western Cape exports

Western Cape exports are dominated by the agricultural, forestry and fishing and food and beverage sectors, i.e. the food value chain. In all, these two subsectors accounted for approximately 37 per cent of exports on average during 2005 to 2010 (Figure 3.6).

**Figure 3.6 Composition of Western Cape exports: average, 2005 - 2010**



Source: Quantec Research; own calculations

The remarkable growth of agricultural exports over the past decade led to it dominating the growth of Western Cape exports (Figures 3.6 and 3.7); it explains 46 per cent of the cumulative growth in the region's exports over the 2000 to 2010 period<sup>9</sup>. The contribution to the cumulative regional export growth of the food and beverage sector (5.5 per cent) was reduced due to contractions experienced by this subsector during the recessionary period of 2008 to 2010. Nonetheless, combined, the food value chain contributed more than 50 per cent of the cumulative export growth of the region during 2000 and 2010 period (Figure 3.7). It is also the reason why Western Cape exports outperformed national exports during this period.

The source of this growth lies in agricultural exports, which has grown by 17 per cent annually in real terms between 1995 and 2010 (Quantec Research). The two main export products are raw, dried and processed fruit, as well as wine. The leading export sector is the wine industry which experienced export growth from 21 million litres in 1992 to 411 million litres in 2007 (Troskie, 2010a: 16). The export orientation of the wine industry underwent a major shift in recent years, with the share of output being exported increasing from

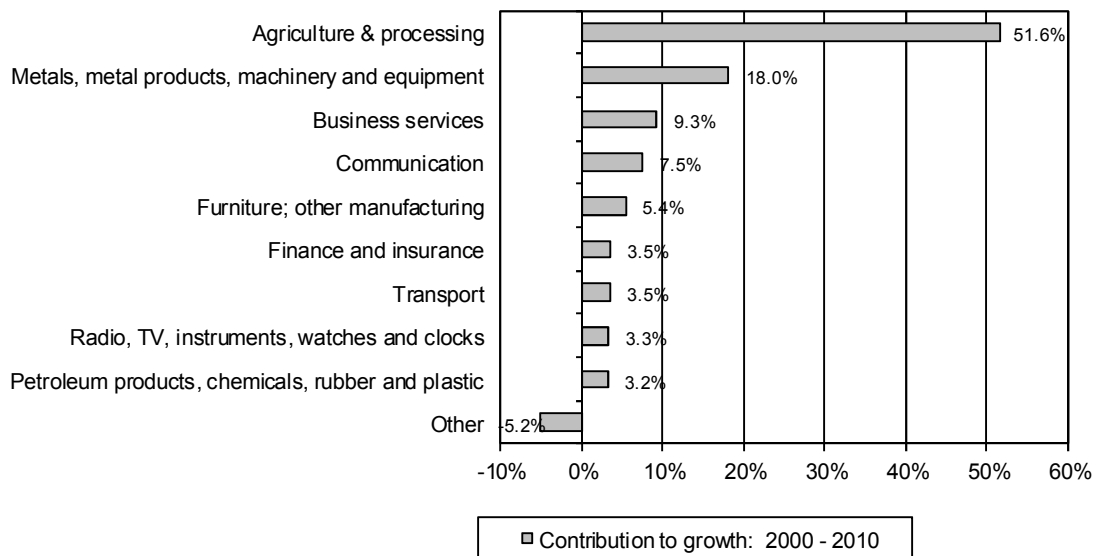
<sup>8</sup> Includes agriculture, forestry and fishing and beverage sectors (the value chain).

<sup>9</sup> The contribution to cumulative growth is calculated by weighing the average real growth rate over the period by the subsector's share in total exports.

5.2 per cent in 1992 to 49 per cent in 2009 (Troskie, 2010a: 16). A range of other agricultural and (processed) food product exports have also performed well, including fruit (citrus, apples & pears), tea, spices, meat, vegetable fibres and fruit juices. Aqua-cultural exports (classified as part of fishing exports, mainly abalone) were valued at R268 million in 2009 and are also growing rapidly off a low base (AISA, 2009).

Apart from agricultural and food processing exports, other sectors that make a sizable contribution to the region's exports include, in sequence of their contribution size: metals, metal products and machinery; petro-chemicals, rubber and plastic; finance, insurance and business services; and transport and communication. As far as the growth of exports between 2000 and 2010 is concerned, the major contributors have been, again in sequence of contribution size: metals, metal products and machinery; business services; communication; furniture and other manufacturing; finance and insurance; transport; radio, TV and instruments; and petro-chemicals (Figure 3.7).

**Figure 3.7 Western Cape exports: sector contribution to cumulative growth: 2000 – 2010**



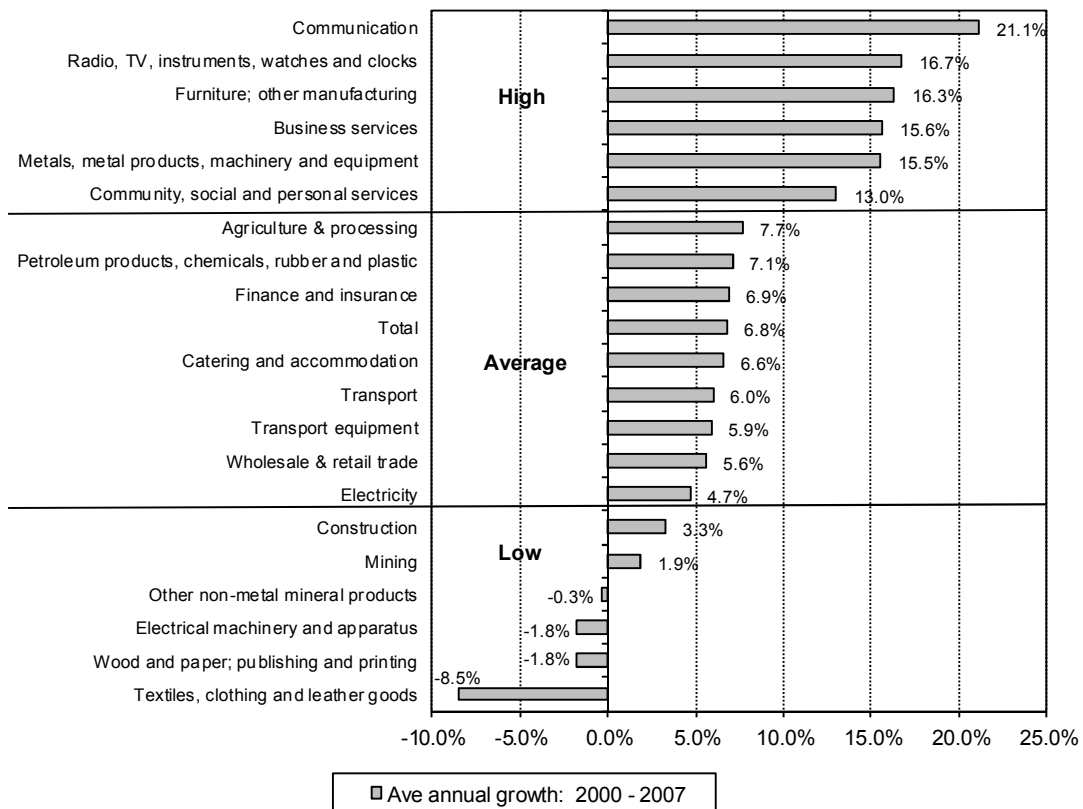
Source: Quantec Research; own calculations

Key export products in these sectors include iron and steel exports (from Saldanha Steel), machinery, BPO services for foreign firms (including call centre services); communication services to neighbouring countries; furniture to other African countries and electronics products such as photovoltaic cells, which has shown phenomenal export growth off a low base. Not so evident from the standard statistics, is the export contribution of a number of smaller industries, such as aqua-culture, boat building and BPO/call centres, as well as the important contribution of tourism; these sectors are discussed individually below.

### 3.5.2 Western Cape exports during the expansion of 2000 - 2007 and subsequent recession

The South African economy embarked on an expansion phase of the business cycle from the end of 1999 which coincided with robust growth in the world economy and lasted until November 2007. This typically reflects a close relationship between global economic prospects and the relatively open SA economy. Demand for SA's export products was keen during this period and included demand for exports from the Western Cape.

**Figure 3.8 Western Cape real export growth across sectors, 2000 – 2007**



Source: Quantec Research; own calculations

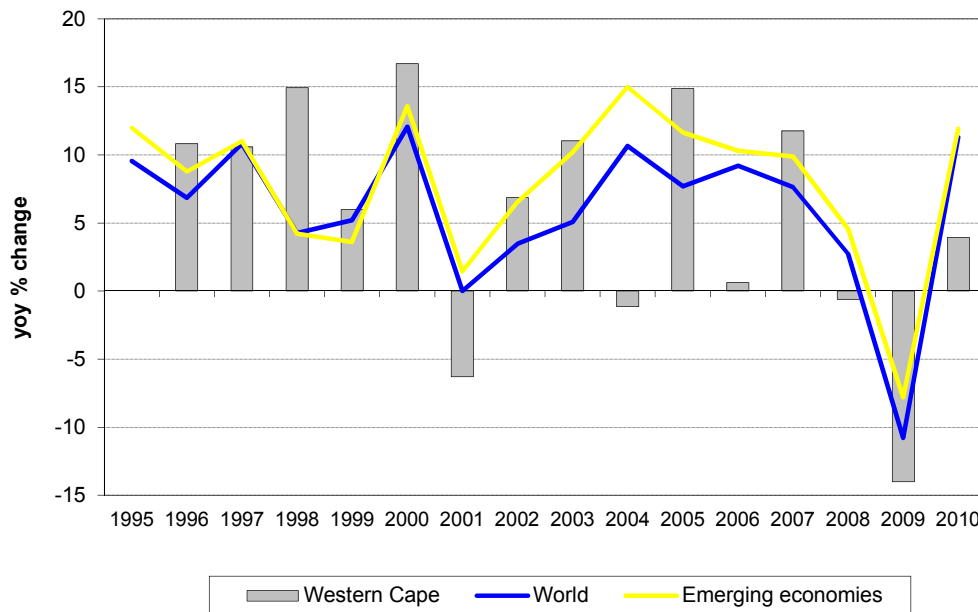
Overall, regional real export growth averaged 6.8 per cent per annum over this period, which is well above the 1995 to 2010 trend growth rate of 5.7 per cent annually.

Figure 3.8 shows the export performance of the Western Cape economy over this period across 21 subsectors. The sectors are divided into three groups depending on the average real export growth rates achieved:

- The *high export growth sectors*, ranging in annual growth rates ranging from 21.1 per cent to 13 per cent, include communication, radio, TV and instruments, furniture, business services, metals, metal products and machinery, and CSP services. Most of the region's leading export sectors are included here, except petro-chemicals and food and beverages, which are classified in the group of average export growers (see below). The sharp growth of the CSP services sector occurred from a low base (it contributed 1 per cent of total regional exports in 2010).
- The *average export growth sectors*, ranging from 7.7 per cent to 4.7 per cent, include petro-chemicals, finance and insurance, catering and accommodation, transport, automotive products, wholesale and retail trade, electricity, and food and beverages. Apart from petro-chemicals, automotive products and food processing, most of the sectors listed here are services providers. The average export growth rates achieved, i.e. between 4 - 8 per cent per annum, were significantly below that of the high export growers but still lively.
- The *low export growers* ranging from 3.3 per cent to a contraction of 8.5 per cent, include construction, mining, non-metal minerals, electrical machinery, wood and paper products, and textiles, clothing and leather goods. The share of textiles, clothing and leather goods in total Western Cape exports shrunk from 6.6 per cent in 2000 to 2.3 per cent in 2007 (and then further to 1 per cent by 2010).

The real annual growth of the Western Cape economy's exports during 2000 and 2007 (6.8 per cent) was in line with the volume growth of world exports of 7 per cent over the corresponding period. However, it was well below the 9.8 per cent average volume growth recorded by emerging and developing countries (IMF, April 2011), which suggests that there is room for improvement in growing the region's exports.

Figure 3.9 clearly reveals a strong correlation between Western Cape exports and that of the rest of the world. In 2008 it contracted marginally by 0.6 per cent but then more dramatically when the full impact of the global meltdown struck, falling by 14 per cent in 2009, before recovering a modest 3.9 per cent in 2010. The impact of the recession was most severe in the secondary sector, particularly in manufacturing, which furthermore did not share the export recovery of the other sectors and the rest of the world during 2010.

**Figure 3.9 Real export growth: the Western Cape and the rest of the World: 1995 - 2010**

Source: Quantec: own calculations/IMF World Economic Outlook, April 2011

Agricultural exports registered an average annual growth rate of 15.4 per cent between 2008 and 2010, which clearly suggests the growth is derived from the capturing of increasing market share abroad. It is not clear how sustainable these high growth rates are, but it is evident that the rising living standards and food scarcities in countries such as China and India present interesting opportunities for agricultural exports.

Across all the other industries, the adverse impact of the global recession is evident, with industries recording sharp falls in export volumes. The beleaguered textiles, clothing and leather goods sector, for example, had its exports volumes halved in 2008, contracting further by 18.5 per cent in 2009 and 6.3 per cent in 2010, leaving it with a 1 per cent share in total Western Cape exports.

#### **Innovative success in a declining industry**

The Western Cape clothing industry has experienced a rapid decline and job loss over the past decade and a half due to its inability to compete with Chinese unit labour costs. One Western Cape manufacturer has bucked the trend due to its innovative design, quality and niche market branding.

The firm manufactures socks and is well known for its innovative combination of different kinds of yarn in uniquely designed socks. It is also famous for its left and right socks. Its brand of running socks is now the leading brand in this niche market in the United States.

Even so, the company's continued presence in the Western Cape is challenged by high unit labour costs and the need to import its yarn. Even though this strategy based on innovation and niche branding may not save a whole industry, it does seem to offer a 'step in the right direction' for at least some manufacturers in the industry.



A noteworthy aspect is the fact that the manufacturing sector did not participate in the first year of economic recovery, and contracted by close to 8 per cent. In fact, as Table 3.3<sup>10</sup> shows, all manufacturing sectors, with the exception of the metals and machinery product group, experienced a cumulative, double digit rate of contraction in export volumes during 2008 to 2010. The contraction contributed to the share of manufactured exports in total exports declining from 70 per cent in 2000 to 45 per cent in 2010.

While demand conditions abroad are an important determinant of export growth, the price competitiveness of exports is another important factor, particularly in respect of higher value-added manufacturing and services exports. In this regard, the impact of the rand exchange rate has to be taken into consideration.

### **3.5.3 The impact of the rand exchange rate**

The role of the rand exchange rate in SA's export performance is often a topic of intense debate. There are two channels along which changes in the value of the exchange rate typically influence export performance, one direct and the other indirect:

- *Directly*, a depreciation of a currency improves export price competitiveness and the ability to exploit market opportunities whereas currency appreciation has the opposite effect.
- *Indirectly*, a strong currency (read: overvalued exchange rate) can lead to a hostile macro-economic environment for exporters. An appreciating currency is likely to keep a lid on inflation due to lower imported inflation and, provided other macro-economic conditions are in place, restrict interest rates increases, with both factors (i.e. lower prices and interest rates) stimulating domestic spending. A strong currency environment, therefore, tends to be conducive to lively domestic market conditions. In this event exporters, already faced with price competitive pressures related to currency appreciation, tend to shy away from exports, rather choosing to focus on the more lucrative domestic market. The converse applies in a more competitive currency environment; stricter monetary policy (read: higher real interest rates) is required to control inflation, which in turn constrains the domestic market and encourages production for export.

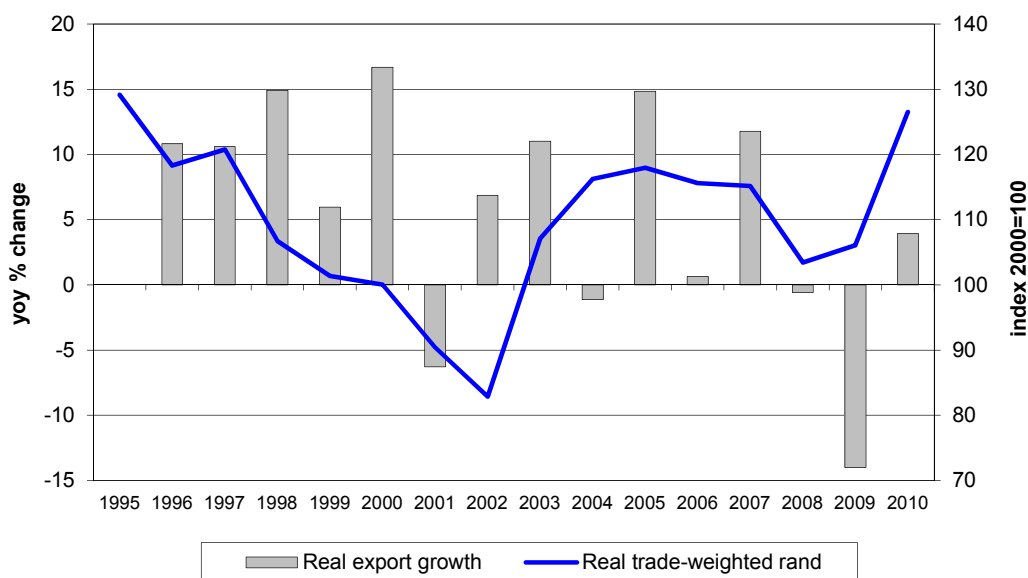
The view can be taken that a weak (and unstable) currency is not to be preferred and argued for. It is rather a case of a stable, but competitively priced currency being preferred, which can be a potent catalyst in the export effort. This is particularly true if producers face other constraints and bottlenecks (e.g. logistics constraints, labour market conditions, high utility

<sup>10</sup> In section 3.6.1, Macro Overview, Western Cape Export Outlook: 2011 - 2015

costs, official red tape). While it is important to address these constraints rather than relying on a weak and depreciating currency as compensatory mechanism, the co-existence of the constraints and an overvalued currency is almost a sure recipe for a poor export performance, which could lead to de-industrialisation.

Figure 3.10 below shows the course of the real trade-weighted rand index<sup>11</sup> over the 1995 to 2010 period.

**Figure 3.10 Western Cape real export growth and the real trade-weighted rand exchange rate**



Source: Quantec Research; own calculations

During the first part (1995 to 2002) the real trade-weighted rand exchange rate depreciated consistently by 6.1 per cent annually. Since 2002 the rand has appreciated (except for a softer patch at the time of the recession, 2008/09) at an average annual rate of 5.4 per cent. Between 1995 and 2002 the growth of Western Cape real exports of goods and services averaged 8.5 per cent annually, which exceeded the growth of world export volumes (6.5 per cent) and the growth of emerging and developing country exports (7.6 per cent) over the corresponding period. During the second phase of general currency appreciation, i.e. 2002 to 2010 the growth of Western Cape export volumes averaged a low 3.7 per cent annually. Whilst this included the deep 2008/09 recession, Table 3.2 below shows that the export growth achieved was well below that for the world economy and emerging and developing economies.

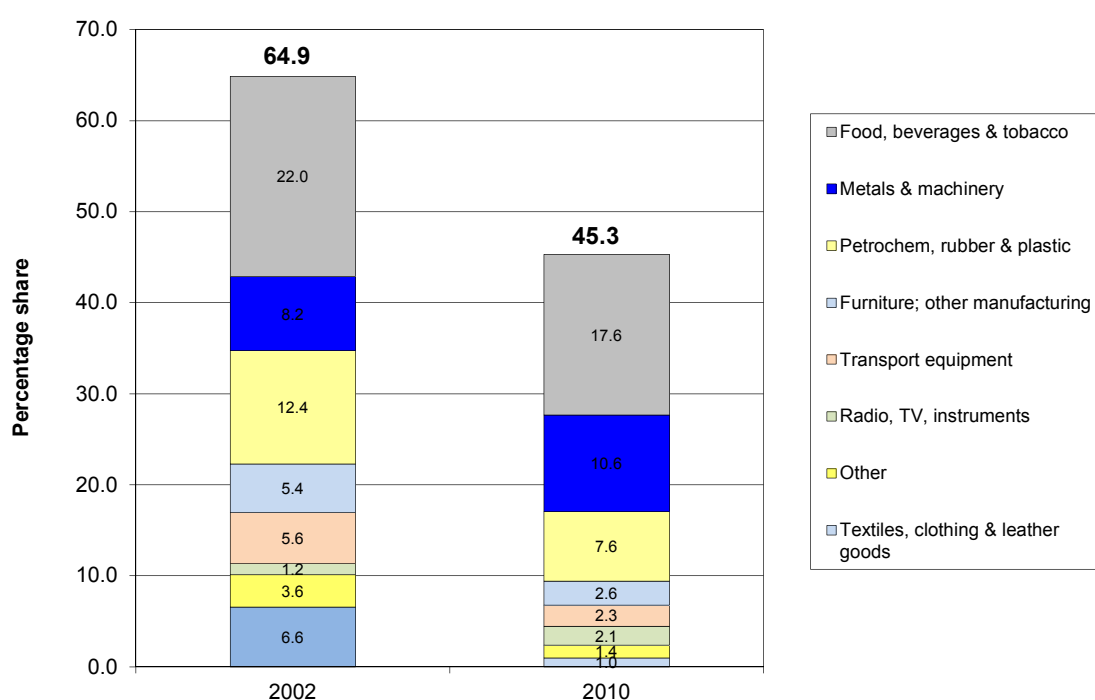
<sup>11</sup> The nominal trade-weighted rand exchange rate adjusted for inflation differentials, used as an indicator of competitiveness.

**Table 3.2 Real growth of exports of goods and services: 1995 to 2010**

Region	Average annual % change	
	1995 to 2002	2002 to 2010
Western Cape	8.5	3.7
Emerging & developing economies	6.5	5.2
World economy	7.6	8.0

Source: IMF World Economic Outlook, April 2011/Quantec Research; own calculations

In view of the otherwise relatively close relationship between global demand conditions and Western Cape exports, the poor export performance of the region over the 2002 to 2010 period needs to be explained. Considering the damage wrought on the region's manufacturing exports over this period (Figure 3.11), the evidence is strong that the high rand exchange rate played a key role, probably through both channels highlighted above, i.e. competitive pressures in export markets and, as well as a general move away from manufacturing exports.

**Figure 3.11 Share of manufacturing exports in total WC exports: 2010 and 2002**

Source: Quantec Research; own calculations

It is not clear whether the lost manufacturing export capacity is permanent; however, considering the macro-economic forces discussed in Chapter 2, the prospects are that the firm rand could continue and, in association, a relatively hostile macro-economic climate for the region's (and South African) exporters.

## 3.6 Western Cape export outlook: 2011 - 2015

### 3.6.1 Macro Overview

Regional export prospects are determined, *inter alia*, by two important variables, namely demand conditions abroad and the movements in the rand exchange rate. There are many other issues at stake, such as the quality of the product or service being exported, infrastructural considerations (ports and harbours, for instance), rules of origin, tariff and non-tariff barriers, but from a macro-economic perspective the expected demand conditions and level of the rand exchange rate are the two important factors that determine export sales.

Table 3.3 provides an overview of the Western Cape export performance during the recent record business cycle expansion (2000 - 2007), the recessionary period (2008 - 2010) and going forward (2011 - 2015).

