



CITY OF CAPE TOWN
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EPIC

Economic Performance Indicators for Cape Town

Quarter 3 (July - September) 2016

SECTOR FOCUS: E-COMMERCE

Making progress possible. Together.

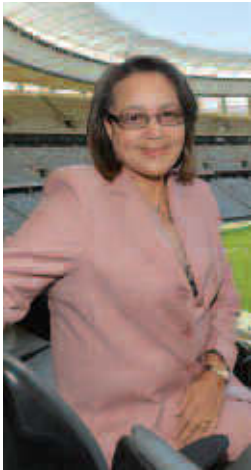
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Foreword



Jim Rohn, the celebrated American entrepreneur and motivation speaker, was talking about individuals when he said 'your income is directly related to your philosophy, not the economy'. The events of 2016 have led us at the City to realise that this applies equally to our efforts to support the development of Cape Town's economy. While national and international political events have placed the South African economy under increasing pressure, Cape Town has managed to maintain its growth path and attractiveness as an investment destination.

In December 2016 the City's efforts at attracting investment were acknowledged in the fDi's *Global Cities of the Future 2016/2017* report. Cape Town had the distinct honour of being the only African city on the ranking for FDI Strategy, placed 21st globally. This is testimony to the hard work and collaborative effort of the City's officials and partner organisations who are working to make Cape Town a place where business can thrive. However, much more work needs to be done.

Over the next five years the City has set as one of its strategic priorities the positioning of Cape Town as a forward-looking, globally competitive business city. In November 2016, I launched Invest Cape Town, the start of a process to develop a business brand narrative that emphasises the unique characteristics of the city region. Some of the work around developing the essence of this brand has already begun. We would like to be the functional African hub where ideas come to life through the energy and ambition of our people. We see Cape Town as playing an important role in enabling growth across the continent by linking businesses to new insights, opportunities and unconventional solutions. In 2017, Invest Cape Town will be further developed and ultimately projected to the world.

This is the fourteenth edition of *EPIC – Economic Performance Indicators for Cape Town*. Contained within this edition is a special focus on the thriving local e-commerce sector, which is one example of a sector which Cape Town leads on the African continent.

As usual, *EPIC* provides City officials and stakeholders with up-to-date economic information and analysis on the state of the Cape Town economy. I encourage you to engage with its contents as the basis for critical conversations on our City's economic future.

P. de Lille

Patricia de Lille
Executive Mayor

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Introduction

This is the 14th edition of the *EPIC* publication, which presents and analyses economic (and related) trends in Cape Town on a quarterly basis. This edition focuses on the third quarter of 2016, covering the period 1 July to 30 September 2016.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development strategies. It is essential to understand the nature, composition and performance of the local economy to know what must be done. While there is a wealth of economic statistics and information available for Cape Town, it often exists in discrete, isolated parcels customised to serving a specific purpose at a given time. Furthermore, in most cases, relevant economic information is only presented annually. This period is sometimes simply too long to inform immediate policy decisions or to get a proper grasp of the dynamic nature of economic trends. These factors underpin the need for a consolidated, quarterly economic performance publication for the City of Cape Town.

Aim of publication, and key principles

The **principal aim** is for the publication to become a credible source of relevant and up-to-date economic information for the City, as well as to provide councillors and officials with critical inputs for their decision-making processes. More specifically, the publication:

- aims to synthesise various sources of quarterly economic data currently available within the City into a single printed publication;
- will present the latest statistics and data as well as analysis of key economic trends; and
- will act as a measure of the economy's performance by tracking data over time and at regular intervals.

In order for the publication to promote a greater understanding of the latest trends in Cape Town's economy by a multiplicity of stakeholders within the city, three key principles were followed. They can be summed up by the acronym 'AIR':

1. **A**ccessible: Making the publication accessible and understandable to a wide range of stakeholders from various disciplines and backgrounds
2. **I**nsightful: Presenting economic intelligence and analysis rather than bland, raw economic information
3. **R**elevant: Focusing on localised (Cape Town-specific, wherever possible) economic performance trends measured by the latest quarter

Acknowledgements

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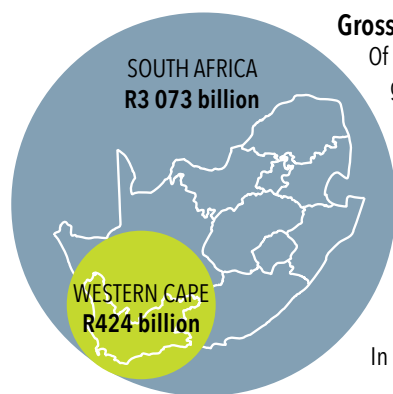
Cape Town Tourism: Nolubabalo Manona

A multiplicity of other data and information sources were used in the publication, including Statistics South Africa, the Reserve Bank, Quantec, IHS Global Insight and the International Monetary Fund. These, along with other sources, are reflected in the list of references at the end.

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Published by the Integrated Strategic Communications, Branding and Marketing Department, City of Cape Town



Gross domestic product (GDP)

Of **South Africa's R3 073 916 million** gross domestic product generated in the third quarter of 2016, the **Western Cape¹** accounted for **R424 137 million**.

Source: Quantec, December 2016.

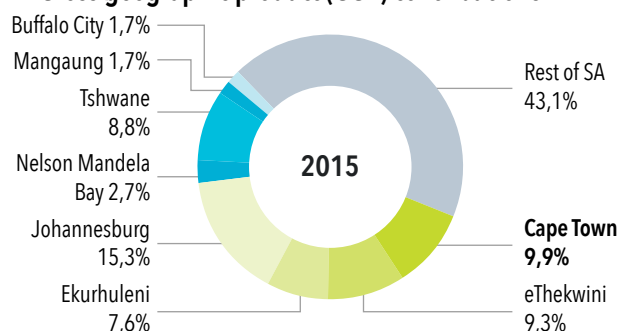
13,79%

GDP per capita

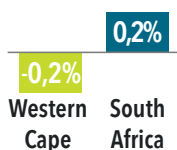
In 2015, **South Africa** had a GDP per capita of **R55 601**, while the **Western Cape** value was **R67 122**.

Source: IHS Global Insight, December 2016.

Gross geographic product (GGP) contributions



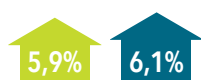
Source: Own calculations based on IHS Global Insight ReX regional data 2016.



GDP growth

During the third quarter of 2016, the **Western Cape** had a quarter-on-quarter GDP growth of -0,2%, against a national growth of 0,2%.

Source: Quantec, December 2016.

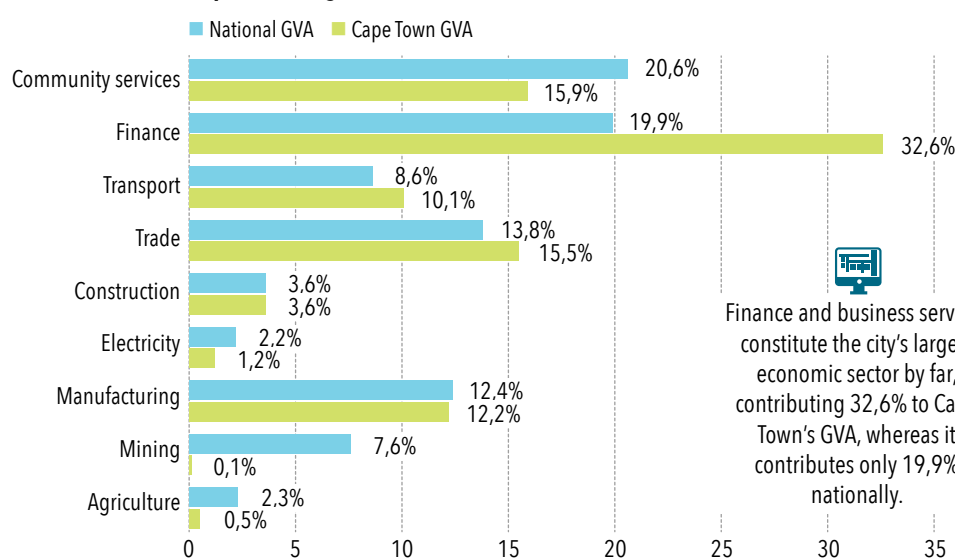


Inflation

At the end of the third quarter of 2016, the **Western Cape** had a lower rate of inflation - **5,9%** - than the rest of **South Africa** at **6,1%**.

Source: Stats SA, Consumer Price Index September 2016.

Cape Town's gross value added (GVA) versus national GVA 2015



Source: Own calculations based on IHS Global Insight ReX regional data 2016.

Finance and business services constitute the city's largest economic sector by far, contributing 32,6% to Cape Town's GVA, whereas it contributes only 19,9% nationally.



Passenger vehicle sales

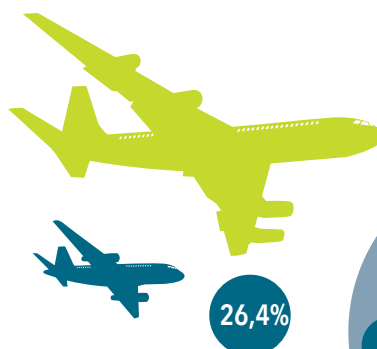
Of the **88 708** new passenger vehicles sold in **South Africa** during the third quarter of 2016, **10 045** were sold in the **Western Cape**.

Source: NAAMSA, October 2016.

Air passenger movements

Of the **9 051 065** passenger movements through **South Africa's three international airports²** during the third quarter of 2016, **2 392 885** were through **Cape Town International Airport**.

Source: ACSA, November 2016.



26,4%



Cargo tonnage handled at ports

During the third quarter of 2016, **53 736 284** tons of cargo were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **899 012** tons.

Source: Transnet, National Ports Authority, November 2016.

Containers handled at ports

During the third quarter of 2016, **1 151 777** containers were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **236 037**.

Source: Transnet, National Ports Authority, November 2016.



20,5%

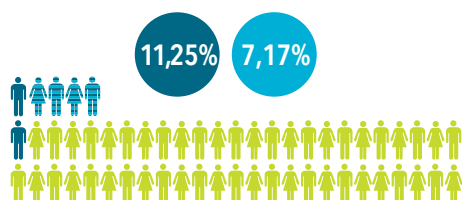
Visitor attractions

In the third quarter of 2016, tourists and residents made **6 483 476** visits to Cape Town's six major attractions.

Source: Wesgro, November 2016.

1. GDP figures are not available for Cape Town on a quarterly basis so Western Cape figures are used as a proxy.

2. The combined total for South Africa's three international airports.



Population

South Africa has 55 908 865 people:³
6 293 200 live in the Western Cape and, of those,
4 012 441 are resident in Cape Town.
Source: Stats SA, City of Cape Town.



Gini coefficient

In 2015, South Africa had a Gini coefficient⁴ of 0,63, while Cape Town had a slightly lower value of 0,62.
Source: IHS Global Insight, December 2016.

0,75

Human development index

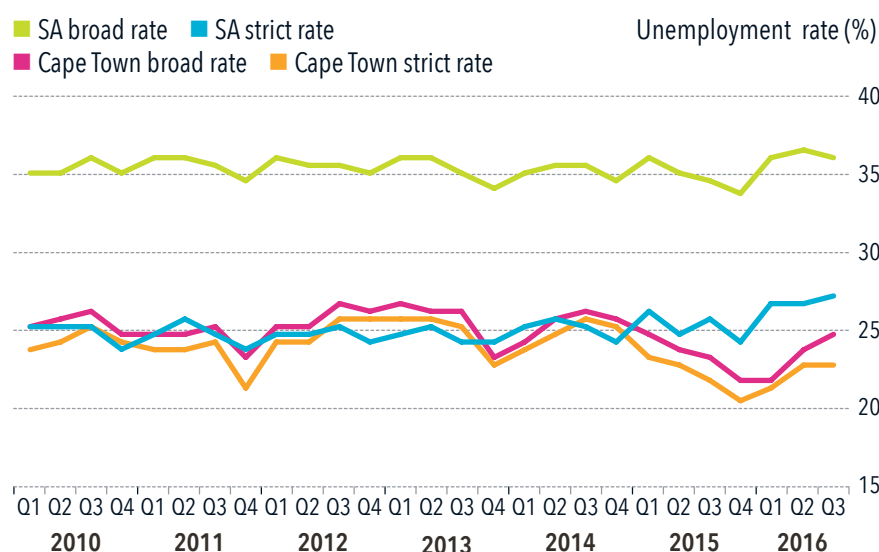
In 2015, South Africa had an HDI⁵ of 0,65, while Cape Town's was 0,75.
Source: IHS Global Insight, December 2016.

Functional literacy

South Africa has a functional literacy rate of 82,9%, while Cape Town has a rate of 92,3%.
Source: IHS Global Insight, December 2016.



Strict vs broad unemployment rates for Cape Town (Q1, 2010 to Q3, 2016)

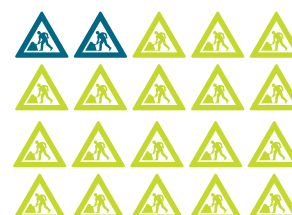


Source: Stats SA, November 2016.

7,61%

Working-age population

Of the 36 749 631 people aged 15–64 in South Africa, 2 800 142 are resident in Cape Town.
Source: Stats SA, Quarterly Labour Force Survey (QLFS), November 2016.



7,9%

Expanded labour force

Of South Africa's 24 849 131 labour force participants, 1 953 211 live in Cape Town.
Source: Stats SA, QLFS, November 2016.

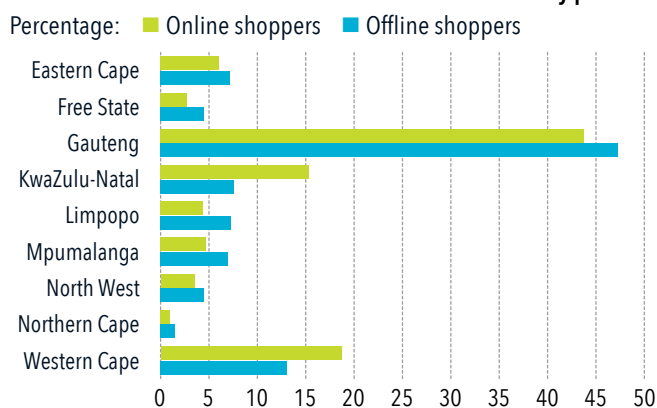
Expanded unemployment
Of the 9 015 936 unemployed people in South Africa during the third quarter of 2016, 484 669 live in Cape Town.
Source: Stats SA, QLFS, November 2016.

Labour absorption rate
South Africa had a 43,1% absorption rate – the percentage of the working-age population in employment – in the third quarter of 2016, while Cape Town had a rate of 52,4%.
Source: Stats SA, QLFS, November 2016.

SECTOR FOCUS – E-COMMERCE

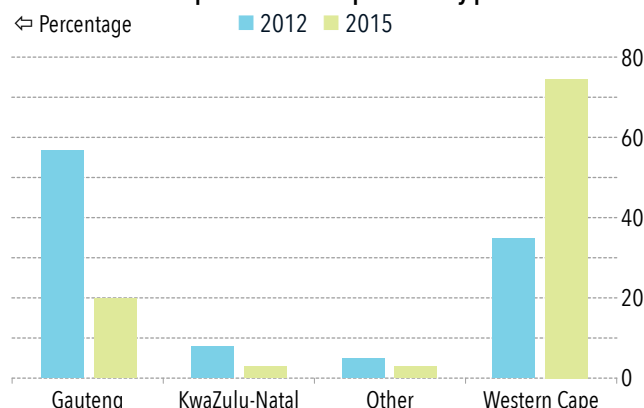
South Africa only attributes a small proportion of total retail sales to e-commerce, but the industry is growing quickly and is disproportionately basing itself in Cape Town – thanks to availability of venture capital, supporting institutions, ICT skills and technological savviness, and lifestyle appeal.

Distribution of South Africa's online and offline retailers by province



Source: Effective Measure, 2015.

Share of venture capital deals headquartered by province



Source: Adapted from the SAVCA 2015 Venture Capital Survey.

3. Mid-year estimates, 2016.

4. The Gini coefficient measures inequality in levels of income.

Lower values represent greater equality. Values are for 2015.

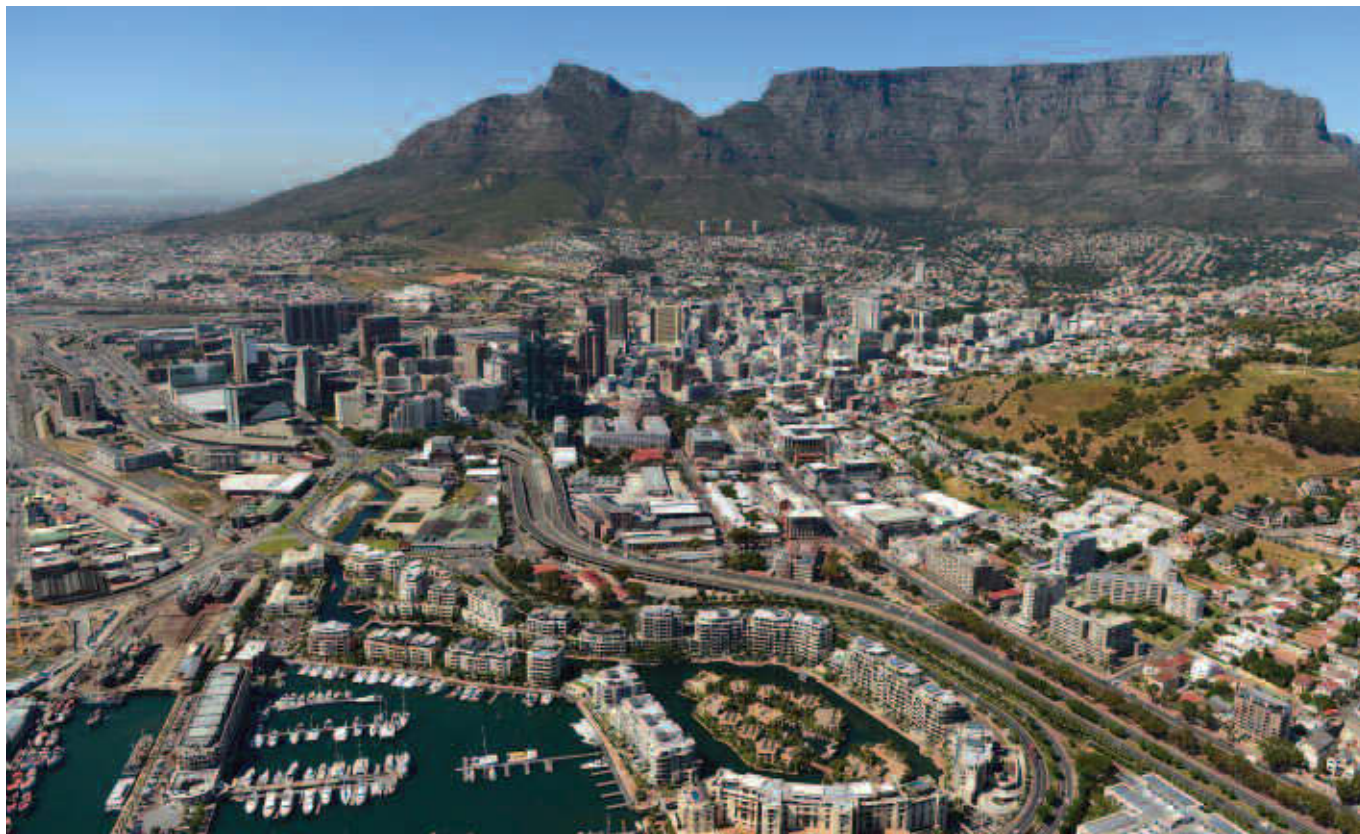
5. The human development index (HDI) is a composite statistic of

life expectancy, education and income indices. Higher values are better. Values are for 2015.



Overview

Cape Town's economy is the second-largest municipal economy in the country and the second-most-important contributor to national employment. The industries in which Cape Town has the most pronounced comparative advantage compared to the country as a whole are fishing, clothing and textiles, wood-product manufacturing, electronics, furniture, hospitality, finance and business services.



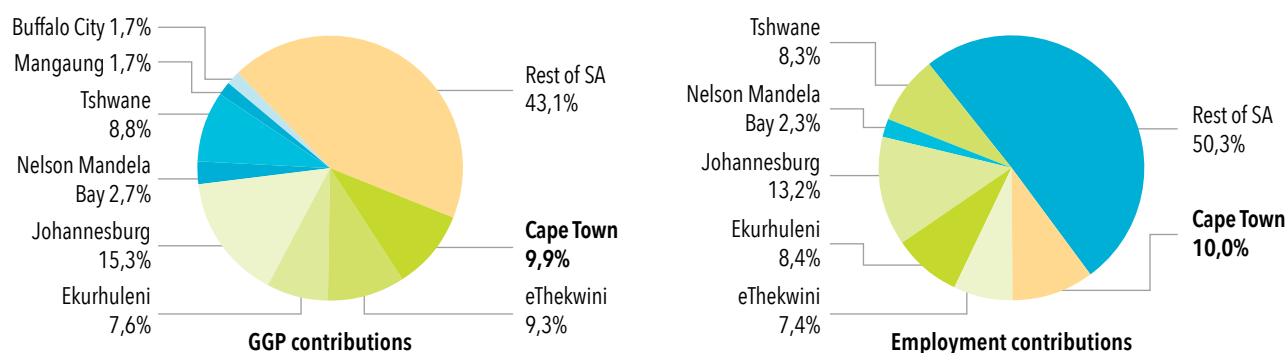
Cape Town's economy is the second-largest municipal economy in the country.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 9,9% to national gross domestic product in 2015) is the second-largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 15,3% to national GDP in 2015), while eThekweni (9,3%) and Tshwane (8,8%) closely follow behind Cape Town. Together, these four metropolitan municipalities accounted for 43,2% of the country's economic output in 2015.