**Table 3.3 Western Cape real export growth: 2000 – 2015**

Sector	% share 2005 - 2010	Average annual real growth		
		2000 - 2007	2008 - 2010	2011 - 2015F
Agriculture, forestry and fishing	18.3	18.3	15.4	3.3
Mining	1.0	1.9	-1.2	2.4
Food, beverages and tobacco	18.5	3.7	-4.4	5.0
Textiles, clothing and leather goods	2.0	-8.5	-24.8	2.0
Wood and paper; publishing and printing	1.1	-1.8	-13.4	2.9
Petro products, chem, rubber & plastic	9.8	7.1	-13.6	9.7
Other non-metal mineral products	0.3	-0.3	-18.1	3.2
Metals, metal prod, mach & equipment	10.5	15.5	-4.8	9.6
Electrical machinery and apparatus	0.4	-1.8	-10.3	4.2
Radio, TV, instruments, watches & clocks	2.6	16.7	-13.4	14.5
Transport equipment	3.1	5.9	-16.0	10.4
Furniture; other manufacturing	4.1	16.3	-17.9	2.4
Electricity	0.1	4.7	-5.1	7.3
Construction	0.0	3.3	-12.4	4.4
Wholesale & retail trade	5.7	5.6	-6.2	5.0
Catering and accommodation	2.9	6.6	-4.5	5.2
Transport	6.1	6.0	-5.5	5.9
Communication	2.8	21.1	5.9	7.6
Finance and insurance	4.8	6.9	-3.6	3.1
Business services	4.7	15.6	4.1	8.7
Community, social and personal services	1.0	13.0	2.7	4.6
<b>Total</b>	<b>100</b>	<b>6.8</b>	<b>-3.6</b>	<b>6.0</b>

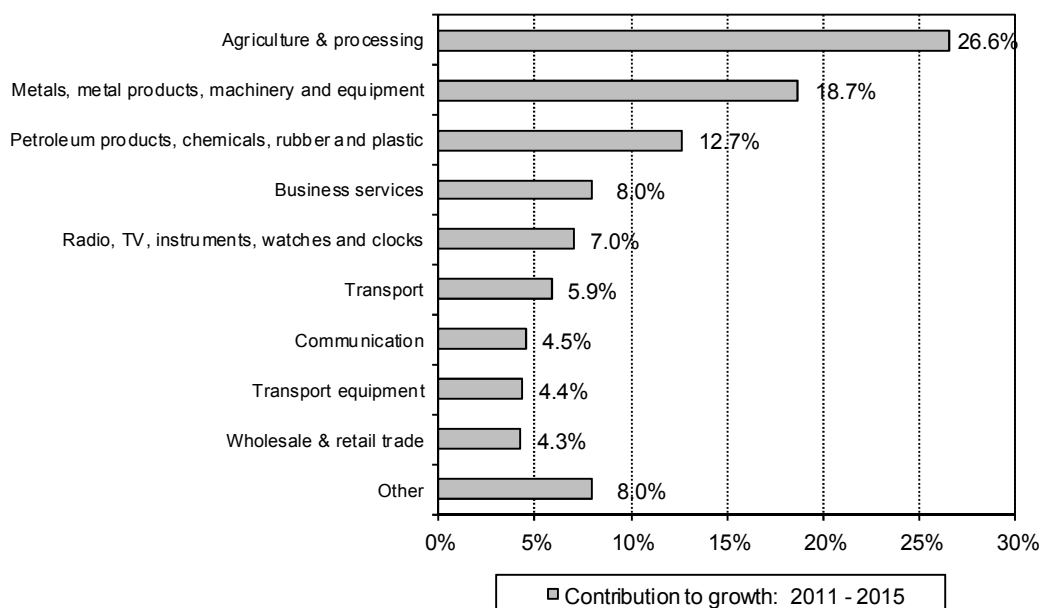
Source: Quantec Research

In all, a sustained but uncertain economic recovery is foreseen, with a demanding rand exchange rate for the foreseeable future. While domestic inflation is on the increase, incumbent interest rate hikes are expected to be contained. In a macro-economic environment with a relatively buoyant domestic market from 2012/13 benefiting from a strong rand, relatively low interest rates and inflation and a strong terms of trade, manufacturers may opt to meet domestic demand rather than to export, particularly in the face of a demanding exchange rate. Therefore, considering the outlook for Western Cape export growth, a number of factors will work against a robust performance over the medium term; in fact, export growth could be lower compared to the 2000 to 2007 period.

### 3.6.2 Projected export growth – selected sectors<sup>12</sup>

Aggregate Western Cape real exports are projected to grow by 6 per cent on average per annum between 2011 and 2015. This is in line with the 1995 to 2010 trend rate (Figure 3.13), but below the average growth of 6.8 per cent achieved during the 2000 to 2007 period. However, in view of the constraints noted above, this remains a positive export outlook.

**Figure 3.12 Western Cape: Contribution to cumulative projected export growth: 2011 – 2015**

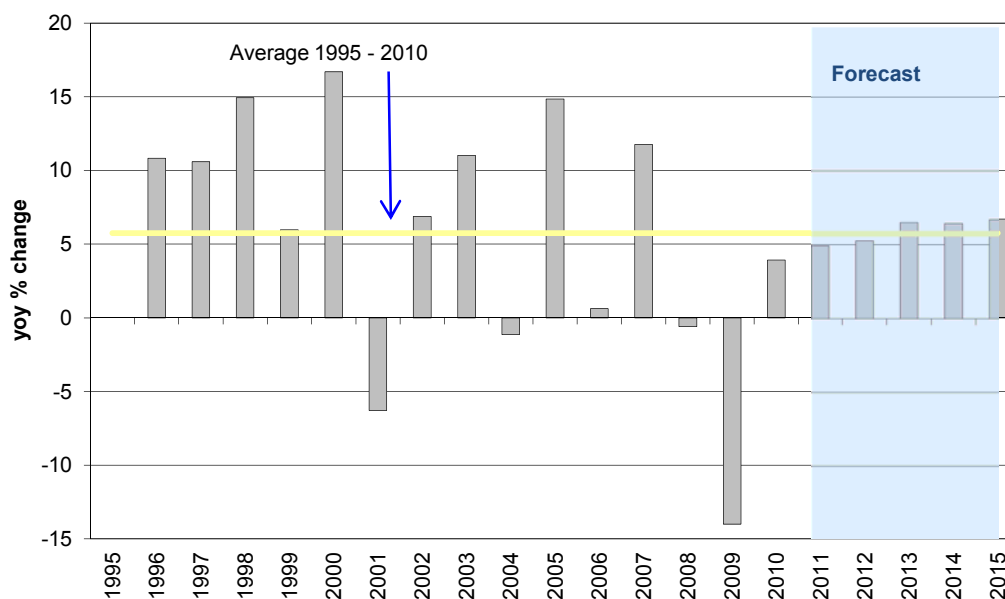


Source: Quantec Research; own calculations

<sup>12</sup> This section draws heavily on a (forthcoming) Research report produced by the Department of Economic Development & Tourism (DEDT), Provincial Government of the Western Cape (PGWC).

The projected growth rates (2011 - 2015) for the individual sectors are shown in Table 3.3. Electronic instruments, automotive products, petro-chemicals, metals and machinery, business services (including BPO) and communications are expected to be the best performers. When the projected sector growth rates are weighted by the size of the sectors, these sectors continue to dominate the export picture (Figure 3.12) in the Province, except for agriculture and food and beverages that move up the rank given the export size of these sectors. Services such as transport, wholesale and retail, finance and insurance and catering and accommodation, also make significant contributions. The export outlook for a selected number of subsectors is briefly considered below. Apart from the three leading export sectors, i.e. agriculture, food and beverages, and metals and machinery, the export prospects of a number of smaller upcoming but cross-cutting sectors in the Western Cape which are not captured in the SIC (oil and gas, boat building, and BPO/call centres, as well as tourism), are considered.

**Figure 3.13 Western Cape real export growth: 1996 – 2015**



Source: Quantec Research; own calculations

### Agriculture, forestry & fishing

The Western Cape produced close to 45 per cent (R12.5 billion) of SA's agricultural exports (R27.8 billion) in 2008, with the most important export products being citrus fruit (R4.5 billion), apples and pears (R2.7 billion) and fresh grapes (R2.6 billion). More than 30 per cent of the region's agricultural produce is exported; in the wine industry close to half of production was exported in 2009, which makes the sector very dependent on its export markets.

Current export markets are concentrated in the EU and more specifically key EU countries. Close to 40 per cent of Western Cape agricultural exports are destined for three EU countries, namely the Netherlands, the UK and Germany. While the economic troubles facing the Euro area may be a cause for concern, the Western Cape export markets are core EU countries which recovered better from the recession. However, a need exists to re-evaluate export destinations in view of the global shifts in population growth, urbanisation and wealth creation, especially in large developing countries like China and India and the impact this will have on the demand for food. The OECD/FAO<sup>13</sup> calculates that globally consumption of grains (wheat, rice and coarse grains) exceeded production by an average 15 million tons per annum over the 2000 to 2008 period (Troskie, 2010b: 3). This is a reflection of the global food shortages which are rising as the living standards of populous developing economies (e.g. China and India) improve and urbanisation increases, creating a positive outlook for agricultural exports.

Aqua-culture is a small, but fast-growing industry in the Western Cape fishing sector. The subsector trades with the East but is looking for the development of new markets elsewhere. Exports consist almost exclusively of abalone, and almost all abalone is exported. The main markets are Japan, with China increasing in importance. However, huge potential exists outside the Far East, especially if SA can upgrade its food safety regulations to meet European standards. This improvement is expected in the next three years.

In all, the agriculture, forestry and fishing sector is likely to remain a dominant export sector in the region. The Western Cape Department of Agriculture is intent in maintaining the Province's leading role in the country-wide agricultural sector.

#### **Changing retail in the United Kingdom**

Historically, the United Kingdom has been a major market for fresh fruit exports from the Western Cape. The fruit tended to reach the UK consumer via a logistics chain that included agents, wholesalers and eventually the UK retailer. This has changed over the last two decades. Due to retail concentration, competition, higher consumer affluence, increased consumer sophistication, tighter regulations on food standards and new technology, the top supermarkets have essentially usurped the role of the agents and wholesalers. They started integrating backward in the chain whilst sourcing produce globally.

Supermarkets now use UK-based 'category managers' to source produce from producers' export companies, or even do so directly. At the same time the retailers' demand has become far more differentiated (e.g. variety, shades of colour or degrees of ripeness) and the reliability of timeous supply more important. Producers who cannot adapt and adopt new technology to meet these challenges may well see their export sales decline.

In this challenging environment the Western Cape fruit producers also had to contend with competition from South Africa's northern regions. This makes cost, especially that of logistics, particularly important to Western Cape fruit producers. This makes the cost of transport to and from the harbour, loading and quarantine processes critical to the export of fresh fruit from Cape Town. (Symington, UCT 2008).

<sup>13</sup> Organisation for Economic Co-operation and Development/Food and Agriculture Organisation

### **Food and beverages**

As noted earlier the food and beverage sector is, along with agriculture, the key export sectors of the Province. Exports have tended to grow at lower rates, but made a similar contribution to aggregate Western Cape exports over the 2005 to 2010 period, i.e. 18.5 per cent. Wine, canned fruit products, jams and dried fruit are key export products. As noted, the rapidly growing developing economies like China and India, with huge populations and not self-sufficient in food production, present lucrative markets for the agriculture and processing industries. Local fruit canning producers have, for instance, a larger exposure to the troubled southern Euro area countries where the short-to medium-term growth outlook is rather grim. This intensifies the need for local food processing producers to search for alternative markets.

In all, food and beverage exports are projected to grow by 5 per cent per annum between 2011 and 2015, but market conditions in Europe will remain a determining factor. More than 70 per cent of the Western Cape's wine exports are destined for five EU countries<sup>14</sup>. Diversification of export markets can in future be an important source of growth.

### **Metals and machinery**

Regional exports in the broader metals and machinery sector experienced a decline of 8 per cent in 2008 and a further 31 per cent in 2009, but recovered somewhat in 2010. Total exports in the sector grew by 7.2 per cent per annum on average over the 2000 to 2007 period. The bulk of the exports in this sector consist of iron and steel (45 per cent) and machinery (40 per cent). Both these categories fared relatively well, with the average growth rate in export volumes being in the double digit range during the 2000 to 2007 period. Exports of metal products and non-ferrous metals actually contracted over the 2000 to 2007 period.

The development of the metals and structural steel downstream industry around Saldanha could become an important contributor to the export effort.

Exports in the tooling sub-sector are estimated at R2.5 million, which is very small in the bigger picture; tooling firms tend to be small and micro enterprises not active in the export market.

### **Oil and gas**

East, West and Southern Africa are rapidly establishing/developing both onshore and offshore oil and gas production facilities. The Cape Oil & Gas Supply Initiative (COGSI) has been created to assist in the development of the Western Cape oil and gas services hub to supply the upstream African oil and gas sector with the required products and services, including repair and

<sup>14</sup> UK, Germany, Sweden, Netherlands and Denmark



maintenance of offshore vessels and installations and technical services. A ship repair facility has been established in Cape Town harbour. The oil and gas sector has strong backward linkages with the metals and engineering sector.

The growth of the industry is driven by the oil and gas developments along the West African coast – Angola and Nigeria<sup>15</sup>. It is estimated that US\$15 billion is spent along the West Coast of Africa and that the Western Cape has captured only 1 per cent of the market, which suggests huge growth potential. The market to service oil rigs is estimated/projected to grow by R40 billion over 5 years (2009 - 2013). Western Cape ports – Saldanha and Cape Town – are deep water ports ideally suited for the servicing of oil rigs, and especially well located since the East Coast of Africa is also opening up for oil and gas exploration. Evidence of the attraction of Cape Town as a service centre is found in oil service companies that are moving their headquarters to Cape Town.

All oil and gas revenues are generated by exports as the work is done and services provided for offshore companies exclusively. No local companies are involved in exploration and the work for local refineries is on a limited scale. The outlook for the upstream oil and gas industry appears to be very positive. Given the projected exploration and production expenditure by foreign companies and SA's small share of the market, the potential for growth is substantial.

#### **An unlikely energy company niche in the Western Cape**

In the Western Cape a firm manufactures steam boilers in spite of the Province not producing coal or steel. Moreover, it exports more than 70 per cent of the boilers it produces. This it does by focussing on improving on four key factors: price, quality, flexibility and delivery, especially the latter three as it is difficult to compete internationally on price. It focuses on its core activities and aims at doing it better than its competitors. It also regularly adapts its strategy as the trading environment changes. The company takes the view that it must focus on its core business and outsource all other activities.

Significant factors in the company's success are the supply of very well trained engineers from the Universities of Stellenbosch and Cape Town and training its own technicians and artisans. As it is training more skilled workers than it needs, this company is also making a significant contribution to the industry. The company has identified that training support from the authorities will help it to remain competitive.

The company is also facing huge logistics problems, especially as regards shipping facilities and financing that are on a different level in major exporting countries.

<sup>15</sup> The Namibian parliament recently announced a huge oil find off the Namibian coast, with an estimated 11 billion barrels oil reserves, equivalent to that of Angola, a leading oil producer on the African continent. Whilst drilling for the oil still has to commence, this development could hold huge spinoffs to the Western Cape upstream oil & gas services hub.

## Boat building

The Western Cape hosts 90 per cent of the national boat building industry, mostly involved in the building and repairing of pleasure and sporting boats. The sub-sectors identified in the industry include multi hulls (e.g. catamarans), mono hulls, inflatables, activity vessels (kayaks and canoes), motor boats, commercial craft (fishing, military, and diamond vessels), and other speciality craft.

The total annual turnover of the boat building industry (consisting of 60 boat builders) was estimated at R2 billion in 2008, providing employment to between 3 000 and 3 500 workers and supporting an equal number of indirect jobs. The industry's contribution to Western Cape GDP amounts to 0.2 per cent while its job numbers represent 0.2 per cent of the region's work force. It accounts for 2.5 per cent of regional exports (CTBi<sup>16</sup> Market Survey Report, 2008). Apart from the 60 boat-building companies located in the industry, a range of support businesses exist 224 companies in total.

More than 60 per cent of production is exported, of which 85 per cent is exported to the USA and Caribbean. It is clear that high-end consumer demand abroad is a key driver of growth in the industry. The same applies to the local market. Consequently, sales are sensitive to interest rate developments and therefore the general business cycle. Furthermore, on the export side the exchange rate, both in strength and volatility, has an impact on sales in this industry. However, as the local industry's growth is still derived to a large extent from capturing new market share, the influence of cyclical and exchange rate strength and volatility can be mitigated. Nevertheless, the precariousness of the economic recovery in the US is bound to have an effect on the industry.

Supply-side initiatives can go a long way to boost efforts in the industry to capture new market share. In this regard the incumbent Department of Trade and Industry (**the dti**) production incentive for the industry is welcomed. Ship building and repair initiatives (the supply of tugs and harbour craft to the African oil and gas sector) are also in place. The local ship and boat building and repair industry is also well-placed to benefit from the increase in sea traffic up the African coast (east and west).

<sup>16</sup> Cape Town Boatbuilding and Technology Initiative

### Quality and design innovation to remain competitive

The Western Cape hosts South Africa's premier luxury yacht building industry. Virtually all its output is exported to a very discerning international customer base amid tough competition. The reason for this success is well told by the story of one of Cape Town's boatbuilding companies. Now employing several hundred highly skilled workers, the company has survived the impact of a strong and volatile rand mainly because of its emphasis on superior quality, for which it has been recognised by a number of international awards.

Equally important is its ability to remain innovative and incorporate the latest technology in its designs. In order to build the quality yachts, especially the catamarans it is renowned for, the company requires a highly skilled and motivated workforce. This it has achieved, but this is also where one of its main challenges lies. Most of the required skills have been developed in-house by developing well motivated semi-skilled workers into first class craftsmen. This, however, remains a huge struggle and imposes a huge and on-going cost on the company.

The biggest local challenge to the company's continued success is the lack of suitable and efficient launching facilities.

### Tourism

The Western Cape tourism sector is a hallmark of the Province. Tourism as category of economic activity is not captured in SIC. It is a cross-cutting category that has an impact on a number of sectors: catering and accommodation (hotels, guest houses, camping, game lodges and restaurants), tour operating, travel agencies and the utilisation of different types of transport by road, air, sea and rail. Tourism spending is also directed at the retail sector. An estimate of the sector's direct contribution to Western Cape GDP is 3.3 per cent (see Department of Economic Development and Tourism, 2011: 104); however, a rule of thumb estimate of the direct and indirect contribution to GDP is in the order of 8 to 10 per cent; the estimated direct contribution to employment in the region is 4.5 per cent<sup>17</sup>.

International tourism spending of R70 billion account for close to half of aggregate tourism spending in South Africa of R147 billion (StatsSA, 2009). According to SA Reserve Bank data, (national) tourism receipts (i.e. tourist export revenue) increased from R42.8 billion in 2003 to R66.4 billion in 2010; this represents an annual compound growth rate of 6.5 per cent.

In the Western Cape the foreign component of tourism spending will even be larger as tourism in the Province is skewed in favour of overseas tourist arrivals vis-à-vis domestic arrivals and arrivals from African countries. Of the 8 million overseas tourists in 2010, an estimated 1.75 million<sup>18</sup> came to the Western

<sup>17</sup> Nationally the direct contribution of tourism to GDP in 2009 is estimated at 3 per cent (R71.4 billion); the direct contribution to employment is 2.9 per cent (389 100 jobs). Adding the indirect impact of tourism, the contribution to GDP is estimated around 8 per cent (R190 billion; 2009) and 7 per cent (920 000) in terms of employment (SA Tourism Annual Report, 2010/11).

<sup>18</sup> At the time of writing the audited 2010 figure was not available; this is an estimate assuming the Western Cape share of international arrivals remained unchanged from 2009.

Cape, increasing from 790 000 in 1999 at a compound annual growth rate of 8.6 per cent. However, greater exposure to foreign tourists meant that the Western Cape was more affected by the global recession, with international arrivals contracting by 7.5 per cent and 6.2 per cent in 2008 and 2009, respectively. Contrary to the rest of the country, the overseas tourism segment in the Western Cape constitutes a larger share of the total tourism market.

The long run prospects for tourism remain bright but in the foreseeable future economic growth in the advanced economies (South Africa's main tourist origins) are expected to be low, which will impact negatively on the industry for the foreseeable future. In view of this prospect, it is unlikely that the 7 per cent compound annual growth rate in international arrivals (nationally) during the 2000 to 2010 period will be matched over the next 4 to 5 years. The 15 per cent jump in international tourist arrivals in 2010 is encouraging and it is hoped that the World Cup injection will be sustained in the coming years.

### **Business process outsourcing (BPO)/call centres**

Call centres and Business Process Outsourcing (BPO) have become blossoming industries in the Western Cape. The sector is currently still small in the bigger context (annual turnover of the provincial industry is estimated between R2.5 to R3.3 billion), but it is growing rapidly; the industry employed 27 800 staff in 2007/08, up from 10 000 in 2004. It is a labour intensive, export oriented services industry, consisting of a whole range of activities, including human resources and payroll administration, finance & accounting back office operations, asset management back office functions, banking and related data processing, website and database maintenance, travel and tourism management functions. The most important markets are the UK, USA and Europe; and other EU countries. India is a key competing service provider.

Currently the Department of Economic Development and Tourism focuses its development support on the offshore sector. From a base of 5 000 jobs, the aim is to create 1 700 new jobs in the offshore sector by March 2012, and an additional 4 200 by March 2013. The trend of BPO off-shoring is set to continue, with large skilled worker shortages projected for countries like the USA (17 million by 2025), France, Germany and Spain (short 3 million each) and Italy and the UK (short 2 million each) (Wesgro, 2011: 19).

The industry operates in a very competitive international market; consequently, the rand exchange rate is a key variable. While the strength of the rand exchange rate is an inhibiting factor, the growth of the local industry is currently driven by the capturing of new market share, which mitigates the impact of the rand exchange rate. Furthermore, in recessionary conditions companies tend to outsource operations as a means to cut cost, which obviously benefits the BPO sector.

## **3.7 Western Cape Export Development Policy**

### **3.7.1 National Industrial Development Policy**

In the 2010 PERO attention was drawn to the National Industrial Policy Framework (NIPF) and the Industrial Policy Action Plans (IPAPs), the current IPAP that covers period 2010/11 to 2012/13 in particular. 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. Consideration should be given to region specific conditions and the growth potential of a region which could be significantly different from what applies at the national level. For example: Sector emphases could differ from what applies at the national level. However, the Western Cape Government seeks to align its industrial policy with national policies. The Department of Economic Development and Tourism closely monitors and, where required, participate in changes and new developments in national policy and has specifically taken note of the sector-oriented action programmes that are relevant for the Province.

In November 2010 the New Growth Path (NGP) was introduced by the new Ministry and Department of Economic Development. The NGP is an important development that has attracted much comment and media attention and will clearly be at the centre of the economic policy discourse for some time to come. The policy statement presents a number of diagnostic views on South African development performance, leading to the identification of areas of priority in driving job creation and economic growth. Policy packages are proposed and a framework for the implementation of the policies is advanced.

Essentially the NGP is presented as reflecting "Government's commitment to prioritising employment creation in all economic policies" (Minister of Economic Development, 2010). The Western Cape Provincial Government is taking cognisance of the NGP's prioritisation of efforts to support employment creation in certain key sectors such as infrastructure, the agriculture value chain, the green economy, manufacturing sectors included in the second IPAP and tourism and high-level services, which neatly fit into the development priorities and policies deemed appropriate for the Province<sup>19</sup>. The general theme of this chapter, however, is that where appropriate the Provincial Government will seek to develop these sectors by facilitating the production of exports services and goods to other regions in South Africa and abroad.

<sup>19</sup> The only priority sector identified in the NGP that could not be regarded as of particular significance for the Western Cape is the mining value chain.

The Provincial Government has also taken note of the *Diagnostic Overview* prepared by the National Planning Commission (NPC) and the overview of the key challenges facing South Africa in combating poverty and inequality. To enhance policy efficiency and improved outcomes, the Province will also seek to align its economic and social development policies with the final plan and its eventual implementation.

### **3.7.2 Provincial industrial policy and export-oriented development**

Export promotion policies may to some extent dovetail with industrial policy, but there are at least two factors that in some instances may require a review of the conventional industrial policy approach. These factors are both emerging forces of the rapidly changing global market place. In this dynamic environment an economy like the Western Cape may be caught between two very strong forces. The first factor is the aggressive push by the Chinese and other South East Asian economies to gain international market share in consumer products. The second factor relates to the big retailers in developed economies that are moving towards greater value chain integration and the global sourcing of products.

For the most part all other aspects of provincial industrial policy should contain an important element of export promotion. In some instances it may require a shift of focus or a stronger emphasis of certain aspects of the policy, but in general it must be an integrated package. Industrial policy must be export-oriented and export promotion must be an extension of industrial policy.

As noted earlier, exports from the Western Cape still largely depend on agriculture and the processing of agricultural goods. This reflects a natural comparative advantage of a winter rainfall area with a Mediterranean-type climate in the Southern hemisphere that provides a basis for export of fruit and processed fruit products, as well as Rooibos, fynbos, aloe and other naturally derived products. The extended coastline also serves as source of fishing and aquaculture. There can be little doubt about the fact that agriculture and the processing industry through improvements in productivity, investment, innovative product development, market diversification and growth in market share can be an expanding source of employment-creating export production.

However, it is equally true that the development challenges facing the Western Cape demand that export production outside the food value chain be expanded strongly. This requires building on the successes achieved in the services sector but also of creating export-based growth opportunities in manufacturing. As noted in section 3.5 a provincial government, with one important exception that will be explained below, has little influence over demand factors that drive export-oriented growth. However, it can have a significant impact on the supply side of growth.

A number of relatively small but very successful export manufacturers in the Western Cape, mostly operating in niche markets, serve as evidence that the Province can be a base for growing diversified export production that can successfully compete on the international market. The fact that the firms operate in niche markets means that they are not exposed to the low-cost competition that characterises mass markets. In a world of segmented and differentiated markets niches exist that create scope for substantial growth opportunities. The Western Cape firms that currently produce for such niche markets share a common characteristic with regard to the quality of human resources, first, in having outstanding entrepreneurial flair and innovative management, and second, in having access to skilled and semi-skilled labour. While the quality of human capital is fundamental to successful growth in export markets, the support of adequate and well maintained infrastructure is also crucial.

#### **An unlikely technology niche**

Although South Africa does not have an aircraft industry, most of the seat frames for first class and business class seats in Boeing and Airbus aeroplanes are manufactured in the Western Cape. A local firm has established itself as a leading designer and supplier to the world of advanced composite seat frames and other aircraft parts.

The company is not able to compete with big international producers of economy class aircraft seats where economies of scale are important to be competitive. However, first class and business class seats are much more airline specific and therefore require rapid and flexible design capacity, expertise in the moulding of composite materials and efficient delivery times for short production runs.

The firm is therefore competitive in this niche market because of its ability to innovate and stay abreast of technological developments. Although it can remain competitive in this niche market because it has access to the required engineering skills, it is also dependent on its workers being in possession of the technical skills that such a niche market requires. The slow growth of skilled labour in the Western Cape and the significant cost the company is incurring to train its workers is posing a threat to it retaining its competitive position. Red tape is one of the reasons that the company is not accessing industry SETA funding for training.

Another factor that may prompt the company to rethink its future strategy is the dependability of electricity supply. Its manufacturing processes are critically dependent on a constant and uninterrupted electricity supply and the company will become severely disadvantaged should electricity supply become unreliable.

The Western Cape Government can and does play an important role in expanding the export-oriented manufacturing base of the region by actively implementing policy measures aimed at the supply side of such manufacturing. Developing and maintaining appropriate infrastructure and devising and implementing ways of developing human capital count among important steps in this regard. Since entrepreneurial talent, high skilled labour and professional management tend to be highly mobile, the provincial government also has a role to play in creating a favourable living environment that will attract and keep these talents in the region. It is also important to create awareness among the public and business community in general of the importance of export growth. A culture of export orientation can be created by widely publicised recognition given to export performers.

**What should the Provincial Government do to promote exports? Suggestions derived from case studies of selected export manufacturers**

- 1) Successful manufacturing exporters did not express an expectation, or even desire, that financial or tax support from the Provincial Government should be a means of promoting exports.
- 2) The training of skilled and artisanal labour is a common problem and many manufacturers felt that their competitiveness will be strengthened if government could play a stronger role in training. Most of these companies did not access SETA funding because of the perception that it is too cumbersome and time consuming. Some of them expressed the view that this is an area where the Province could support manufacturers in the Western Cape.
- 3) Some of the exporters were finding it difficult to penetrate the emerging Asian markets due to institutional constraints. They saw a role for the Province or some official agency in the Western Cape to help in obtaining and disseminating information, build networks and facilitate the opening of doors by establishing cooperation agreements with governmental structures in Asian economies.
- 4) Many of the exporters emphasised the future importance of Africa as an export destination. Government tenders were seen by some exporters as a means of helping these companies to build a track record and obtain an 'official sanction'. This was seen as an area where the Province could play a significant role.
- 5) Some exporters expressed the view that the Provincial Government also had a potential role to play in identifying and supporting companies that have already succeeded in penetrating export markets.
- 6) As far as demand side intervention is concerned, the limited capacity of a provincial government to provide support has been noted earlier. However, it would appear that one possibility does exist and that is the conclusion of 'cooperation' agreements with second tier governments in Latin America and Asia in particular. This is a demand side intervention worth exploring within the framework of the constitutional dispensation of South Africa and in full consultation with the relevant national authorities and agencies.
- 7) Finally, it needs to be emphasised that the Provincial Government and the development agencies in the Province be alert to the need to expand current efforts to provide a conduit to and assistance in accessing incentives that are available from the national government.



### **3.8 Conclusion**

Service industries, especially with trade, finance and insurance and business services with their combined contribution of about 46 per cent to the region's GDP, and the agricultural value chain (primary production plus processing) are clearly the current mainstay of the Western Cape economy. This is not only reflected in the contribution to production and employment but also, especially as far as agriculture and processing is concerned, in their contribution to exports. The importance of services, which in finance and insurance and in business services are labour but relatively skill intensive, contributes to the structural imbalance that can be observed in the relatively pronounced diversion between growth in real production and growth in employment.

The outlook for growth of the different sectors will depend on developments in the global economy. Some industries have experienced rapid growth in recent years, but typically these are small industries that grew off a low base. Their outlook for growth, as well as the growth prospects of the larger industries, will depend on whether the region's main trading partners can avoid a recession and resume economic growth.

Being more exposed to export trade than the rest of South Africa, the Western Cape suffered relatively more from the global downturn. However, this does not mean that exports should not be encouraged as a source of economic growth. Theory and experience show that export orientation is the most appropriate route to diversified economic growth. The question is: can the provincial government do anything to encourage export-based growth? It is concluded that the shift to the supply side of growth creates room for a second tier government to pro-actively encourage and facilitate export production.

# Annexure B

## Elements of trade and regional (spatial) theory

Adam Smith argued that specialisation and the pattern of the trade will be determined by differences in *absolute* costs in the production of goods. David Ricardo improved on this theory by arguing that *relative* cost differences explain the selection of goods that a country can produce and export profitably, while importing those goods that it produces relatively less cost efficient. This insight gave birth to the theory of comparative cost advantage as the corner stone of international trade and paved the way for an understanding that all countries, or trading entities such as regions within a country, can benefit from trade even if the area experiences absolute cost disadvantages in the production of all goods.

But what determines differences in comparative advantage? The conventional explanation, according to the Heckscher-Ohlin theory, is that differences in the relative abundance of factors of production determine comparative cost advantages. Considering two factors, capital and labour, a country with a relative abundance of capital will have a comparative advantage in the production of capital-intensive goods while a country with abundant labour will be relatively more efficient in the production of labour-intensive goods. Although Heckscher-Ohlin only considered two factors of production (capital and labour) the general principle will hold if natural resources and human capital embodied in labour skills are included in the range of factors of production. Following this route it is possible to explain the comparative advantage that the Western Cape has in certain agricultural products and the associated processing industries by considering the quality and the location of land that determine weather patterns.

Trade-driven production does not occur in a spatial vacuum. It locates at specific geographic points. Recent developments in seeking explanations for the geographic distribution of economic activity and the pattern of trade by combining economic geography and international trade theory have broadened our understanding of competitiveness in international markets. Economic geography provides a framework that can be used to explain divergences in regional economic activity, the location of manufacturing industry in particular, all based on the existence of external economies (economies of scale). The latter in turn, according to new developments in trade theory, are important in understanding international trade patterns.

Paul Krugman (1991) distinguished between external economies that explain the localisation of a *particular* industry, that is the concentration of a particular industry in a specific region (for example, garment production in the Western Cape or motor vehicle assembly in the Eastern Cape) and explanations of why industry *in general* tend to concentrate in one or a few regions within an economy, as found in the three coastal metropolitan areas and the dominant Pretoria-Johannesburg-Vereeniging area of South Africa.

Three reasons are usually given for the geographic concentration of a particular industry:

- The concentration of an industry creates external benefits arising from a supply of readily available skilled workers, for example, garment machinists;
- The localisation of an industry leads to a supply of specialised services and inputs; and
- The spill over of information within a cluster of firms operating within an industry facilitate production in a way not available to spatially isolated producers, which means that the production function of a clustered producer will differ from that of an isolated firm.

The second reason raised above can, in terms of causation, also be turned around by arguing that the existence of specialised inputs can lead to the concentration of a particular industry. The existence of agricultural production which requires processing at or near the source of primary production can lead to the concentration of manufacturing in the processing of these inputs and commensurately the development of specialised services and other inputs, all through forward and backward linkages. Value chains in the Western Cape food and beverage industries serve as examples of these linkages.

Turning to the explanation of the concentration of manufacturing in general, the interplay between economies of scale and transportation costs becomes the focal point. To quote Krugman (1991: 485) in this regard: "Because of economies of scale, production of each manufactured good will take place at only a limited number of sites. Other things equal, the preferred sites will be those with relatively large nearby demand, since producing near one's main market minimises transportation costs. Other locations will then be served from these centrally located sites".

### **Are industry clusters the future for manufacturing in the Western Cape?**

It has become conventional wisdom that the major route towards success in manufacturing, especially for the export market, is the formation of clusters of related manufacturers producing complimentary products, or components of an assembled product, or producing for the different stages of the production value chain. However, the export success stories in the Western Cape might well question the relevance of this model for the expansion of manufactured exports from the Western Cape.

With the exception of fruit and other agricultural value-added processing, most recent export success stories appear to be entrepreneurial and innovation driven, rather than emerging or benefitting from an industry cluster. Most of them produce for niche markets and rely on skilled labour that can manufacture the innovative and quality products that are necessary to ensure international competitiveness. Most of them would also not be able to survive without exports as the domestic market for their products is too small.

It may therefore be necessary to investigate whether the Provincial Government is doing enough, or is effective in what it does, to promote the emergence of these entrepreneurial and innovative firms and to support them through the initial phases of establishing a presence in international markets. However, where an infant industry cluster does emerge, as is possibly the case in yacht building, the institutions and political will should be there to help develop such a cluster.

Having established reasons for the spatial concentration of industry the question remains: what have these got to do with international and even interregional trade? At this point we return to the earlier discussion by raising the fact that comparative cost advantage theory cannot explain intra-industry trade which represents the substantial portion of trade in similar goods, for example, motor vehicles and clothing, between countries.

New Trade Theory finds the explanation for intra-industry trade in the observation (assumption) that consumers prefer a diverse choice of brands in choosing among similar but differentiated products. For example, a Frenchman might look for the attributes or style found in a German or Italian car while a German might find a French or Italian-made vehicle attractive. The goods are traded across borders regardless of the fact that in terms of factor combination and comparative cost advantage the situation will be the same in the trading economies. A second crucial observation or assumption is that producers of differentiated products will benefit from economies of scale, which imply lower unit cost of production associated with increases in the volume (scale) of production. Essentially, thus, production of a variety of brands will be distributed across the globe but simultaneously be concentrated in regions of agglomeration that epitomises the full range of externalities discussed above.

In this model of trade the assumption of perfect competition (all producers have to accept the market price) does not apply. Monopolistic conditions apply with producers being price makers earning monopolistic profits in segmented markets. Also, transportation costs remain an important factor. These costs could broadly be defined as costs of doing business across borders, and would include freight, insurance, tariff and non-tariff border constraints, as well as cultural considerations of having to sell in a market different from your own. Transport costs explain why some goods and services are non-tradable, even within national economies and between regions.

Consider milk: fresh milk is highly perishable and can only be traded over long distances (being a low value/high mass product) at very high transport cost, which cannot be absorbed in the market of destination. This is a constraint even in the domestic economy and on trade between regions. However, if milk is UHT-processed its shelf life is extended considerably, which allows it to become tradable. This explains why Western Cape primary milk producers at times face the competition in the domestic market of long life milk imported from Argentina and Uruguay.



# 4

## Labour market dynamics in the Western Cape

### Key findings:

- The population of the Western Cape in 2011 is estimated to be just under 5.3 million, representing 10.5 per cent of the national population. Of these, 3.5 million are between the ages of 15 and 65 years.
- Labour force participation in the Western Cape is high relative to the rest of the country. While 54 per cent of the national working age population is active in the narrow labour force, this is true of 67 per cent in the Province. The gap is particularly pronounced amongst Africans, 15 to 24 year olds and those with primary or incomplete secondary education.
- Employment remains stagnant, having changed little between 2008 and 2011. Coloureds account for 53 per cent of employment, with Africans and Whites accounting for 30 per cent and 16 per cent, respectively.
- Formal employment is concentrated within four industries – community, social and personal services; wholesale and retail trade; manufacturing; and financial and business services – which account for more than three-quarters of formal employment. Agriculture, forestry and fishing appear to have been shedding jobs at a rapid pace over the period, in line with national trends.
- The informal sector in the Province is small relative to the national situation, with South Africa's informal sector itself being small relative to international standards. Support for this sector may encourage its growth, providing gainful employment and access to wage income for the unemployed.
- Narrow unemployment has grown rapidly since 2008 by more than 9 per cent per annum. As a result, there no longer is a gap between the Western Cape and most other provinces in terms of narrow unemployment rates. Despite this, the almost complete lack of discouraged workseekers in the Province means that a wide gap remains in terms of expanded unemployment rates.

- Race continues to be related to outcomes within the labour market, both nationally and provincially. Relative to their share of the labour force, Africans are under-represented within formal employment and over-represented in both informal employment and unemployment.

## 4.1 Introduction

The labour market remains central to the poverty and inequality challenges confronting South Africa today. Employment provides access to incomes and, therefore, promoting employment growth remains a key challenge for policymakers who aim to address both poverty and inequality. The impact of greater employment on poverty is straightforward in the sense that greater employment is associated with greater wage income in the aggregate, but it also results in a decline in dependency rates, with fewer individuals dependent on the incomes of the employed. At the same time, increased employment may certainly help to address South Africa's extreme inequalities.

The recessionary impact of the global financial crisis on the South African economy after an extended period of uninterrupted economic growth was highlighted in Chapter 2. During the mid-2000s important gains in employment were made. The onset of the recession however had negative effects on both output and employment. While the effects of the recession on output were short lived, the longer lasting impact on the labour market has been significant. Indeed, the first quarter of 2011 marked the first time since the second quarter of 2009 that the labour market did not record a year-on-year contraction in employment. As will be seen in this chapter, the Western Cape did not escape the labour market turmoil that characterises the national labour market. Indeed, unemployment in the Province has risen rapidly.

This chapter presents developments in the Western Cape labour market between the first quarters of 2008 and 2011. The analysis is based, for the most part, on the first quarter 2008 and first quarter 2011 rounds of the Quarterly Labour Force Survey (QLFS) – a nationally representative survey conducted quarterly by Statistics South Africa (StatsSA). The one key gap in the analysis is wages. The introduction of the QLFS saw the abandonment of the wage module in the survey. Although it was reintroduced in late 2010, the published data was unusable and was subsequently withdrawn by StatsSA. As a result a better understanding of developments within the labour market is constrained and quite likely hampering policymaking in the process.

The chapter is divided into five main sections: first, an overview of national and provincial labour market aggregates; second, a consideration of the structure of the Western Cape population relative to the South African population, with a particular focus on the relationship between the demographic structure of the population and the labour market, both present

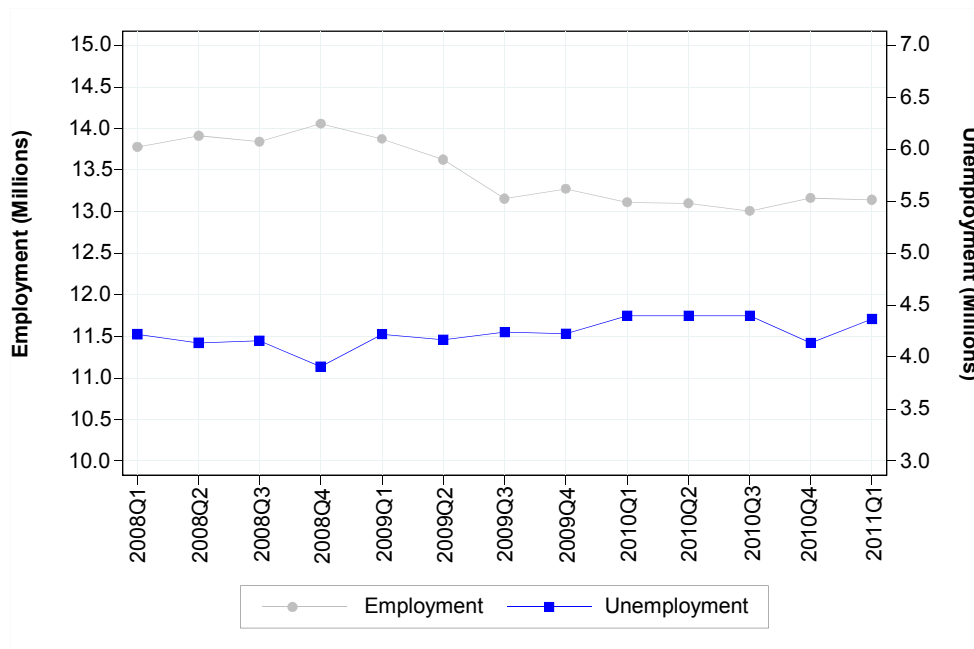


and future; third, an analysis of the provincial labour force; fourth, provincial employment; and fifth, an analysis of unemployment.

## 4.2 Overview of the Labour Market

Having finally begun to create jobs in sufficient numbers to reduce the unemployment rate as well as the absolute number of unemployed people during the mid-2000s, the recession of 2008/09 triggered a massive loss of employment (Figure 4.1). Within the nine months between the fourth quarter of 2008 and third quarter 2009, the South African economy shed 900 000 jobs, while a further 150 000 jobs were lost during the subsequent 12 month period. On average, employment has contracted by 1.6 per cent per annum over the three years since the first quarter of 2008.

**Figure 4.1 National employment and narrow unemployment trends since 2008Q1**



Note: Bands around the estimates represent the 95 per cent confidence intervals.

Source: Stats SA (various years); own calculations

While employment fell in response to the domestic recession, this did not translate directly into higher unemployment levels. Narrow unemployment rose as employment fell, but not nearly at the same pace: between the fourth quarter of 2008 and third quarter of 2009, the rise in narrow unemployment represented just one-third of the fall in employment. Instead, there was rapid growth in discouragement, with the number of discouraged workseekers growing from less than 1.2 million in the fourth quarter of 2008 to nearly 1.7 million in the third quarter of 2009. By the first quarter of 2011, this number had grown further to 2.2 million, a near doubling in just over two years.

**Table 4.1 Overview of the Western Cape labour market, 2011**

	Working Age Population		Employed		Narrow Unemployed		Narrow Labour Force		Narrow Labour Force Participation Rate	Narrow Unemployment Rate
	Total ('000s)	Share (%)	Total ('000s)	Share (%)	Total ('000s)	Share (%)	Total ('000s)	Share (%)	(%)	(%)
<b>Total</b>	<b>3 450</b>	<b>100.0</b>	<b>1 789</b>	<b>100.0</b>	<b>510</b>	<b>100.0</b>	<b>2 300</b>	<b>100.0</b>	<b>66.7</b>	<b>22.2</b>
<b>By Race</b>										
African	984	28.5	466	26.1	221	43.2	687	29.9	69.8	32.1
Coloured	1 884	54.6	958	53.5	268	52.6	1 226	53.3	65.1	21.9
White	568	16.5	355	19.8	21	4.2	376	16.4	66.2	5.6
<b>By Gender</b>										
Male	1 678	48.6	975	54.5	258	50.5	1 232	53.6	73.4	20.9
Female	1 772	51.4	815	45.5	253	49.5	1 068	46.4	60.2	23.7
<b>By Age Group</b>										
15 - 24 years	882	25.6	196	10.9	168	32.8	363	15.8	41.2	46.2
25 - 34 years	957	27.7	604	33.7	200	39.2	804	35.0	84.0	24.9
35 - 44 years	743	21.5	522	29.2	98	19.3	620	27.0	83.5	15.8
45 - 54 years	520	15.1	339	19.0	36	7.1	376	16.3	72.2	9.7
55 - 65 years	348	10.1	128	7.2	8	1.6	136	5.9	39.2	5.9
<b>By Education</b>										
No education	44	1.3	18	1.0	1	0.1	19	0.8	43.5	3.9
Grades 0 - 7	479	13.9	194	10.9	81	15.8	275	11.9	57.3	29.3
Grades 8 - 11	1 447	41.9	601	33.6	268	52.5	869	37.8	60.0	30.8
Grade 12	931	27.0	545	30.5	135	26.4	680	29.6	73.0	19.8
Dipl/Cert	292	8.5	234	13.1	15	3.0	250	10.9	85.5	6.2
Degree	198	5.7	165	9.2	8	1.7	173	7.5	87.7	4.9

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

Source: StatsSA (2008; 2011b); own calculations

A central theme of this chapter is that while the South African economy has recovered from the recession, as discussed in Chapter 2, the labour market shows no real sign of recovery. Nationally, the working age population reached 32.5 million as shown in the first quarter of 2011, nearly 3.5 million of whom resided in the Western Cape (Table 4.2). Growth in the working age population over the past three years has been slightly more rapid in the Western Cape than nationally, a phenomenon that may be related to such factors as differing population age structures and internal migration patterns. This expansion in the working age population suggests continuing pressure exerted on the economy to expand employment opportunities in order to absorb new labour market entrants.

**Table 4.2 Labour market aggregates, 2008 and 2011**

	2008Q1	2011Q1	Change	
	Thousands	Thousands	Thousands	Per cent
<b>Western Cape</b>				
Working Age Population	3 273	3 450	178	1.8 p.a.
Employment	1 816	1 789	-26	-0.5 p.a.
Narrow Unemployment	393	510	117	9.1 p.a. *
Narrow Labour Force	2 209	2 300	91	1.4 p.a.
Expanded Unemployment	438	530	92	6.5 p.a.
Expanded Labour Force	2 254	2 319	66	1.0 p.a.
Discouraged Workseekers	45	19	-26	-24.4 p.a. *
<b>South Africa</b>				
Working Age Population	30 963	32 520	1 557	1.6 p.a.
Employment	13 778	13 145	-633	-1.6 p.a. †
Narrow Unemployment	4 222	4 365	144	1.1 p.a.
Narrow Labour Force	18 000	17 510	-490	-0.9 p.a.
Expanded Unemployment	5 400	6 588	1 188	6.9 p.a. *
Expanded Labour Force	19 178	19 733	555	1.0 p.a.
Discouraged Workseekers	1 179	2 223	1 044	23.6 p.a. *

Note: An asterisk (\*) denotes a statistically significant change between 2008 and 2011 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: StatsSA (2008; 2011b); own calculations

Nationally, narrow unemployment has grown slowly over the period at 1.1 per cent per annum, although this change is not statistically significant. In contrast, the number of individuals unemployed according to the expanded definition has grown by nearly seven per cent per annum since 2008 and totalled 6.6 million by early 2011. The reason for this rapid growth is evident in the estimates of discouraged workseekers, which have seen growth of nearly 25 per cent per annum over the last three years. Around half a million individuals in the Western Cape were unemployed in the first quarter of 2011, up from just under 400 000 in 2008, representing growth of 9.1 per cent per annum over the three-year period. Provincial employment appears to have been stagnant over the period at around 1.8 million.

An encouraging trend is the falling number of discouraged workseekers in the Western Cape, which declined from 45 000 in the first quarter of 2008 to 19 000 in the first quarter of 2011. This trend stands in stark contrast to the national experience and has resulted in an increased disparity in terms of discouragement between the Province and the rest of the country: while discouraged workseekers are a significant proportion of the expanded labour force nationally (11.3 per cent), they constitute less than one per cent of the Province's expanded labour force.

**Confidence intervals**

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.

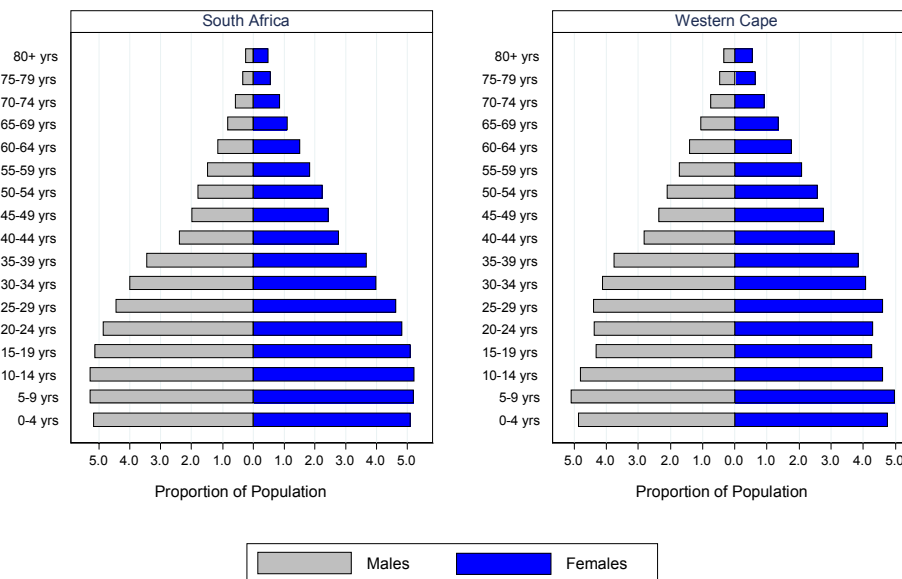
*Source: PERO 2005*

**4.3 The Western Cape Population**

According to the 2011 mid-year population estimates, almost 5.3 million people live in the Western Cape, constituting 10.5 per cent of South Africa's total population. The Province is the fifth most populous province in the country behind Gauteng, KwaZulu-Natal, Eastern Cape and Limpopo (StatsSA 2011). The provincial total fertility rate for the period between 2006 and 2011 is estimated at 2.3 births per woman, marginally lower than the preceding five-year period and similarly lower than the national average of 2.5 births per woman (StatsSA 2011).

The structure of the population is generally similar between the Western Cape and the whole of South Africa: nearly two-thirds (64.8 per cent) of the provincial population are between the ages of 15 and 64 years, while 29.1 per cent are younger than 15 years and 6.1 per cent are 65 years or older, compared to national proportions of 63.7 per cent, 31.3 per cent and 5.0 per cent respectively. These figures point to a slightly older population and larger share of working age people in the Western Cape than is the case nationally. A more detailed comparison of the national and provincial population pyramids (Figure 4.2) confirms this: the provincial population pyramid is narrower than the national pyramid particularly between the ages of 10 and 29 years, and is marginally broader at all ages from 30 years and upwards.

Since the working age population typically represents the age group upon which the responsibility for supporting children and the elderly falls, it is useful to relate the sizes of these age-groups in what is referred to as the dependency ratio. The dependency ratio measures the number of children (0 to 14 years) and the elderly (65 years and older) relative to working age adults. A higher number means that the working age population is required to support a larger number of dependents and vice versa. In mid-2011 it is estimated that 54 children and elderly individuals depend on every 100 working age adults in the Western Cape (the dependency ratio is 0.54) (own calculations, StatsSA 2011). Compared to the national dependency ratio of 0.56, the burden on working age population in the Western Cape is slightly lower.