Metropolitan areas are also major employers in the national economy, although they tend to be less labour-intensive than non-metro areas, where activities such as agriculture dominate employment. While the four largest municipalities contributed 43,2% of the country's output value in 2015, they accounted for only 38,9% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

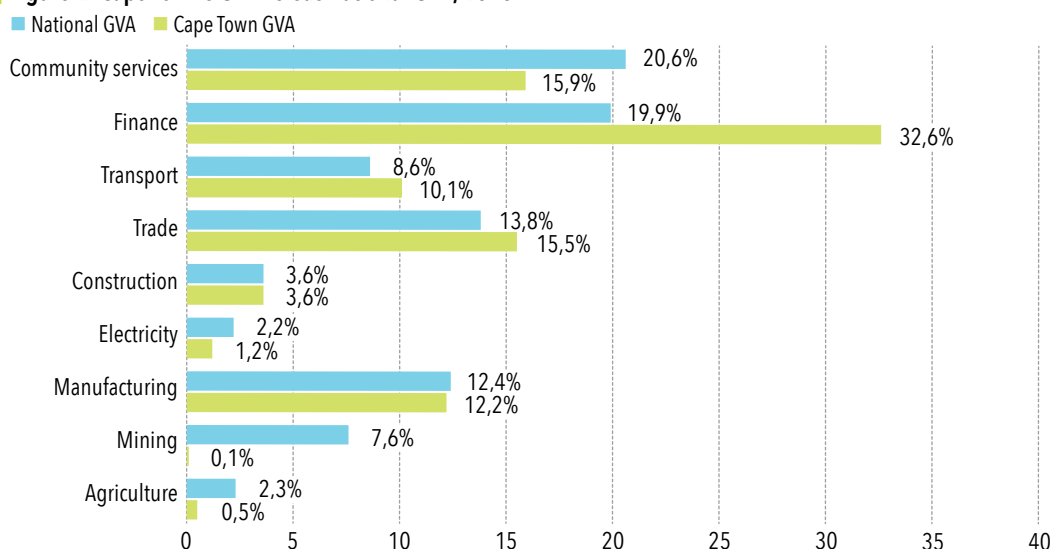
Figure 1: Gross geographic product (GGP) contributions and employment contributions (2015)



Source: Own calculations based on IHS Global Insight ReX regional data 2016, and Statistics South Africa's QLFS data 2016.

THE STRUCTURE OF CAPE TOWN'S ECONOMY

Figure 2 compares the sectoral distribution of gross value added (GVA) for Cape Town's economy to that of the national economy. The distribution differs from the national economy predominantly in terms of the smaller relative size of the primary sector (agriculture and mining) and the greater relative size of the tertiary sector (particularly finance and insurance). Finance and business services constitute the city's largest economic sector by far, contributing 32,6% to Cape Town's GVA, whereas it contributes only 19,9% nationally. At the other end of the scale, mining and quarrying contribute only 0,1% in Cape Town, as compared to 7,6% nationally.

Figure 2: Cape Town's GVA versus national GVA, 2015

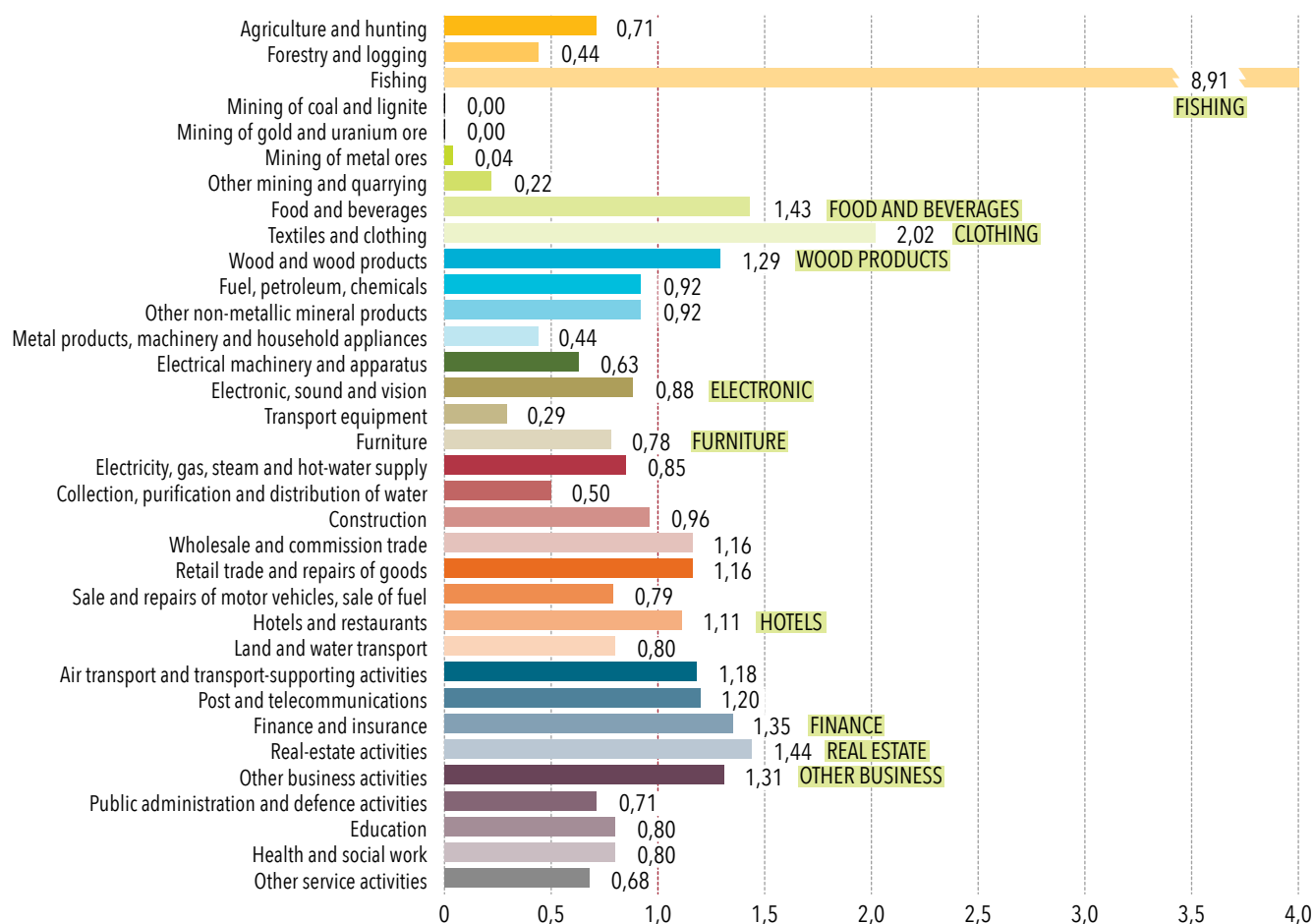
Source: Own calculations based on IHS Global Insight ReX regional data, 2016.

Finance and business services constitute the city's largest economic sector by far, contributing 32,6% to Cape Town's GVA.

CAPE TOWN'S COMPARATIVE ADVANTAGES

While the previous analysis shows the degree to which Cape Town's economy is structured differently to the national economy, it is not specific in terms of where the city's comparative advantages lie. Using a location quotient analysis, figure 3 provides an indication of Cape Town's comparative advantages as compared to the rest of the metros. A location quotient value of greater than one indicates that a sector has a comparative advantage.

The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, textiles and clothing, real estate, food and beverage manufacture, finance and insurance, other business activities,

Figure 3: Location quotients for industries in Cape Town (compared to other metros)

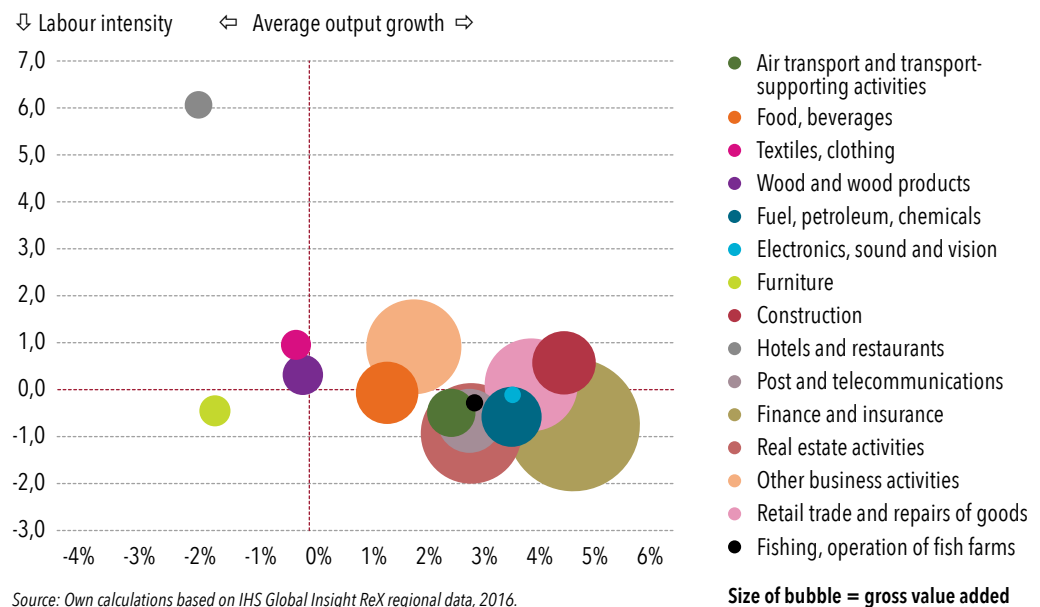
Source: Own calculations based on IHS Global Insight ReX regional data, 2016.

wood-product manufacturing, post and telecommunication and air transport activities. These industries contribute a greater share of the city's economic output than they do to the combined economic output of all the metros in South Africa. While this analysis provides some idea of specific industries in which Cape Town has a comparative advantage, it is a static and one-dimensional analysis that fails to take into account the dynamic nature of the city's economy and the extent to which individual industries contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's industries that have a comparative advantage.

Figure 4 plots the degree of labour intensity on the vertical axis (>0 indicates that a sector is labour-intensive, while <0 indicates a capital-intensive sector). Average economic growth in the sector is plotted on the horizontal axis (>0 implies that the sector is growing at a faster-than-average rate for Cape Town's economy over a 10-year period). The size of the bubble is the relative size of the sector as measured by GVA.

The importance of the tertiary sector is strongly reflected in figure 4, with the four largest bubbles being finance and insurance, real-estate activities, other business activities and retail trade. Of these industries, finance is the only industry also growing rapidly in the city, developing above the average industry growth rate for Cape Town's economy. Unfortunately, a number of Cape Town's growth industries are also below 0 on the y-axis, indicating that they are capital-intensive as opposed to labour-intensive. This is true of finance and insurance; real-estate activities and post and telecommunications. The industries that are growing fast, which are labour-intensive, and therefore offer good opportunities for employment creation, are construction and other business services.

Figure 4: Industry performance for Cape Town



The industries that are growing fast, which are labour-intensive, and therefore offer good opportunities for employment creation, are construction and other business services.

Comparative advantages in certain industries are derived from a number of factors that improve the competitiveness of these industries, such as natural, infrastructural, institutional or locational advantages, among others.

Some of Cape Town's comparative-advantage factors are as follows:

- The second-busiest container port in South Africa
- The second-busiest airport in South Africa
- Good public transport linkages in the city
- Strategic positioning on the west coast of Africa
- Servicing a vast agricultural hinterland, acting as a processing, trade and retail hub for agricultural products
- Established business culture and clustering of financial institutions
- Scenic beauty and natural sights that attract international visitors and make Cape Town globally recognisable
- Three major universities within the metro region (among these, the top university in Africa, namely the University of Cape Town) and another highly regarded university (Stellenbosch) just outside the metro boundaries



Global economic developments and outlook

As a mid-sized, middle-income city on the international stage, Cape Town is highly interconnected with the rest of the world and strongly affected by developments in the global economy. In a globalised world, understanding the economic performance of an open, international city requires a sound understanding of the current global economic climate.

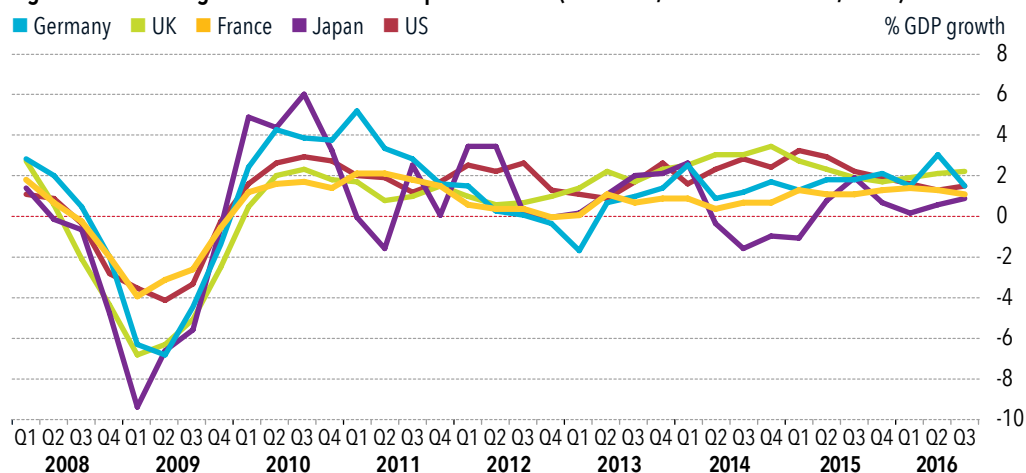
RECENT GLOBAL ECONOMIC DEVELOPMENTS

While year-on-year GDP growth remained stable for most developed economies during the third quarter of 2016, Germany observed a significant decline from 3,1% in the second quarter to 1,5%.

Developed economies

While year-on-year⁶ GDP growth remained stable for most developed economies during the third quarter of 2016, Germany observed a significant decline from 3,1% in the second quarter to 1,5%. Falling short of forecast estimates, Germany's weaker performance came on the back of lower foreign trade. The United States (US) and United Kingdom (UK) observed minimal increases of 0,2 percentage points each in the third quarter of 2016 to growth rates of 1,5% and 2,3%, respectively. Japan observed a mildly higher increase of 0,3 percentage points to 0,9% in the third quarter of 2016. France recorded a slight decline in growth from 1,3% in the second quarter to 1,1% in the third quarter of 2016.

Figure 5: Economic growth trends in developed countries (Quarter 1, 2008 to Quarter 3, 2016)



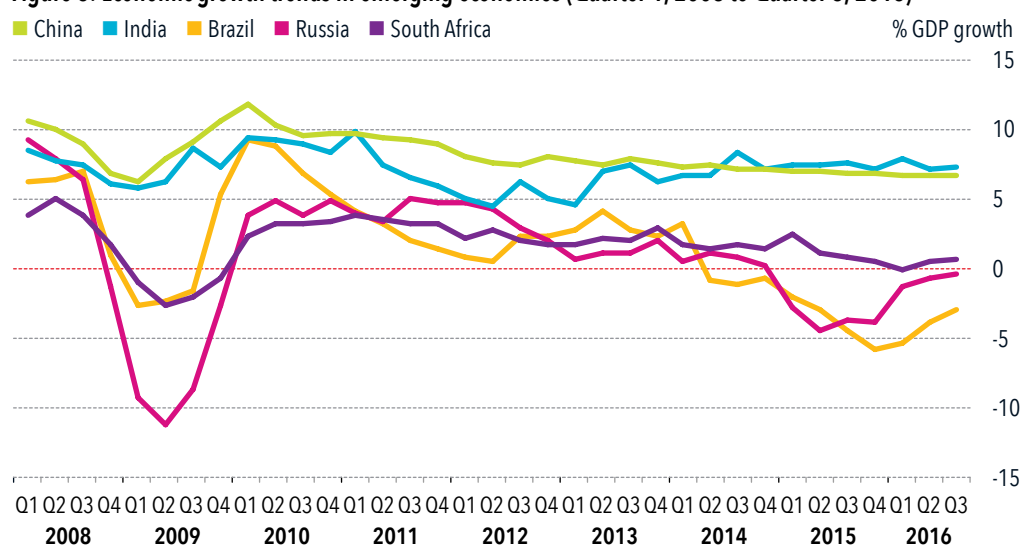
Source: Trading Economics, December 2016.

Emerging economies

Year-on-year GDP growth trends in the BRICS (Brazil, Russia, India, China and South Africa) economies have been diverse with high growth in India and China and some reprieve from recessionary trends in Russia and Brazil. China and India's economic growth has, on average, tended towards 7% and 8% year-on-year GDP growth since 2010, however China's growth has started steering towards the region of 6% year-on-year GDP growth in recent quarters. While in the third quarter of 2016 China's growth remained at 6,7%, India experienced a slight increase from 7,1% in the second quarter to 7,3% in the third quarter of 2016. The lower than expected performance of the Chinese economy was impacted by slower government spending and fixed investment, despite private consumption improving. The case is quite different for the Russian and Brazilian

Year-on-year GDP growth trends in the BRICS (Brazil, Russia, India, China and South Africa) economies have been diverse with high growth in India and China and some reprieve from recessionary trends in Russia and Brazil.

Figure 6: Economic growth trends in emerging economies (Quarter 1, 2008 to Quarter 3, 2016)



Trading Economics and Stats SA, December 2016.

6. 'Year-on-year' is used here instead of annual to reflect that the comparison is between the same quarters in two different years (Quarter 3, 2016 versus Quarter 3, 2015) as opposed to comparisons across different whole completed years (i.e. 2016 versus 2015). 'Quarter-on-quarter' refers to the comparison between the current quarter and the previous one (Quarter 3, 2016 versus Quarter 2, 2016).



economies, however, with a drop in crude oil prices having plunged the Russian economy into recession for the last two years. While Russia's year-on-year GDP growth remained negative (-0,4%) in the third quarter of 2016, its improvement by 0,2 percentage points on the growth rate in the previous quarter reaffirms indications of a possible stabilisation. The stabilisation is likely driven by supply outages in various countries, which led to 'tighter' oil markets (International Monetary Fund (IMF), 2016:48). Brazil has similarly been in recession for the last two years, resulting from domestic political crises and made worse by the Zika virus. Some reprieve in the rate of contraction of its economy was observed in the third quarter of 2016 wherein the growth rate recorded (-2,9%) improved upon the previous quarter's growth rate (-3,8%). The South African economy observed a year-on-year growth rate of 0,7% in the third quarter of 2016, on par with year-on-year growth in the previous quarter. The chapter on economic growth delves deeper into the reasons for this.

Global economic outlook

According to the latest IMF *World Economic Outlook (WEO) Update* (2016), published in October, global growth in 2016 is expected to be 3,1%. This is a slightly weaker projection than that estimated in April 2016, but unchanged since its July 2016 forecast. By 2017, global growth is estimated to have risen to 3,4%. The growth forecast for the advanced economies has been revised downwards for 2016 by 0,2 percentage points to 1,6% but has remained unchanged for 2016, at 1,8%. Emerging market and developing economies are expected to grow by 4,2% in 2016 and 4,6% in 2017.

Following an improvement from -0,4% growth in 2013 to 0,9% growth in 2014, the IMF reported positive growth of 2% in the Eurozone in 2015. The forecast for 2016 growth has been scaled up from the previous forecast in July 2016 by 0,1 percentage points to 1,7%. By 2017, however, the IMF projects that growth will slow to 1,5%.

While the IMF reported growth of 6,9% for China in 2015, its projection for 2016 remains at 6,6% – possibly indicative of the successful rebalancing of the Chinese economy following recent policy support. However, its forecast of 6,2% in 2017 reflects the anticipation of a slowing Chinese economy. According to the IMF (2016), while the country is experiencing lower growth rates than that of the past two decades, its economic expansion still remains notably high on a global scale. Growth forecasts for India remain positive, with the economy expected to grow by 7,6% in 2016 and 2017, revised upwards by 0,2 percentage points since the July forecast – driven by large terms-of-trade gains, positive policy actions, structural reforms and improved confidence which has enhanced consumer demand and investment (IMF, 2016: xv – xviii).

Sub-Saharan Africa's economic growth projection for 2016 has been revised downwards by 0,2 percentage points to 1,4%. This is attributed to challenging macroeconomic conditions in some of its largest economies, driven mainly by lower commodity revenues. Growth is, however, anticipated to rise to 2,9% in 2017 based on an expectation that commodity prices will recover and that policy implementation will be more timely. South Africa's economic growth forecast for 2016 remains at 0,1%, which is notably lower than its growth rate of 1,3% in 2015. Forecasts do, however, predict a modest improvement in 2017 with a growth projection of 0,8%.

Overall, global output growth in 2016 is expected to be driven by growth of 4,2% in emerging market and developing economies and 1,6% in advanced economies in 2016. The marginally revised outlook for advanced economies in 2016 is the result of economic and political uncertainty surrounding the outcomes of the UK's exit from the European Union (Brexit).

Battered Brazil: Widespread discontent over corruption and government policy affected Brazil's economic growth.

Global output growth in 2016 is expected to be driven by growth of 4,2% in emerging market and developing economies and 1,6% in advanced economies in 2016. The marginally revised outlook for advanced economies in 2016 is the result of economic and political uncertainty surrounding the outcomes of the UK's exit from the European Union (Brexit).

Sentiments subsequent to the United States elections suggest that US leadership may shift toward more protectionist trade policies, having potentially dire implications for emerging markets and multinational companies.



In 2017, the IMF anticipates some recovery in global growth, led by growth in emerging market and developing economies. This is premised on the perception that there will be a normalisation of growth rates in countries and regions currently under stress or growing well below potential in 2016-17 (IMF, 2016: 20). It also reflects the increasing reliance of the world economy on China and India's above-global-average growth, particularly as growth in advanced economies continues to remain subdued. At the time of its compilation, the IMF's World Economic Outlook report could not account for the outcomes of the US elections, however sentiments subsequent to these elections suggest that US leadership may shift toward more protectionist trade policies, having potentially dire implications for emerging markets and multinational companies.

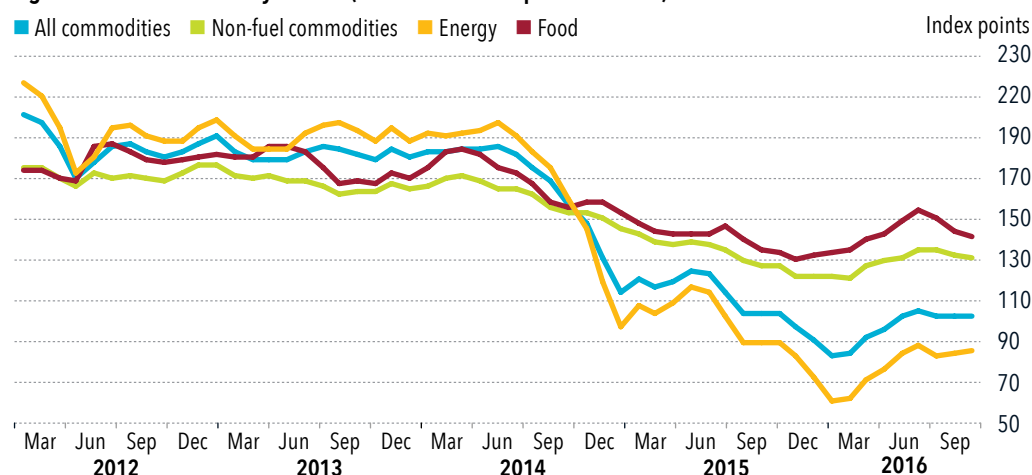
COMMODITIES

Commodity indices are important indicators for measuring the economic performance of emerging and developing economies. In developing countries such as South Africa, commodities make up a significant proportion of the country's export basket, generating valuable foreign exchange inflows.

While the all-commodities index showed signs of improvement from its downward trend in 2015, it plateaued towards its third quarter of 2015 level in the third quarter of 2016. In July, the index saw its first decrease since January 2016. The index made a mild recovery by the end of the third quarter and had, in total, increased from 83,05 index points in January 2016, its lowest value since 2004, to 102,16 index points at the end of the quarter. While this was a promising sign, it was

While the all-commodities index showed signs of improvement from its downward trend in 2015, it plateaued towards its third quarter of 2015 level in the third quarter of 2016.

Figure 7: World commodity indices (March 2012 to September 2016)



Source: IMF, December 2016.

still lower than the 105,29 index points achieved at the end of the second quarter.

A number of factors drove the decrease in the all-commodities index in the third quarter, including a consistent decline in the food price index which offset much of the 1,9% and 0,5% quarter-on-quarter gains made in terms of the energy (fuel) and non-fuel price indices, respectively. This decline corresponded to improved weather conditions, which has raised expectations of forthcoming exceptional yields in many growing regions, especially the US. Further, metal prices, which began the quarter on a high note increasing by 5,7%, receded to a 2,1% decrease by the end of the quarter, driven by expectations of an oversupply of iron ore on the market.

In contrast, crude oil prices, which were in decline at the start of the quarter, observed a notable uptick in August and September brought on by output disruptions and by the Organization of the Petroleum Exporting Countries (OPEC) agreeing, on 28 September 2016, to reduce crude oil output to between 32 to 33 million barrels per day. However, the energy index followed the same declining trend as the all-commodities index within the third quarter.

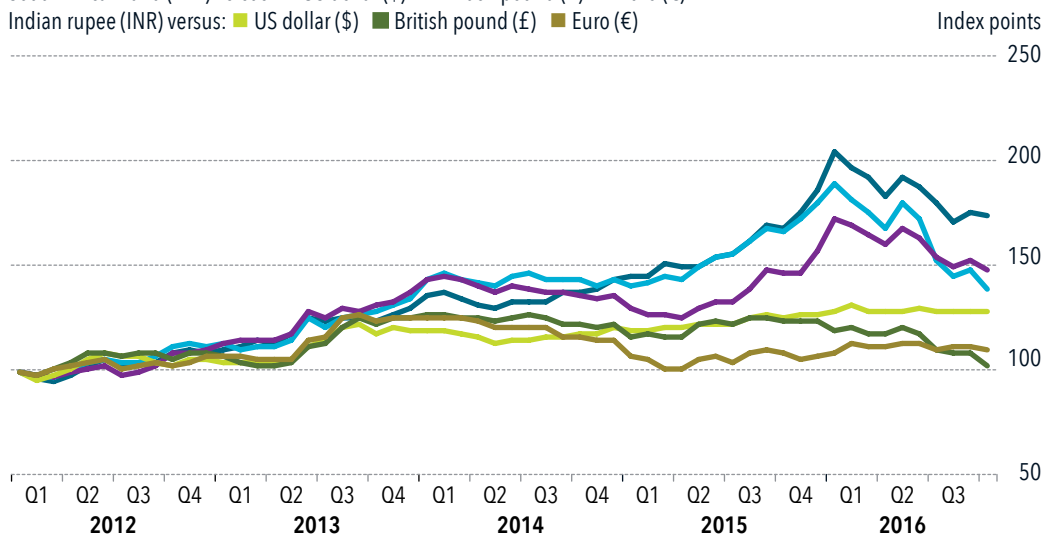
Futures markets anticipate oil prices to increase modestly over the next year although uncertainties surrounding geopolitical tensions in the Middle East, high inventory levels and a prompt response by US shale producers make this outlook indeterminate. In terms of agricultural commodity prices, the outlook remains mixed for the foreseeable year ahead with some food prices (rice, wheat, corn and coffee) rising while others (soybean and soybean meal) remain unchanged (IMF, 2016).

EXCHANGE RATES

To measure the performance of the South African rand, its exchange rate is compared to three other currencies, namely the US dollar (\$), the British pound (£) and the euro (€). Further, in order to measure the impact of global financial market developments on other emerging countries as well, the Indian rupee is used as a proxy, and is similarly compared to the US dollar, British pound and the euro.⁷

Figure 8: Indexed nominal exchange rate trends (January 2012 to October 2016)

South African rand (ZAR) versus: ■ US dollar (\$) ■ British pound (£) ■ Euro (€)
Indian rupee (INR) versus: ■ US dollar (\$) ■ British pound (£) ■ Euro (€)



Source: South African Reserve Bank and OANDA Solutions for Business. November 2016.

For the third quarter of 2016 the rand, on average, appreciated in value relative to all three currencies as compared to the previous two quarters. The rand's exchange rate for August 2016 was the best it has been against the US dollar, British pound and euro since October 2015, April 2015 and November 2015, respectively. This all-round appreciation can be credited to the aftereffect of Brexit, where the pound deteriorated severely. In addition, the US Federal Reserve Bank (US Fed) withdrew plans to tighten monetary policy further which led to the rand gaining value against the dollar. On the domestic front, the lagged effect of South Africa's stronger GDP growth in the second quarter may have boosted investor confidence in the economy, adding to the improvement in the rand.

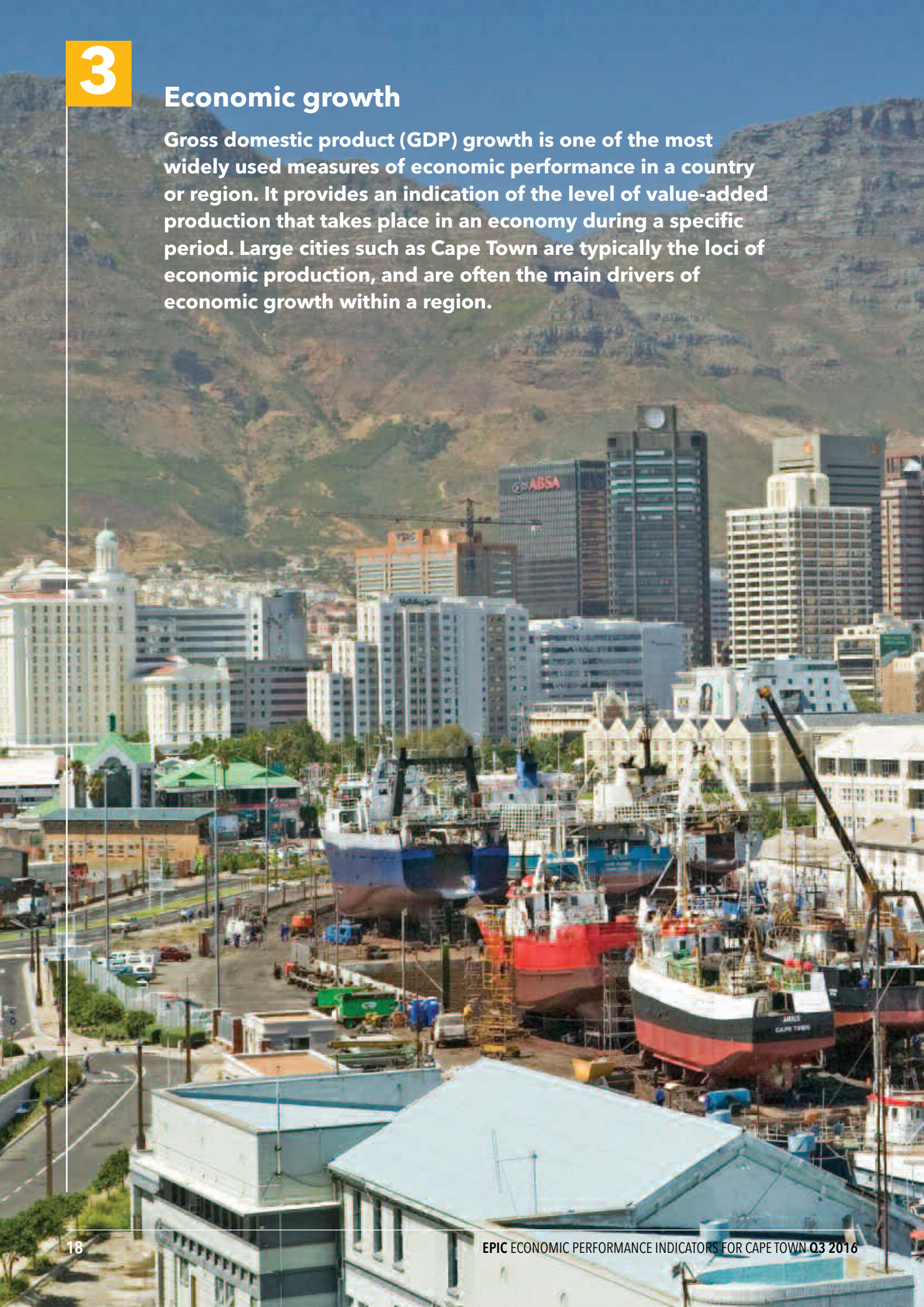
The Indian rupee, unlike the rand, displayed a more consistent movement against the three developed currencies suggesting the volatility in the rand was also strongly influenced by domestic factors. The slight appreciation of the rupee against the dollar provides a sound indication of the degree to which the rand's appreciation against the dollar in the same period could not solely be attributed to the US Fed not tightening its monetary policy. The rupee, however, experienced a substantial appreciation against the pound, benefiting, like the rand, from the impact of Brexit.

7. Note that all currencies were indexed to 100 in the base period (January 2012) in order to normalise the various currencies and contrast the relative trajectories these followed up until the end of the period analysed (October 2016).

For the third quarter of 2016 the rand, on average, appreciated in value relative to the US dollar, the British pound and the euro.

Economic growth

Gross domestic product (GDP) growth is one of the most widely used measures of economic performance in a country or region. It provides an indication of the level of value-added production that takes place in an economy during a specific period. Large cities such as Cape Town are typically the loci of economic production, and are often the main drivers of economic growth within a region.





ECONOMIC GROWTH IN SOUTH AFRICA

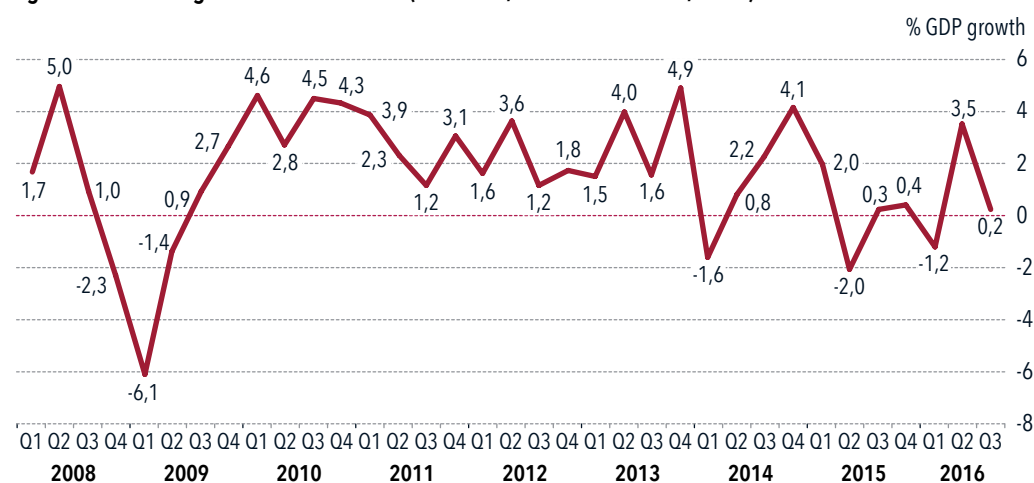
South Africa's economy slowed to a growth rate of 0,2% quarter on quarter in the third quarter of 2016, a sharp decline from its 3,5% growth in the second quarter of 2016.

Quarter-on-quarter gross domestic product (GDP) growth rate

South Africa's economy slowed to a growth rate of 0,2% quarter on quarter in the third quarter of 2016, a sharp decline from its 3,5% growth in the second quarter of 2016. The growth figure was lower than the 0,6% anticipated by the Bureau for Economic Research (BER) and only minimally above the 0,1% growth predicted by the IMF's October 2016 World Economic Outlook report. The economic slowdown was brought about by notable contractions in the agriculture (-0,3%), manufacturing (-3,2%), electricity, gas and water (-2,9%) and trade services (-2,1%) sectors. The contractions in these industries could not, however, be outweighed by growth in the mining (5,1%), government (1,8%) and financial sectors (1,2%).

South Africa's economy also grew on a year-on-year basis, recording a rate of 0,7% in the third quarter of 2016. While growth remained positive in the third quarter, year-on-year growth was still 0,3 percentage points lower than in the third quarter of 2015. Despite positive growth, economists have raised concerns about the slowdown in the services sector, in particular in the financial sector which observed a slowdown and the trade sector which experienced a contraction. Furthermore, business confidence indices show low confidence.

Figure 9: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 3, 2016)



Source: Stats SA, December 2016.

Sectoral determinants of GDP growth in South Africa

The positive performance of the South African economy in the third quarter of 2016 was made possible by growth in the mining, general government and finance sectors in particular (Statistics South Africa, 2016). The primary sector experienced growth of 3,8% quarter on quarter, a notable slowdown from its 12% growth in the second quarter of 2016 (BER, 2016). The mining sector observed a quarter-on-quarter growth rate of 5,1%, down markedly from its 16,1% growth in the second quarter of 2016. Although the agricultural sector continued to decline in the third quarter of 2016, it did so at a slower pace (-0,3%) than in the previous quarter, contracting for the seventh consecutive quarter.

The secondary sector's output contracted by 2,5% in the third quarter of 2016, resulting from a decline in manufacturing output of 3,2% quarter on quarter. Statistics South Africa reports that much of this decrease in manufacturing output was the result of declines in the petroleum products, basic iron and steel, non-ferrous metal products, metal products and machinery as well as in the food and beverages sub-sectors. Further, the electricity, gas and water industry continued its negative trend of the previous quarter, contracting by 2,9% due to a drop in the consumption of electricity and in the amount of water distributed because of drought conditions and related water restrictions.

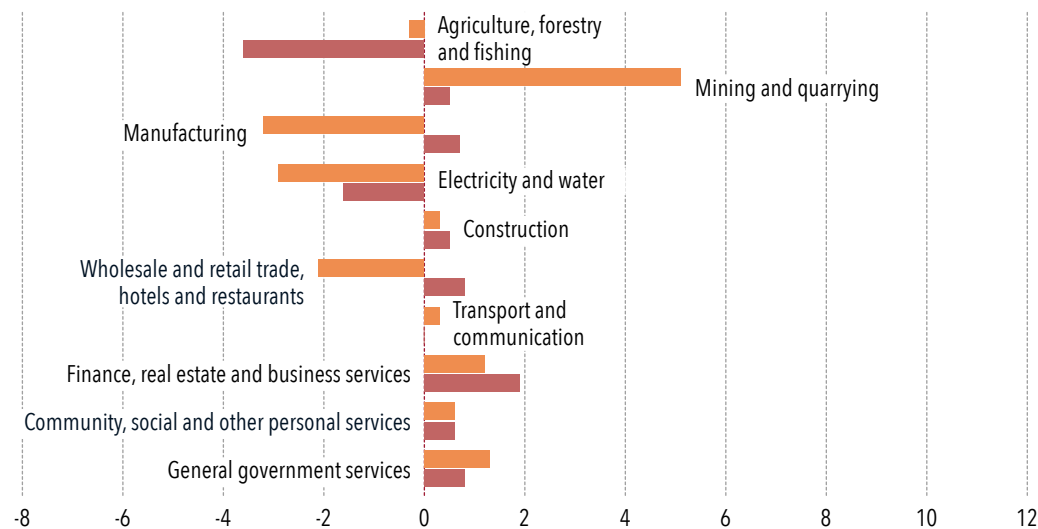
The tertiary sector grew by 0,5% quarter on quarter, reflecting low levels of business confidence. Statistics South Africa reported that all services-related sectors fared worse in the third quarter than in the previous quarter, the poorest performers being the financial (1,2%) and transport (0,3%) sectors which observed slowdowns relative to the previous quarter and the trade (-2,1%) sector which contracted. Statistics South Africa attributed the contraction in trade to reduced economic activity in the wholesale, retail and motor trade, and catering and accommodation sectors.

Figure 10 shows that the electricity and water as well as the agriculture, forestry and fishing sectors experienced quarter-on-quarter and year-on-year contractions in the third quarter. This was, to some degree, mitigated by expansions in the general government, community, social and other personal services, finance, real estate and business services, construction and mining sectors, which experienced positive year-on-year and quarter-on-quarter growth rates. The relatively strong quarter-on-quarter growth rate in the mining sector also served to negate part of the quarter-on-quarter contractions in the poor performing sectors.

The positive performance of the South African economy in the third quarter of 2016 was made possible by growth in the mining, general government and finance sectors in particular.

Figure 10: Sectoral GDP growth rates for South Africa (Quarter 3, 2016)

% GDP growth: ■ Quarter on quarter ■ Year on year



Source: Stats SA, December 2016.

The electricity and water as well as the agriculture, forestry and fishing sectors experienced quarter-on-quarter and year-on-year contractions in the third quarter. This was, to some degree, mitigated by expansions in the general government, community, social and other personal services, finance, real estate and business services, construction and mining sectors.

Economic growth outlook for South Africa

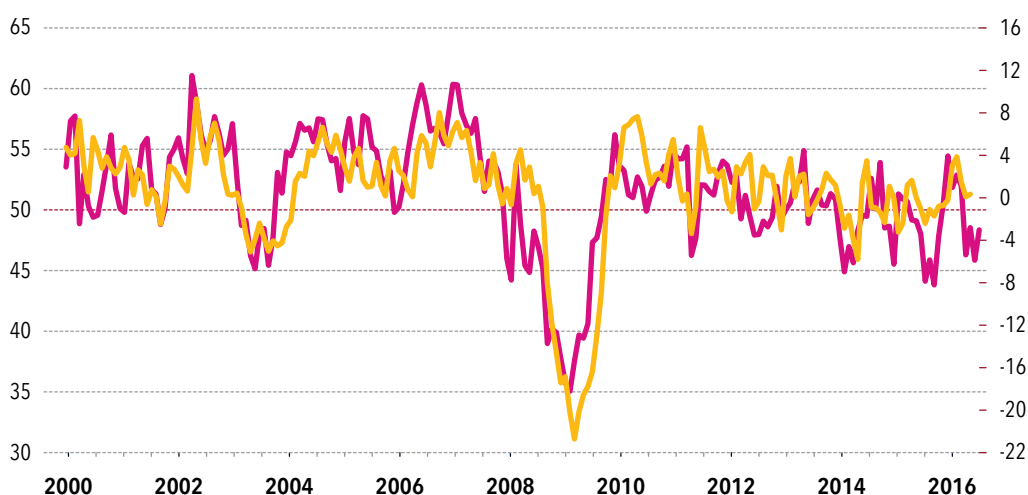
The tertiary sector has been the main source of growth in the South African economy since 2008, and has often counterbalanced the volatility of the mining and manufacturing sectors. However, the dampened performance of the tertiary sector over the last two years has exposed the country to the volatility of the primary and secondary sectors. Some of the factors that undermined growth in the productive sector of the economy and restrained growth in the tertiary sector in 2015 have resonated in 2016, leading many analysts to predict that the South African economy is set for a rough ride in the next two years.

The South African economy achieved growth in the third quarter of 2016. It remains to be seen whether this growth can be sustained into the fourth quarter of 2016. While the Reserve Bank's leading economic indicator saw bouts of positivity in August and September, the data for the fourth quarter thus far does little to suggest that the economy will break out of its current malaise in the short term. That said, the BER cautiously notes that improvements in the activity indicators of the business confidence survey suggest a possibility of moderate acceleration in the fourth quarter. The BER anticipates moderate quarter-on-quarter economic growth of 0,5% in the fourth quarter, which would bring its full-year forecast for 2016 to its previous 0,3% projection. Much depends on whether the agricultural sector's output rebounds and food prices ease. This might afford households some relief from the impending 2017 tax hikes proposed in the October Medium-Term Budget Policy Statement.

The Barclays Purchasing Managers' Index (PMI)⁸ averaged a value of below the 50-point neutral mark in the third quarter.

Figure 11: Purchasing Managers' Index for South Africa

↔ Index points ■ PMI (seasonally adjusted) ■ Manufacturing prod vol (2mma) Year-on-year change (%) ↔



Source: BER, November 2016. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

The Barclays Purchasing Managers' Index (PMI) averaged a value of below the 50-point neutral mark in the third quarter.

8. A PMI value of more than 50 indicates expected future growth in manufacturing, while a value of less than 50 suggests that the sector is expected to contract.



One positive aspect of the PMI was the three-consecutive-month drop in the price index. By September 2016, it had dropped to its lowest level in nearly six years which was welcomed by manufacturers.

While the index started off on a promising note of 52,5 index points in July, it steadily declined to 46,3 index points in August and to 49,5 index points in September. The BER notes this as somewhat of a surprise given that the index was above the neutral mark for the five months preceding August 2016. This regress was a function of a two-consecutive-month drop in the business activity index (over July and August) as well as a similar decline in the new sales orders index (over August and September). One positive aspect of the PMI was the three-consecutive-month drop in the price index. By September 2016, it had dropped to its lowest level in nearly six years which was welcomed by manufacturers. This was likely a function of a favourable exchange rate as well as two consecutive months of declining fuel prices. Despite a stronger rand, manufacturers reported higher export orders. Should the impacts of the drought retreat, this could still benefit manufacturers further.