**Figure 4.2 Age structures of the South African and Western Cape populations, 2011**

Source: StatsSA (2011a); own calculations

As relatively young populations begin to age, more people begin entering the working age population. This process presents 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 in equipping 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 between 2006 and 2011 is estimated at more than 95 000 individuals, compared to over 365 000 in Gauteng (StatsSA 2011). Total migration flows for the Western Cape are estimated at just over 205 000 in-migrants compared to around 110 000 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 just over 40 000 migrants from the Western Cape, with more than 48 000 individuals estimated to have moved in the opposite direction, while

the figures for the Eastern Cape are around 30 000 and 105 000 respectively (StatsSA 2011).

Migration holds both benefits and costs for 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.

### 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. (The labour force may be referred to as narrow or expanded, depending on the definition of unemployment used.)

**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 include 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 that is 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” (StatsSA 2008a: 40).

**Structural Unemployment:** Results from a mismatch between the supply of and demand for labour, often in terms of skills profiles. Such unemployment is called structural unemployment because it is often associated with the changing structure of the economy, as declining sectors shed jobs or as technology changes result in job losses.

## 4.4 The Western Cape Labour Force

The labour force represents the supply of labour available to the economy and comprises all individuals between the ages of 15 and 65 years who are either employed or unemployed. Depending on the definition of unemployment used, the labour force may be referred to as either narrow or broad. The difference between these two definitions is that the narrow labour force requires the unemployed to actively take steps to find employment or start their own businesses, while the broad definition does not have this requirement.

The Western Cape's narrow labour force is estimated at 2.3 million individuals in the first quarter of 2011, the majority – 53.3 per cent – of whom are Coloured (Table 4.3). The African labour force numbered almost 700 000, or nearly 30 per cent of the labour force, while Whites comprised 16.4 per cent of the labour force in early 2011. The provincial sample includes very few Asians and their numbers are therefore not detailed here or elsewhere in the chapter. The narrow labour force appears to have grown somewhat over the period, although this change is not statistically significant.

**Table 4.3 Composition of the Western Cape narrow labour force, 2008 and 2011**

	2008Q1		2011Q1		Change	
	Thousands	Per cent Share	Thousands	Per cent Share	Thousands	Per cent
<b>Narrow Labour Force</b>	2 209	100.0	2 300	100.0	91	1.4 p.a.
<b>By Race</b>						
African	640	29.0	687	29.9	47	2.4 p.a.
Coloured	1 211	54.8	1 226	53.3	16	0.4 p.a.
White	344	15.6	376	16.4	32	3.0 p.a.
<b>By Gender</b>						
Male	1 203	54.5	1 232	53.6	29	0.8 p.a.
Female	1 006	45.5	1 068	46.4	62	2.0 p.a.
<b>By Age Group</b>						
15 to 24 years	403	18.3	363	15.8	-40	-3.4 p.a.
25 to 34 years	770	34.9	804	35.0	34	1.4 p.a.
35 to 44 years	574	26.0	620	27.0	46	2.6 p.a.
45 to 54 years	329	14.9	376	16.3	47	4.5 p.a.
55 to 65 years	132	6.0	136	5.9	5	1.2 p.a.
<b>By Educational Attainment</b>						
No education	42	1.9	19	0.8	-23	-22.9 p.a. *
Grades 0 – 7	337	15.3	275	11.9	-62	-6.6 p.a.
Grades 8 – 11	838	38.0	869	37.8	30	1.2 p.a.
Grade 12	630	28.5	680	29.6	50	2.6 p.a.
Diploma/Certificate	207	9.4	250	10.9	43	6.5 p.a.
Degree	128	5.8	173	7.5	46	10.7 p.a. †

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2011 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. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: StatsSA (2008; 2011b); own calculations

Men constitute the majority of the provincial labour force, accounting for 53.6 per cent of the labour force, while women make up the remaining proportion and number nearly 1.1 million. The largest age-groups within the labour force are 25 to 34 year olds (approximately 804 000 individuals in the first quarter of 2011) and 35 to 44 year olds (620 000 individuals). Together, these two age-groups account for more than 60 per cent of the provincial labour force. The youngest and oldest age-groups account for the smallest shares of the labour force, with the size of the 15 to 24 year age-group declining, though statistically insignificantly, in absolute terms.

Finally, in terms of educational attainment, those with incomplete secondary education (grade 8 through grade 11) represent the largest group accounting for 38 per cent of the labour force. They are followed by matriculants (29.6 per cent). Generally, although this is not confirmed in terms of statistical significance, it appears that the labour force continues its shift towards higher educational attainment: growth rates at the higher end of the educational spectrum are relatively high, while those at the lower end are negative. Indeed, the only statistically significant changes observed in the structure of the provincial labour force are the decline in the number of individuals with no formal education (falling from around 40 000 in the first quarter of 2008 to under 20 000 three years later) and the rise in the number with degrees (growing by an average annual rate of 10.7 per cent per annum).

The decision to enter the labour market is influenced by a number of factors, such as potential labour market earnings, family commitments, the existence of other income earners within the household, and the expected probability of finding employment. The likelihood that individuals enter the labour force is 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 and can be calculated for the various constituent groups within the labour force. Two out of three working age individuals in the Western Cape were members of the labour force in the first quarter of 2011 and, at 66.7 per cent, the provincial LFPR is therefore nearly 13 percentage points above the national rate of 53.8 per cent (Figure 4.3).

Across the four covariates presented in the figure – race, gender, age and education – the Western Cape's higher rate of labour force participation is evident<sup>1</sup>. The national LFPR for Africans is considerably lower than that of their counterparts in the Western Cape (50.9 per cent compared to 69.8 per cent respectively), which is a statistically significant difference. National and provincial LFPRs for Coloureds and Whites are similar, ranging between 63 per cent and 68 per cent. What distinguishes the Western Cape from the rest of the country is the fact that LFPRs do not differ statistically across the three race

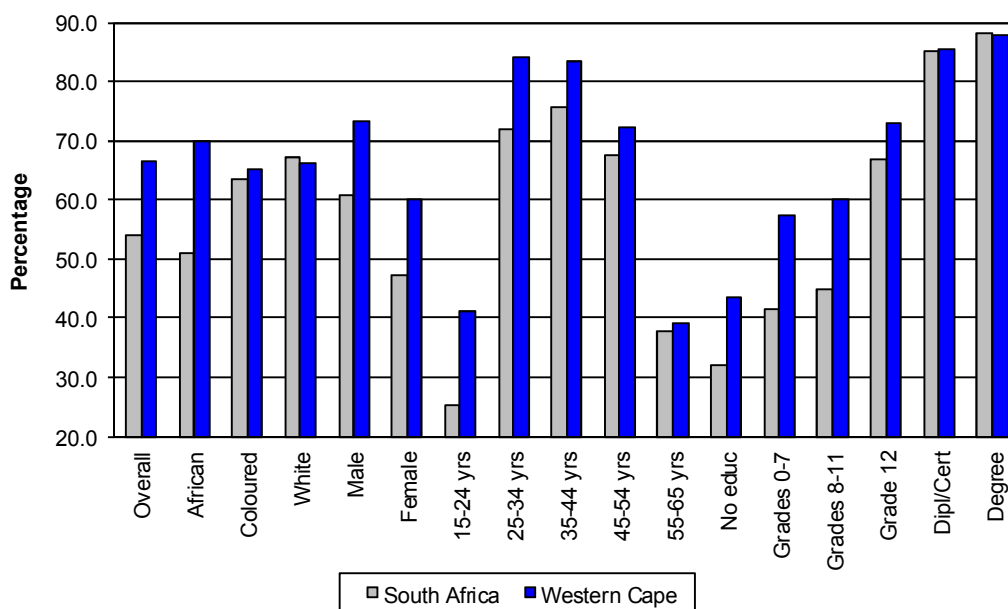
<sup>1</sup> Details can be found in the annexure.



groups presented here. In other words, no race group is more or less likely to participate in the provincial labour force than any other.

The higher provincial LFPR is echoed across gender. Nearly three-quarters (73.4 per cent) of working age men in the Western Cape participate in the labour force compared to an estimate of 60.7 per cent nationally. A gap of similar magnitude (approximately 13 percentage points) is evident for women. Despite this, it is significant that the gender gaps in the LFPRs are identical for South Africa as a whole and the Western Cape, at just over 13 percentage points. For all age-groups except 55 to 65 year olds, the LFPR in the Province is statistically higher than is the case nationally. The gap, though, is widest at the lower ages: the provincial LFPR amongst 45 to 54 year olds is 4.7 percentage points higher than nationally, while the gap is 16.0 percentage points amongst 15 to 24 year olds. This latter gap is an important one to understand, since this is the age at which young people should be investing in their human capital through education, an activity that should typically prevent them from entering the labour force. A closer investigation of the reasons for non-participation in the narrow labour force reveals that, while 15 to 24 year olds in the Western Cape are twice as likely to be employed compared to the national figure (22.2 per cent compared to 12.7 per cent respectively), they are just as likely to be (broadly) unemployed and considerably less likely to be engaged in education.

**Figure 4.3 Labour force participation rates, 2011Q1**



Source: StatsSA (2011b); own calculations

Labour force participation is related to educational attainment, primarily through the relationship between educational attainment and availability of job opportunities and relative wages. The rate of labour force participation is, therefore, lowest amongst those without grade 12 and highest amongst those with diplomas, certificates or degrees. Between 85 and 90 per cent of holders of diplomas, certificates or degrees participate in the labour force, both nationally and provincially, and as a result the range of LFPRs between the least and most educated is narrower in the Western Cape than in South Africa as a whole (less than 45 percentage points, compared to more than 55 percentage points respectively).

## **4.5 Employment in the Western Cape**

### **4.5.1 Overview of total employment**

While there are numerous policy challenges facing all levels of government in South Africa, the need for effective strategies that address the unemployment challenge by creating decent work opportunities and developing our human capital endowment cannot be over-emphasised. South Africa's severe structural employment problem has left various groups, including women, the youth and the low skilled, particularly vulnerable.

Unfortunately, the past few years has seen much of the labour market progress – in terms of growing employment and declining unemployment – undone by the impact of the recession and the subsequent global economic uncertainties. As noted earlier, total employment has declined from its peak of over 14 million in the fourth quarter of 2008 to 13.1 million in the first quarter of 2011. Aggregate provincial employment has, though, emerged virtually unscathed but the past three years have not seen any real net addition of jobs to the provincial economy. Detailed estimates of employment in the Western Cape and South Africa are presented in Table 4.4.

Nationally, 13.1 million workers were employed in the first quarter of 2011, compared to 13.7 million three years earlier. This means that the proportion of working age adults that are employed declined to roughly 40 per cent from 44 per cent over this period. Given the average employment-to-population ratios in 2009 of roughly 60 per cent globally, 60 per cent amongst middle income countries and 65 per cent in Sub-Saharan Africa (World Bank 2011), the general lack of employment opportunities is clearly evident. Although the decline in total employment is not statistically significant, the estimates reveal labour market weakness across all race groups and for both men and women.

Table 4.4 Demographic characteristics of employment, 2008 and 2011

	2008Q1		2011Q1		Change	
	Thousands	Per cent Share	Thousands	Per cent Share	Thousands	Per cent
<b>WESTERN CAPE</b>						
<b>Total Employment</b>	<b>1 816</b>	<b>100.0</b>	<b>1 789</b>	<b>100.0</b>	<b>-26</b>	<b>-0.5 p.a.</b>
<b>By Race</b>						
African	479	26.4	466	26.1	-12	-0.9 p.a.
Coloured	999	55.0	958	53.5	-41	-1.4 p.a.
White	326	18.0	355	19.8	29	2.9 p.a.
<b>By Gender</b>						
Male	1016	55.9	975	54.5	-41	-1.4 p.a.
Female	800	44.1	815	45.5	15	0.6 p.a.
<b>By Age Group</b>						
15 to 24 years	259	14.2	196	10.9	-63	-8.9 p.a. *
25 to 34 years	617	34.0	604	33.7	-13	-0.7 p.a.
35 to 44 years	517	28.5	522	29.2	6	0.4 p.a.
45 to 54 years	299	16.5	339	19.0	40	4.3 p.a.
55 to 65 years	124	6.8	128	7.2	4	1.1 p.a.
<b>By Educational Attainment</b>						
No education	35	1.9	18	1.0	-17	-19.4 p.a. †
Grades 0 – 7	276	15.2	194	10.9	-81	-11.0 p.a. *
Grades 8 – 11	640	35.3	601	33.6	-39	-2.1 p.a.
Grade 12	526	29.0	545	30.5	19	1.2 p.a.
Diploma/Certificate	190	10.5	234	13.1	44	7.2 p.a.
Degree	124	6.8	165	9.2	41	9.9 p.a.
<b>SOUTH AFRICA</b>						
<b>Total Employment</b>	<b>13 778</b>	<b>100</b>	<b>13 145</b>	<b>100</b>	<b>-633</b>	<b>-1.6 p.a. †</b>
<b>By Race</b>						
African	9 595	69.6	9 169	69.8	-426	-1.5 p.a.
Coloured	1 553	11.3	1 497	11.4	-56	-1.2 p.a.
White	2 166	15.7	1 993	15.2	-172	-2.7 p.a.
<b>By Gender</b>						
Male	7 826	56.8	7 451	56.7	-375	-1.6 p.a.
Female	5 952	43.2	5 694	43.3	-258	-1.5 p.a.
<b>By Age Group</b>						
15 to 24 years	1 665	12.1	1 304	9.9	-361	-7.8 p.a. *
25 to 34 years	4 688	34.0	4 333	33.0	-355	-2.6 p.a. †
35 to 44 years	3 664	26.6	3 847	29.3	183	1.6 p.a.
45 to 54 years	2 591	18.8	2 519	19.2	-72	-0.9 p.a.
55 to 65 years	1 171	8.5	1 142	8.7	-28	-0.8 p.a.
<b>By Educational Attainment</b>						
No education	554	4.0	333	2.5	-221	-15.6 p.a. *
Grades 0 – 7	2 263	16.4	1 658	12.6	-605	-9.9 p.a. *
Grades 8 – 11	4 377	31.8	4 307	32.8	-70	-0.5 p.a.
Grade 12	3 943	28.6	3 965	30.2	21	0.2 p.a.
Diploma/Certificate	1 601	11.6	1 681	12.8	81	1.7 p.a.
Degree	873	6.3	1 045	8.0	173	6.2 p.a. †

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2011 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. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: StatsSA (2008; 2011b); own calculations

It appears that the brunt of the contraction in employment has been felt amongst the youngest groups within the workforce, with 15 to 24 year olds and 25 to 34 year olds both experiencing statistically significant declines in employment. Both age-groups shed in excess of 350 000 jobs over the three-year period, equivalent to average annual growth rates of -7.8 per cent and 2.6 per cent respectively. Similarly, workers whose low levels of education have historically marginalised them within the labour market have borne the vast majority of job losses. Employment amongst those with no education declined by 221 000 (at an average annual rate of -15.6 per cent), while those with only primary education saw employment fall by 605 000 (-9.9 per cent per annum). At the other end of the educational spectrum, it appears that those with higher levels of education have managed to escape significant job losses and employment even rose for those with degrees.

In the Western Cape 1.8 million workers were employed in the first quarter of 2011, virtually unchanged over the three year period<sup>2</sup>. As a result of the stability of employment over the period, there have been virtually no significant changes in employment levels across the demographic covariates presented. Coloureds continue to account for just over half (53.5 per cent) of all employment in the Western Cape in the first quarter of 2011, while Africans represent just over one-quarter (26.1 per cent). Male dominance within national employment is echoed in the Western Cape, with men accounting for 54.5 per cent of provincial employment. Almost two-thirds (62.9 per cent) of Western Cape employment is comprised of 25 to 44 year olds, while 45 to 54 year olds account for a further 19.0 per cent – all are very similar proportions to the national shares.

While 22.3 per cent of the employed have diplomas/certificates or degrees, almost 12 per cent do not have any education beyond grade 7. Employed individuals in the Province are somewhat more likely to have post-secondary education and less likely to have no or only primary education than is the case nationally. The only statistically significant changes in employment observed over the period occur amongst workers with very low levels of education. Thus, there were significant reductions in the numbers of workers with no education, falling by half to just 18 000, and with some primary education only, which contracted at an average rate of 11 per cent per annum to fall below 200 000 for the first time.

<sup>2</sup> The lack of change in employment estimates over the three-year period can be seen in the annexure.

Although few changes in Western Cape employment were found to be statistically significant, the estimates point to similar trends to those observed nationally insofar as age, gender and educational attainment are concerned. Importantly, however, employment absorption in the Province remains higher than is the case nationally, with around 52 per cent of the working age population in the Western Cape able to find employment, compared to approximately 40 per cent nationally.

Within total employment, however, various sectors are included and aggregate trends tend to obscure developments at a more detailed level. Within a developing country context, there are two distinctions that are particularly pertinent, namely formal and informal sector employment, and agricultural and non-agricultural employment. The former distinction is a complex one and there remains no universal definition of informal employment. StatsSA takes a firm-based approach and defines the informal sector as including work establishments that employ fewer than five employees, that do not deduct income tax from workers' salaries or wages, own-account workers and persons helping unpaid in their household business, who are not registered for either income tax or value added tax (StatsSA 2011).

Table 4.5 presents a disaggregation of employment into the agricultural sector, the non-agricultural sector and domestic work. Further, formal and informal sector employment are distinguished. Of South Africa's 13.1 million employed, less than 5 per cent were employed in agriculture in the first quarter of 2011. Nearly 87 per cent of the employed were engaged in non-agricultural activities, while 8.5 per cent were employed in domestic work. The informal sector accounts for fewer than two in ten workers (17.3 per cent) in South Africa, virtually all of whom are employed outside of agriculture. The estimates reveal weakness in employment across all sectors, although it is only in formal and informal agriculture that the declines over the period were statistically significant: informal agricultural employment declined by two-fifths over the period, while formal agricultural employment declined by one-fifth.

**Table 4.5 Sector decomposition of total employment, 2008 and 2011**

	2008Q1		2011Q1		Change	
	Thousands	Per cent Share	Thousands	Per cent Share	Thousands	Per cent
<b>WESTERN CAPE</b>						
<b>Total Employment</b>	<b>1 816</b>	<b>100.0</b>	<b>1 789</b>	<b>100</b>	<b>-26</b>	<b>-0.5 p.a.</b>
Agriculture	175	9.6	122	6.8	-53	-11.4 p.a.
Formal Agriculture	166	9.1	115	6.5	-51	-11.4 p.a.
Informal Agriculture	9	0.5	6	0.3	-3	-11.0 p.a.
Non-Agriculture	1 546	85.1	1 562	87.3	16	0.3 p.a.
Formal Non-Agriculture	1 362	75.0	1 370	76.6	8	0.2 p.a.
Informal Non-Agriculture	184	10.1	192	10.7	8	1.4 p.a.
Domestic Work	95	5.2	106	5.9	11	3.7 p.a.
<b>SOUTH AFRICA</b>						
<b>Total Employment</b>	<b>13 778</b>	<b>100.0</b>	<b>13 145</b>	<b>100.0</b>	<b>-633</b>	<b>-1.6 p.a. †</b>
Agriculture	809	5.9	605	4.6	-204	-9.2 p.a. *
Formal Agriculture	645	4.7	509	3.9	-136	-7.6 p.a. *
Informal Agriculture	164	1.2	96	0.7	-68	-16.4 p.a. *
Non-Agriculture	11 827	85.8	11 419	86.9	-407	-1.2 p.a.
Formal Non-Agriculture	9 474	68.8	9 234	70.2	-240	-0.9 p.a.
Informal Non-Agriculture	2 353	17.1	2 185	16.6	-167	-2.4 p.a.
Domestic Work	1 142	8.3	1 121	8.5	-22	-0.6 p.a.

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2011 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. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: StatsSA (2008; 2011b); own calculations

The Western Cape has relatively more agricultural workers than is the case nationally in the first quarter of 2011 (6.8 per cent compared to 4.6 per cent). At the same time, the Province's informal sector is considerably smaller than in the rest of the country at just 11.0 per cent of the total workforce compared to 17.3 per cent of the national workforce. Informal agriculture is virtually non-existent in the Province, while domestic work accounts for less than 6 per cent of provincial employment. In contrast to the national trends highlighted above, net job losses in the Western Cape are not observed in the non-agricultural sector, but are limited to agriculture, although no changes over the period are observed to be statistically significant.

Table 4.5 confirms certain key features of the provincial labour market. First, the Western Cape's informal sector is small in comparison to the rest of the country, and very small in comparison to other developing countries. Secondly, agricultural employment appears to be taking strain although the small sample size means the estimated contraction in employment in this sector is not statistically significant. This may have important implications in terms of urbanisation, the economic fortunes of smaller towns and economic concentration within the Province, with knock-on effects for service provision, infrastructure and housing, amongst others.

## 4.5.2 Formal sector employment

The overwhelming majority of employment is within the formal sector: 74.1 per cent in South Africa and 81.8 per cent in the Western Cape. Thus, the formally employed number 9.7 million nationally, and nearly 1.5 million in the Western Cape. Given the small size of the informal sector, it is unsurprising that the demographic composition of formal employment is very similar to that of total employment.

By race, formal sector employment is dominated by Coloureds in the Western Cape (54.9 per cent) and by Africans nationally (63.1 per cent). Approximately one in five formal sector workers is White, a proportion that does not vary significantly between the Province and the country as a whole. Africans are therefore under-represented within formal employment relative to total employment both nationally and provincially, while Whites are over-represented.

**Table 4.6 Demographic characteristics of formal employment, 2011**

	Western Cape		South Africa	
	Thousands	Per cent Share	Thousands	Per cent Share
<b>Total Formal Employment</b>	<b>1 485</b>	<b>100.0</b>	<b>9 743</b>	<b>100.0</b>
<b>By Race</b>				
African	333	22.4	6 150	63.1 *
Coloured	816	54.9	1 252	12.8 *
White	326	21.9	1 897	19.5
<b>By Gender</b>				
Male	838	56.4	5 850	60.0 *
Female	648	43.6	3 893	40.0 *
<b>By Age Group</b>				
15 to 24 year olds	165	11.1	950	9.8
25 to 34 year olds	510	34.3	3 259	33.4
35 to 44 year olds	429	28.9	2 884	29.6
45 to 54 year olds	276	18.6	1 826	18.7
55 to 65 year olds	106	7.1	824	8.5
<b>By Educational Attainment</b>				
No education	11	0.7	146	1.5 *
Grades 0 – 7	128	8.6	833	8.6
Grades 8 – 11	461	31.1	2 752	28.2
Grade 12	482	32.4	3 330	34.2
Diploma/Certificate	221	14.9	1 565	16.1
Degree	157	10.5	1 009	10.4

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

2. Estimates reported here are for the first quarter.

Source: StatsSA (2011b); own calculations

The gender composition of formal employment differs between the Western Cape and the country as a whole, with the gap between men and women being narrower in the Province. Men account for 56.4 per cent of formal employment in the Western Cape, nearly 13 percentage points more than women. Nationally, men represent 60 per cent of formal employment, 20 percentage points more than women. Relative to their national and provincial shares of total employment, women tend to be slightly under-represented within formal employment.

The age profile of formal sector workers is similar between the Western Cape and South Africa as a whole. Formal sector employment is high amongst those in the prime working ages of 25 to 44 years, which account for close to two-thirds of formal employment in both geographic regions. Those younger than 25 years of age and those aged 55 years or more account for a combined share of around 18 per cent of formal employment. Similarly, barring workers with no formal education, the educational attainment of formal sector workers does not differ significantly between the Province and the country. The Western Cape does, though, have relatively few formal sector workers with no formal education (0.7 per cent compared to 1.5 per cent nationally).

The composition of employment by industry is presented in Table 4.7. The nine major industries within formal employment can be categorised into three major sectors, namely the primary sector, secondary and tertiary sectors. There appears to be no statistically significant variation in the structure of formal employment between the Western Cape and South Africa as a whole at the level of the three major sectors. The primary sector is the smallest of the three sectors, accounting for around eight per cent of employment in both the Western Cape and the country as a whole. Approximately 25 per cent of employment is located within the secondary sector, while the tertiary sector employs two-thirds (66.7 per cent) of the formal workforce. The present structure of employment represents the outcome of a long-term structural shift in the economy away from primary and secondary sector activities and towards services.



**Table 4.7 Industrial composition of formal employment, 2011**

	Western Cape		South Africa	
	Thousands	Per cent Share	Thousands	Per cent Share
<b>Total Formal Employment</b>	<b>1 485</b>	<b>100.0</b>	<b>9 743</b>	<b>100.0</b>
Agriculture, forestry and fishing	115	7.8	509	5.2 †
Mining and quarrying	2	0.2	306	3.1 *
<b>Primary Sector</b>	<b>118</b>	<b>7.9</b>	<b>815</b>	<b>8.4</b>
Manufacturing	270	18.2	1 586	16.3
Electricity, gas and water	11	0.7	96	1.0
Construction	95	6.4	741	7.6
<b>Secondary Sector</b>	<b>376</b>	<b>25.3</b>	<b>2 422</b>	<b>24.9</b>
Wholesale and retail trade	306	20.6	1 941	19.9
Transport, storage and communication	94	6.3	536	5.5
Financial and business services	221	14.9	1 508	15.5
Community, social and personal (CSP) services	369	24.8	2 516	25.8
<b>Tertiary Sector</b>	<b>991</b>	<b>66.7</b>	<b>6 501</b>	<b>66.7</b>

Notes: 1. An asterisk (\*) denotes a statistically significant difference at the 95 per cent level of confidence between Western Cape and South African estimates, while a dagger (†) indicates a statistically significant difference at the 90 per cent level of confidence.  
2. Estimates reported here are for the first quarter.

Source: StatsSA (2011b); own calculations

The dominance of the services sector within national and provincial employment means that three of the four largest employment sectors fall within the tertiary sector. Community, social and personal (CSP) services is the largest industry in terms of employment, employing roughly 25 per cent of the formal workforce. It is followed by wholesale and retail trade (around 20 per cent of formal employment), manufacturing (between 16 and 19 per cent) and financial and business services (around 15 per cent). The only substantive structural difference between the national and provincial economies in terms of employment is the Province's lack of mining and quarrying employment, as opposed to the 3.1 per cent share of employment accounted for by this sector at the national level.

In terms of the occupational structure of formal employment, there is a slight difference between the Western Cape and the country as a whole (Table 4.8). The nine occupational categories are grouped into three skills categories, namely high skilled workers, skilled workers and low skilled workers. The key difference between the two regions is that the Western Cape has relatively fewer skilled workers: 57.8 per cent of formal sector employment in the Province is accounted for by skilled workers, compared to 63.2 per cent nationally. As a result, the Western Cape appears to have relatively more high skilled and low skilled workers, each of which account for around one-fifth of formal employment. The differences in shares between the Province and the country as a whole are however, not statistically significant. This occupational distribution of employment points to the provincial economy's strengths in

relatively low-skilled sectors (such as agriculture, forestry and fishing), but also in sectors that are relatively skill intensive.

**Table 4.8 Occupation structure of formal employment, 2011**

	Western Cape		South Africa	
	Thousands	Per cent Share	Thousands	Per cent Share
<b>Total Formal Employment</b>	<b>1 485</b>	<b>100.0</b>	<b>9 743</b>	<b>100.0</b>
Managers	192	12.9	1 028	10.6 †
Professionals	112	7.6	716	7.3
<b>High Skilled</b>	<b>304</b>	<b>20.5</b>	<b>1 744</b>	<b>17.9</b>
Technicians	217	14.6	1 358	13.9
Clerks	181	12.2	1 271	13.0
Service and sales workers	171	11.5	1 401	14.4 *
Skilled agricultural workers	14	0.9	51	0.5
Craft and related trades	161	10.8	1 128	11.6
Operators and assemblers	114	7.7	949	9.7 †
<b>Skilled</b>	<b>858</b>	<b>57.8</b>	<b>6 158</b>	<b>63.2 *</b>
Elementary occupations	323	21.8	1 841	18.9
<b>Low Skilled</b>	<b>323</b>	<b>21.8</b>	<b>1 841</b>	<b>18.9</b>

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

2. Estimates reported here are for the first quarter.

Source: StatsSA (2011b); own calculations

The largest occupational category within formal sector employment in the Province is elementary occupations, which account for 21.8 per cent of the employed. This is followed by technicians (14.6 per cent), managers (12.9 per cent) and clerks (12.2 per cent). This is broadly similar to the rankings nationally, although service and sales workers are the second largest grouping nationally, accounting for 14.4 per cent of formal employment. Nationally, there are relatively more service and sales workers and operators and assemblers within formal employment than is the case provincially, with the differences being statistically significant.

### 4.5.3 Informal sector employment

#### Overview

A major part of the economies of most developing countries comprises small production activities run on an informal, self-employment basis. Scholars have labelled the informal economy differently, depending on their field. It has been called the *irregular economy* (Ferman and Ferman 1973), the *subterranean economy* (Gutman 1977), the *underground economy* (Houston 1987), the *black economy* (Dilnot and Morris 1981), the *shadow economy* (Frey *et al.* 1982; Cassel and Cichy 1986), and the *informal economy* (McCrohan and Smith 1986). These various terms jointly recognise that the activities making up the informal economy are either not properly recorded or

imperfectly reflected in official national accounting systems. In this section, the terms informal sector, informal work, informal economy or informal activity are used interchangeably.

Academic conceptualisations of the informal sector have evolved from the view of the sector as a marginal or residual activity, to one in which it is considered a central aspect of the economic and social dynamics of all, but particularly developing, countries. While the informal sector, as an analytical category, may be challenging to grapple with, it is clear that a sizeable segment of any economy operates on an informal basis; suffers from technological, infrastructural and marketing handicaps; and is, as a result, characterised by low productivity and earnings for those engaged in it. Yet for policy purposes, it is important to delineate the informal sector to mitigate the disadvantages it suffers, to increase its labour absorptive capacity, to improve its productivity and to improve the working conditions of its workers. Critically, a pattern of growth needs to be established that links the formal and informal sectors and exploits these linkages to accelerate overall economic growth and development.

The informal sector in South Africa remains an important research area, not least because of its somewhat unique nature within an international context. In many developing countries, formal labour markets are small and weak, and are unable to provide employment for significant proportions of the labour force. As a result, the informal sector has grown and has drawn those who would otherwise have been unemployed into employment. In South Africa, however, this has not happened: the informal sector has remained small despite massive unemployment. This raises the important question as to what is preventing the informal sector in South Africa from 'soaking up' the unemployed.

This question – why a small informal sector in the presence of high unemployment? – was considered by Kingdon and Knight (2001; 2002). Using the October Household Survey (OHS), their analysis provides various economic and psychological reasons that suggest that many individuals are not 'voluntarily' unemployed, but must instead be facing serious barriers to entry into the informal sector. These potential constraints include restrictive by-laws, poor entrepreneurial skills and poor social/trading networks. Underlying many of these constraints is the damage done by the apartheid system. Constraints in access to capital, credit and land, the lack of infrastructure in township areas, the prevalence of violence and insecurity in the informal economy were identified, and for those employing non-family members, industry-based wage and working condition mandates.

The post-apartheid era has seen considerable research focussing on the informal sector. Various sector-specific studies of the self-employed have been conducted, with a key geographic focus being KwaZulu-Natal. Lund (1998) provides a detailed analysis of the major historical regulations affecting the informal sector in South Africa and reviews various quantitative and

qualitative studies involving street traders in Johannesburg and Durban. She finds that the majority of informal traders were aged between 25 and 49 years and that men predominate amongst the youngest members of this group, while women predominate amongst the oldest members. Men, therefore, both enter and withdraw from street trading earlier than women. Women were also deemed to be more likely to start trading informally at older ages, a pattern related to childbearing and rearing and, possibly, to men leaving the informal sector to take up formal work opportunities. An important finding is the very low levels of education found to exist amongst street traders.

Skinner (1999) laid the foundation for analysing local government policies that may benefit street traders in five South African cities: Johannesburg, Pretoria, Durban, Cape Town and East London. The study analysed not only the problems faced by street traders, but also the administrative regulations and institutional structures confronting them. The study revealed that, although different cities face different problems, common among them is the absence of an overarching set of national guidelines. Further, issuing licences to informal traders was considered crucial in building not only security but also a stable customer base for informal traders.

In a follow-up study, Skinner (2005) investigates the constraints faced by over 500 informal firms in Ekurhuleni. This study covers a broad range of business activities, uses an extensive set of questions directly assessing and ranking the limitations faced by these firms and directly asks informal firms about the role government may play in assisting them. The research findings identified lack of appropriate working places and access to basic services as hindering the prosperity of informal activities. Specifically, informal traders called for the government to provide market facilities, such as fixed stalls, as the majority operated from their homes, which lacked water and ablution facilities. Informal traders also encouraged the government to improve their access to savings facilities, credit and insurance schemes. Finally, the study showed that the majority of informal sector traders have never been formally employed, thus they lack basic business management skills. In that regard, the traders requested appropriate authorities to commission training programs that equip them with basic business management skills.

Understanding the linkages between the formal and informal sectors is key to leveraging formal sector growth to benefit the broader economy. Skinner and Valodia (2002) examine the role of informal workers in the clothing industry, focussing on the interaction between the formal and informal economies. Their work provides evidence that the process of trade liberalisation at that time was seriously undermining the objective of fostering a comprehensive collective bargaining system based on the concept of voice regulation. The pressures of trade liberalisation is argued to have promoted the growth of the informal sector as enterprises sought to ameliorate pressures associated with international competition through 'informalisation' of the enterprise.

Implicitly motivated by the Kingdom and Knight study, Chen (2004) specifically calls for further research to answer questions such as "Do barriers to entry into the informal economy still exist in South Africa?" In response to that, Cichello *et al.* (2005) conclude from a survey in KwaZulu-Natal that barriers in the informal economy, including self-employment, affect the absorption of unemployed individuals into the informal economy. Closely related to this study, Cichello (2005) uses the Khayelitsha/Mitchell's Plain (KMP) Survey to provide an unique view into the hindrances to self-employment activity in the KMP area. The findings identified lack of money or capital as the primary barrier to participation and hours worked in self-employment activities. Concerns over expected profit, while present, were not found to be a dominant hindrance. A lack of skills, concerns over future access to formal jobs, and other hidden costs also play a role in limiting self-employment activities, though these are far less important than issues related to capital constraints. In another study, crime, risk of business failure, lack of access to start-up capital, high transport costs and jealousy within the community were identified as key hindrances preventing the unemployed from entering (informal) self-employment in Khayelitsha (Cichello *et al.* 2006).

### **Informal sector employment in the Western Cape**

The International Labour Organisation (ILO Department of Statistics 2011) estimates that the informal sector accounted for 17.8 per cent of non-agricultural employment in South Africa in 2010. Compared to other African countries for which data is available, this is a very low proportion with only Mauritius having a smaller proportion of workers in the informal sector (9.3 per cent in 2009). The share of the informal sector within non-agricultural employment is estimated to be as high as 69.7 per cent in Cote d'Ivoire (2008), 64.6 per cent in Zambia (2008) and 59.2 per cent in Uganda (2010). Even relative to non-African countries, the South African informal sector is small. In Brazil (2009), the informal sector accounts for 24.3 per cent of non-agricultural employment, while the proportion is roughly one-third in Argentina (2009), Costa Rica (2009), Mexico (2009), Uruguay (2009) and Venezuela (2009). South Africa is found to have a relatively small informal sector given its per capita GDP and proportion of the population living below the poverty line (ILO Department of Statistics 2011).

In the first quarter of 2011, approximately 2.3 million individuals were employed in the informal sector nationally, representing 25.9 per cent of total employment (Table 4.9). Of these, fewer than 200 000 were employed in the Western Cape, equivalent to 11.1 per cent of total employment in the Province. The racial composition of informal sector employment in the Province differs considerably from that nationally. In the Western Cape, Whites account for 13.5 per cent of informal sector employment, with the remaining share roughly evenly split between Coloureds (44.6 per cent) and Africans (41.8 per cent). In contrast, close to 90 per cent of informal sector employment nationally is comprised of Africans. A comparison of the absolute

numbers reveal that more than half of Coloureds and nearly one-third of Whites employed in the informal sector nationally are located in the Western Cape.

The provincial informal sector employs more men than women, with men accounting for 62.3 per cent of informal sector employment. Relative to the formal sector, the provincial informal sector is a disproportionately large employer of men: the share of provincial formal sector employment accounted for by males is 56.4 per cent. In contrast, the gender structures of formal and informal employment nationally are similar, with men outnumbering women by around three to two. Nevertheless, the gender disaggregation of informal sector employment nationally and provincially in the first quarter of 2011 are not statistically different from each other.

**Table 4.9 Demographic composition of informal sector employment, 2011**

	Western Cape		South Africa	
	Thousands	Per cent Share	Thousands	Per cent Share
<b>Total Informal Sector Employment</b>	<b>198</b>	<b>100.0</b>	<b>2 281</b>	<b>100.0</b>
<b>By Race</b>				
African	83	41.8	1 990	87.2 *
Coloured	88	44.6	160	7.0 *
White	27	13.5	92	4.1 *
<b>By Gender</b>				
Male	123	62.3	1 343	58.9
Female	75	37.7	938	41.1
<b>By Age Group</b>				
15 to 24 year olds	23	11.8	273	12.0
25 to 34 year olds	73	37.1	787	34.5
35 to 44 year olds	57	29.1	625	27.4
45 to 54 year olds	32	16.0	398	17.5
55 to 65 year olds	12	6.0	197	8.6
<b>By Educational Attainment</b>				
No education	4	1.8	109	4.8 *
Grades 0 – 7	28	14.3	470	20.6 †
Grades 8 – 11	92	46.5	1 021	44.7
Grade 12	50	25.4	508	22.3
Diploma/Certificate	12	6.1	109	4.8
Degree	8	4.2	36	1.6

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

2. Estimates reported here are for the first quarter.

Source: StatsSA (2011b); own calculations

The age structures of informal employment, too, are not statistically different between the Province and the country as a whole. Informal sector workers are typically between the ages of 25 and 44 years of age (66.2 per cent in the Western Cape, and slightly higher than this age-group's share of formal sector employment). In terms of educational attainment, 71.9 per cent of informal sector employment in the Province is accounted for by those with incomplete or complete secondary education, while those with degrees account for just 4.2 per cent. Informal sector workers in the Province appear to be slightly

better educated than their counterparts nationally, although this may be related to the better educational profile of the provincial labour force. Just over one-quarter (25.4 per cent) of informal sector employment nationally is accounted for by those with no formal education or those with no more than primary education, compared to 16.1 per cent in the Western Cape. The national–provincial differences in both these educational categories are statistically significant.

## **4.6 Unemployment in the Western Cape**

### **4.6.1 Unemployment trends and characteristics**

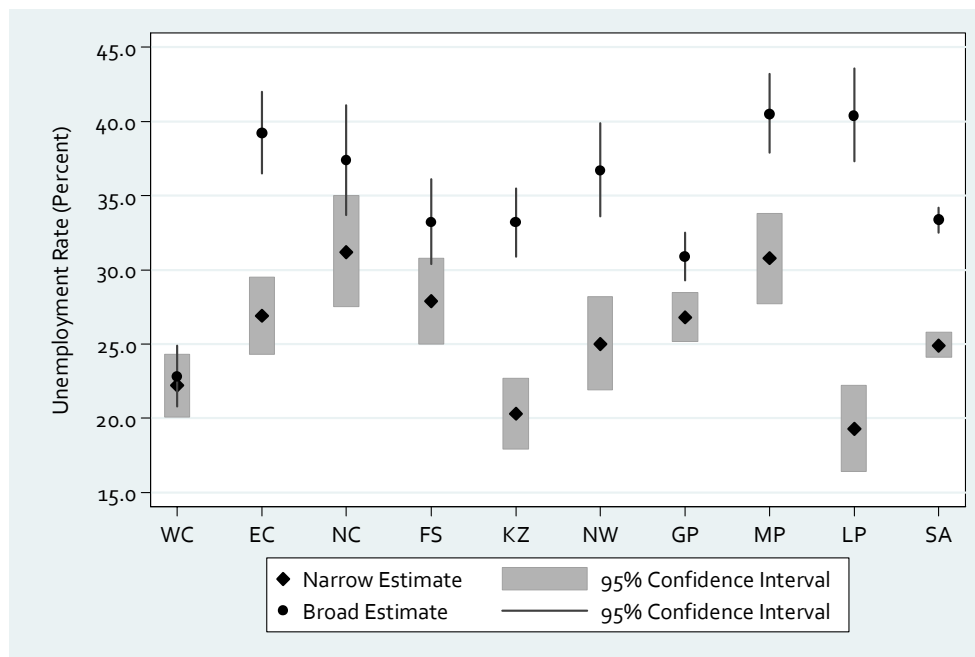
The unemployed comprise individuals who, in the survey week, did not work at all either for pay or assisting in a family business, yet were available for work (either paid employment or self-employment) and were actively seeking work. Satisfying these criteria qualifies an individual as being unemployed according to the 'strict', 'narrow', or 'official' definition of unemployment. This approach of defining unemployment is supply-side oriented as it gives emphasis to the searching activity of the unemployed.

A broader approach to defining unemployment give implicit consideration to demand-side factors, i.e. factors affecting the demand for labour (or the supply of jobs). This approach does not require that the unemployed be actively seeking work and is referred to as the 'expanded', or 'broad' definition. The expanded definition is deemed appropriate in situations where the conventional means of seeking work are of limited relevance, the labour market is largely unorganised or of limited scope, labour absorption is inadequate or the economy is largely informal. Research has shown that the searching unemployed (those looking for work) are not different from the non-searching unemployed in South Africa and, as a result, research on the South African labour market has tended to use the expanded definition of unemployment (Kingdon and Knight 2002).

In this chapter, the analysis has used the narrow definition of unemployment as there are so few discouraged workseekers in the Province. As a result, estimates of narrow and expanded unemployment are very similar in the Western Cape, but very different in other provinces and nationally. This is borne out by Figure 4.4, which shows the narrow and expanded unemployment rates for South Africa as a whole and for its nine provinces. Nationally, the narrow unemployment rate was 24.9 per cent in the first quarter of 2011, while expanded unemployment was 33.4 per cent. In contrast, at 22.8 per cent, the expanded unemployment rate in the Western Cape was 0.6 percentage points higher than the narrow unemployment rate, a difference that is not statistically significant.

The Western Cape is one of three provinces with narrow unemployment rates below the national average and, while the estimates for KwaZulu-Natal (20.3 per cent) and Limpopo (19.3 per cent) are lower than that of the Western Cape, the differences between the three are not statistically significant. Lower rates of narrow unemployment are typically associated with better functioning labour markets that are better able to absorb workseekers into employment. However, particularly within the current economic context, it is possible that lower rates of narrow unemployment may signal that labour markets are struggling, with greater proportions of the economically active population no longer actively seeking employment. Support for this latter phenomenon would come from large gaps between narrow and expanded unemployment (i.e. large proportions of discouraged workseekers), while the opposite is true in contexts where the labour market is better able to absorb workseekers. Indeed, the expanded unemployment rate in Limpopo is twice the narrow unemployment rate, while the ratio in KwaZulu-Natal is 1.6. In contrast, the ratio for the Western Cape is 1.0, and 1.1 and 1.3 for Gauteng and South Africa respectively.

**Figure 4.4 Provincial and national unemployment rates, 2011**



Note: Detailed estimates can be found in the annexure.

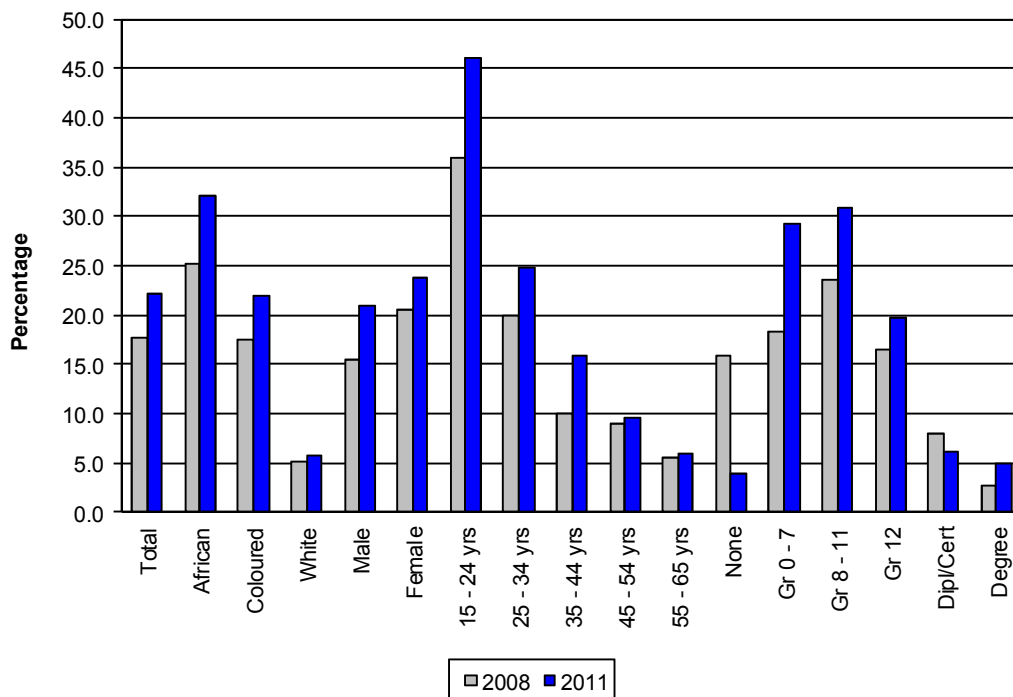
Source: StatsSA (2011b); own calculations

There remains significant variation in the rate of unemployment between the various demographically-defined groups within the Western Cape and, importantly, the upward trend in the unemployment rate since 2008 has been felt by most of these groups. Between the first quarter of 2008 and the first quarter of 2011, the provincial narrow unemployment rate increased from 17.8 per cent to 22.2 per cent, a statistically significant rise of 4.4 percentage points (or an increase of almost one-quarter) over the period (Figure 4.5).



The conventional South African patterns of labour market exclusion are evident in the narrow unemployment rates according to race, gender, age and education. In 2011, the unemployment rate amongst Africans was 32.1 per cent, 21.9 per cent amongst Coloureds and 5.6 per cent amongst Whites. While the unemployment rate estimates were slightly higher for women than men, this difference is no longer statistically significant in 2011. Finally, younger and less educated individuals are more likely to be unemployed. The unemployment rate amongst 15 to 24 year olds, at 46.2 per cent in 2011, is more than double the provincial average and almost double the rate amongst 25 to 34 year olds, while for those aged 45 years or older the unemployment rate is below 10 per cent. Those with incomplete or complete primary or incomplete secondary education are most likely to be unemployed, with unemployment rates of around 30 per cent in 2011. The unemployment rate falls to 19.8 per cent for those with matric certificates, and to under 10 per cent for those with diplomas, certificates or degrees.

**Figure 4.5 Western Cape narrow unemployment rates, 2008 and 2011**



Note: Detailed estimates can be found in the annexure. Changes for Whites, females, 25 to 34 year olds, 45 to 54 year olds, 55 to 65 year olds, those with grade 12, those with diplomas or certificates, and those with degrees are not statistically significant, even at a confidence level of 90 per cent.

Source: StatsSA (2011b); own calculations

The key trend over the period has been the increase in the unemployment rate. Generally, those groups with higher unemployment rates in 2008 experienced larger absolute increases in their unemployment rates. For Africans and Coloureds, the unemployment rate increased by 6.9 percentage points and 4.4 percentage points respectively, while for Whites there was no statistically significant change. For the youngest members of the labour force – those between the ages of 15 and 24 years – the unemployment rate rose 10.3 percentage points to 46.2 per cent, while for 35 to 44 year olds, the increase was 5.8 percentage points. For older individuals there was no statistically significant change in the rate of unemployment. Similar patterns are observed by educational attainment, with those with primary or incomplete secondary education seeing the largest increases over the period.

Two groups, however, stand out. First, males saw a larger absolute increase in the unemployment rate over the period than females, with there no longer being a statistically significant difference between the unemployment rates by gender. Second, the unemployment rate for those with no formal education fell dramatically from 15.9 per cent to 3.9 per cent. This can be explained due to the fact that those with no education tend to be older and older individuals are more likely to exit the labour force entirely when they find themselves unemployed, other than their younger counterparts. They are then not picked up as being unemployed, but rather as being economically active.

The last issue addressed here relates to the composition of unemployment. Table 4.10 presents estimates of the number of unemployed individuals, provincially and nationally, according to the standard demographic covariates utilised in this chapter. Just over half (52.6 per cent) of the unemployed in the Western Cape in 2011 were Coloured, while 43.2 per cent were African. Whites accounted for fewer than five per cent of unemployment in the Province. In contrast, 85.7 per cent of the unemployed nationally were African, with a further 10.0 per cent being Coloured. While there appears to have been growth in the number of unemployed Africans and Coloureds in the Province over the period, the changes are not statistically significant.

Unemployment levels amongst men have risen rapidly in the Province since 2008 and women no longer outnumber men in unemployment. The number of unemployed men has grown by an average of 11.2 per cent per annum over the three-year period, reaching 258 000 by the first quarter of 2011. While unemployment amongst women in the Province appears to have risen too, the change is not statistically significant. This trend of relatively rapid growth in unemployment amongst men since 2008 may also have occurred nationally.

The majority of the unemployed are under the age of 35 years, both in the Western Cape and South Africa as a whole. Indeed, less than 30 per cent of the unemployed in the Province were 35 years of age or older in the first quarter of 2011. However, growth in unemployment appears to have been more rapid in the middle age-groups within the Western Cape. Unemployment amongst 35 to 44 year olds grew at an annual average rate of 19.4 per cent and, while not statistically significant against growth amongst 25 to 34 year olds of 9.3 per cent. Thus, more than 80 per cent of the overall increase in provincial unemployment accrued to these two age-groups, which accounted for just less than 55 per cent of provincial unemployment in the first quarter of 2008. The national picture is somewhat different, with the only statistically significant increase in the number of unemployed individuals occurring within the 25 to 34 year age-group (3.6 per cent per annum).