ECONOMIC GROWTH IN THE WESTERN CAPE

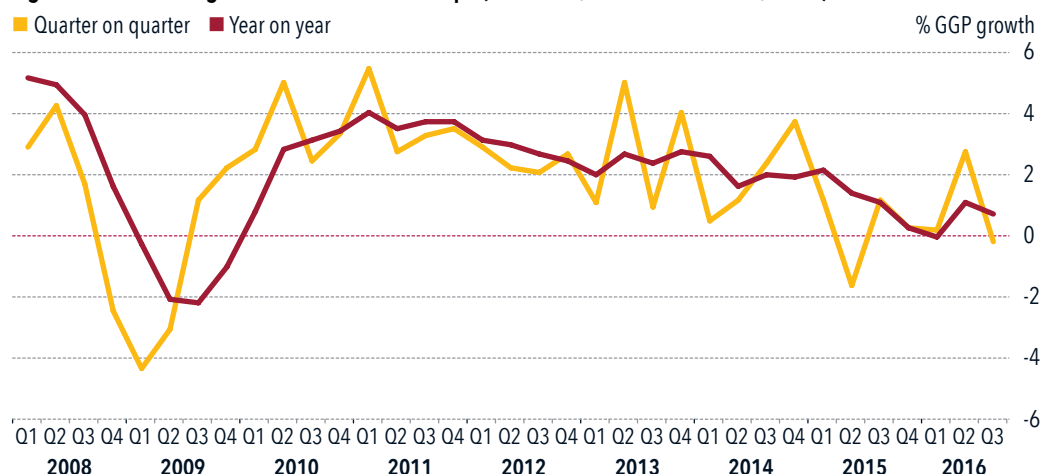
Quarter-on-quarter regional gross domestic product (GDP-R) growth rate

The Western Cape economy contributes around 14% of national GDP, and is strongly influenced by national economic conditions (IHS Global Insight, 2015). In line with the slowdown at a national level, the Western Cape's economy contracted by 0,2% quarter on quarter in the third quarter of 2016. The slower pace of growth can be attributed to the comparative lack of mining in the Western Cape compared to the country as a whole (this sector observed the greatest growth at the national level in this quarter). On a year-on-year basis the Western Cape economy performed better, growing 0,7%, on par with growth of the national economy.

While GDP-R statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to typically mirror that of the provincial economy. This is because the metro contributes about 72% of the provincial economic output (IHS Global Insight, 2016). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate has been 1,3 percentage points.

In line with the slowdown at a national level, the Western Cape's economy contracted by 0,2% quarter on quarter in the third quarter of 2016. On a year-on-year basis, however, the Western Cape economy performed better, growing 0,7%, on par with growth of the national economy.

Figure 12: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 3, 2016)



Source: Quantec, December 2016.



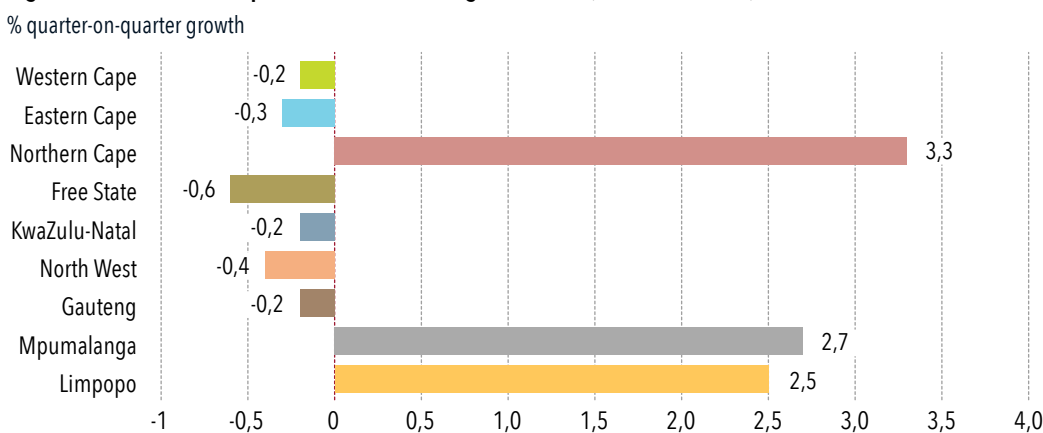
Provincial economic growth comparisons

All, except three, provincial economies experienced negative growth in the third quarter of 2016, a dramatic shift from the second quarter of 2016 that saw all provinces experience positive growth. Limpopo, Mpumalanga and the Northern Cape were the only provinces to observe positive quarter-on-quarter growth of 2,5%, 2,7% and 3,3%, respectively, reflecting the upswing in the mining sector which dominates the sectoral composition of these provinces.

Cape Town is not significantly affected by changes in the primary sector but the city is strongly affected by the performance of the tertiary sector, which accounts for 81% of its GDP (IHS Global Insight, 2016). As the largest quarter-on-quarter increase in provincial output came from sectors that are strongly represented in Cape Town (transport, financial and community, social and other personal services sectors), one can expect the city's economy to have outperformed the provincial economy in the second quarter of 2016.

All, except three, provincial economies experienced negative growth in the third quarter of 2016, a dramatic shift from the second quarter of 2016 that saw all provinces experience positive growth.

Figure 13: Provincial comparisons of real GDP-R growth rates (Quarter 3, 2016)



Source: Quantec, December 2016.

Sectoral drivers of economic growth in the Western Cape

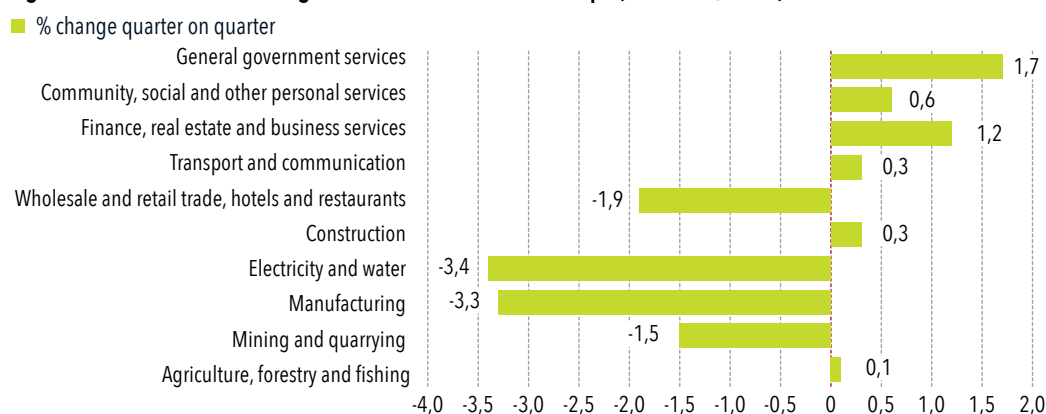
The Western Cape's economy saw limited sector growth in the third quarter. Much as per the national trend, the province's manufacturing sector saw a contraction resulting in quarter-on-quarter growth of 3,3%, in sharp contrast to the 7,9% expansion in growth which it observed in the second quarter. However, some positive quarter-on-quarter sector growth was seen in the agriculture (0,1%) and construction (0,3%) sectors as well as the majority of the services sectors (transport and communication (0,3%), financial services (1,2%), community and other services (0,6%) and general government (1,7%)). Of these, the largest gains on the previous quarter were witnessed in the agriculture, construction and general government sectors which saw percentage point increases of 0,5, 0,6 and 0,8 respectively, relative to the second quarter of 2016.

Similar sectoral growth rates can be expected for Cape Town, as the city is the major contributor to most economic sectors in the province. In particular, 85% of the Western Cape's finance and business services, 76% of wholesale and retail trade, and 63% of manufacturing can be attributed to the metropolitan area (IHS Global Insight, 2016). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the third quarter. However, these sectors' greater contribution to the city's economy means that they would have had a larger effect on its economic growth rate.

Positive quarter-on-quarter sector growth was seen in the Western Cape's agriculture and construction sectors as well as the majority of the services sectors.

In contrast to Cape Town's contribution to the tertiary sector output of the province, its contribution to the province's total primary sector GGP is only 11% (IHS Global Insight, 2016). Thus, it is difficult to make inferences about the performance of the city's primary sector based on primary sector GGP growth in the Western Cape. However, even if Cape Town's primary sector (agriculture, in particular) did mirror provincial trends, it is unlikely that this would have had a large impact on the overall growth rate, as the primary sector contributes less than 1% to Cape Town's GGP. The performance of the city's economy in the third quarter would have been more driven by the slowdown in the manufacturing sector as well as by positive strides in the city's transport and communication, financial services, and potentially the community, social and other personal services sectors.

Figure 14: Sectoral real GDP-R growth rates in the Western Cape (Quarter 3, 2016)



Source: Quantec, December 2016.

Growth outlook for Cape Town and the Western Cape

The main source of the contraction of growth for the Western Cape (and by extension for Cape Town) in the third quarter of 2016 was the slowdown in the manufacturing sector. Growth in the finance and business services sector seemed to retreat notably from its 2,9% quarter-on-quarter growth in the second quarter. Despite its downturn, it still remained one of the best performing sectors in the third quarter, reporting the highest year-on-year growth of 1,9%. The general government services sector made the largest ground in the third quarter and showed signs of returning to its 2015 levels. The recent downturn in the Barclays PMI to below the neutral 50-point mark, suggests that the manufacturing sector may face further contraction in the fourth quarter of 2016.

In light of the poorer than expected growth of the South African economy in the third quarter, economists are exercising caution in their growth projections for the fourth quarter of 2016. The BER notes that while some of the activity indicators embedded in the Barclays PMI have shown improvement at the start of the fourth quarter, other recent data (including on new vehicle sales and the RMB/BER business confidence index), present less promise in terms of growth in the fourth quarter.

Several domestic and external factors could be affecting consumer and investor confidence going forward. One determinant of investor confidence is the credit rating of sovereign credit rating agencies including Fitch, Moody's and Standard & Poor's. Fitch recently revised its outlook for South Africa to negative from stable, but kept its rating unchanged at BBB-. Standard & Poor's credit rating for the country currently also stands at BBB- with a negative outlook, while Moody's rating is Baa2 with a negative outlook. Ratings agencies have accredited political uncertainty as a notable concern that will persist until the national elections in December 2017. Further, the uncertainty surrounding the direction of foreign economic policy in the UK and US because of the Brexit and the outcomes of a Trump-led leadership in the US, present further potential impacts to the South African economy much as it presents impacts to other emerging market economies globally.

Domestically, on 26 October 2016, the Finance Minister presented his Medium Term Budget Policy Statement (MTBPS). A notable feature of the MTBPS was a proposal to implement significant tax hikes. There is a risk that demand may be further dampened, as households already stretched by escalating food inflation will have less disposable income. However, should the effects of the drought subside, the resulting easing of inflation could allow the South African Reserve Bank (SARB) the opportunity to implement interest rate reductions.

Cape Town's location, aesthetics and accessibility present it with a special opportunity to take advantage of international demand. Despite the rand's strengthening in the third quarter, it remains at historically weak levels and manufacturers continued to report higher export orders (BER, 2016). Manufacturers have benefited from declining fuel prices, a prospect which Cape Town's manufacturing industry should be encouraged to harness. Further, the city has a notably attractive sovereign credit rating of AAA, making it appealing to global investors. The ability of the city's economy to realise the opportunities presented by international demand for exports, FDI inflows into Africa, and increased tourism in the region will determine whether the city can move onto a sustained higher growth path in 2017.

Manufacturers have benefited from declining fuel prices, a prospect which Cape Town's manufacturing industry should be encouraged to harness. Further, the city has a notably attractive sovereign credit rating of AAA, making it appealing to global investors.

Both the consumer price index and producer price index inflation rate decreased marginally in the third quarter of 2016.

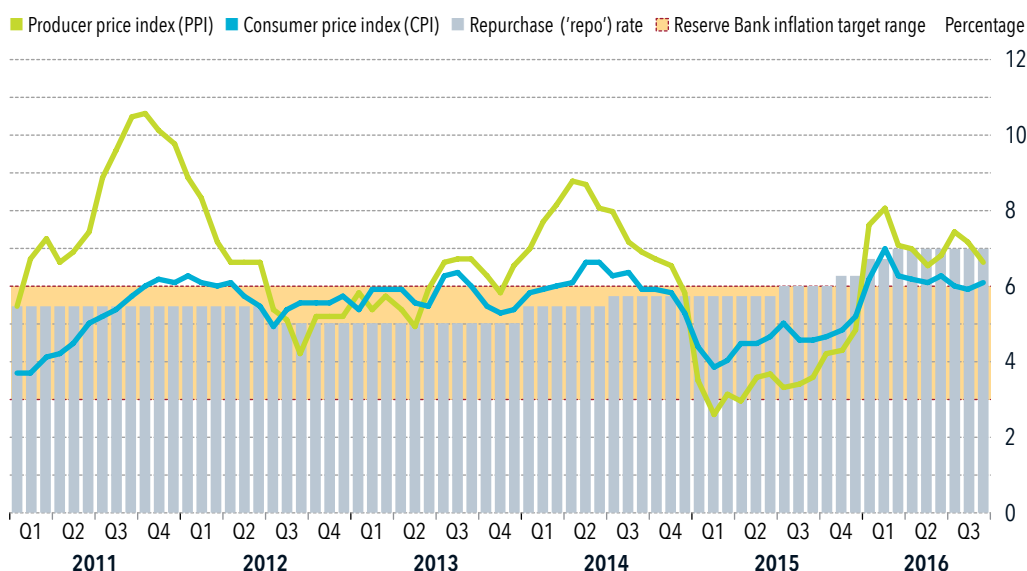
SOUTH AFRICA'S INFLATION OVERVIEW

For the third quarter of 2016, the headline consumer price index (CPI) inflation rate has marginally decreased when compared to the second quarter of 2016. However, it continued to linger around the upper end of the inflation target range with recordings for July at 6% decreasing to 5,9% in August and increasing slightly to 6,1% in September 2016. The downward movement in the headline CPI inflation for the first two months of the quarter reflects the positive impact of a strengthened exchange rate. It may also still be a result of the consequences of the repurchase rate (repo rate) increases in the first quarter of 2016. The enduring upward food price pressure, induced by the drought, led to an increase in the CPI in September 2016.

By contrast, the producer price index (PPI) increased to 7,4% in July 2016 from 6,8% in June 2016. Thereafter, it decreased slightly to 7,2% in August 2016 and to 6,6% in September 2016. A main driver of the increase in July was the impact of the drought on manufactured food price inflation. According to the Monetary Policy Committee's (MPC) statement in September 2016, the manufactured food price inflation was measured at 12,6% in July, which is the highest level since January 2009. The key contributors to the 6,6% PPI inflation rate recorded in September were food products, beverages and tobacco products (contributing 3,9 percentage points to PPI) as well as metals, machinery, equipment and computing equipment (contributing 0,9 of a percentage point to PPI).

The downward movement in the headline CPI inflation for the first two months of the quarter reflects the positive impact of a strengthened exchange rate, and may also still be a result of the consequences of the repurchase rate (repo rate) increases in the first quarter of 2016.

Figure 15: CPI and PPI trends for South Africa (January 2011 to September 2016)



Source: CPI and PPI extracted from Stats SA, 2016, and repurchase rate extracted from SARB, 2016.

Figure 15 also illustrates changes in the repo rate. As indicated on the graph, the repo rate remained at 7% throughout the third quarter of 2016. At the time of the MPC statement in September 2016, headline inflation moved slightly within the target range (5,9% for August), the rand appreciated strongly and positive economic growth was experienced for the second quarter of 2016. Despite the improved conditions, upward risk still exists as the inflationary trajectory resides close to the upper end of the inflation target range and the economic outlook remains weak. As such, the MPC kept the repo rate unchanged. The above factors will be monitored closely for the next meeting.

Table 1: Inflation levels by household expenditure groups

Quintiles	Level	Monthly expenditure	Inflation rate as at September 2016
1	Very low	R0 to R1 213/month	8,1%
2	Low	R1 214 to R1 939/month	7,6%
3	Middle	R1 940 to R3 062/month	6,9%
4	High	R3 063 to R6 596/month	6,0%
5	Very high	R6 597 and more	5,9%
Average			6,1%

Source: Statistics South Africa, November 2016.

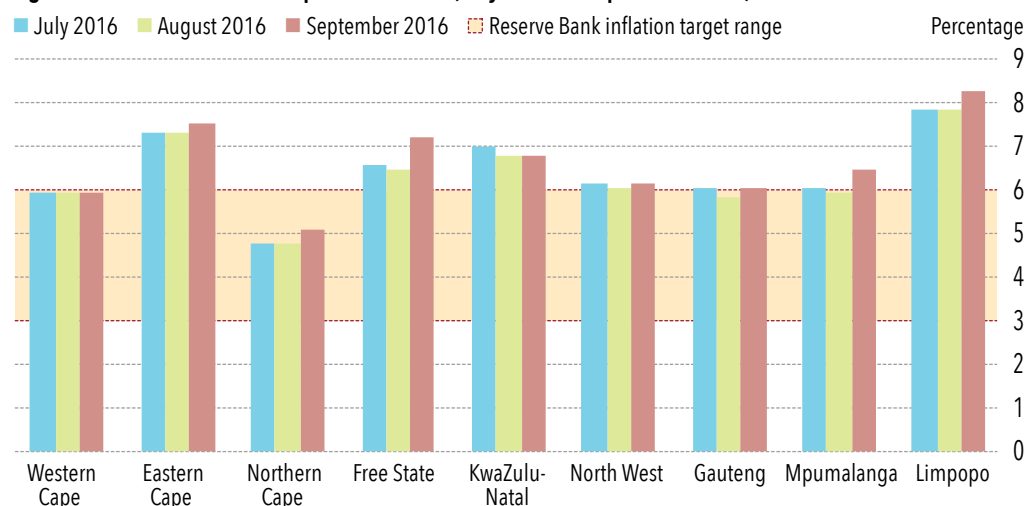
Table 1 indicates how different expenditure groups are affected by inflation. In the third quarter of 2016, inflation remained at or above 6% across all quintiles except the fifth quintile. When compared to June 2016, inflation remained the same for the first quintile, increased for the second and decreased over the last three quintiles. The first quintile, the household quintile with the lowest level of monthly expenditure, experienced the highest inflation rate (8,1%), whilst the household quintile with the highest level of monthly expenditure had the lowest (5,9%) recording in inflation. One reason for this disparity is that the price of food, which constitutes a prominent component of expenditure for low-income households, increased strongly during the third quarter while petrol, a prominent component of expenditure for high-income households, declined by R1,17.

The Western Cape recorded a lower inflation rate (5,9%) than the national inflation rate (6,1%) at the end of the third quarter of 2016.

GEOGRAPHICAL INFLATION

The Western Cape recorded a lower inflation rate (5,9%) than the national inflation rate (6,1%) at the end of the third quarter of 2016. Most of the provinces experienced an increase in inflation over the three-month period whilst the Western Cape and KwaZulu-Natal were the only provinces to experience a decrease. As illustrated in figure 16, the Northern Cape continued to record the lowest inflation rate (5,1%) at the end of September 2016 and was the only province to remain within the target range for the entire third quarter. The highest inflation rates at the end of the third quarter were recorded by Limpopo (8,3%), the Eastern Cape (7,5%) and the Free State (7,2%). Food price inflation in the Western Cape was 10,3% (having increased from 10,2% in August), while nationally it was higher at 13,1% (having decreased from 13% in August). Non-alcoholic beverages' price inflation in the Western Cape was 9,6% in September 2016 (having increased from 9,1% in August), while nationally it was lower at 9,2% (having increased from 8,4% in August). Higher inflation in the Western Cape was recorded in restaurants and hotels (9,4% compared to 6,4% nationally), whereas lower inflation was experienced in water (4,1% compared to 8,1% nationally) and health (4,9% compared to 5% nationally) costs.

Figure 16: CPI inflation rate at provincial level (July 2016 to September 2016)



Source: Stats SA, November 2016.

INFLATION OUTLOOK

Headline inflation remained volatile across the year to date as upward pressure lingered due to strong food price inflation because of the impact of the drought on agricultural production. Despite this upward pressure, headline inflation stayed close to the upper end of the inflation range and even moved slightly within the target range in August 2016 (5,9%). The appreciation of the South African rand during this quarter and the positive economic growth of the second quarter have countered the negative impacts of the drought allowing the Reserve Bank to keep the repo rate unchanged for September 2016.

Encouragingly, average inflation expectations have improved slightly as the BER forecasts 6% for 2017 from a previous estimate of 6,2% and, an unchanged forecast of 5,9% for 2018. Although there are positive signs, food price inflation remains a high risk and is expected to remain above the 12% mark for the fourth quarter of 2016. The price of meat will most likely increase as farmers replace their herds because of the drought. In October the price of petrol increased by R0,43/litre due to pressure from changes in the exchange rate and the international oil price. As regards the latter, there is uncertainty around whether the oil supply freeze by OPEC will have a notable effect on the oil price in the short to medium term.

Ultimately, the MPC chose, in September 2016, to keep the repurchase rate unchanged at 7% per annum. The MPC expressed particular concerns about the path of inflation, which is tending towards the upper end of the inflation target and may place pressure on consumers.

Average inflation expectations have improved slightly as the BER forecasts 6% for 2017 from a previous estimate of 6,2% and, an unchanged forecast of 5,9% for 2018.



Labour market trends

The labour market is the point at which economic production meets human development. This chapter reflects on the employment of human resources as both an input into and an outcome of production. Employment creation and unemployment reduction are top priorities of both national and city-level economic strategies, and are critically important to the country's development.

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET

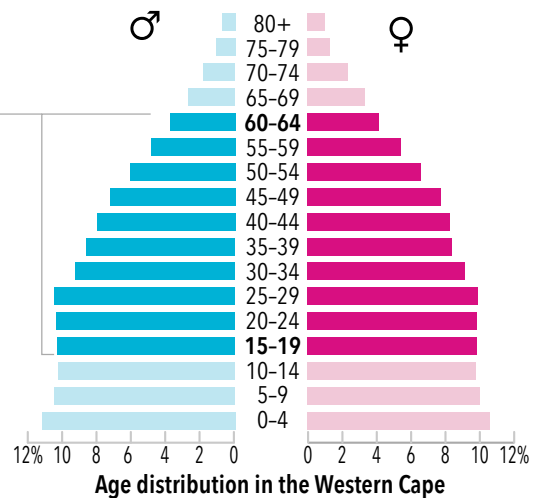
THE WORKING-AGE POPULATION



Cape Town has **2 800 142** people aged between 15 and 64. This group forms the **working-age population**. This is the value from which employment and unemployment figures are derived.



2 800 142
working-age population



Age distribution in the Western Cape

The dependency ratio

This refers to how many people depend on those of working age. In Cape Town **45,6%** of those of non-working age depend on those of working age.