Nationally, unemployment is found to have actually decreased amongst the least educated members of the labour force. Unemployment amongst those with no formal education declined by one-third between 2008 and 2011 to just 65 000 individuals, while falling by almost one-quarter amongst those with primary education. In contrast, unemployment amongst holders of matric certificates rose by 5.9 per cent per annum over the period, a rise of 238 000 to 1.5 million. Certainly at the national level, the brunt of rising narrow unemployment was felt amongst those with relatively high levels of education.

Within the Western Cape a broadly similar pattern is observed compared to national. By 2011, there were virtually no narrowly unemployed individuals with no formal education in the Province, while those with incomplete secondary education appear to have suffered the largest increase in unemployment (in both absolute and relative terms). Those with incomplete secondary education accounted for 52.5 per cent of narrow unemployment in the Province by the first quarter of 2011, followed by holders of matric certificates (26.4 per cent) and those with primary education (15.8 per cent).

**Table 4.10 Demographic composition of unemployment, 2008 and 2011**

	2008Q1		2011Q1		Change	
	Thousands	Per cent Share	Thousands	Per cent Share	Thousands	Per cent
<b>WESTERN CAPE</b>						
<b>Total Unemployment</b>	<b>393</b>	<b>100.0</b>	<b>510</b>	<b>100.0</b>	<b>117</b>	<b>9.1 p.a. *</b>
<b>By Race</b>						
African	161	41.0	221	43.2	60	11.1 p.a.
Coloured	211	53.8	268	52.6	57	8.3 p.a.
White	18	4.5	21	4.2	3	6.0 p.a.
<b>By Gender</b>						
Male	187	47.6	258	50.5	70	11.2 p.a. *
Female	206	52.4	253	49.5	47	7.1 p.a.
<b>By Age Group</b>						
15 to 24 years	145	36.9	168	32.8	23	5.0 p.a.
25 to 34 years	153	39.0	200	39.2	47	9.3 p.a.
35 to 44 years	58	14.7	98	19.3	41	19.4 p.a. *
45 to 54 years	30	7.6	36	7.1	7	6.8 p.a.
55 to 65 years	7	1.8	8	1.6	1	3.3 p.a.
<b>By Educational Attainment</b>						
No education	7	1.7	1	0.1	-6	-51.8 p.a. *
Grades 0 – 7	62	15.7	81	15.8	19	9.4 p.a.
Grades 8 – 11	198	50.4	268	52.5	70	10.5 p.a. *
Grade 12	103	26.3	135	26.4	31	9.2 p.a.
Diploma/Certificate	16	4.2	15	3.0	-1	-2.0 p.a.
Degree	3	0.9	8	1.7	5	35.2 p.a.
<b>SOUTH AFRICA</b>						
<b>Total Unemployment</b>	<b>4 222</b>	<b>100</b>	<b>4 365</b>	<b>100.0</b>	<b>144</b>	<b>1.1 p.a.</b>
<b>By Race</b>						
African	3 676	87.1	3 740	85.7	64	0.6 p.a.
Coloured	363	8.6	436	10.0	72	6.2 p.a.
White	121	2.9	125	2.9	5	1.3 p.a.
<b>By Gender</b>						
Male	2 013	47.7	2 126	48.7	113	1.8 p.a.
Female	2 209	52.3	2 239	51.3	30	0.5 p.a.
<b>By Age Group</b>						
15 to 24 years	1 424	33.7	1 289	29.5	-134	-3.3 p.a.
25 to 34 years	1 680	39.8	1 868	42.8	188	3.6 p.a. †
35 to 44 years	706	16.7	780	17.9	74	3.4 p.a.
45 to 54 years	314	7.4	356	8.2	42	4.3 p.a.
55 to 65 years	98	2.3	72	1.6	-26	-9.8 p.a.
<b>By Educational Attainment</b>						
No education	99	2.3	65	1.5	-34	-13.1 p.a. *
Grades 0 – 7	664	15.7	509	11.7	-155	-8.5 p.a. *
Grades 8 – 11	1 918	45.4	1 996	45.7	78	1.3 p.a.
Grade 12	1 266	30.0	1 504	34.4	238	5.9 p.a. *
Diploma/Certificate	195	4.6	222	5.1	27	4.3 p.a.
Degree	49	1.2	48	1.1	-1	-0.7 p.a.

Notes: 1. An asterisk (\*) denotes a statistically significant change between 2008 and 2011 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. Shares may not sum to 100 due to rounding or, in the case of race, to the omission of Asians from the table.

Source: StatsSA (2008; 2011b); own calculations

### 4.6.2 Unemployment status

Labour market dynamics are best analysed through the use of panel datasets, rather than using two (or more) snapshots taken at specific points in time. Important questions that can begin to be investigated through such datasets include the dynamics by which individuals enter and exit the labour force or employment or unemployment, for example, allowing also a deeper understanding of unemployment duration. While not a panel dataset, the QLFS questionnaire does, however, include information on unemployment status that allows for a more dynamic view of unemployment. Specifically, this variable distinguishes amongst the unemployed the reasons by which they became unemployed, i.e. losing jobs, leaving jobs, entering the labour force for the first time, or re-entering the labour force.

The Western Cape and South Africa differ from each other in terms of the composition of the unemployed as far as unemployment status is concerned, as well as in the trends in these components over the period. Nationally, there has been little change in the composition of unemployment since 2008: new labour market entrants comprise 43.4 per cent of the unemployed, while job losers account for a further 30.4 per cent (Table 4.11). Individuals re-entering the labour market after an absence of more than five years account for a further 15.7 per cent of the unemployed. This structure is barely changed from the first quarter of 2008, a period that has seen little growth in narrow unemployment.

Nationally, the number of job leavers has declined substantially over the period, from 382 000 to 270 000, equivalent to an average annual contraction of 10.9 per cent, while the number of re-entrants declined by 13.1 per cent per annum between 2008 and 2011. Both trends reflect the turmoil and uncertainty within the labour market. Voluntarily leaving employment appears to be occurring less frequently, with job leavers possibly preferring to secure other employment first before leaving their current jobs. As a result, fewer job leavers are found amongst the unemployed. The decline in the number of re-entrants, too, points to the harsh labour market conditions currently being experienced. Finally, there has been rapid growth in the number of individuals re-entering the labour force after extended absences, as difficult economic circumstances force individuals back into the labour market in search of work.

**Table 4.11 Unemployment status, 2008 and 2011**

	2008Q1		2011Q1		Change	
	Thousands	Per cent Share	Thousands	Per cent Share	Thousands	Per cent
<b>WESTERN CAPE</b>						
<b>Total Unemployment</b>	<b>393</b>	<b>100.0</b>	<b>510</b>	<b>100.0</b>	<b>117</b>	<b>9.1 p.a. *</b>
Job loser	154	39.2	259	50.7	105	18.9 p.a. *
Job leaver	58	14.7	38	7.4	-20	-13.0 p.a.
New entrant	117	29.9	133	26.1	16	4.3 p.a.
Re-entrant	25	6.4	10	1.9	-15	-26.6 p.a. *
Last worked > 5 years ago	39	9.9	71	13.8	32	21.9 p.a. *
<b>SOUTH AFRICA</b>						
<b>Total Unemployment</b>	<b>4 222</b>	<b>100.0</b>	<b>4 365</b>	<b>100.0</b>	<b>144</b>	<b>1.1 p.a.</b>
Job loser	1 232	29.2	1 326	30.4	94	2.5 p.a.
Job leaver	382	9.0	270	6.2	-112	-10.9 p.a. *
New entrant	1 749	41.4	1 896	43.4	148	2.7 p.a.
Re-entrant	289	6.8	189	4.3	-99	-13.1 p.a. *
Last worked > 5 years ago	571	13.5	684	15.7	113	6.2 p.a. *

Note: An asterisk (\*) denotes a statistically significant change between 2008 and 2011 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence.

Source: StatsSA (2008; 2011b); own calculations

Within the Western Cape, there has been a strong shift in the composition of the unemployed according to their unemployment status. In 2008, prior to the recession, job losers accounted for 39.2 per cent of the unemployed, with new labour market entrants and job leavers accounting for a further 29.9 per cent and 14.7 per cent respectively. Between 2008 and 2011, though, the number of job losers rose dramatically from 154 000 to 259 000, a rate of growth averaging 18.9 per cent per annum. At the same time, the number of individuals re-entering the labour market after an absence of more than five years almost doubled to 71 000, while there was some – statistically insignificant – growth in the number of new entrants. In line with the national trend, the number of job leavers declined although this change was not statistically significant. As a result of these trends, the first quarter of 2011 saw half (50.7 per cent) of the narrowly unemployed being job losers with a further 26.1 per cent being new entrants and 13.8 per cent being re-entrants after absences of more than five years.

Interpreting these patterns is not straightforward, particularly given the exclusion of discouraged workseekers from the definition of unemployment utilised in Table 4.11 and the fact that discouraged workseekers are one of the key differences between the provincial and national labour market. The figures presented should not be interpreted as the Western Cape having disproportionately high job losses over the period – indeed, as noted earlier, employment has contracted more steeply at the national level than in the Province. Instead, the figures point to a possible rise in churning in the provincial labour market, with increased job losses being largely responsible for the increase in unemployment in the Province since 2008.

## 4.7 Conclusion

The South African labour market has been hard hit by the recent recession and the ongoing global economic turmoil that shows little sign of abating. Having shed 900 000 jobs between the fourth quarter of 2008 and the third quarter of 2009, employment has continued to drift downwards. This decline in employment was not, however, translated directly into increased narrow unemployment but rather manifested itself in increased discouragement.

The Western Cape labour market's overall performance has been slightly different. While employment has been weak, its decline has been less steep than was the case nationally (and was not found to be statistically significant). The Province has historically had few discouraged workseekers – indeed, the number had fallen to less than 20 000 by the first quarter of 2011 – and, as a result, the lack of job creation translated into a rapid rise in narrow unemployment averaging 9.1 per cent per annum over the three-year period. Amongst the unemployed, rising numbers of job losers and declines in the number of job leavers point to tight labour market conditions.

The key national patterns of labour market disadvantage – by race, gender, age and education – are generally evident within the provincial labour market. Relative to their shares of the working age population or the labour force in the Western Cape, Africans are over-represented in unemployment and under-represented in employment. Conversely, Whites are over-represented in employment and under-represented in unemployment. As a result, unemployment rates are highest amongst Africans, followed by Coloureds and then by Whites. The disadvantaged positions of young people and of those with poor educations within the labour market remain: unemployment amongst 15 to 24 year olds is twice the provincial average, while being a third higher than the provincial average amongst those with primary or incomplete secondary education.

An important trend in terms of educational attainment is the rapid decline in the number of economically active individuals with no formal education in the Province. In terms of all key labour market aggregates - employment, unemployment, the labour force, and the unemployment rate - the numbers of individuals with no formal education declined rapidly over the period. This is due to the fact that adults with no formal education tend to be relatively old and these individuals are aging out of employment. Where these individuals become unemployed, they are unlikely to actively seek work and move into non-searching unemployment (discouraged workseekers) or exit the labour force entirely.

Sectoral decompositions of employment in the Western Cape point to considerable weakness in employment in the primary sector, specifically in agriculture, forestry and fishing. Although changes in employment in this sector are not found to be statistically significant in the Province, they are found to be so nationally. The decline in employment points to the need for policy intervention in support of the sector or of those who are losing their jobs within the sector. Nationally, employment in agriculture has declined by 200 000 since 2008, with the Western Cape accounting for around one-quarter of this number.

The informal sector is considerably smaller relative to total employment in the Western Cape than is the case in South Africa as a whole, accounting for 11.1 per cent of total provincial employment compared to 17.3 per cent nationally. Again, Africans are over-represented in informal sector employment relative to their shares of the labour force, as are men and those with relatively low levels of education. While the sector may be small in the Province, there is scope for growth if suitable policy interventions are made. Research on the informal sector seems to suggest that, while informal sectors in different geographical areas and sectors may differ in their needs (and, therefore, in the appropriateness of specific policy interventions), there remains a large degree of similarity. Issues such as access to credit, fixed facilities, safety, security and transportation emerge in various studies.

Finally, the key labour market trend in the Province between 2008 and 2011 has been the rapid growth in unemployment. The focus in this chapter has been on the narrow definition of unemployment, which may paint a slightly more negative picture of the provincial unemployment relative to the national situation by excluding the 'release valve' of discouragement that is prevalent in the country's other provinces. In terms of the narrow definition, then, the Province is no longer significantly different from the country as a whole or from many of the other provinces. However, the fact that the Province has virtually no discouraged workseekers means that there is a wide gap between the Western Cape and the rest of the country in terms of expanded unemployment. That virtually all the unemployed are 'searching unemployed' in the Province points to the existence of superior conditions facilitating job search itself, but also to a perception of relatively good odds of actually finding employment.



## Annexure C

## Detailed estimates

Annexure C1 Narrow labour force participation rates, 2011

	South Africa		Western Cape	
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>
<b>Overall</b>	53.8	[53.043; 54.647]	66.7	[64.869; 68.444] *
<b>By Race</b>				
African	50.9	[49.888; 51.813]	69.8	[66.025; 73.602] *
Coloured	63.5	[61.761; 65.224]	65.1	[62.992; 67.194]
Asian	58.8	[55.199; 62.484]	73.0	[52.890; 93.024]
White	67.2	[64.880; 69.428]	66.2	[61.543; 70.894]
<b>By Gender</b>				
Male	60.7	[59.764; 61.695]	73.4	[71.240; 75.607] *
Female	47.4	[46.396; 48.328]	60.2	[57.751; 62.745] *
<b>By Age Group</b>				
15 to 24 years	25.2	[24.206; 26.189]	41.2	[37.402; 44.981] *
25 to 34 years	71.8	[70.631; 72.950]	84.0	[81.738; 86.261] *
35 to 44 years	75.8	[74.647; 76.958]	83.5	[81.036; 86.035] *
45 to 54 years	67.5	[66.123; 68.818]	72.2	[69.033; 75.410] *
55 to 65 years	37.6	[35.828; 39.450]	39.2	[34.120; 44.209]
<b>By Educational Attainment</b>				
No education	32.0	[29.534; 34.466]	43.5	[31.816; 55.226]
Grades 0 – 7	41.6	[40.154; 43.053]	57.3	[53.136; 61.550] *
Grades 8 – 11	44.7	[43.627; 45.829]	60.0	[57.447; 62.595] *
Grade 12	66.7	[65.434; 68.011]	73.0	[69.820; 76.160] *
Diploma/Certificate	85.0	[83.181; 86.759]	85.5	[80.482; 90.588]
Degree	88.3	[85.917; 90.594]	87.7	[83.340; 92.019]

Note: An asterisk (\*) denotes a statistically significant change between 2008 and 2011 at the 95 per cent level of confidence.

Source: StatsSA (2011b); own calculations

**Annexure C2 Provincial unemployment rates, 2011**

	Narrow Unemployment Rate		Expanded Unemployment Rate		Ratio of Expanded to Narrow Unemployment Rate
	<i>Estimate (Per cent)</i>	<i>95% Confidence Interval</i>	<i>Estimate (Per cent)</i>	<i>95% Confidence Interval</i>	
Western Cape	22.2	[20.109; 24.275]	22.8	[20.751; 24.938]	1.03
Eastern Cape	26.9	[24.306; 29.462]	39.2	[36.461; 41.957]	1.46
Northern Cape	31.2	[27.492; 34.985]	37.4	[33.722; 41.134]	1.20
Free State	27.9	[24.992; 30.830]	33.2	[30.381; 36.116]	1.19
KwaZulu-Natal	20.3	[17.885; 22.660]	33.2	[30.854; 35.549]	1.64
North West	25.0	[21.893; 28.188]	36.7	[33.583; 39.853]	1.47
Gauteng	26.8	[25.183; 28.489]	30.9	[29.258; 32.463]	1.15
Mpumalanga	30.8	[27.735; 33.777]	40.5	[37.890; 43.188]	1.32
Limpopo	19.3	[16.391; 22.187]	40.4	[37.332; 43.564]	2.10
<b>South Africa</b>	<b>24.9</b>	<b>[24.066; 25.794]</b>	<b>33.4</b>	<b>[32.532; 34.243]</b>	<b>1.34</b>

Source: StatsSA (2011b); own calculations

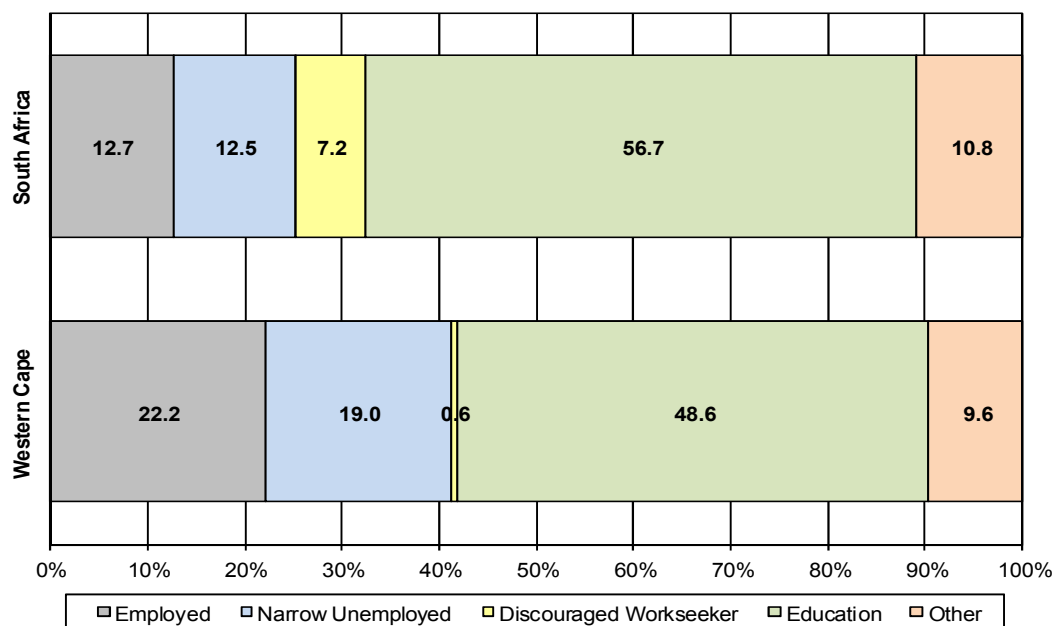
## Annexure C3 Narrow unemployment rates, 2008 and 2011

	2008Q1		2011Q1	
	<i>Estimate</i>	<i>95% Confidence Interval</i>	<i>Estimate</i>	<i>95% Confidence Interval</i>
<b>WESTERN CAPE</b>	<b>17.8</b>	<b>[15.870; 19.715]</b>	<b>22.2</b>	<b>[20.102; 24.282]</b> *
<b>By Race</b>				
African	25.2	[21.569; 28.773]	32.1	[27.797; 36.442] †
Coloured	17.5	[15.026; 19.892]	21.9	[19.293; 24.463] †
Asian	19.2	[0.340; 37.986]	1.0	[-1.149; 3.249] †
White	5.2	[3.062; 7.309]	5.6	[3.088; 8.206]
<b>By Gender</b>				
Male	15.6	[13.472; 17.647]	20.9	[18.405; 23.399] *
Female	20.5	[17.973; 22.958]	23.7	[20.954; 26.408]
<b>By Age Group</b>				
15 to 24 years	35.9	[31.475; 40.340]	46.2	[39.800; 52.509] †
25 to 34 years	19.9	[16.923; 22.883]	24.9	[21.571; 28.198]
35 to 44 years	10.0	[7.758; 12.331]	15.8	[12.677; 19.002] *
45 to 54 years	9.1	[6.695; 11.462]	9.7	[7.050; 12.314]
55 to 65 years	5.5	[2.475; 8.568]	5.9	[3.053; 8.691]
<b>By Educational Attainment</b>				
No education	15.9	[7.153; 24.641]	3.9	[-0.450; 8.212] †
Grades 0 – 7	18.3	[13.892; 22.624]	29.3	[23.002; 35.656] *
Grades 8 – 11	23.6	[20.976; 26.310]	30.8	[27.843; 33.803] *
Grade 12	16.4	[13.661; 19.180]	19.8	[16.929; 22.709]
Diploma/Certificate	8.0	[4.686; 11.273]	6.2	[2.700; 9.710]
Degree	2.7	[0.396; 4.991]	4.9	[2.009; 7.792]
<b>SOUTH AFRICA</b>	<b>23.5</b>	<b>[22.680; 24.229]</b>	<b>24.9</b>	<b>[24.067; 25.794]</b> †
<b>By Race</b>				
African	27.7	[26.776; 28.622]	29.0	[27.929; 30.017]
Coloured	19.0	[17.033; 20.887]	22.5	[20.402; 24.673] †
Asian	11.7	[9.004; 14.471]	11.7	[6.593; 16.737]
White	5.3	[4.093; 6.466]	5.9	[4.592; 7.243]
<b>By Gender</b>				
Male	20.5	[19.602; 21.318]	22.2	[21.220; 23.186] †
Female	27.1	[25.973; 28.157]	28.2	[26.975; 29.470]
<b>By Age Group</b>				
15 to 24 years	46.1	[44.347; 47.848]	49.7	[47.561; 51.883] †
25 to 34 years	26.4	[25.180; 27.583]	30.1	[28.736; 31.514] *
35 to 44 years	16.2	[15.149; 17.159]	16.9	[15.628; 18.086]
45 to 54 years	10.8	[9.767; 11.838]	12.4	[11.123; 13.632]
55 to 65 years	7.7	[6.464; 9.025]	5.9	[4.657; 7.202]
<b>By Educational Attainment</b>				
No education	15.2	[12.881; 17.487]	16.3	[12.643; 20.009]
Grades 0 – 7	22.7	[21.102; 24.276]	23.5	[21.553; 25.441]
Grades 8 – 11	30.5	[29.140; 31.795]	31.7	[30.332; 33.005]
Grade 12	24.3	[23.149; 25.445]	27.5	[25.980; 29.019] *
Diploma/Certificate	10.9	[9.531; 12.191]	11.6	[10.101; 13.183]
Degree	5.3	[3.807; 6.813]	4.4	[3.192; 5.567]

Note: An asterisk (\*) denotes a statistically significant change between 2008 and 2011 at the 95 per cent level of confidence, while a dagger (†) indicates a statistically significant change at the 90 per cent level of confidence. Only 95 per cent confidence intervals are displayed here.

Source: StatsSA (2008; 2011b); own calculations

**Annexure C4 Activities of 15 to 24 year olds, 2011**



Source: StatsSA (2011b); own calculations

# 5

## Selected Socio-economic analysis within the Western Cape

### Key Findings

- The City of Cape Town dominates not only the economy but also the population of the Western Cape. Two-thirds of the population reside within the Cape Town Metropolitan area, while many more commute to work in the City on a daily basis.
- Generally, socio-economic conditions in the Western Cape are better than in other provinces, although Gauteng has a somewhat higher educational attainment.
- Educational attainment in the Western Cape is quite high; mean years of schooling of 25 year olds in 2007 were on average 10.6 years, almost two years more than for 55 year olds, educated three decades earlier. However, the school drop-outs rates between grades 10 and 12, are high even amongst those who are not over-aged.
- Educational quality in the Western Cape is relatively higher than in most other provinces, but still very far behind that of developed countries. The phenomenon of poor quality education is likely to hold back economic performance. Grade 8 mathematics performance is similar to that of Morocco and weaker than in Egypt and Tunisia. Most primary school children do not obtain acceptable results in terms of national performance norms in the Annual National Assessment.
- Western Cape life expectancy is still quite low, due to high mortality rates. High mortality stems from a mixture of diseases of affluence and of poverty, combined with many deaths as a result of HIV/AIDS, TB and from trauma (mainly homicides and traffic accidents).
- TB is extremely widespread with an exceptionally high incidence in the West Coast region. Deaths from inter-personal violence are particularly high amongst male youths and young men. Almost 2 500 homicides occur annually, many perpetrated on acquaintances. Infant and under-5

mortality is declining, but remains higher than in other middle-income countries.

- National data show a net inflow of fewer than 100 000 migrants to the Western Cape in the past five years, but school data point to higher rates of migration. There are about 25 000 annual transfers to Western Cape schools from other provinces (about 2.8 per cent of learners), especially concentrated in grades 1, 6 and 8.
- The Cape Town Metropolitan area has the second lowest proportion of households in informal housing. However, the housing backlog in the Province is estimated to be at least 200 000 units. To resolve overcrowding would require even more housing units. The Western Cape is ahead of all other provinces in terms of providing municipal services, such as the provision of water, sanitation, electricity and refuse removal; with 83.3 per cent of all households enjoying all four of these services.
- Pervasive social ills evident in the Western Cape include inter-personal violence, widespread alcohol and substance abuse, abuse of women and high rates of child abuse, family break-up and neglect of children.

## **5.1 Introduction**

This chapter provides an overview of socio-economic development in the Western Cape, dealing with such matters as education (both educational attainment and quality), health, mortality and fertility, other demographic issues such as migration, housing conditions and related municipal services. The chapter also reflects on some social ills such as inter-personal violence, homicide and gang wars, abuse of alcohol and other substances, and abuse of women and children. This chapter therefore provides a perspective of the social context within which the Western Cape economy operates. As labour market issues have been dealt with in Chapter 4, it will not be discussed here, although the labour market situation has a strong bearing on socio-economic conditions in the Province. On the other hand, many of the issues looked at are greatly influenced by service delivery of the social sectors within the Provincial Government (e.g. education, health, social development and housing) or by services delivered by local authorities, but this chapter does not attempt to assess these services. What will be presented is a broad picture of the socio-economic circumstances of the population.