The definition of **employment** is 'those aged 15-64 years who, during the reference week, did any work for **at least one hour**, or had a business or job, but were not at work (temporarily absent)'.



EMPLOYMENT

Of the **2 800 142** people who make up the **working-age population**, **1 468 543** – 52,4% – are **employed**. This percentage is also known as the labour absorption rate.

1 468 543
employed people

52,4%
labour
absorption
rate

The **labour absorption rate** (employment-to-population ratio) measures the proportion of the working-age population that is employed.

Of the **1 468 543** employed Capetonians, the majority are employed in the formal sector, with 10,36% in the informal sector.



Agriculture
12 491
(0,85%)



Private households
92 057
(6,26%)



Informal sector
152 178
(10,36%)



Formal sector

1 211 817
(82,51%)

The informal sector is defined as 'employees working in establishments that employ fewer than five employees, which do not deduct income tax from their salaries/wages; employers, own-account workers and persons helping unpaid in their household, and businesses that are not registered for either income tax or value-added tax'.

How these figures are calculated

Statistics South Africa publishes quarterly labour force surveys (QLFS), which provide data on the number of people in the labour market.

This includes the number of people who are employed, unemployed and not economically active. The data is broken down by industry,

province, sex, age and sector. It covers both the formal and informal sectors.

Respondents are asked about their employment activity in the week prior to the survey, which is known as the 'reference week'.

The surveys are conducted in 30 000 private

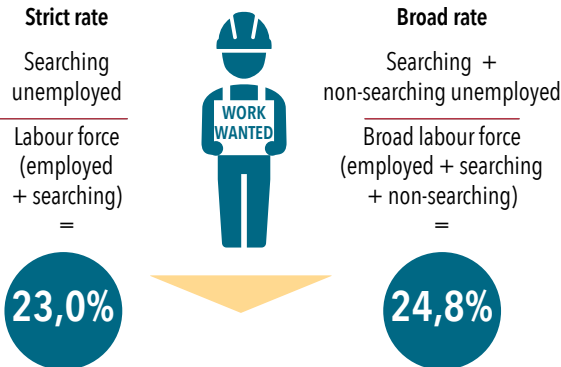
households and worker hostels across the country. The results are then weighted (adjusted) to accommodate factors such as rural and urban variations and to ensure that they are representative of the population as a whole.

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET

UNEMPLOYMENT

There are two measures of unemployment – strict and broad. The strict measure specified by the International Labour Organisation (ILO) is used in developed countries with mostly formal employment, and is useful for international comparisons. The broad definition is more useful in describing the scale of unemployment in developing economies with large numbers of discouraged job seekers.

Strict unemployment
The 'strict' definition of unemployment includes only people who are actively seeking work. By that definition, Cape Town has **439 887 unemployed people** – 23,0% of the strict labour force.



Broad unemployment
The 'broad' definition of unemployment includes those under the 'strict' definition as well as 'discouraged' and other 'non-searching' job seekers. By that definition, Cape Town has **484 669 unemployed people** – 24,8% of the broad labour force.

Unemployed persons are those aged 15–64 years and **actively searching** for work who:

- were not employed in the reference week; and
- actively looked for work or tried to start a business in the four weeks preceding the survey interview; and

↑ SEARCH CRITERIA

- were available for work, i.e. would have been able to start work or a business in the reference week; or
- had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and were available.

The youth unemployment rate
This refers to people between the ages of 15 and 24 who are not employed, despite being willing and able to work. The strict youth unemployment rate is 49,0%, while the broad youth unemployment rate is 50,4%.

Some unemployed youth are meaningfully engaged in education or training. The NEET (not in employment, education or training) indicator captures those youth not actively participating in the economy in any way.

26,7% The youth NEET rate in Cape Town is 26,7%.

A **'discouraged job seeker'** is a person who was not employed during the reference period, wanted to work, was available to work or start a business, but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work.

Other **non-searching work seekers** are the searching unemployed and those who have not fulfilled the search criteria.

- Discouraged work seekers and other non-searching work seekers are accommodated in the broad definition through the removal of the search criteria.

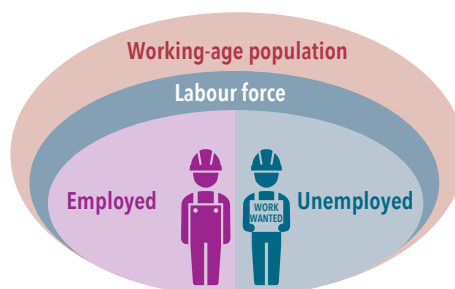
↑ SEARCH CRITERIA

THE LABOUR FORCE

The labour force comprises all persons of working age who are employed, plus all persons of working age who are unemployed.

Strict labour force = 1 908 429

The 'strict' definition of the labour force includes both those in employment and those unemployed people who are actively seeking work. By that measure, the Cape Town labour force is 1 908 429 strong, being made up of **1 468 543 employed people** and **439 887 job seekers**.



Broad labour force = 1 953 211

The 'broad' definition of the labour force includes those under the 'strict' definition, and 'non-searching' job seekers. By this measure, Cape Town's labour force is 1 953 211 strong, being made up of **1 468 543 employed people**, **439 887 job seekers**, **13 151 discouraged** and **31 631 other non-searching unemployed**.

THE LABOUR FORCE

1 468 543
EMPLOYED

439 887
SEARCHING
UNEMPLOYED

44 782
DISCOURAGED AND OTHER
NON-SEARCHING UNEMPLOYED

STRICT

68,2%

LABOUR FORCE
PARTICIPATION RATE

BROAD

69,7%

Labour force
participation rate

Labour force
Working-age population

The **labour force participation rate** is a measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work. It provides an indication of the relative size of the supply of labour available.

Sources: Stats SA Quarterly Labour Force Survey (QLFS), City of Cape Town.



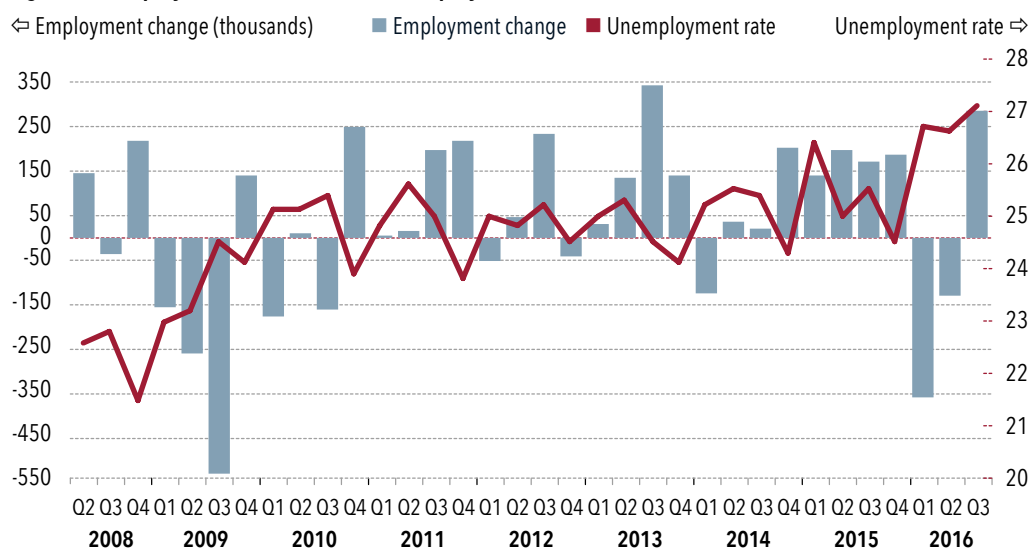
In the third quarter of 2016, South Africa's labour force increased by 527 000 individuals compared to the second quarter of 2016. The majority of the sectors displayed positive employment growth.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

In the third quarter of 2016, South Africa's labour force increased by 527 000 individuals compared to the second quarter of 2016. The number of employed people increased by 288 000 to 15,83 million from a previous figure of 15,55 million. Overall, the majority of the sectors displayed positive employment growth. The sectors that contributed significantly to quarterly employment growth were construction (104 000), finance and other business services (103 000) as well as trade (61 000) whilst manufacturing (-28 000), community and social services (-45 000) and private households (-15 000) were amongst the sectors that led the negative contributions.

Similarly, on a year-on-year basis 460 000 more people were added to the labour force and employment increased by 5 000 individuals when compared to the third quarter of 2015. Year-on-year growth fared poorly compared to quarter-on-quarter growth as only three sectors added notably to employment, namely, finance and other business services (163 000), construction (31 000) as well as transport (17 000). Manufacturing (-91 000), community and social services (-83 000) and agriculture (-16 000) were the largest contributors of job losses in the third quarter.

Figure 17: Employment trends vs strict unemployment rate in South Africa (Q2, 2008 to Q3, 2016)



Source: Stats SA, November 2016.

In the third quarter of 2016, unemployment in South Africa increased by 239 000 quarter on quarter to a total of 5,87 million people. As such, the official unemployment rate increased to 27,1% from a previous rate of 26,6%. The number of discouraged work-seekers, who are only included in the expanded measure of unemployment, decreased by 235 000 to a total of 2,29 million individuals. The above figure illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, negative employment growth typically leads to an increase in the unemployment rate. However, the increase in unemployment rate for the third quarter of 2016 indicates a slight lagged effect from the previous two quarters of negative employment contributions.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the third quarter of 2016, the working-age population of Cape Town increased by approximately 14 000 individuals compared to the second quarter of 2016, and by nearly 56 000 individuals on a year-on-year basis. On a quarter-on-quarter basis Cape Town's labour force increased slightly by 3 000 individuals to a total of 1,9 million in the third quarter, and its labour force participation rate decreased by 0,2 percentage points to 68,2%. This, however, remains higher than the national rate of 59,1%, pointing to the greater inclusiveness of Cape Town's labour market.

Table 2: Labour market indicators: South Africa and Cape Town*

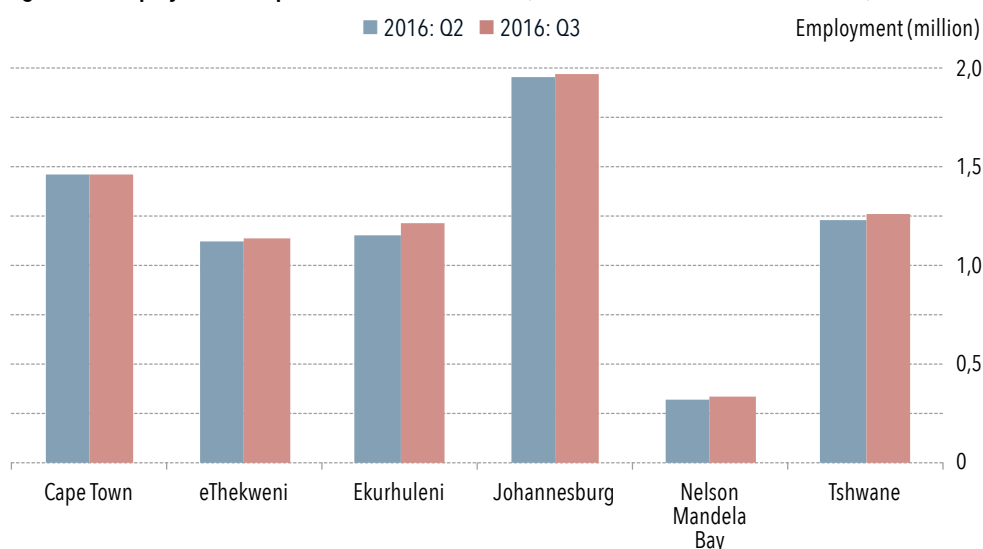
Indicator	South Africa			Cape Town		
Unit: Thousands ('000s)	Q3:2016	Q2:2016	Q3:2015	Q3:2016	Q2:2016	Q3:2015
Working-age population	36 750	36 591	36 114	2 800	2 786	2 744
Labour force	21 706	21 179	21 246	1 908	1 905	1 882
Employed	15 833	15 545	15 828	1 469	1 468	1 471
Employed by the formal sector	11 029	10 917	10 930	1 212	1 219	1 181
Employed by the informal sector	2 641	2 507	2 721	152	146	171
Unemployed	5 873	5 634	5 418	440	438	411
Not economically active	15 044	15 412	14 867	892	880	861
Discouraged work-seekers	2 291	2 526	2 226	13	8	17
Other	12 753	12 886	12 641	879	872	844
Unemployment rate (%)	27,1	26,6	25,5	23,0	23,0	21,9
Youth unemployment rate (%) (15 to 24)	54,2	53,7	49,9	49,1	50,2	46,1
NEET** as % of working-age population	40,1	40,3	38,7	33,3	34,2	32,3
Absorption rate (%)	43,1	42,5	43,8	52,4	52,7	53,6
Labour force participation rate (%)	59,1	57,9	58,8	68,2	68,4	68,6

Source: Stats SA, November 2016. * Figures in tables may not exactly add up due to rounding off. ** Not in employment, education or training.

The number of people employed in Cape Town in the third quarter of 2016 increased by 1 000 individuals on a quarterly basis whereas it decreased by nearly 2 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and recorded a decrease of 7 000 in the third quarter. Contrastingly, employment increased in the informal sector by 6 000 on a quarter-on-quarter basis and decreased by 19 000 individuals on a year-on-year basis. The share of total employment contributed by the informal sector increased to 10,3% from a previous figure of 9,9% in the second quarter of 2016. Further, private households reflected positive quarter-on-quarter employment growth in the third quarter of 2016.

To measure Cape Town's job creation performance, a comparison with the other metros in the country is helpful. From a static

Figure 18: Employment comparison with other metros (Quarter 2, 2016 to Quarter 3, 2016)



Source: Stats SA, November 2016.

The number of people employed in Cape Town in the third quarter of 2016 increased by 1 000 individuals on a quarterly basis whereas it decreased by nearly 2 000 individuals on a year-on-year basis.

The metros which experienced a significant increase in employment were Ekurhuleni, eThekweni and Nelson Mandela Bay. Cape Town had a marginal increase when compared to the previous quarter.

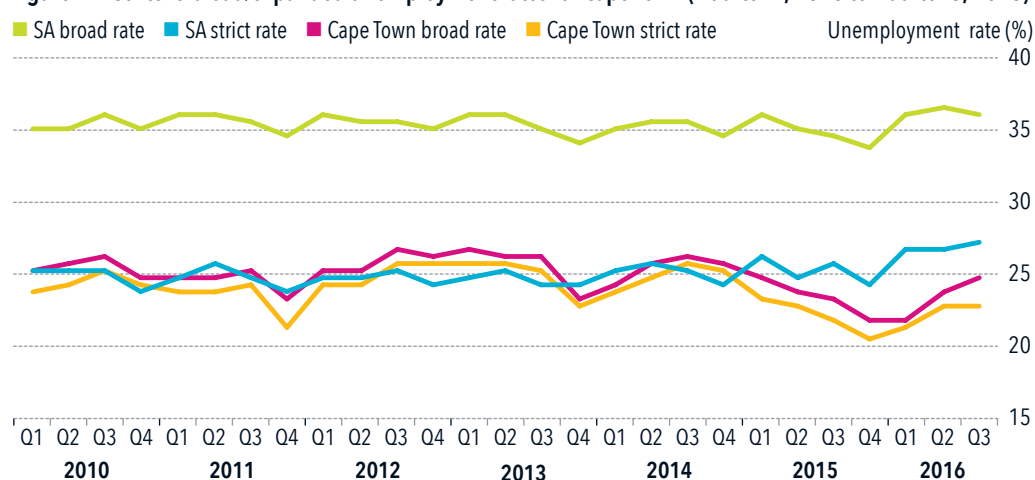
point of view, Cape Town has the second largest number of people employed in the country, with 1,47 million people employed in the city compared to Johannesburg's 1,97 million. This is to be expected as Johannesburg has a significantly larger population.

Turning attention to employment creation in the third quarter, as measured by the difference between the second-quarter and third-quarter employment levels, all metros displayed growth in employment. The metros which experienced a significant increase in employment were Ekurhuleni (61 289), eThekweni (15 466) and Nelson Mandela Bay (14 919). Cape Town had a marginal increase when compared to the previous quarter. On a year-on-year basis, Ekurhuleni shed jobs at the fastest rate (-4,1%), while employment in Johannesburg grew fastest (4,2%).

Unemployment in Cape Town

Cape Town experienced an increase (2 231) in the number of unemployed people in the third quarter of 2016 compared to the previous quarter and by 28 547 compared to the corresponding period in the previous year. While, Cape Town's strict unemployment rate remained relatively unchanged (rounded off at 23%) on a quarter-on-quarter basis, it increased by 1,1 percentage points on a year-on-year basis. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 49,1% in the third quarter of 2016, having decreased from 50,2% in the previous quarter. While this is below the national rate of 54,2%, it is nonetheless remarkably high by developing-country standards, and poses a key challenge to economic policymakers in the city.

Figure 19: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 3, 2016)



Source: Stats SA, November 2016.

By excluding discouraged work-seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals wishing to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated by figure 19, over the last few years the two rates of unemployment for Cape Town have remained relatively close although at the end of the third quarter of 2016 there was a slight deviation. Cape Town's strict unemployment rate has, since the first quarter of 2015, diverged from the national strict rate. As a result, Cape Town's strict unemployment rate is nearly 4,1 percentage points lower than the national rate. On average, the expanded unemployment rate in Cape Town is only 0,98% higher than the city's strict rate. However, it is important to consider the expanded definition of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 19). South Africa's expanded unemployment rate in the third quarter of 2016 was 36,3%, compared to Cape Town's expanded rate of 24,8%. On this basis, Cape Town's labour market can be considered better performing and more inclusive than the national labour market.

While comparing Cape Town's unemployment trends with South Africa as a whole is important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics. The metros that recorded increases in

South Africa's expanded unemployment rate in the third quarter of 2016 was 36,3%, compared to Cape Town's expanded rate of 24,8%.

On this basis, Cape Town's labour market can be considered better performing and more inclusive than the national labour market.

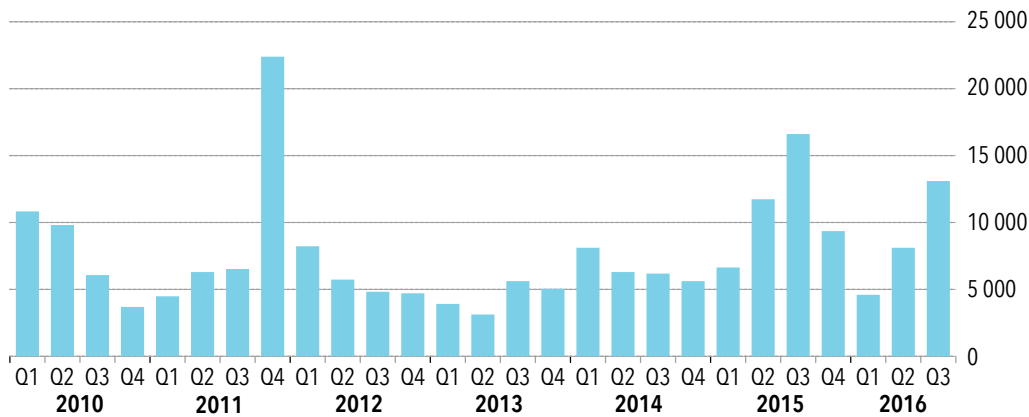
Table 3: Official vs expanded unemployment rates

Metro	Official			Expanded		
	2016:Q3	2016:Q2	2015:Q3	2016:Q3	2016:Q2	2015:Q3
Cape Town	23,0	23,0	21,9	24,8	24,0	23,2
eThekweni	20,2	19,7	15,7	28,4	28,0	24,9
Ekurhuleni	31,7	34,6	30,3	35,5	38,2	32,7
Johannesburg	28,2	28,4	29,7	30,8	29,9	30,7
Nelson Mandela Bay	31,8	32,0	34,3	33,2	32,9	34,4
Tshwane	26,2	25,1	24,7	29,6	28,9	28,8

Source: Statistics South Africa, November 2016

both the official and expanded unemployment rates in the third quarter of 2016 were Tshwane and eThekweni. Ekurhuleni was the only metro to experience a decrease in both its rates. From a static point of view, Ekurhuleni had the highest expanded unemployment rate (35,5%) and Nelson Mandela Bay had the highest official or strict unemployment rate (31,8%), while Cape Town had the lowest expanded unemployment rate (24,8%) and eThekweni the lowest strict rate (20,2%). What is also notable from table 3 is that for Cape Town and Nelson Mandela Bay there is minimal difference between the expanded and official unemployment rates, whereas in eThekweni the expanded rate is almost 8 percent higher than the strict rate.

Figure 20: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 3, 2016)



Source: Stats SA, November 2016.

For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,57%) of the country's total number of discouraged work-seekers.

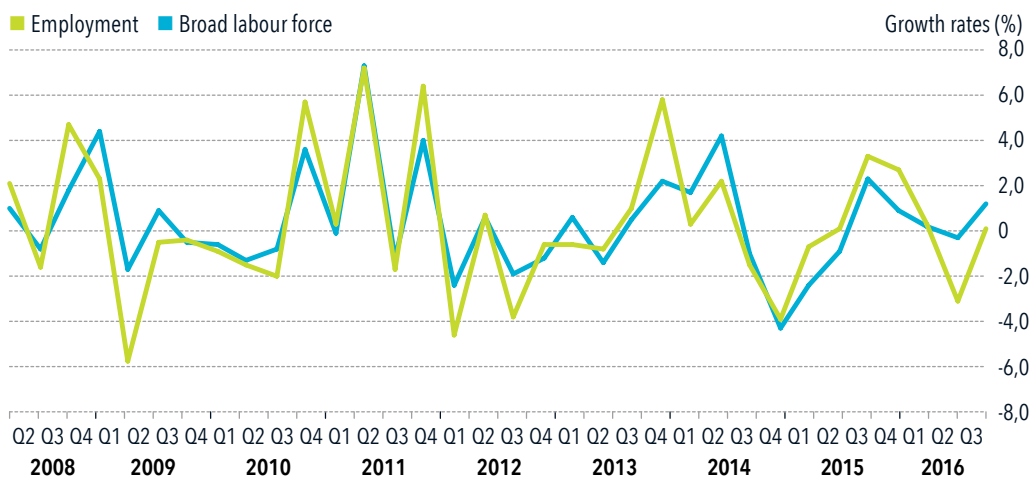
The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work-seekers in Cape Town. Discouraged work-seekers are included in the expanded unemployment figure, which explains why this is slightly higher than the strict unemployment figure. The number of discouraged work-seekers in Cape Town increased to 13 151 in the third quarter of 2016 from 8 063 in the second quarter of 2016.

Apart from the outliers in the fourth quarter of 2011 and third quarter of 2015, figure 20 shows that the number of discouraged work-seekers has been below 12 000 individuals. However, for the third quarter the number of discouraged work-seekers again breached that mark. That said, for one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,57%) of the country's total number of discouraged work-seekers. The reasons for this remain largely unclear and require further research.

Labour force and employment

Two factors determine whether the expanded rate of unemployment increases or decreases: a change in the expanded labour force and a change in the level of employment. When the rate of employment growth is exceeded by the rate at which the expanded labour force grows, the expanded unemployment rate increases. Figure 21 shows that in the third quarter of 2016, the growth in Cape Town's broad labour force exceeded the growth in employment. This resulted in an increase in the expanded unemployment rate for the period under review.

Figure 21: Broad labour force and employment growth rates for Cape Town (Q2, 2008 to Q3, 2016)



Source: Stats SA, November 2016.

The finance and other business services sector was the largest job contributor year-on-year with employment in the sector increasing by 35 013.

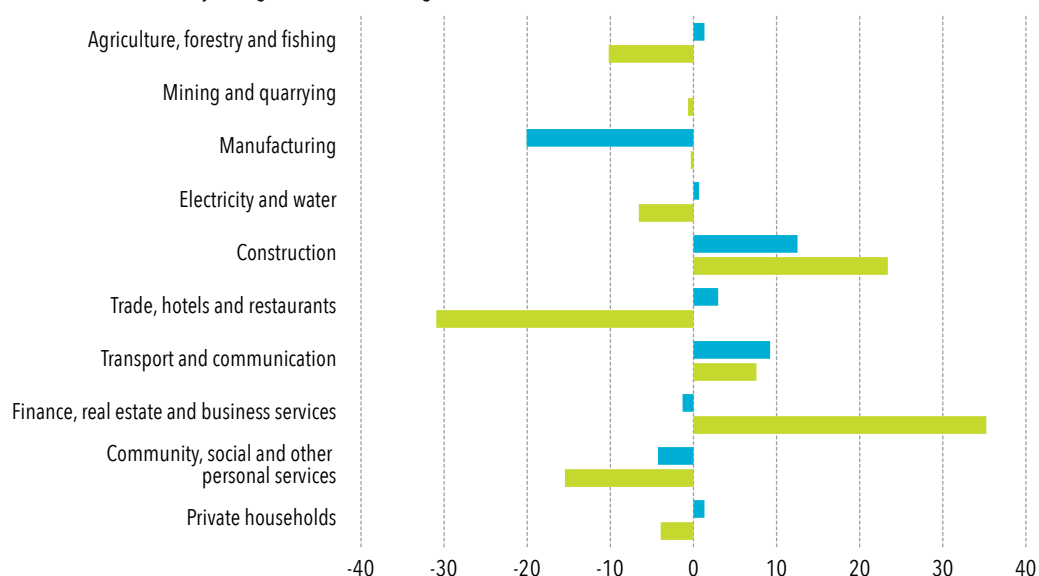
Sector employment trends in Cape Town

Figure 22 displays the change in the level of employment by sector within Cape Town. Overall, the majority of the sectors displayed a positive contribution towards employment creation when compared to the previous quarter. The sectors that added significantly to job creation were construction (12 207), transport (9 195) and trade (2 804). The key sectors that recorded job losses for this quarter were manufacturing (-20 238), community and social services (-4 304) as well as finance and other business services (-1 324).

On a year-on-year basis, the sectors had a worsened performance when compared to the quarterly performance with the majority displaying negative employment growth. Similar to its performance on a quarterly basis, construction (23 238) and transport (7 293) added positively to employment growth. In contrast to its quarter-on-quarter contribution, the finance and other business services sector was the largest job contributor year-on-year with employment in the sector increasing by 35 013. The poorest performers included trade (-31 048), community and social services (-15 549) and agriculture (-10 402). Although utilities added to job creation on a quarterly basis, it displayed a negative contribution (-6 665) on an annual basis.

Figure 22: Quarterly and annual change per sector for Cape Town (Quarter 3, 2016)

Thousands: ■ Quarterly change ■ Annual change



Source: Stats SA, November 2016.

Labour market outlook

For the third quarter of 2016, Cape Town's labour market has deteriorated when compared to the previous quarter and the same quarter in 2015. While employment grew on a quarter-on-quarter basis, it was not sufficient to absorb the increases in the labour force. Unemployment and discouraged work-seekers increased, which led to the expanded unemployment rate being higher when compared to the second quarter of 2016 as well as the third quarter of 2015. Even though the expanded unemployment rate increased, it remained the lowest of all other metros. Positively, the youth unemployment decreased to 49,1% from 50,2% at the end of the second quarter of 2016.

Cape Town's main economic growth contributor, the finance and business services sector, has reflected negative employment growth for the second consecutive quarter although on a year-on-year basis it performed better. It is possible that the sector is beginning to feel the impact of a number of quarters of sedate economic growth brought about by low levels of business confidence in the beginning of 2016. The economic contraction, particularly in the manufacturing sector, experienced by the Western Cape in the third quarter may have a lagged negative impact on employment levels in the fourth quarter of 2016. However, Cape Town's labour market has proven resilient in recent quarters so the job impact may be muted.

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Trade and investment

Cape Town is an open economy, which embraces trade and investment. Globally, economies that have typically grown strongly are those that have promoted value-added exports and attracted high levels of foreign direct investment. A key challenge for South Africa and Cape Town is reducing the trade balance deficit by increasing the country's volume of exports.

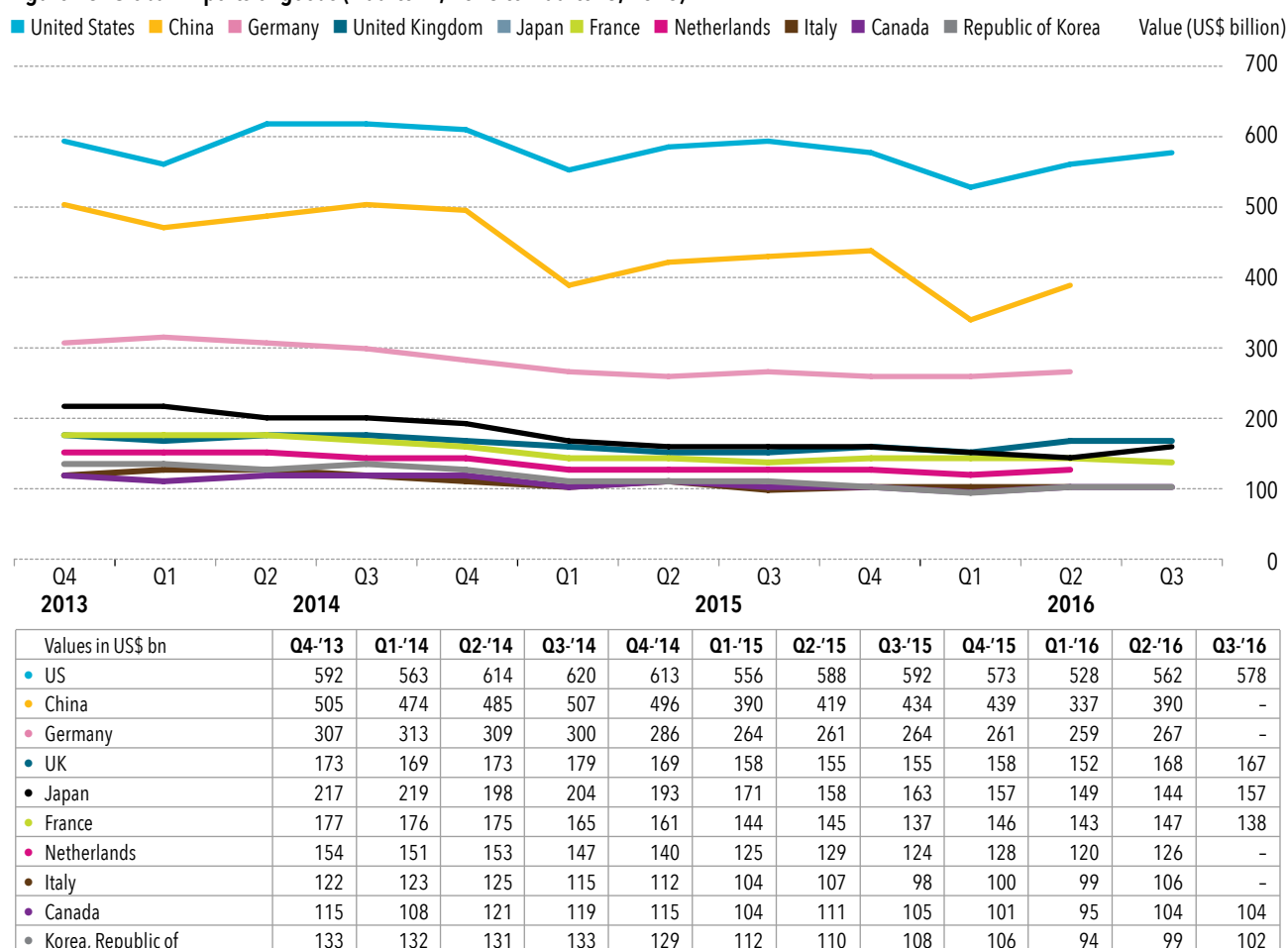
TRADE

A year-on-year assessment of the top importers in the third quarter of 2016 indicates a decline in imports for the US, Japan, Canada and the Republic of Korea while imports by the UK and France increased.

Global trade

Based on the most recently available trade estimates, the world's largest importer of goods remains the US⁹. Overall the annual value of global imports decreased by 13% from 2014 to 2015. However, the volume of world trade in 2015 grew by 2,7%. The weakness of trade in 2015 was due to a number of factors, including an economic slowdown in China, a severe recession in Brazil, falling prices for oil and other commodities, and exchange rate volatility (World Trade Organisation, 2016). Available data on a year-on-year assessment of the top importers in the third quarter of 2016 indicates that, in dollar terms, a decline in imports was reported for the US (2,4%), Japan (3,7%), Canada (1%) and the Republic of Korea (5,6%) while imports by the UK and France increased by 7,7% and 0,7% respectively.

Figure 23: Global imports of goods (Quarter 4, 2013 to Quarter 3, 2016)



Source: International Trade Centre, November 2016.

South African trade

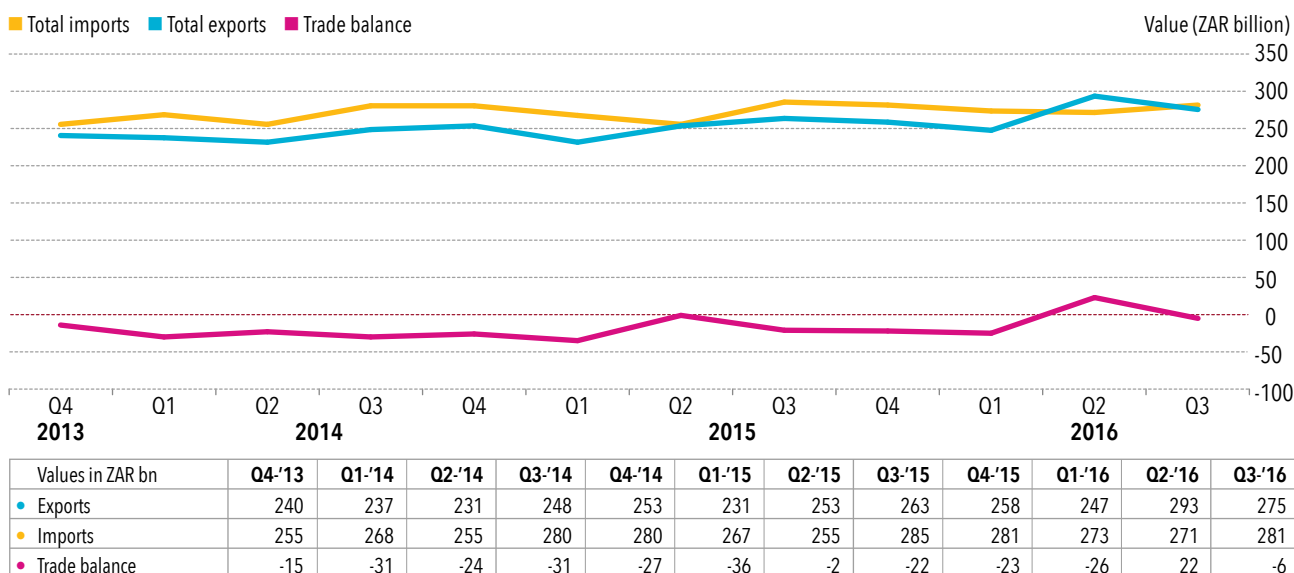
South African exports experienced a quarter-on-quarter decrease of 6,1% in the third quarter of 2016 in rand terms. In contrast, in year-on-year terms, exports increased by 4,6%. The trade balance for South Africa swung back into deficit territory in the third quarter of 2016 to a deficit of R6 billion, down from the R22 billion surplus recorded in the second quarter of 2016. This was a result of the increase in imports (3,7%) and a decrease in exports (-6,1%). South Africa's exports to the UK saw the largest decrease in the third quarter of 2016 compared to the second quarter of 2016, followed by its exports to China and India. The decrease in exports to the UK were mainly as a result of a decrease in the exports of platinum, wine, fruit and nuts, apples, grapes, centrifuges, wooden carpentry products, dates, car parts and discs.

China was South Africa's largest export destination in the third quarter of 2016, with exports reaching R22,6 billion in the third quarter of 2016. Germany was South Africa's second-largest export market, followed notably by the US and further by Namibia, Japan and Botswana.

Among the top 10 export markets, the Netherlands, Japan and Belgium were the three fastest-growing export markets for South Africa, growing by 31,5%, 15,8% and 12,6% respectively, from the second quarter of 2016 to the third quarter of 2016.

9. Note, however, that trade data for the third quarter of 2016 for China, Germany, the Netherlands and Italy have not yet been reported at the time of writing.

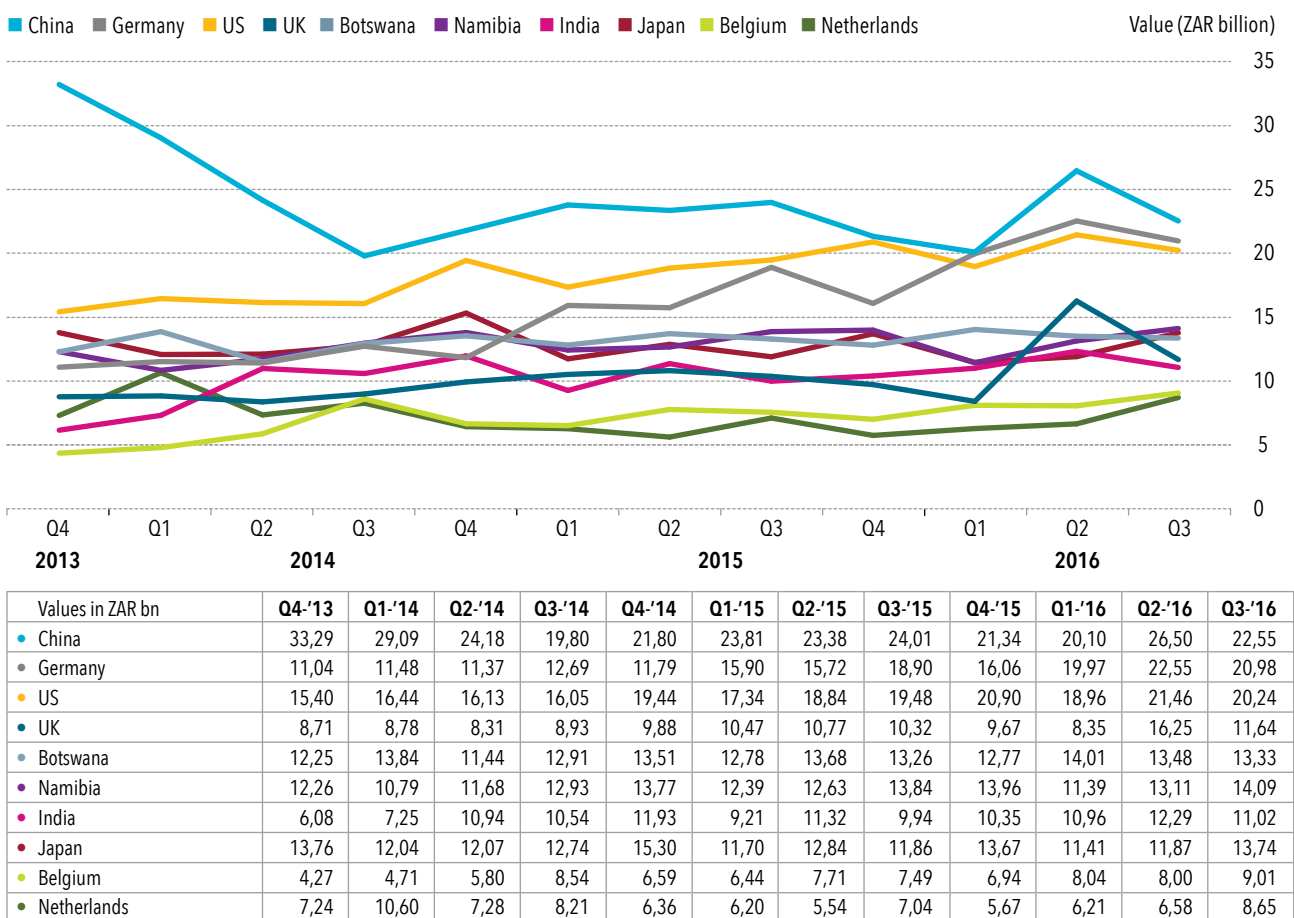
South African exports experienced a quarter-on-quarter decrease of 6,1% in the third quarter of 2016 in rand terms. In contrast, in year-on-year terms, exports increased by 4,6%.

Figure 24: South Africa's exports, imports and trade balance (Quarter 4, 2013 to Quarter 3, 2016)¹⁰


Source: Quantec, November 2016.

The demand for fresh citrus fruit, coal, iron ores, ferro-alloys, titanium ores, aluminium, fruit juices, petroleum oils, hydrazine, fresh or dried nuts and sculpture drove South Africa's exports to the Netherlands, while South Africa's exports to Japan increased due to growth in demand for iron ores, titanium ores, manganese, fruit juices, phosphonates, flours and niobium. Exports to Belgium were stimulated by increased demand for motor vehicles, diamonds, waste and scrap of precious metals, sulphates, uncoated craft paper, ceramic wares, aluminium foils, ground nuts, moulding boxes and citrus fruit.

Namibia, Botswana and Mozambique were South Africa's top export markets in Africa. These are second only to exports to

Figure 25: South Africa's export markets (Quarter 4, 2013 to Quarter 3, 2016)


Source: Quantec, November 2016.

10. Please note that the trade figures in this edition may differ from previous editions as the values may have been adjusted for any previous errors as well as additional delayed country information.

According to the Industrial Development Corporation (IDC), South Africa's automotive and agro-processing industries will be most affected by the renegotiation of current trade agreements with the UK when it leaves the European Union.



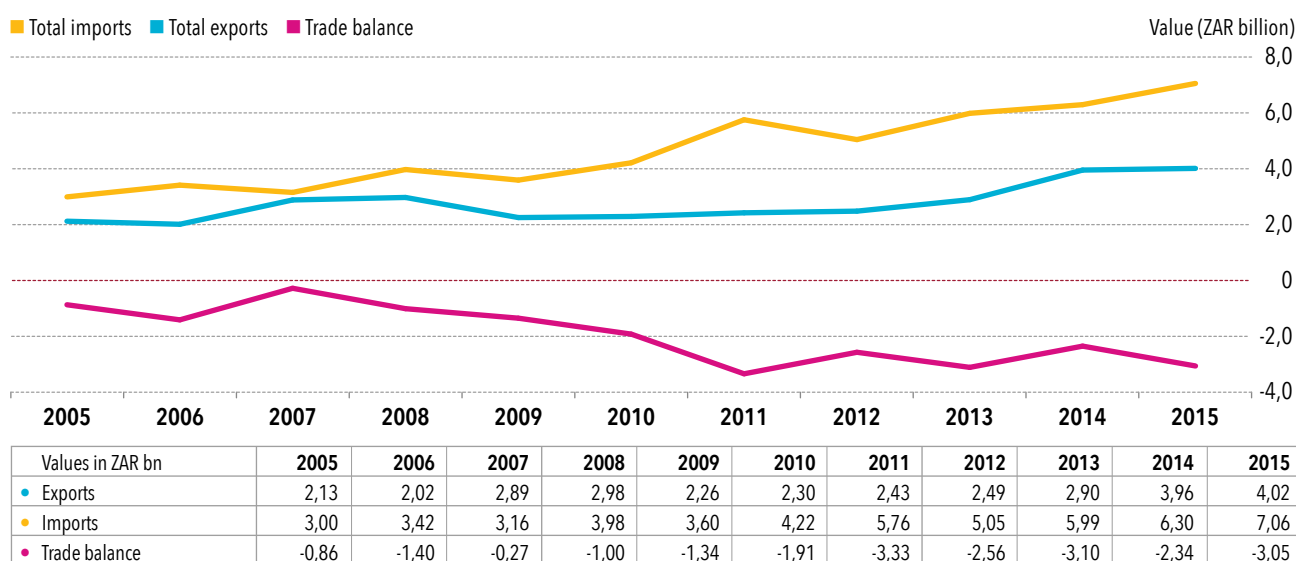
Asia, but there is a much greater propensity for diversification in Africa. In the third quarter of 2016, exports to the Southern African Customs Union (SACU), excluding South Africa, grew by 4,7%, to the Southern African Development Community (SADC), excluding SACU, by 4,3% and to North Africa by 34%. Exports to West Africa, East Africa and Middle Africa decreased by 15,5%, 6,2% and 16,9% respectively, in the period of analysis.

Cape Town trade with the United Kingdom

The UK has confirmed that it expects to leave the European Union by 2019, once it activates Article 50 of the Lisbon Treaty. It is envisaged that current trade agreements (such as the Trade, Development and Co-operation Agreement (TDCA) and Economic Partnership Agreement (EPA)) between South Africa and the UK will need to be renegotiated. According to the Industrial Development Corporation (IDC), South Africa's automotive and agro-processing industries will be most affected by the absence of the TDCA.