The chapter contextualises the socio-economic position in the Western Cape in relation to the national perspective, by drawing comparisons between Western Cape conditions and those in Gauteng (the Province with the most similar economic situation), other provinces and South Africa as a whole. In order to provide comparative data, much of the data are drawn from national datasets, particularly surveys undertaken by Statistics South Africa (StatsSA). The presentation of service delivery information will be used less

frequently due to the lack of availability of this type of information at a provincial or regional level.

The Western Cape is one of the more urbanised provinces. Table 5.1, which provides a broad summary of some socio-economic aspects in the Western Cape compared with that of Gauteng and the rest of South Africa, indicates that the Province is home to 10.8 per cent of the national population, with a full 15.5 per cent of those employed, based on slightly dated data from the 2007 Community Survey of StatsSA. However, the more recent mid-year population estimates of Statistics South Africa, highlight that the 2007 data for the Western Cape was probably inflated and that its population share is now approximately 10.5 per cent.

The Cape Town Metropolitan area dominates the Province both in terms of population and of economic activity. To put it in perspective, two-thirds of the Western Cape population reside in the local authority area of the City of Cape Town, while even more people are within close proximity to the metropole and may commute into the City, daily. Thus Cape Town dominates numerically to such an extent that provincial averages may hide the situation of many of those not resident in Cape Town. Accordingly, so as to provide a perspective on regional differences and the development of the different regions, some statistics will also be presented at the regional (local) level.

The Western Cape's population composition is dissimilar from that of most other provinces. In 2007 the Coloured population group constituted just over half (50.1 per cent) of the provincial population, Africans less than a third (30.1 per cent) and Whites just under one-fifth (18.5 per cent), while the other 1.3 per cent were Indian/Asian. Slightly more than half (51.2 per cent) of the population was female.

Generally, socio-economic conditions in the Province are more favourable than in the rest of the country. This can be ascribed to the large urban population, high average incomes and less inequality than in other provinces. Economic activity has developed to higher levels in the Western Cape than in most other provinces, and service delivery is generally better in a number of areas (some of which will be mentioned later in this chapter) than in other provinces. However, socio-economic conditions are still far from ideal and there are a number of social ills that are particularly endemic in the Western Cape, often more so than elsewhere in the country. These social ills include violence, including homicide, where victims and perpetrators often know each other; gangsterism; alcohol and substance abuse; abuse of women; and abuse and neglect of children. Due to the absence of hard comparative data, not all of the social ills will be dealt with in-depth. However, it will provide an important backdrop against which the economic development of this Province should be seen.

**Table 5.1 Some indicators of the relative socio-economic situation in the Western Cape, Gauteng, other provinces and South Africa**

	Western Cape	Gauteng	Other provinces	South Africa
<b>Demography:</b>				
% metropolitan	66.4%	85.7%	13.8%	35.1%
Household size	4.84	4.56	5.67	5.34
Population 2011	5 287 863	11 328 203	33 970 691	50 586 757
Population 2007 estimate	5 228 654	10 361 111	32 435 992	48 025 757
Population aged 15 - 64, 2007	3 557 457	7 256 841	19 725 114	30 539 412
Dependency ratio (population in other age groups per 100 in working age 15 - 64), 2007	47.0	42.8	64.4	57.3
Employed dependency ratio (non-working population per 100 employed workers), 2007	171	179	379	287
<b>Economic conditions:</b>				
Average per capita household income, 2007	R35 296	R39 568	R15 303	R22 698
Median per capita household income, 2007	R11 451	R10 861	R4 526	R5 867
Gini coefficient of per capita household income, 2007	0.694	0.734	0.711*	0.743
Poverty headcount ratio, 2007 (poverty line R3 864 per capita in 2000 Rand, i.e. R5350 at time of survey)	24.0%	29.9%	55.0%	46.2%
<b>Education &amp; skills:</b>				
Adult (20+) literacy rate, 2007	93.4%	92.4%	80.2%	84.7%
7 - 15 year olds not attending school, 2007	7.3%	6.2%	5.1%	5.5%
% of non-matriculated 16 - 19 year olds not attending school, 2007	38.2%	24.2%	20.4%	22.6%
Mean years of schooling of 25 year olds, 2007	10.55	10.91	9.89	10.24
Labour force without any secondary education, 2007	19.5%	16.7%	28.1%	23.7%
Labour force matriculated, 2007	34.5%	41.1%	30.3%	33.9%
<b>Health conditions:</b>				
Life expectancy at birth 2006 - 11: Females (years)	65.8	59.1		56.2
Life expectancy at birth 2006 - 11: Males (years)	59.9	55.4		52.1
Total fertility rate (children born per woman given prevailing age-specific fertility), 2006 - 11	2.30	2.10		2.52
<b>Position of women:</b>				
Women abused by partner in last year, 1998	8.0%	..	..	6.3%
Women ever abused by partner, 1998	16.9%	..	..	12.5%
Adult (15 - 49) women ever raped, 1998	6.6%	..	..	4.0%

\* The average Gini coefficient shown for the other seven provinces is a simple average of the coefficient calculated for each of these provinces separately.

Sources: StatsSA 2011: Mid-year population estimates

Community Survey 2007; own calculations

Demographic and Health Survey 1998; own calculations



## 5.2 The provincial population

According to the 2011 mid-year population estimates released by StatsSA, the Western Cape population was 5 287 863. A breakdown of the 2011 mid-year population numbers is not available. The slightly more dated Community Survey of 2007 is therefore used, albeit indicating a marginally lower population. Of the 2007 population numbers, virtually two-thirds were living in the City of Cape Town, followed by the Cape Winelands (13.6 per cent) and Eden (0.7 per cent). The Central Karoo, although covering a very large area, is sparsely populated and has a population of barely 56 000, just 1.1 per cent of the provincial population. In all the regions except Cape Town, the Coloured population group forms the majority.

The total fertility rate in the Western Cape has declined considerably over the years and is now estimated by StatsSA in their mid-year population estimates as 2.30 for the period 2006 - 2011. The total fertility rate is the number of children that would be born to each woman if the fertility pattern in each age group remains at current levels. Internationally, the replacement rate is regarded as 2.10<sup>1</sup>, i.e. where each woman on average replaces herself. In Gauteng, fertility has dropped to replacement level; the Western Cape is still above that level, but well below the national fertility rate of 2.52. With such low levels of fertility much of the population increase comes from in-migration, in particular from the Eastern Cape, though demographic momentum implies that natural population growth would continue until the lowered fertility rate has worked its way through to the age structure of the population. Both migration and mortality are discussed later in this chapter.

The effect of lowered fertility on the age structure means that the dependency ratio, the number of people outside the working age group of 15 - 64 years per 100 people, is low in the Western Cape at 47.0, compared to the national rate of 57.3, but above Gauteng's 42.8. The number of non-workers (dependents) per 100 employed workers is much lower in the Western Cape (171) and Gauteng (179) than in the other provinces (379), reflecting the Province's better economic situation. This does not however consider the fact that some workers in the Western Cape also may have dependents outside the Province.

<sup>1</sup> It is greater than 2 to allow for some mortality before women reach their fertile years.

### 5.3 Economic conditions of the population: Poverty and income inequality

The 2007 Community Survey, adjusted for some non-responses on income, indicated that the average income per person in the Western Cape, at R35 296, was below that of Gauteng (almost R40 000), but far ahead of the national average of less than R23 000. It should be noted that average incomes may give a wrong impression, as they are much affected by the incomes of the richest. The median income (income of the middle person in the distribution) is a better reflection of broad living standards. At R11 451 per person per year this was quite low in the Western Cape, but above that of Gauteng, at R10 861, and almost twice the South African average of R5 867 per year.

Inequality as measured in this survey was less in the Western Cape than in Gauteng, with the still very high Gini-coefficient of 0.694 being lower than that of Gauteng (0.734) and the country as a whole (0.743).

#### Gini coefficient

The Gini coefficient is a measure of inequality that has a value of 0 if everyone has the same income and 1 when there is complete inequality, i.e. if one person were to earn everything. Note that the Gini co-efficient for the country can be higher than the value of any individual province, as part of the national inequality is the inequality between provinces rather than within provinces.

Because the Western Cape has less inequality, poverty is lower in this Province than in any other province, including Gauteng, despite the latter's higher average income. Thus, for a poverty line set at R5 350 per person per year at the time of the survey in 2007, 24.0 per cent of the Western Cape population was poor, compared to almost 30 per cent in Gauteng, a massive 55 per cent in the other seven provinces, and just over 46 per cent nationally. The Western Cape thus has less poverty to contend with than most other provinces. Nonetheless, if this poverty line is used, almost a quarter of the Western Cape population is considered poor.

Another important dimension of the economic conditions of the population is reflected in the unemployment rate, already discussed in greater detail in Chapter 4. Illustrating how the situation differs between different regions within the Province, unemployment rates are shown in Table 5.2. In 2009 the City of Cape Town had a relatively high, narrow unemployment rate of 24.5 per cent, a rate higher than in most other regions, ranging between 15.6 per cent in the West Coast to 18.5 per cent in Eden. The exception was Central Karoo, with a considerably higher unemployment rate than Cape Town at 30.9 per cent. This may seem contrary to expectations, as Cape Town is the economic hub of the Province, but it is also the case that migration from both inside and outside of the Province tends to target Cape Town as a result of its strong economic magnet effect.

**Table 5.2 Selected indicators of living standards within the Western Cape by region**

	West Coast	Cape Wine-lands	Over-berg	Eden	Central Karoo	Cape Town	Total
Population	282 023	706 192	209 981	506 514	54 477	3 469 467	5 228 654
Population share	5.39%	13.59%	4.09%	9.69%	1.09%	66.39%	100%
Black share	9.0%	20.5%	20.0%	29.0%	9.6%	34.9%	30.1%
Coloured share	71.6%	65.1%	59.6%	52.2%	80.4%	44.0%	50.1%
Indian/Asian share	0.3%	0.5%	0.3%	0.5%	0.1%	1.8%	1.3%
White share	19.2%	14.0%	20.1%	18.4%	9.9%	19.4%	18.5%
Labour force	127 717	317 839	95 242	225 904	19 971	1 642 934	2 429 607
Share of labour force	5.26%	13.08%	3.92%	9.30%	0.82%	67.62%	100%
Narrow unemployment rate	15.6%	16.2%	17.8%	18.5%	30.9%	24.5%	22.2%
Average per capita income (Rand)	27 797	24 737	27 591	25 986	17 985	40 071	35 296
Median per capita income (Rand)	10 861	10 182	10 182	9 051	6 711	13 576	11 451
Poverty head-count ratio	21.3%	21.0%	25.9%	29.1%	39.1%	23.7%	24.0%
Gini coefficient	0.645	0.634	0.66	0.685	0.678	0.699	0.694

Source: Stats SA; Community Survey, 2007

## 5.4 Education

The level of education of the Western Cape population is second, only marginally, to that of Gauteng. Western Cape adults have completed an average of 9.6 years of education, about 0.3 years less than in Gauteng and 0.9 years more than the South African average. Table 5.3 also shows a larger share of adults with a matric in Gauteng than in the Western Cape (35.0 per cent versus 29.2 per cent), while the proportion with degrees is the same at 1.1 per cent. The almost 1.1 million adults with matric and the just over 41 000 with degrees constitute respectively 13.8 per cent and 21.7 per cent of the national stock of people with such qualifications. The Western Cape thus possesses a relatively well educated population. Education levels are also rising, as reflected in the fact that the youngest cohort that have completed their school and tertiary education, i.e. 25 year olds born in 1982, had completed about 10.6 years of education on average, almost two years less for those aged 55 years and born in 1952, i.e. 30 years earlier.<sup>2</sup>

In 2007 there were more than 41 000 youths aged 17 - 19 who had completed grade 10 but who were no longer attending an educational institution, i.e. they had dropped out without matriculation or had gone onto alternative studies. There is a high proportion (30 per cent) of those in this age group that

<sup>2</sup> StatsSA, Community Survey 2007

drop out of education in good standing<sup>3</sup> between grades 10 and 12, much higher than in Gauteng (20 per cent) and other provinces (13 per cent). To a large extent this may, amongst others, be due to employment that appears to be easier to find for many early school leavers. Yet it is worrying that education appears to be less valued than it should be amongst many youths and parents in the Western Cape. The indications are that progression to matriculation is increasing, so it is likely that the number of successful matriculants will keep on rising strongly for some time to come.

**Table 5.3 Educational attainment of the South African adult population (20 years or more) by province, 2007**

Province	Mean years of education of adults	Number with degrees	Number with matric or more (incl. degrees)	As % of adult population	
				Degrees	Matric
Western Cape	9.62	41 190	1 098 013	1.10	29.20
Eastern Cape	8.00	11 166	649 703	0.28	16.27
Northern Cape	8.03	2 031	150 426	0.28	21.04
Free State	8.44	8 326	409 025	0.44	21.57
kwaZulu-Natal	8.46	23 991	1 557 825	0.37	23.88
North West	7.88	6 376	433 781	0.29	19.74
Gauteng	9.91	83 531	2 651 424	1.10	34.99
Mpumalanga	8.16	5 956	512 524	0.26	22.10
Limpopo	7.70	6 879	518 855	0.22	16.56
<b>South Africa</b>	<b>8.73</b>	<b>189 446</b>	<b>7 981 576</b>	<b>0.59</b>	<b>24.85</b>

Source: Community Survey 2007; own calculations

While the discussion above shows that attainment (years of education completed) is somewhat lower in the Western Cape than in Gauteng, the Western Cape offers the best quality of education in the country. This can be deduced best from information showing provincial performance against the national norm in a large number of educational assessments, both national and international, the Province has participated in, as summarised in the DBEs Annual National Assessment report of 2011 (DBE, 2011: Table 5.4). The Western Cape performance lies between one and a half and two standard deviations above the SA average and well above that of any other province in any of these tests. Such a performance is equivalent to at least a three to four year learning advantage on the average South African learners, as it would take on average three to four more years at school for the national performance to reach Western Cape performance levels. This conclusion is based on the relatively optimistic assumption of half a standard deviation annual increase in learning.

<sup>3</sup> In "good standing" here refers to the fact that they are still of potential school going age and have already completed grade 10.

This does not provide much ground for complacency about the quality of education in the Western Cape. Though its performance is not as weak as most other provinces, the Province still performs well below developed country standards in international tests. In the Trends in International Mathematics and Science Study (TIMSS), a grade 8 mathematics and science test, the score of Western Cape students of 389 was well above the South African score of 264, but also below the low international benchmark set at 400 and almost one standard deviation below the international mean of 467 among all participating countries. This places the Western Cape performance at about the same level as that of Morocco, and below Egypt (406) and Tunisia (410).

The results of the Annual National Assessment, written in 2011, is shown in Table 5.4. These assessments were written at the beginning of 2011 and tested the performance of learners in the previous grade. The average percentage score of the Western Cape's grade 3 and grade 6 learners was on average below the national norm of 50 per cent in both Reading and Maths. In the Province's own systemic tests which are independently developed and administered and which were undertaken in 2010, the average percentage score of grade 3 was 48 per cent for Numeracy and 55 per cent for Literacy, while grade 6 learners scored 39.2 per cent for Mathematics and 50.8 per cent.

The Annual National Assessments are part of a process of external systematic observation while the tests administered in the Western Cape are diagnostic in nature. They therefore have different intentions and are not easily comparable, although both highlight the challenges with learner performance.

**Table 5.4 Average percentage scores by province after re-marking in the 2011 Annual National Assessment**

	Grade 3		Grade 6	
	Literacy	Numeracy	Languages	Mathematics
Western Cape	43	36	40	41
Eastern Cape	39	35	29	29
Northern Cape	28	21	27	28
Free State	37	26	23	28
kwaZulu-Natal	39	31	29	32
Gauteng	35	30	35	37
Northwest	30	21	22	26
Mpumalanga	27	19	20	25
Limpopo	30	20	21	25
<b>South Africa</b>	<b>35</b>	<b>28</b>	<b>28</b>	<b>30</b>

Source: Department of Basic Education, Annual National Assessment 2011

When considering all of the above, educational attainment and the quality of education received by the Western Cape population are both relatively high seen from a national perspective, but still far from satisfactory given that educational quality is still extremely weak by developed country standards. This especially if one considers the need for the economy to be internationally competitive. In addition, it is worrying that almost 20 per cent of the labour force has no secondary education even though more than a third has matriculated.

## 5.5 Health

Health conditions of a population are the result of an immense variety of factors that all impact on health. These factors range from economic conditions, sanitation, water, housing and education, with health services playing only a limited yet important role in outcomes. For this reason, certain health outcomes such as the infant mortality rate or life expectancy at birth, are often used as indicators of social and economic conditions in a country. However, in the era of HIV/AIDS, these health measures offer a weaker perspective on overall socio-economic conditions than would have been the case before. Nevertheless, these measures still remain important. The life expectancy at birth for the Western Cape, as estimated StatsSA for the period 2006 – 2011, of 65.8 years for females and 59.9 years for males is on average more than five years above that for Gauteng (see Table 5.1) and even further above the national average.

Yet, seen in an international perspective, these values are quite low, even when compared to many other developing regions of the world. In South America, average life expectancy of both sexes combined is 73 years, 10 years more than in the Western Cape; in Central America it is even higher at 75 years; even in the poor South Asian region (including India, Pakistan, Bangladesh and Sri Lanka), it is two years higher than in the Western Cape.

The reason for the low life expectancy in the Western Cape is to some extent similar to that for the country as a whole, namely that it suffers from what has been referred to as a “quadruple burden of disease”. Factors that all have a large impact on mortality include diseases related to poverty (e.g. TB and diarrhoea), those associated especially with a more affluent lifestyle (e.g. stroke, heart disease, diabetes), HIV/AIDS, and high levels of deaths related to trauma (e.g. homicides, road accidents, drowning and death from fires). An analysis of the causes of death in the Province is illuminating. This is based largely on the Burden of Disease (BOD) Reduction Project<sup>4</sup>. The data shown here are provisional, as not all information could be verified thus far. Thus only

<sup>4</sup> This is a study of Western Cape deaths undertaken by the Medical Research Council in collaboration with other universities and the Western Cape Department of Health, using data from inter alia Statistics South Africa (Provisional and unpublished data obtained from Prof Debbie Bradshaw at the Medical Research Council).

broad trends should be taken as accurate. Mortality patterns in the smallest region, Central Karoo, are especially prone to possible error and may still be corrected after further investigation.

Mortality patterns for males and females for 2009, as far as these could provisionally be ascertained by the BOD Reduction Project, show stark differences between the genders. The number of deaths in younger age groups is much greater amongst men, while more women die after the age of 80. A strong contributory factor to mortality amongst young men is injury, including deaths from inter-personal violence and from road accidents. These are responsible for almost two-thirds (64 per cent) of the deaths of young males aged 15 - 24, and remain an extremely common cause of death also for somewhat older males (e.g. 39 per cent of males aged 25 - 34). Altogether almost 2 500 people die from homicide each year in the Province, i.e. almost 7 per day, and another almost 1 700 from road traffic accidents. HIV/AIDS is also an important cause of death among young adults, while non-communicable diseases rise in importance with age.

The Western Cape Department of Health indicates that the risk profile for non-communicable diseases is getting worse in the Province. Data shows increased inactivity, higher obesity (where South Africa ranks third highest in the world) and increased smoking.

According to these provisional data, the most common causes of death in the Province are HIV/AIDS (9.1 per cent), tuberculosis (8.7 per cent), heart disease (7.6 per cent), cerebrovascular diseases (stroke)(6.3 per cent), and homicide (also 6.3 per cent), followed by diabetes (5.3 per cent) and transport injuries (road accidents) (4.5 per cent).

On average, each death causes 18 years of life lost<sup>5</sup>. Deaths disproportionately affecting younger people lead to more years of life lost, e.g. almost 25 years of life is lost per person after discounting, from each death caused by HIV/AIDS, homicide, road accidents, and intestinal infectious diseases. The very young are also greatly affected by drowning and fire-related death, which contributes more than 2 per cent of years of life lost in the Province.

Alcohol consumption plays a significant role in road traffic accidents and interpersonal violence. More than 50 per cent of deaths from injuries are alcohol related<sup>6</sup>. South Africa also ranks among the top 5 countries in the world with regard to binge drinking.

<sup>5</sup> Discounting future life years at a rate of 3 per cent and assuming that younger persons would have had longer life expectancy if they had not died from the particular cause than older persons.

<sup>6</sup> Western Cape Department of Health

Table 5.5 contains data on infant and child (under five years of age) mortality across health districts within the Western Cape, as well as information on the recorded incidence of TB. The infant mortality estimates for the Western Cape indicate much lower rates than the infant mortality estimate for South Africa<sup>7</sup>, at 54.8 in the period 2005 - 2010. These figures of 27.3 and 24.2 per cent for 2007 and 2005 respectively, are still slightly above those of many other middle-income developing countries: In South America infant mortality averages around 21 per 1 000 live births and in Central America 19 per 1 000.

Table 5.5 also shows that health conditions, at least according to these measures, are worst in the sparsely populated Central Karoo, with an infant mortality rate of 44.3 per 1 000 births, an under-5 mortality rate of 58.8 and a high TB incidence rate in 2008. Yet because of its small population size, ratios for this region may be least accurately estimated. There appears to have been significant declines in infant and child mortality in all regions, except for Central Karoo, where the high rates appear most stubborn. TB incidence is high in all regions and exceptionally high in the West Coast at 1 271 per 100 000, though the rate is slightly lower in the numerically dominant Cape Metropolitan region at just over 800 per 100 000.

**Table 5.5 Western Cape infant and under 5 mortality rates, 2007 and 2008, and TB incidence by region, 2010**

Region	Infant mortality rate (child deaths before age 1 per 1 000 babies born)		Under 5 mortality rate (child deaths before age 5 per 1 000 babies born)		TB incidence per 100 000 population
	2007	2008	2007	2008	2010
Cape Winelands	26.4	20.5	31.3	27.0	1 011.6
Central Karoo	44.4	44.3	59.3	58.8	1 018.2
Overberg	32.4	24.7	40.1	30.9	1 051.5
Eden	29.0	21.9	35.1	27.4	981.3
West Coast	35.7	30.8	41.7	36.9	1 271.3
Cape Town metro	25.9	24.5	31.4	30.2	800.2
<b>Western Cape</b>	<b>27.3</b>	<b>24.2</b>	<b>33.0</b>	<b>30.2</b>	<b>884.9</b>
<b>Western Cape (ASSA 2008 estimates)</b>	<b>25.88</b>	<b>23.68</b>	<b>34.53</b>	<b>30.87</b>	

Sources: Mortality data: Western Cape BOD Reduction project

TB data: Western Cape Department of Health

<sup>7</sup> UN Population Division (2010)



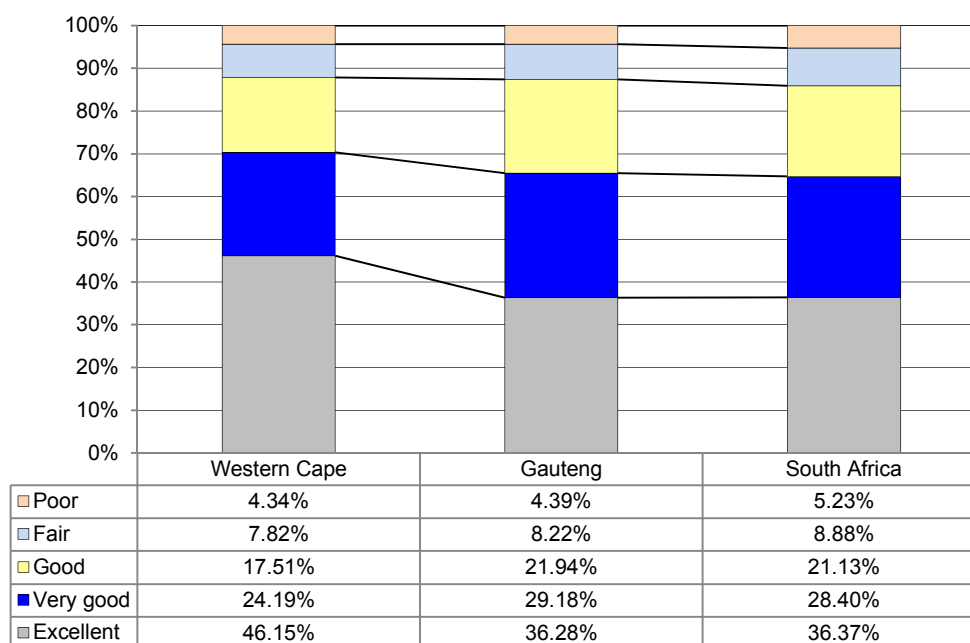
The effect of HIV/AIDS on mortality and health is well documented. The fact that the Western Cape was the first province to provide anti-retroviral treatment (ART) to those affected has had a large impact. According to data from the Western Cape Department of Health, just over 100 000 patients were on ART in the Province in June 2011, almost 7 per cent of these being children. Three-quarters of this treatment occurred in the Cape Metropolitan district, almost 10 per cent was in Cape Winelands health district and another 8 per cent in the Eden health district.