The UK was Cape Town's fourth largest global export market in 2015, indicating the significance of the UK market to Cape Town's exporters. Cape Town's trade with the UK increased from R5,1 billion in 2005 to R11,1 billion in 2015. Exports to the UK from Cape Town grew by 1,5% to reach R4,02 billion in 2015 from R3,96 billion in 2014, while imports grew by 12,1% to reach R7,1 billion in 2015 from R6,3 billion in 2014. The trade deficit with the UK grew notably from R0,9 billion in 2005 to reach R3,1 billion in 2015. This is expected to continue into the future as more Cape Town companies rely on machinery imports from the UK for manufacturing, as well as continued imports of petroleum oils.

Figure 26: Cape Town trade with the United Kingdom (2005 to 2015)



Source: Quantec, 2016.



The largest export product to the UK from Cape Town in 2015 was grapes, accounting for 20% of the city's exports to the UK. The second largest export category was apples, pears and quinces accounting for 14% of the city's exports to the UK.

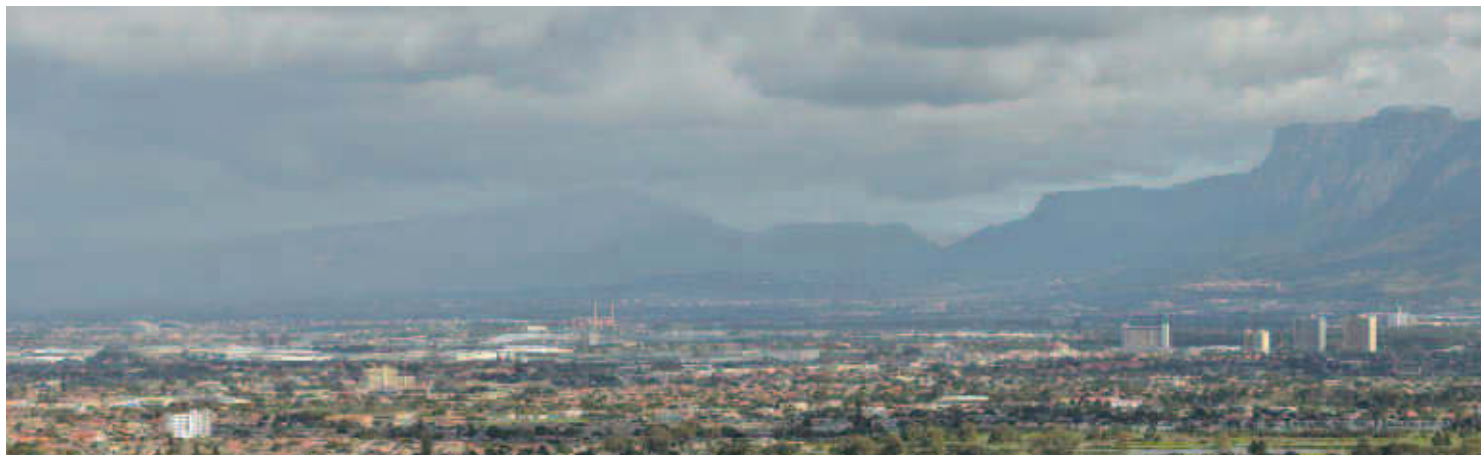
The largest export product to the UK from Cape Town in 2015 was grapes, valued at R795 million and accounting for 20% of the city's exports to the UK. The second largest export category was apples, pears and quinces valued at R569 million and accounting for 14% of the city's exports to the UK.

Cape Town imported R2,1 billion worth of refined petroleum oils (consisting of light oils and preparations) in 2015 from the UK, constituting an increase of 72% as compared to 2014. There were also significant imports of machinery parts and other machinery for use in the city's manufacturing sector. Other significant imports were undenatured ethyl alcohol, printed books, discs, tapes and other media recording devices and cinematographic cameras.

Table 4: Top 10 export and import products between Cape Town and the United Kingdom (2015)

Top 10 exports from Cape Town to the United Kingdom, 2015				Top 10 imports to Cape Town from the United Kingdom, 2015		
Rank	Product	Value 2015 (ZAR m)	% growth 2015	Product	Value 2015 (ZAR m)	% growth 2015
1	Fresh or dried grapes	794,93	26,35%	Refined petroleum oils and oils obtained from bituminous minerals	2 139,67	71,90%
2	Fresh apples, pears and quinces	569,39	40,95%	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % spirits, liqueurs and other spirituous beverages	1 847,61	-2,28%
3	Fresh or dried citrus fruit	432,59	22,54%	Printed books, brochures, leaflets and similar printed matter	291,93	-2,17%
4	Diodes, transistors and similar semiconductor devices photosensitive semiconductor devices, including photovoltaic cells	157,76	-56,07%	Electric generating sets and rotary converters	130,60	78,66%
5	Beauty or make-up preparations and preparations for the care of the skin	156,87	28,28%	Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)	123,91	41,86%
6	Wine	152,00	1,49%	Forklift trucks; other works trucks fitted with lifting or handling equipment	121,67	-23,07%
7	Fresh apricots, cherries, peaches (including nectarines), plums and sloes	147,28	-10,59%	Discs, tapes, solid-state non-volatile storage devices, smart cards and other media for the recording of sound or other phenomena	103,95	25,59%
8	Discs, tapes, solid-state non-volatile storage devices, smart cards and other media for the recording of sound or other phenomena	127,80	189,01%	Parts suitable for use solely or principally for machinery (including parts of boring or sinking machinery, etc.)	94,29	266,34%
9	Centrifuges, including centrifugal dryers filtering or purifying machinery and apparatus for liquids or gases	96,54	-56,21%	Cinematographic cameras and projectors	64,78	52,12%
10	Parts and accessories of motor vehicles	80,09	47,34%	Machines and mechanical appliances	57,04	-76,44%
TOTAL		4 016,42	1,41%		7 061,57	12,03%

Source: Quantec, 2016.

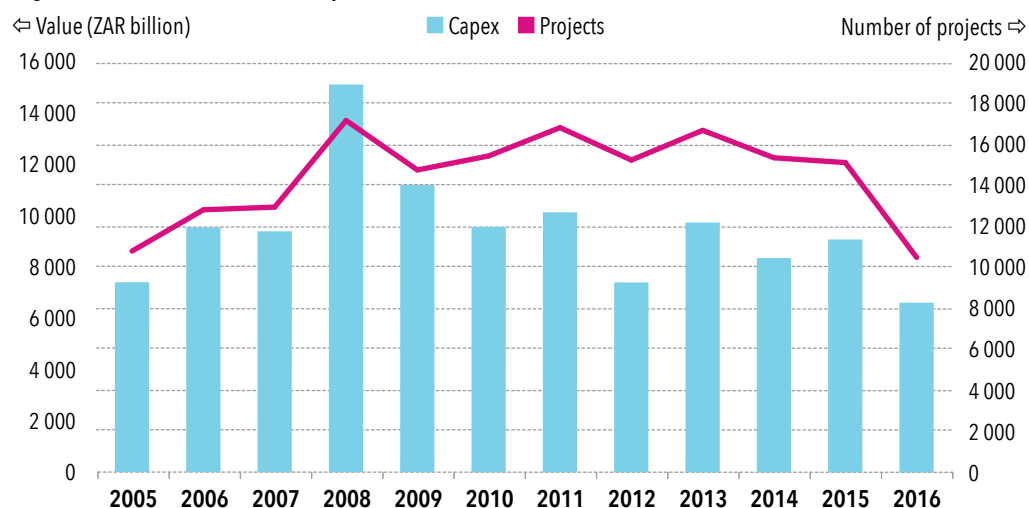


INVESTMENT

Global foreign direct investment (FDI)

Global foreign direct investment (FDI) grew by 8,7% (in capex terms) between 2014 and 2015 to reach R9,1 trillion. Project numbers declined by 1,5% between 2014 and 2015 with 233 fewer projects than the previous year. The value of investment in 2015, although increasing from 2014, had not reached the levels seen between 2006 and 2011. Over the past three years, the trend line for projects indicates that the number of investments taking place globally is beginning to decrease, however, capex values over the past few years have indicated that the FDI projects are of a greater value. Neither capex nor projects have recovered to their 2011 values.

Figure 27: Global FDI (2005 to September 2016)¹¹



Values in ZAR bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capex	7 435	9 584	9 429	15 180	11 246	9 606	10 179	7 433	9 780	8 391	9 118	6 644
Projects	10 818	12 839	12 974	17 214	14 793	15 480	16 867	15 280	16 736	15 394	15 161	10 520

Source: Financial Times, November 2016.

The top sub-sectors globally for FDI (in terms of projects) in the third quarter of 2016 were clothing and clothing accessories with a 7,7% share of total projects, followed by software publishers, except video games at 7,6% and freight or distribution services at 2,8%. Despite services dominating in terms of the number of projects attracted globally, commercial and institutional building construction (with 11,4%) and fossil fuel electric power (5,1%) received the bulk of capex.

Global FDI reached R2,1 trillion in the third quarter of 2016. If the trend in this quarter is repeated throughout the year, total FDI for 2016 will reach around R8,7 trillion. In terms of projects, there were 3 519 projects recorded in the third quarter of 2016, which would amount to 14 039 projects if the trend was to continue until year end.

The US attracted the highest number of projects (434 investment projects) and the largest capex value of FDI (R221 billion) in the third quarter of 2016. This was followed by the UK and Japan with 281 and 208 investment projects, respectively.

The top sub-sectors globally for FDI (in terms of projects) in the third quarter of 2016 were clothing and clothing accessories with a 7,7% share of total projects, followed by software publishers, except video games at 7,6% and freight or distribution services at 2,8%. Despite services dominating in terms of the number of projects attracted globally, commercial and institutional building construction (with 11,4%) and fossil fuel electric power (5,1%) received the bulk of capex. This was followed by wind electric power (4,9%), solar electric power (4,3%) and residential building construction (3,6%).

11. Please note that global FDI figures in this edition may differ from previous editions as the values may have been adjusted for any previous errors as well as exchange rate fluctuations.



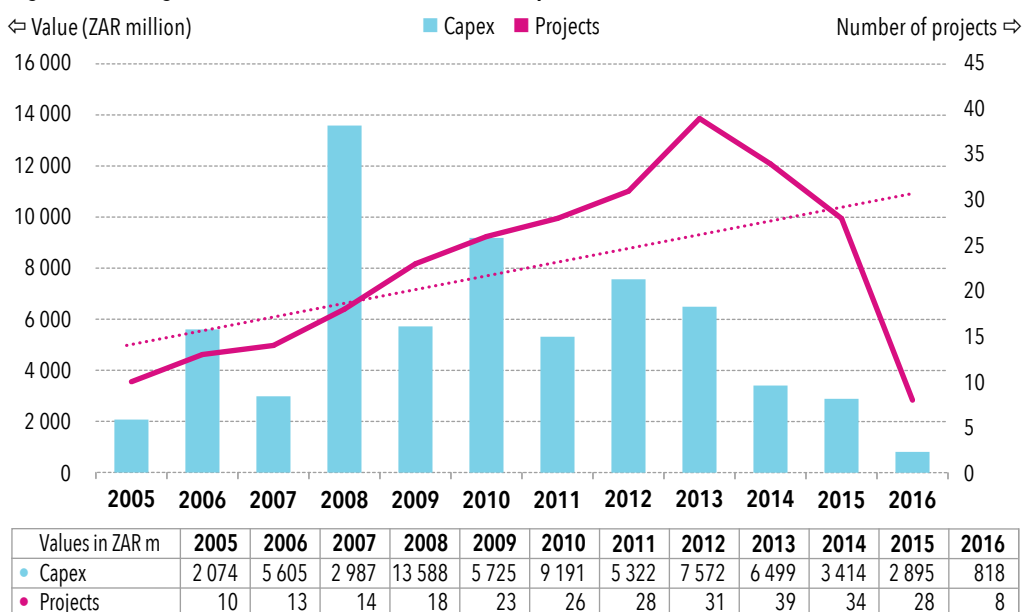
Cape Town foreign direct investment (FDI)

FDI flows into Cape Town in terms of capital investment have not recovered to the pre-crisis levels attained in 2008. The number of FDI projects received into Cape Town increased from 11 projects in 2005 to 39 projects in 2013. Although projects decreased in 2014 and 2015 they have remained above the pre-crisis levels attained in 2008.

From January to March 2016, Cape Town attracted nine investment projects worth R818 million. The sectors attracting FDI were financial services, software and information and technology (IT) services, industrial machinery, equipment and tools, business services, aerospace and pharmaceuticals.

Four investments were made by UK firms with a combined value of R320 million. The largest capital investment was from Johnson & Johnson from the US with an investment valued at R208 million. The second largest investment of R129 million was by Nomura Holdings from Japan. According to Nomura's Jonathan Lewis, head (EMEA), 'South Africa is a key economic hub on the African continent and global investors and corporates are increasing investment in the region.' (*Financial Times*, 2016).

Figure 28: Foreign direct investment (FDI) flows into Cape Town (2005 to March 2016)



Source: *Financial Times*, November 2016.

From January to March 2016, Cape Town attracted nine investment projects worth R818 million. The sectors attracting FDI were financial services, software and information and technology (IT) services, industrial machinery, equipment and tools, business services, aerospace and pharmaceuticals.

Investment facilitation

Between July and September 2016, Wesgro facilitated two new projects and two expansion projects into Cape Town. The investments were as follows:

- R500 million in a manufacturing project, creating 150 jobs;
- R50 million in an information and communications technology (ICT) project, creating 50 jobs;
- R14 million in a manufacturing expansion project, creating 50 jobs; and
- R20 million in a food and beverages expansion project, creating 200 jobs.

Sector focus: E-commerce

South Africa, and indeed Africa as a whole, only attributes a small proportion of total retail sales to e-commerce. But the industry is growing quickly and is largely basing itself in Cape Town.





IMAGE COURTESY OF VUPPICHHEF

Cape Town accounts for the lion's share of the headquarters of the most well-known e-commerce companies in South Africa and is the birthplace for the majority of new tech start-ups operating in the e-commerce ecosystem.

The retail industry has evolved many times, from bartering systems to the proliferation of busy marketplaces, retail high streets and, more recently, to the development of shopping malls, accompanied by the rise of concepts such as 'shoppertainment'. However, the increasing shift to online purchasing may be the most disruptive evolution that the retail industry has experienced. Enabled by ever-improving ICT infrastructure as well as highly innovative software developments including mobile applications, e-commerce is growing globally at a phenomenal pace. E-commerce has enabled local companies to participate in global value chains, while at the same time removing some of the capital constraints associated with bricks-and-mortar retail outlets – making it easier for small companies to break into formal retail markets. While openness to e-commerce may expose countries to competition from large international companies, it can be the stimulus for strong economic growth in cities that orient themselves as tech hubs.

South Africa, and indeed Africa as a whole, only attributes a small proportion of total retail sales to e-commerce, but the industry is growing quickly and is disproportionately basing itself in Cape Town. E-commerce companies are not easily categorised, and can be considered as much to be in the ICT sector or business services sectors as the retail sector. In fact, it would seem that the industry is driven more by supply factors like the availability of ICT skills and the prevalence of entrepreneurship than by demand-side factors like market size. This has enabled Cape Town to carve out a competitive niche in e-commerce despite having physical access to a much smaller market than the metros in Gauteng. As a result, the city accounts for the lion's share of the headquarters of the most well-known e-commerce companies in South Africa and is the birthplace for the majority of new tech start-ups operating in the e-commerce ecosystem.

DEFINING E-COMMERCE AND ASSESSING ITS BENEFITS

Statistics South Africa in the Standard Industrial Classification (SIC) Codes defines e-commerce as follows:

There are three stages in the transfer of the ownership of a good or service: (a) the placement of the order, (b) the payment and (c) the delivery of the good or service. E-commerce transactions may be defined to include situations where only the first stage, only the first and second stages, or all three stages are conducted through the internet or by other electronic means. (Statistics South Africa, 2015)

According to Statistics South Africa, e-commerce can occur in any industry where goods or services are transacted. For instance, booking a flight on South African Airways' (SAA's) website may be considered to be e-commerce but the value of the transaction may be listed under the air transport industry classification. Statistics South Africa does, however, distinguish between companies which undertake their sales exclusively through electronic means, and classify these activities under SIC 4781, which is described as 'retail sale via mail-order houses or the internet'. This would exclude traditional retail companies such as Woolworths or Mr Price but include exclusive online retailers (often referred to as e-tailers) like Takealot and Spree. However, it would, also include sales via television, telephone, radio or mail order.

A more comprehensive definition, which the United Nations Conference on Trade and Development (UNCTAD) follows, specifies that e-commerce is defined by the method of placing the order, which needs to be over computer networks, including web, extranet or electronic data exchange. This definition excludes orders made by other electronic means but includes retailers who are not exclusively online. Most estimates of the size of the e-commerce industry use the UNCTAD definition as their reference point.

E-commerce is defined by the method of placing the order, which needs to be over computer networks, including web, extranet or electronic data exchange.

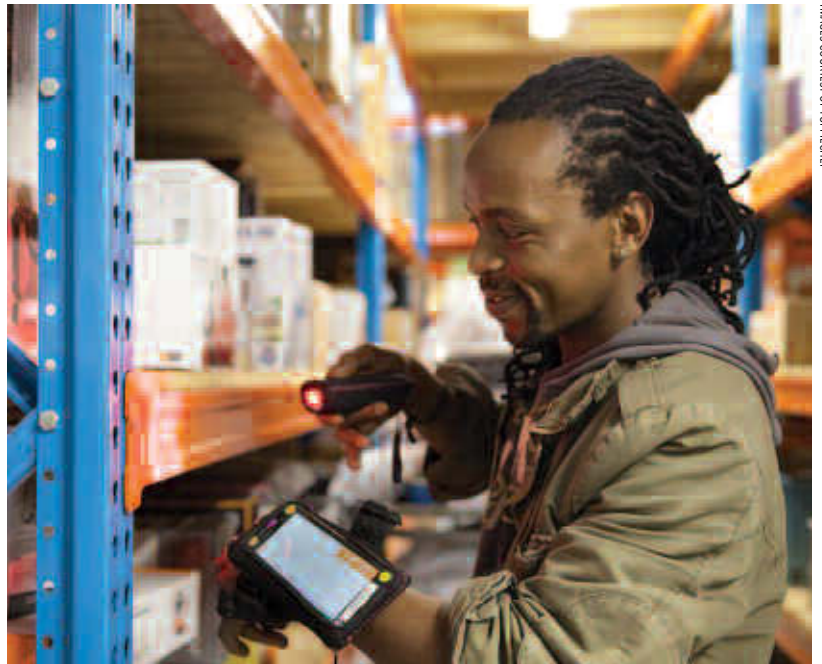
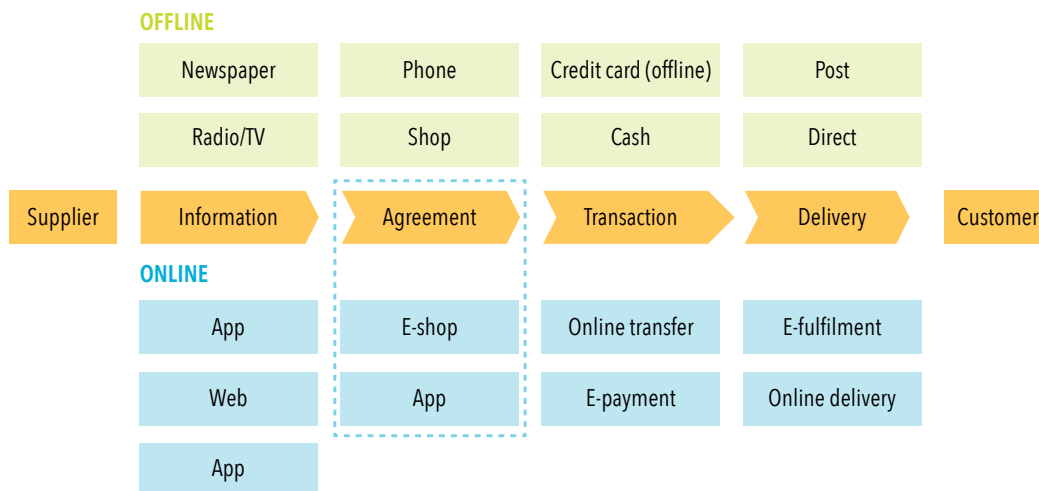


Diagram 1: The role of ICT in the e-commerce transactional value chain



Source: Adapted from the UNCTAD's Information Economy report 2015.

The figure above illustrates the transactional value chain of the retail industry. For a transaction to be considered an e-commerce one, the order needs to be placed online but the information and delivery can be offline/in person. Typically, however, e-commerce transactions will also be characterised by online activity at both the information stage (internet browsing, comparing prices online, viewing online catalogues) and the transaction stage (e-payments via credit card, EFTs). This means that ICT capacity, whether in-house or outsourced to software development companies, plays a critical role along the whole value chain.

Implications of e-commerce for the broader economy

The ability to compare products online and to purchase at irregular hours as well as have access to larger product ranges unlimited by store size, has been found to increase consumer surplus significantly. Among G20 countries the consumer surplus of the internet more generally has been estimated at 4,4% of GDP, while the enhanced choice from buying online has been found to be a more important contributor to welfare gains than lower prices (UNCTAD, 2015).

The growing prominence of e-commerce has lowered barriers to entry in the retail sector by circumventing the costs of shop frontage and storage, while also providing companies with easier access to consumers in foreign markets – thereby stimulating exports. The latter feature of e-commerce has a flipside – that foreign (sometimes more sophisticated) e-commerce companies have easy access to local markets. For the most part, however, the positive impacts of e-commerce outweigh the negative. A recent study by the UNCTAD (2015) estimated that increased use of e-sales led to a rise in labour productivity of 2,1 percentage points between 2003 and 2010. While this may be desirable from a developed country perspective, increases in labour productivity, as far as they may lead to job redundancy,

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IMAGE COURTESY OF VUPPICHEP

Within Africa, Egypt, Nigeria and South Africa record the largest number of e-commerce sales annually, and have enjoyed very high growth rates in e-commerce sales in the past three years. Although South Africa has a smaller consumer population than either Egypt or Nigeria, its better-developed infrastructure and institutions make it more conducive to growth (at least per capita) in e-commerce than the other two.

tend to be viewed with scepticism in South Africa. It is, however, important to understand the broader impact of e-commerce that includes boosting employment in the supporting ICT industry, and the indirect impact that this employment has on job creation in the country as a whole. The World Bank found that each high-tech job in the US generates 4,9 additional jobs in other sectors. Aside from the multiplier impacts, e-commerce, by lowering transactional costs, can create significant opportunities for entrepreneurship. As a local example, entrepreneurs increasingly use Gumtree to start small resale businesses, while Airbnb (an international company) has provided additional income for a host of South African households.