Survey data allow some assessment of personal perceptions about health and health services. As Table 5.6 and Figure 5.1 show self-perceived excellent health is far more common in the Western Cape than in any other province, and more than 70 per cent of Western Cape respondents perceived themselves to be either in excellent or in very good health. Satisfaction with public health services was also particularly high in the Western Cape, with more than 60 per cent very satisfied and 86 per cent being satisfied or very satisfied. It is interesting to note that in this respect Gauteng performs below the national average, while it is barely distinguishable from the national average in terms of self-perceived health status.

**Table 5.6 Perceptions about own health and about public health services**

	Western Cape	Gauteng	South Africa
<b>Self-perceived health status 2008</b>			
Excellent	46.1	36.3	36.4
Very good	24.2	29.2	28.4
Excellent or very good	70.3	65.6	64.8
<b>Satisfaction with public health services 2010</b>			
Very satisfied	60.4	52.4	55.9
Satisfied	25.8	29.5	28.7
Satisfied or very satisfied	86.2	81.9	84.6

Sources: *National Income Dynamics Survey (NIDS) 2008*  
*General Household Survey (GHS) 2010*

**Figure 5.1 Self perceived health status 2008**

Source: NIDS 2008

## 5.6 Migration trends

In addition to declining fertility rates, mortality patterns and life expectancy, the population of the Province is also affected by migration, both into the Province and outward bound. These movements are of considerable importance, as they affect the size of the population served, its geographic distribution, the age composition and thereby service needs amongst others.

According to StatsSA 2011 mid-year estimates, the net effect of migration to and from the Western Cape in the period 2006 to 2011 was in-migration of 206 493 people of which 104 215 from Eastern Cape and 48 951 from Gauteng, while 110 937 moved out of the Province, 40 097 of which were to Gauteng. It should be noted that these are net movements, i.e. if a person moves in and again out within the same five year period, such movement would not reflect in these numbers. The flow from the Eastern Cape to the Western Cape is one of the largest migration streams in South Africa and has a long history. It is interesting that the net effect of migration between Western Cape and Gauteng was a net movement from Gauteng to the Western Cape.

Yet, these numbers are based simply on projection of trends that StatsSA have deduced from other years, as it will have no hard recent evidence on which to judge population migration until the results of the 2011 census are available. Annual movements in survey data indicate much larger movements, which imply that an under-estimate of the annual movement is possible. In terms of the aggregate population, however, that is not really as important as the net movement.

Data from the Western Cape Education Department's (WCED) Education Management Information System (EMIS) offer an alternative perspective on migration. This is the number of learners recorded by schools as having transferred from other provinces, shown in Table 5.7. Of the 918 835 children at school in 2010, those who have transferred from other provinces constituted 25 956, or 2.82 per cent. In a five year period, approximately 130 000 school children may have enrolled in Western Cape schools from other provinces or from abroad, a figure which casts some doubt about whether the StatsSA estimate of migration to the Western Cape may not be an under-estimation. It is quite possible that some of these children again leave the Western Cape, but it is unlikely that this takes place on a large scale<sup>8</sup>.

**Table 5.7 Transfers into Western Cape schools from other provinces, 2010**

Grade	Number in grade	Of which: Transfers from other provinces or abroad	Transfers in as per cent of grade
Grade 1	98 086	4 391	4.48
Grade 2	83 046	1 992	2.40
Grade 3	79 155	1 792	2.26
Grade 4	84 234	1 823	2.16
Grade 5	80 290	1 671	2.08
Grade 6	81 402	1 782	2.19
Grade 7	82 777	1 649	1.99
Grade 8	75 426	2 822	3.74
Grade 9	85 114	2 240	2.63
Grade 10	70 630	4 218	5.97
Grade 11	53 799	1 461	2.72
Grade 12	44 876	115	0.26
<b>Total</b>	<b>918 835</b>	<b>25 956</b>	<b>2.82</b>

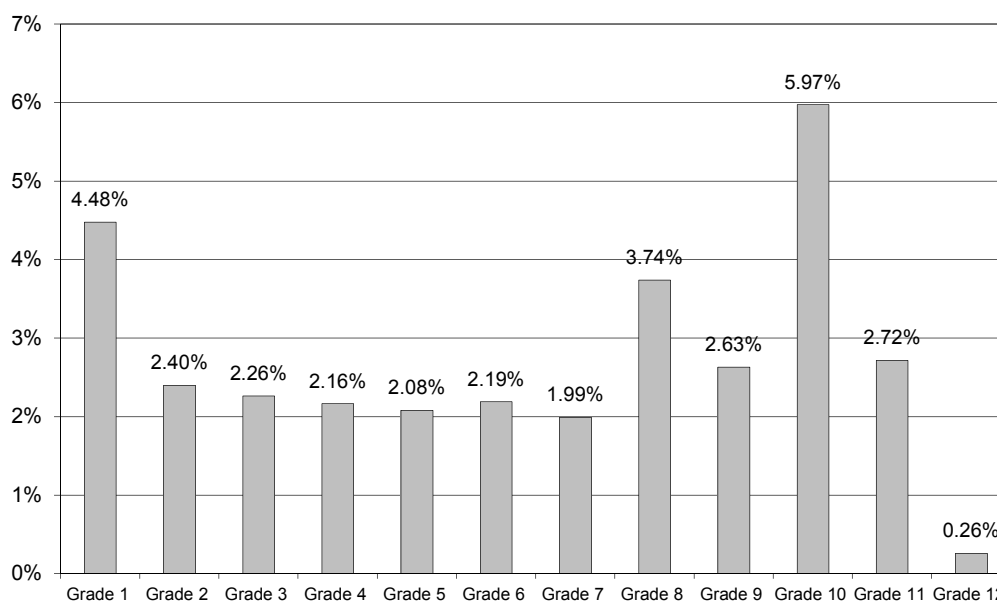
Source: WCED EMIS data

Considering the pattern of transfers-in by grade, there are some specific grades that stand out, as Table 5.7 and Figure 5.2 show. Firstly, while the normal pattern is for slightly more than 2 per cent of learners in a grade to be transfers in, there are considerably more in grade 1. This probably reflects the fact that many children from particularly the Eastern Cape are sent to school

<sup>8</sup> Unfortunately, the Western Cape EMIS data offer no evidence on this.

in the Western Cape because of the latter province's perceived good quality schools. Many such children may migrate with their parents or join one or both of their parents or other relatives or acquaintances who reside in the Western Cape. While the proportion of transfers remains quite steady during the other primary grades at just above two per cent of all learners (declining somewhat in grade 5, the last year of primary schools), there are sharp increases in early high school (grade 8) and especially in grade 10, for the final school phase leading to matriculation. It is known that many learners come to the Western Cape in secondary schools, some even staying on their own without an accompanying adult, in order to attend school here. It is likely that some of these youths may return to their province of origin when completing their schooling, whether successful or not, but indications are that most stay and join the Western Cape labour market once they leave school.

**Figure 5.2 Transfers-in from outside the Province as a percentage of those in each grade, Western Cape 2010**



Source: WCED EMIS data

Such migration to the Province, especially when it is unexpected, puts pressure on resources as well as service delivery, as a result of crowding in schools and provisioning of schools. The transfers into Western Cape schools in 2010 could potentially deal with these numbers. Teachers could become supernumerary in some schools where numbers decline, while other schools may have to appoint a large number of new teachers.

Migration within the Province has similar effects. Generally, there is a gradual shift of population from the other regions to the Cape Town metropolitan area in particular. These shifts also need to be monitored as it has implications for service delivery needs and for resource planning.

## 5.7 Housing and municipal services

Housing is an important determinant of the living conditions of any population. It has an effect on health and therefore on worker productivity, but is in turn affected by economic conditions and in particular by income and housing costs. This section deals with both housing and the municipal services that complement such housing in modern communities.

In the Western Cape, overcrowding and informal backyard housing are major issues, while informal housing in informal settlements, although more visible than the former, is not as large as in many other provinces. Table 5.8 shows the housing situation in the Province. The table further shows the proportion of the population living in informal housing in 2001 and 2007 according to the sample from Census 2001 and Community Survey 2007. The data show that informal or traditional housing is still quite common in South Africa, with only 71 per cent of the national population housed in formal dwellings. This proportion is much higher in the Western Cape at 83 per cent. The biggest backlogs in the Western Cape in absolute terms are in the Cape Town metropolitan area, where almost 16 per cent of the population is still living in informal housing (traditional housing is uncommon in this Province). After Port Elizabeth's Nelson Mandela Bay Metropolitan authority, Cape Town is the metropolitan area containing the lowest proportion of informal housing.

The Western Cape managed to make some progress in formal housing provision between 2001 and 2007. The proportion of the population housed in formal housing rose from 81.0 per cent to 83.4 per cent. In a national context, however, the increase was approximately the same as experienced in the country as a whole. Port Elizabeth (Nelson Mandela Bay Municipality), with an improvement of 9.9 percentage points, (from 75.2 to 85.1) made stronger progress amongst metropolitan areas. Within the Western Cape, there appears to have been deterioration in the municipalities within the Eden District Municipality, while Cape Town made good progress.

From Table 5.8 it is clear that the highest percentage of informal housing in backyards is found in the Western Cape. Overcrowding too is quite common, something that the data cannot show. Thus the housing need in the Western Cape clearly is still substantial. Based only on the proportion of households without formal housing, there appears to be a housing shortage of at least 200 000 housing units in the Western Cape; to take care of over-crowding would require even more.

**Table 5.8 Type of housing, 2001 and 2007 (per cent of households)**

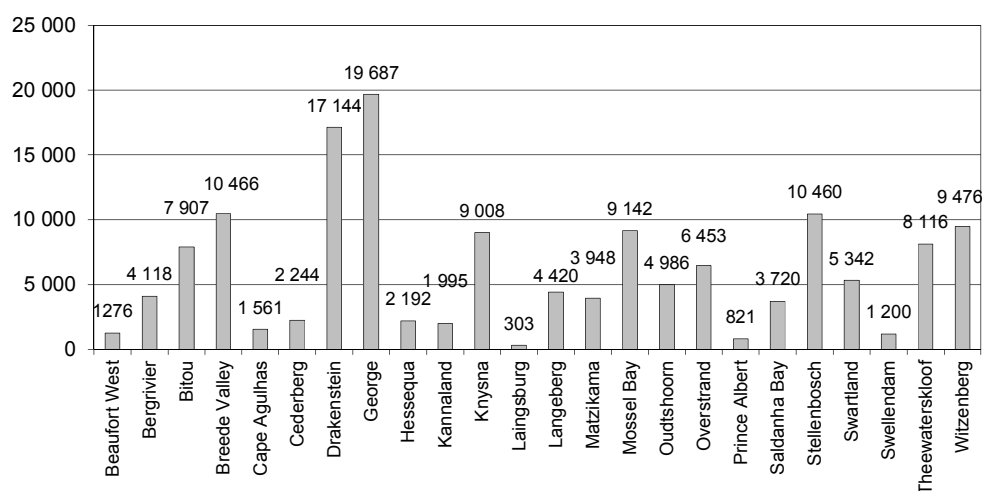
Municipality	Formal 2001	Informal 2001	Formal 2007	Informal 2007	Informal in back-yards 2007	Per cent of informal in back-yards 2007
Municipalities within West Coast District	90.1	9.1	93.0	6.0	4.1	67
Municipalities within Cape Winelands District	84.9	14.5	82.7	11.1	5.7	52
Municipalities within Overberg District	82.3	16.7	88.0	11.0	5.1	47
Municipalities within Eden District	82.6	16.6	77.9	21.2	10.9	51
Municipalities within Central Karoo District	95.8	3.7	96.9	2.2	1.3	59
City of Cape Town	78.7	20.8	83.0	15.9	6.4	40
<b>Port Elizabeth: Nelson Mandela Bay</b>	75.2	24.4	85.1	14.4	2.7	19
Durban: Ethekewini	72.6	26.9	72.2	23.5	6.2	26
East Rand: Ekurhuleni	69.7	29.9	71.0	26.2	9.1	35
Johannesburg: City of Johannesburg	77.4	22.3	77.3	19.1	8.6	45
Pretoria: City of Tshwane	75.0	24.6	70.8	27.3	7.2	26
<b>Western Cape</b>	81.0	18.5	83.4	15.0	6.5	43
Eastern Cape	50.7	49.0	53.7	45.7	9.4	20
Northern Cape	82.9	16.0	81.4	13.4	2.1	16
Free State	65.9	33.7	71.0	23.0	6.1	26
KwaZulu-Natal	61.0	38.6	61.4	35.0	9.3	27
North West	72.1	27.6	69.8	25.9	8.2	32
Gauteng	74.2	25.4	72.6	23.1	8.7	37
Mpumalanga	70.6	29.0	74.8	20.4	4.4	21
Limpopo	73.3	26.4	84.4	13.6	4.9	36
<b>South Africa</b>	<b>68.4</b>	<b>31.2</b>	<b>70.6</b>	<b>26.1</b>	<b>8.5</b>	<b>33</b>

Note: Informal housing here includes traditional housing. Formal and informal housing do not add up to 100 per cent, as this still excludes institutional housing and some smaller categories.

Sources: *Census 2001; own calculations*

*Community Survey 2007; own calculations*

The Western Cape Department of Human Settlements estimated the housing backlog in the Province at around 426 711 units in 2010. This number is based on a definition of households living in makeshift structures not erected according to approved plans as well as in traditional dwellings made of clay, mud, reeds or other locally available materials and in formal dwellings without access to running water or flush toilets including overcrowded households in formal structures (Rhode & Associates, 2010). Figure 5.3 illustrates the estimated backlogs in the municipalities in 2010.

**Figure 5.3 Municipal Housing Backlog Estimate 2010**

Source: Western Cape Department of Human Settlements 2011

Table 5.9 shows the percentage of households with access to specific services, by District and for the Cape Town Metropolitan area, as well as for some other metropolitan areas for comparison purposes, and for South Africa as a whole.

The levels of the following services are presented over the period 2007 and 2009:

- Water: Having piped (Tap) water in dwelling or on site or in yard;
- Sanitation: Having flush toilet, septic tank or chemical toilet;
- Fuel: Having electricity from mains or a generator; and
- Refuse removal: Removed by municipality or community members at least once a week.

Table 5.9 also indicates what proportion of households has all four of these municipal services and how that has changed over time. From the numbers it is clear the Western Cape is far better off in providing services to households than the country as a whole. The proportion of households in the Western Cape with all four services has risen from 74 per cent in 2001 to 83.3 per cent in 2007 – 2009. The latter number is 30 percentage points more than the 50.2 per cent in the most recent period in South African as a whole. Amongst the district municipalities in the Province, Eden performs best. The Western Cape has also continued its progress with providing these services, thus maintaining its advantage compared to the national average, though in some services it is starting to approach universal coverage.

**Table 5.9 Percentage of households with access to four main municipal services, 2007 - 2009 and with all four services, 2001, 2007 and 2007 - 2009**

	Water 2007- 2009	Sanita- tion 2007- 2009	Fuel 2007- 2009	Refuse removal 2007- 2009	With all 4 services		
					Census 2001	CS 2007	GHS 2007- 2009
District Municipalities							
West Coast	97.1	95.3	95.4	72.3	60.7	79.2	67.7
Cape Winelands	86.7	96.2	89.8	78.8	60.3	65.1	68.6
Overberg	87.8	95.5	90.7	82.0	62.7	82.4	71.9
Eden	92.8	92.4	94.0	90.9	68.8	79.2	83.3
Central Karoo	98.7	88.9	93.5	76.2	72.5	84.0	74.0
City of Cape Town: Metro	91.8	93.8	95.3	95.0	79.7	86.7	88.3
<b>Western Cape</b>	<b>91.3</b>	<b>93.9</b>	<b>94.3</b>	<b>90.5</b>	<b>74.0</b>	<b>82.6</b>	<b>83.3</b>
Durban: Ethekewini Municipality	82.0	72.1	90.9	81.4	55.9	62.8	62.8
City of Johannesburg	92.7	91.0	89.3	91.4	74.2	80.8	83.0
Pretoria: City of Tshwane	89.1	80.2	90.5	80.6	62.2	63.5	73.5
<b>South Africa</b>	<b>70.4</b>	<b>59.8</b>	<b>83.1</b>	<b>58.7</b>	<b>41.7</b>	<b>49.1</b>	<b>50.2</b>

Notes: 1. For 2001, based on the census; for 2007, based on the Community Survey; and the average for 2007 - 2009, based on the General Household Survey (GHS).

2. The data for each of the four services covered relate to the General Household Survey (GHS).

Sources: *Census 2001; own calculations*

*Community Survey 2007; own calculations*

*GHS 2007 - 2009; own calculations*

## 5.8 Some social ills

This section offers a broad overview of patterns of socio-economic development in the Western Cape. However, this was based largely on available data that allows such a broad sketch to be provided. More difficult to capture in data, but nonetheless equally important, are some pervasive social ills that still afflict the Western Cape. Because of a lack of hard evidence on their magnitude and the difficulty of comparing this to the situation in other provinces and regions, only a short overview will be provided. For the economic development of the Province, some of these ills are of great concern.



### **5.8.1 Inter-personal violence**

Inter-personal violence in the Western Cape is extremely high. The implicit rate of almost 50 homicides per 100 000 population in the Western Cape is exceeded by that of only a few countries in the world<sup>9</sup>. In this inter-personal violence, perpetrators and victims often know each other. Gang warfare is another phenomenon that contributes to a culture of violence among parts of the population and sometimes spills over into the wider community, often also affecting schools and households.

### **5.8.2 Alcohol and substance abuse**

The incidence of abuse of both alcohol and other substances is high in the Western Cape. Both these forms of abuse are often also associated with violence, and alcohol abuse also often spills over into abuse of women and children.

Monthly data collected from 22 specialist treatment centres by the South African Community Epidemiology Network on Drug Use (SACENDU) indicates that the demand for treatment for drug abuse in Cape Town is still increasing. A total of 3 134 patients were treated for the period January to June 2010 as compared to 2 637 during the period January to June 2008.

The mean age range of patients treated was 13 and 41 during the period 2008 to 2010. Forty-four per cent of the patients in treatment were younger than 25 years of age. Methamphetamine (Tik), alcohol and dagga, are the most common drugs used.

Males continue to predominate consistently at around 74 per cent of patients. A great proportion (57 per cent) of the patients is unemployed. The majority are single (69 per cent) followed by those who are married (15 per cent). Three quarters of the patients have completed secondary education (grades 8 to 12), while 15 per cent have primary education and 8 per cent have a tertiary education.

Alcohol, however, remains one of the most common primary substances of abuse in most sites in the Province and causes the biggest burden of harm in terms of 'secondary risks', including injury, premature non-natural deaths, foetal alcohol syndrome, and as a potential catalyst for sexual risk behaviour and hence HIV transmission.

Research done by the Western Cape Department of Community Safety showed a strong relationship between alcohol abuse, crime and injury. Almost 60 per cent of those arrested in Cape Town in 2000 were tested positive for an

<sup>9</sup> United Nations Office on Drugs and Crime 2009

illegal drug, with levels particularly high (66 per cent) for crimes such as housebreaking.

Table 5.10 shows that 46.05 per cent of drug-related crime in the country in 2009/10 took place in the Western Cape. The table also shows that more than 25 per cent of reported cases of people driving under the influence of alcohol or drugs in the country were reported in the Western Cape over that period.

**Table 5.10 Drug-related crime and Driving under the influence of alcohol or drugs in the Western Cape in a South African context between 2007 and 2011**

	Reported cases			
	2007/08	2008/09	2009/10	2010/11
Drug-related crime: WC	45 985	52 781	60 409	70 588
Drug-related crime: RSA	109 134	117 172	134 840	150 673
Percentage share: WC	42.14	45.05	44.80	46.85
Driving under the influence of alcohol or drugs: WC	11 616	12 741	15 644	17 244
Driving under the influence of alcohol or drugs: RSA	48 405	56 165	62 939	66 697
Percentage share: WC	24.00	22.68	24.86	25.85

Source: *Crime Information – South African Police Services*

### 5.8.3 Abuse of women

Abuse of women is a widespread problem in the country as a whole, but the little reliable, though old data that are available (from the Demographic and Health Survey of 1998) indicate that this problem is greater in the Western Cape than in the country as a whole. As was shown in Table 5.1, the incidence of women ever abused by a partner in the last year, at 8.0 per cent, was considerably higher than that for the country as a whole, as was that for women ever abused by a partner (16.9 per cent). Similarly, the proportion of women age 15 - 49 acknowledging that they had ever been raped was, at 6.6 per cent, almost two-thirds higher than for the country as a whole.

### 5.8.4 Child abuse

Accurate data on child abuse are impossible to obtain, though the extent of it is known to be high in Western Cape society. It is often associated with alcohol abuse, family break-up and general neglect of children. Declining fertility rates have improved the situation somewhat, but many children are still not offered the supportive and warm environment that they need for them to grow to become healthy adults. Such behaviour has inter-generational effects, thereby also undermining the growth of a productive and healthy society.

## 5.9 Conclusion

This chapter has given a broad background of the socio-economic situation of the Western Cape population. It shows that the population is generally less poor than in other provinces and that income is slightly less unequally distributed; and that health, educational and municipal services function better. Thus, compared to the rest of South Africa, the Western Cape population derives relatively more from the benefits of economic growth. However, it also became clear in the discussion that there still remain many deficiencies in service delivery in the Western Cape, such as the quality of education which remains extremely weak by international standards and acts as a barrier to accelerated economic growth. Added to that there is the fact that the Western Cape experiences, perhaps more acutely than most other provinces, particular types of social ills, such as interpersonal violence, abuse of women and children, and abuse of alcohol and drugs. While a growing economy can do much to improve the living standards of the population, it is also true that some of these problems require more direct efforts from the authorities. Such efforts are continuing, but it appears that success is far more difficult to achieve in these fields than is often acknowledged.



# Appendix

## Western Cape Statistics

Indicator	GDP – Total Rm	GDP – Agriculture Rm	GDP – Mining Rm
2004	192 912	8 382	445
2005	204 661	8 876	469
2006	216 711	8 370	443
2007	230 619	8 504	446
2008	241 023	10 007	415
2009	237 653	9 457	417
Average annual growth	4.3	2.8	-1.2

Indicator	GDP - Manufacturing Rm	GDP - Electricity Rm	GDP - Construction Rm
2004	36 767	3 279	6 849
2005	38 733	3 477	7 691
2006	41 157	3 546	8 514
2007	43 300	3 630	9 801
2008	44 203	3 491	10 609
2009	40 276	3 510	11 261
Average annual growth	2.0	1.4	10.5

Indicator	GDP – Wholesale and retail trade Rm	GDP – Transport, storage and communication Rm	GDP – Finance, real estate and business services Rm
2004	29 533	19 168	57 856
2005	32 236	20 897	60 411
2006	33 926	21 775	66 090
2007	35 758	23 292	71 511
2008	35 779	23 817	76 886
2009	34 781	23 991	77 307
Average annual growth	3.4	4.6	6.0

Indicator	GDP – Community and social services Rm	GDP – General government Rm
2004	10 663	19 971
2005	11 122	20 751
2006	11 596	21 295
2007	12 228	22 150
2008	12 732	23 083
2009	12 672	23 982
Average annual growth	3.5	3.7

<b>Indicator</b>	<b>Building plans passed: Province - Western Cape: All buildings R'000</b>	<b>Building plans passed: Province - Western Cape: Residential buildings R'000</b>	<b>Building plans passed: Province - Western Cape: Non-residential buildings R'000</b>
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	17 405 545	8 097 330	3 613 514
2009	12 261 287	4 936 990	2 375 782
2010	13 397 212	5 282 182	2 164 098
Average annual growth	3.3	-3.2	8.7

<b>Indicator</b>	<b>Building plans passed: Province - Western Cape: Additions and alterations R'000</b>	<b>Building completed: Province - Western Cape: All buildings R'000</b>	<b>Building completed: Province - Western Cape: Residential buildings R'000</b>
2004	3 448 638	5 491 949	3 543 936
2005	5 595 503	8 286 668	5 460 381
2006	6 050 877	10 550 878	6 455 298
2007	6 328 545	12 381 016	6 905 910
2008	5 694 701	13 427 640	6 592 344
2009	4 948 515	13 205 877	6 005 474
2010	5 950 932	10 228 153	4 608 270
Average annual growth	12.0	13.3	7.1

<b>Indicator</b>	<b>Building completed: Province - Western Cape: Non-residential buildings R'000</b>	<b>Building completed: Province - Western Cape: Additions and alterations R'000</b>
2004	643 850	1 304 163
2005	1 016 076	1 810 211
2006	1 444 926	2 650 654
2007	2 558 415	2 916 691
2008	2 867 334	3 967 962
2009	3 289 662	3 910 741
2010	1 938 376	3 681 507
Average annual growth	27.1	20.7

<b>Indicator</b>	<b>Electricity consumption</b>	<b>Air traffic (Arrivals)</b>	<b>Air traffic (Departures)</b>
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
2010	23 093	4 302 292	4 332 258
Average annual growth	1.2	3.7	3.6

<b>Indicator</b>	<b>Crop estimates</b>	<b>Vehicle sales</b>
2004	520 000	40 859
2005	645 000	51 199
2006	730 000	58 074
2007	812 000	50 061
2008	860 000	34 105
2009	675 000	23 950
2010	556 500	31 084
Average annual growth	2.5	-1.2





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