THE UNTAPPED POTENTIAL OF E-COMMERCE IN AFRICA AND SOUTH AFRICA IN PARTICULAR

Business to business (B2B) e-commerce is the largest segment of the global e-commerce market, amounting to \$15,2 trillion in 2013, while business to consumer (B2C) e-commerce amounted to \$1,2 trillion (UNCTAD, 2015). It is the latter category, however, which is growing fastest – with the majority of the world's online consumers residing in developing countries. Despite this, Africa is estimated to contribute not more than 2,2% - 4% of global B2C e-commerce (UNCTAD, 2015). A number of reasons unpacked below can explain this:

- Low levels of internet penetration – only 26,5% of Africa's population are connected to the internet (Deloitte, 2015)
- Erratic electricity supply and an underdeveloped postal network
- Lack of viable and secure online payment options
- The wariness of African consumers for transacting online – cybersecurity

The internet's contribution to GDP in Africa stands at only 1%, which is much lower than other emerging regions (Deloitte, 2015). However, increasing internet penetration, as a proliferation of undersea fibre optic cables make their long journey inland and innovative mobile technology solutions become increasingly popular, is estimated to raise the internet's contribution to GDP to 10% by 2025. Interestingly, Deloitte (2015) believes the biggest hindrance to the growth of e-commerce in Africa will not be internet connectivity but viable online payment systems.

The continent, however, is not a homogenous entity and certain countries have an established e-commerce industry. Egypt, Nigeria and South Africa record the largest number of e-commerce sales annually, and have enjoyed very high growth rates in e-commerce sales in the past three years, with stronger growth rates predicted for the future. Although South Africa has a smaller consumer population than either Egypt or Nigeria, its better-developed infrastructure and institutions make it more conducive to growth (at least per capita) in e-commerce than the other two.

Table 5 presents the findings of UNCTAD's e-commerce index for 2016. South Africa is easily the highest ranked African country, but falls behind many other emerging economies. By not including factors such as propensity for online shopping by internet users, South Africa's actual e-commerce potential may in fact be overestimated. For instance, only 14% of South Africans with access to the internet shop online, which when combined with an internet penetration rate of around 50% means that only 6% of South Africans shop online (UNCTAD, 2016). This may sound prohibitive to e-commerce in the country, but due to the ongoing improvement of enabling factors, it actually provides a launch pad for strong future growth in the in-



Table 5: The performance of a selection of countries according to UNCTAD's e-commerce index

2016 Ranking	Economy	Share of individuals using internet (2014, or latest)	Share of individuals with credit card (15+, 2014 or latest)	Secure internet servers per 1 million people (normalised, 2014)	UPU postal reliability score (2013-14)	UNCTAD B2C e-commerce index value 2015
Overall top 3	1 Luxembourg	95	69	98	97	89,7
	2 Iceland	98	77	100	81	89,0
	3 Norway	96	67	96	89	87,1
Top 3 emerging countries	20 Israel	71	76	78	79	76,1
	26 Qatar	91	32	78	88	72,4
	28 Slovenia	72	35	86	95	71,9
Top 3 African countries + Nigeria	61 South Africa	49	13	72	67	50,3
	82 Egypt	32	2	45	81	39,9
	85 Botswana	19	10	52	74	38,6
	100 Nigeria	43	3	38	38	30,4

Source: Adapted from UNCTAD's B2C E-commerce Index 2016.

dustry. E-commerce in South Africa has been growing at over 20% since 2000, and in 2015 grew by 26% year on year, breaching the barrier of 1% of total retail trade in the country for the first time (Worldwide Worx, 2016).

Estimates of the size of e-commerce in South Africa vary widely but forecasts for future growth tend to be similar. Worldwide Worx (2016) anticipates a doubling of e-commerce between 2016 and 2020, while Deloitte (2015) estimates that e-commerce will more than double its current share of total retail sales in 2020. These sentiments are backed by PWC's emerging companies study wherein 55% of emerging companies surveyed expected to sell more than half their goods online in the next five years while a majority believe that in the longer term they will sell between 75% and 100% online.

CAPE TOWN AS AFRICA'S TECH HUB FOR E-COMMERCE COMPANIES

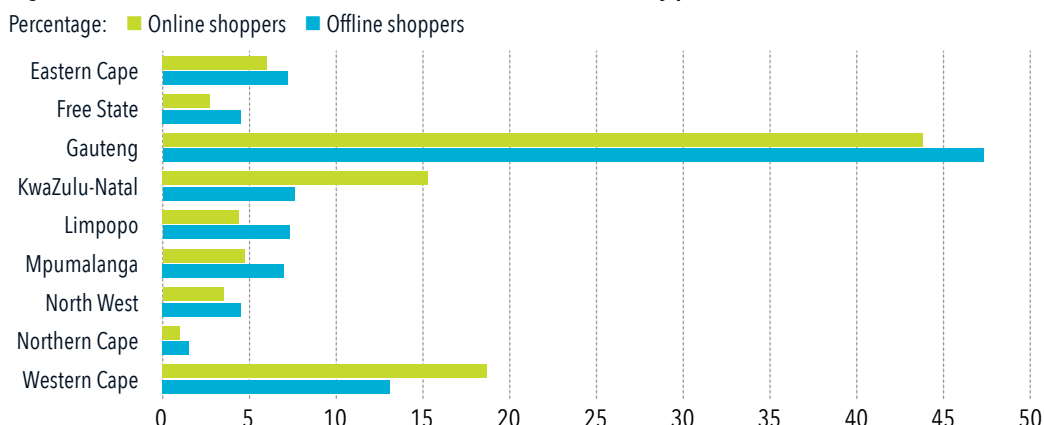
The growth of e-commerce activity in Africa, while generally increasing consumer surplus, does not automatically translate into a growing industry with attendant job creation. Leakages of income out of the domestic economy tend to be more pronounced in online retail, especially if local e-commerce companies are not geared toward meeting the specificities of consumer demand. Foreign-based e-commerce companies providing non-physical products, i.e. Booking.com, typically capture these leakages. To benefit fully from the shift toward online retail in Africa, cities need to establish themselves as seedbeds for emerging e-commerce companies and as a base for established e-commerce companies. Cape Town has done well in this regard and is widely considered to be a tech and e-commerce hub within South Africa. This is not because Cape

To benefit fully from the shift toward online retail in Africa, cities need to establish themselves as seedbeds for emerging e-commerce companies. Cape Town has done well in this regard and is widely considered to be a tech and e-commerce hub within South Africa.

Town, together with the broader Western Cape, has the most online buyers – Gauteng contributes a much larger proportion of South Africa's online buyers (see figure 29) – but rather because Cape Town's tech landscape makes it an appealing destination from which to run an e-commerce business.

Cape Town's tech landscape makes it an appealing destination from which to run an e-commerce business.

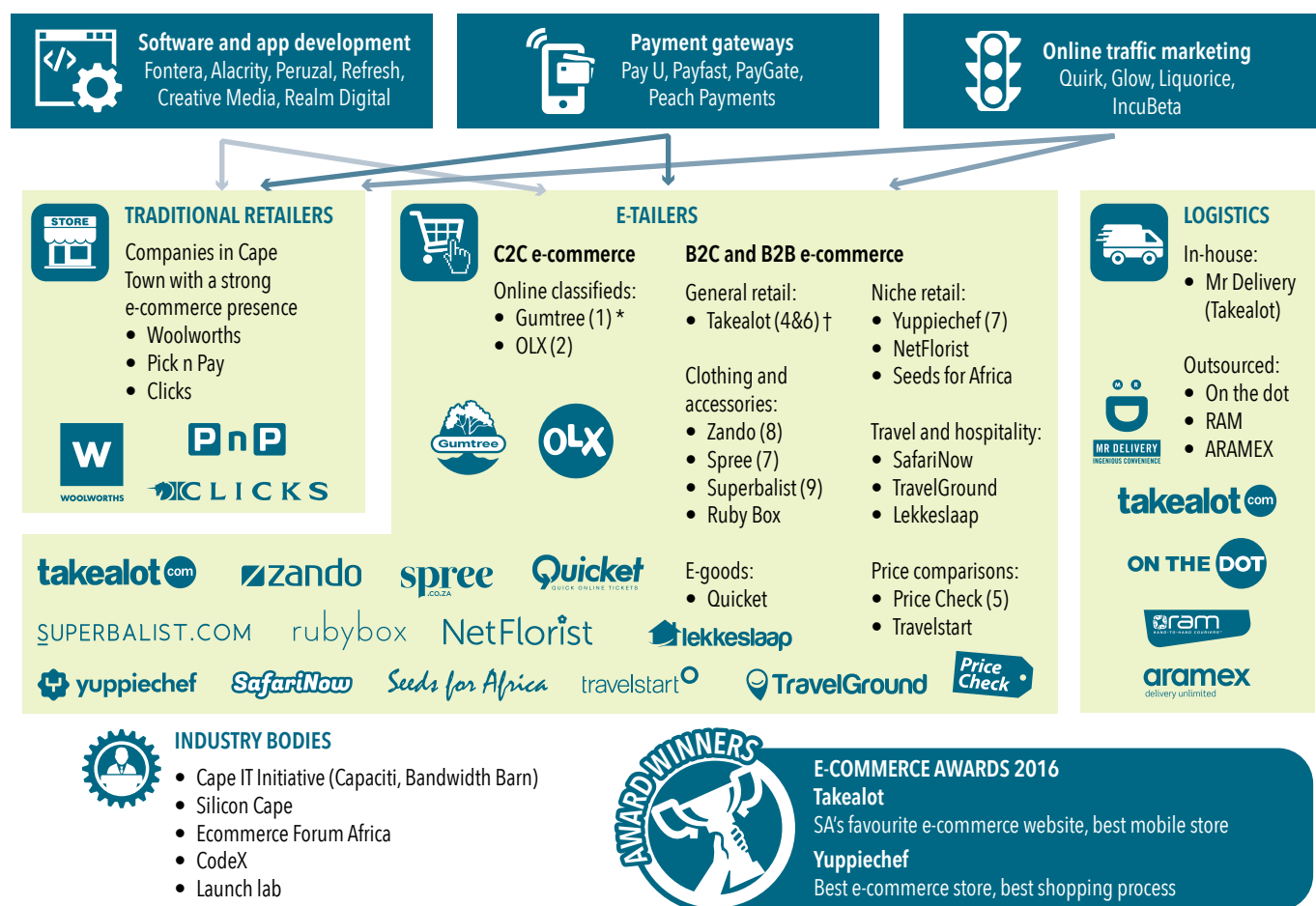
Figure 29: Distribution of South Africa's online and offline retailers by province



Source: Effective Measure, 2015.

The diagram below depicts the e-commerce landscape in Cape Town. It distinguishes between companies with a strong e-commerce presence and those which are often referred to as 'e-tailers', companies that would be classified as exclusively e-commerce by Statistics South Africa. Of the 10 most visited e-commerce websites in South Africa in 2014, Cape Town-based companies accounted for all 10. Gumtree, OLX, Takealot and Price Check's websites recorded more visits in 2014 than any of the physical retailers' websites.

Diagram 2: The e-commerce ecosystem in Cape Town



* Numbers in brackets indicate the company's ranking among the most-visited e-commerce websites in South Africa.

† Prior to the Takealot/Kalahari merger, Kalahari's website was ranked 4th, and Takealot's 6th.



IMAGE COURTESY OF ZANDO

OVERVIEW

GLOBAL

ECONOMIC GROWTH

INFLATION

LABOUR

TRADE

SECTOR FOCUS

INFRASTRUCTURE

TOURISM

INDICATORS

HOW HAS CAPE TOWN ESTABLISHED ITSELF AS AN E-COMMERCE HUB?

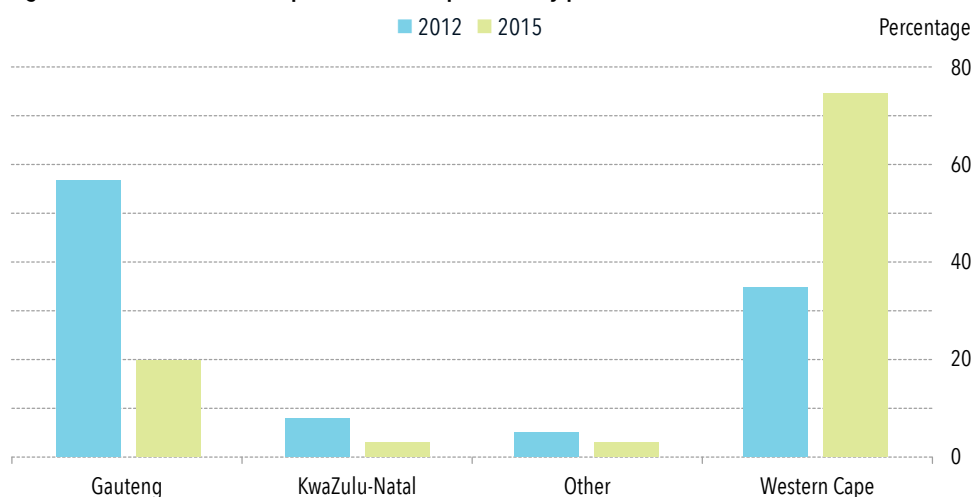
UNCTAD believes that as the e-commerce ecosystem in sub-Saharan Africa matures, barriers to entry for new companies will decrease further. They say, 'The first wave of fast followers to take advantage of this trend is likely to come from African technology hubs like Accra, Cairo and Cape Town' (UNCTAD, 2015). This is, in part, due to the trend of existing tech companies begetting new tech companies. Cape Town's established e-commerce ecosystem gives it a competitive advantage in birthing new tech start-ups. A recent study by PWC (2015) on emerging tech or tech-enabled companies revealed that of the 743 companies surveyed across South Africa, 56% of them were headquartered in the Western Cape, of which the majority can be assumed to be based in Cape Town. Similarly, the 2015 Ventureburn Survey (2015) found that 59% of start-ups are based in the Western Cape.

The key question to ask is why these companies based themselves in Cape Town/Western Cape in the first place? The responses below have been based on City of Cape Town interviews with six e-commerce companies as well as an article by Ventureburn.

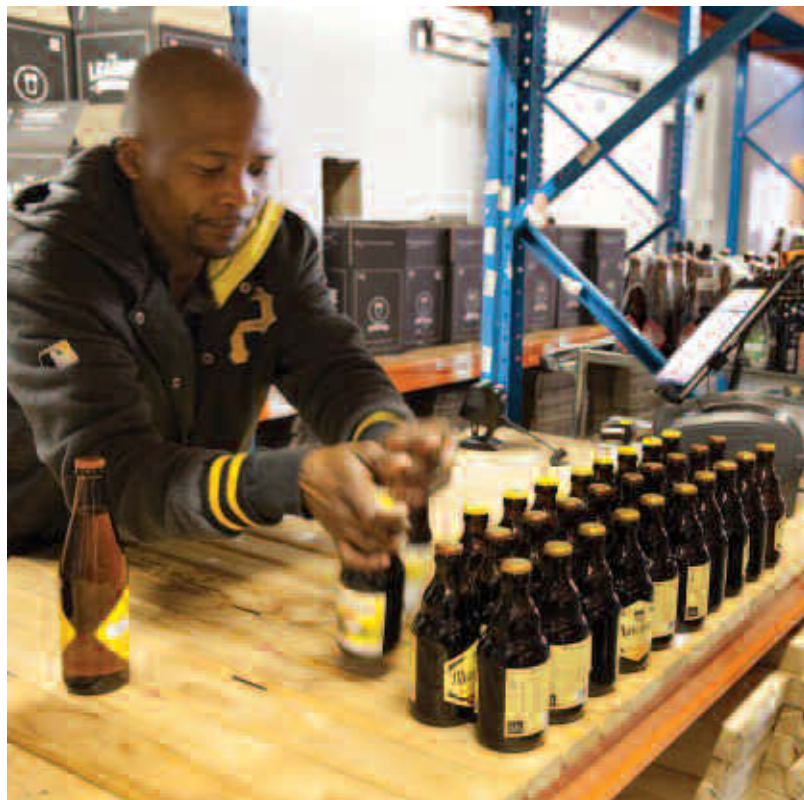
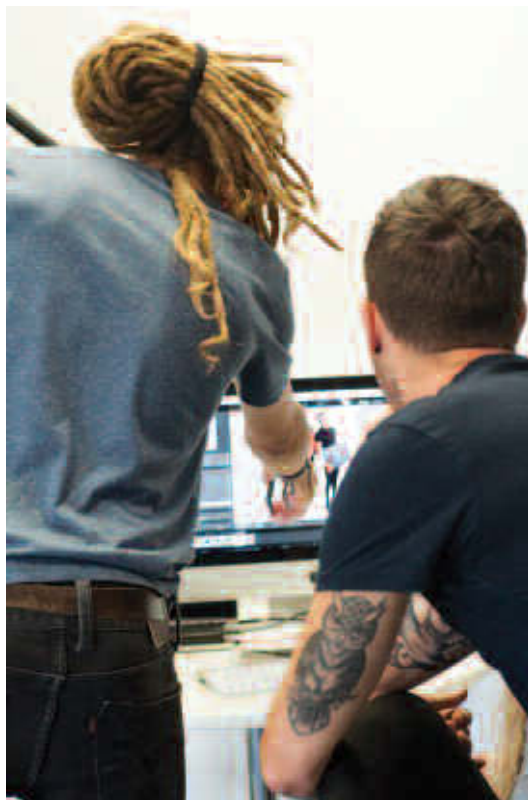
Better availability of venture capital While it's not entirely clear whether start-ups follow venture capital or venture capital follows start-ups, the Western Cape has the best access to venture capital in the country. This is due to 'entrepreneurs, angel investors and independent fund managers having set up in the Western Cape in the past few years' (SAVCA, 2015). Figure 30 shows the increase in venture capital deals located in the Western Cape between 2012 and 2015. During the same period, e-commerce increased from 3% of total venture capital deals to 10% (second only to software).

Cape Town's established e-commerce ecosystem gives it a competitive advantage in birthing new tech start-ups. A recent study by PWC on emerging tech or tech-enabled companies revealed that of the 743 companies surveyed across South Africa, 56% of them were headquartered in the Western Cape.

Figure 30: Share of venture capital deals headquartered by province



Source: Adapted from the SAVCA 2015 Venture Capital Survey.



IMAGES COURTESY OF ZANO (LEFT) AND VIMPECHIE

Despite Cape Town's relative skills comparative advantage vis-à-vis the rest of the country, coders are still considered to be in short supply and this problem is often compounded by poaching between companies.

Appealing lifestyle By not requiring a physical retail presence, e-commerce companies have the ability to choose where they operate from. This characteristic of the industry works very much in Cape Town's favour, as the city is able to utilise its natural beauty and lifestyle appeal to attract e-commerce companies and tech entrepreneurs. One e-commerce company interviewed described Cape Town as having a similar appeal to San Francisco.

Skills hub and technological savviness All the companies interviewed stated that Cape Town had the best ICT skills in the country. This is in part due to the excellence of the four tertiary institutions in the city (and surrounding areas) and the supporting institutions (mentioned below). Stellenbosch University, the University of Cape Town and the CSIR are ranked first, second and third respectively for patent cooperation treaty (PTC) registrations between 2009 and 2014, laying the foundation for the commercialisation of innovations. There is also a strong perception that Cape Town residents are more tech savvy than their national compatriots.

Supporting institutions The institutions/organisations listed in diagram 2 are just a selection from the multiplicity of actors that together make up a strong tech supporting infrastructure in Cape Town. Many of these companies are oriented toward supporting small businesses and leverage the province and City's commitment to removing red tape that hinders entrepreneurial growth.

Challenges faced by the e-commerce industry in Cape Town

The following is a list of challenges, in order of most frequent citation, identified by e-commerce companies during interviews with the City:

1. Shortage of ICT skills, especially coding: despite Cape Town's relative skills comparative advantage vis-à-vis the rest of the country, coders are still considered to be in short supply and this problem is often compounded by poaching between companies.
2. Internet access: with an internet penetration rate of only 6% in South Africa, the relatively slow pace of IT infrastructural upgrade across the country constrains the growth of e-commerce companies' customer bases.
3. The threat of international disruptors: this is particularly prevalent in the C2C space, where Cape Town-based companies are wary of the threat posed by Airbnb, Google and Facebook and the pending launch of Facebook marketplace.
4. Lack of trust: South Africans are very hesitant to purchase online for fear of falling prey to scams.
5. Onerous financial regulations: these include 3-D secure, which makes online payments more challenging for consumers.

Perhaps the industry's greatest challenge, however, is its difficulty in fitting in. E-commerce is a tech-enabled, sophisticated industry, but is fundamentally focused on simply selling a good or service. The big difference between e-commerce companies and more conventional retail companies is that they operate in disruptive ways, constantly innovating and changing the way they do business. Government programmes, regulations and institutions struggle to make sense of the industry's ambiguity and tend to be slow to adapt to its dynamism. The key challenge for the City of Cape Town is to embrace complexity and take a dynamic and flexible approach to this key growth driver in the city's economy.

Infrastructure

Cape Town is home to South Africa's second-busiest airport as well as its second-busiest container-handling port, and is connected to the rest of the country by two major highways and an extensive railway network.

These crucial transport infrastructure assets enable

Cape Town to act as a gateway to South Africa, and to the west coast of Africa more broadly.

OVERVIEW

GLOBAL

ECONOMIC GROWTH

INFLATION

LABOUR

TRADE

SECTOR FOCUS

INFRASTRUCTURE

TOURISM

INDICATORS

Cape Town is often promoted as the gateway to South Africa, and to Africa more generally. This status is in part historically derived from the use of Cape Town as a refreshment station for ships embarking on long voyages to the East, but is currently sustained by the quality of the transport infrastructure that exists within the city, ensuring that it is globally and locally well connected. Cape Town is home to South Africa's second-busiest airport as well as the second-busiest container port in the country. The city also benefits from two major national highways connecting it to the rest of the country as well as an extensive rail network. This section provides statistics relating to the performance of these crucial transport infrastructure facilities on a quarterly basis.

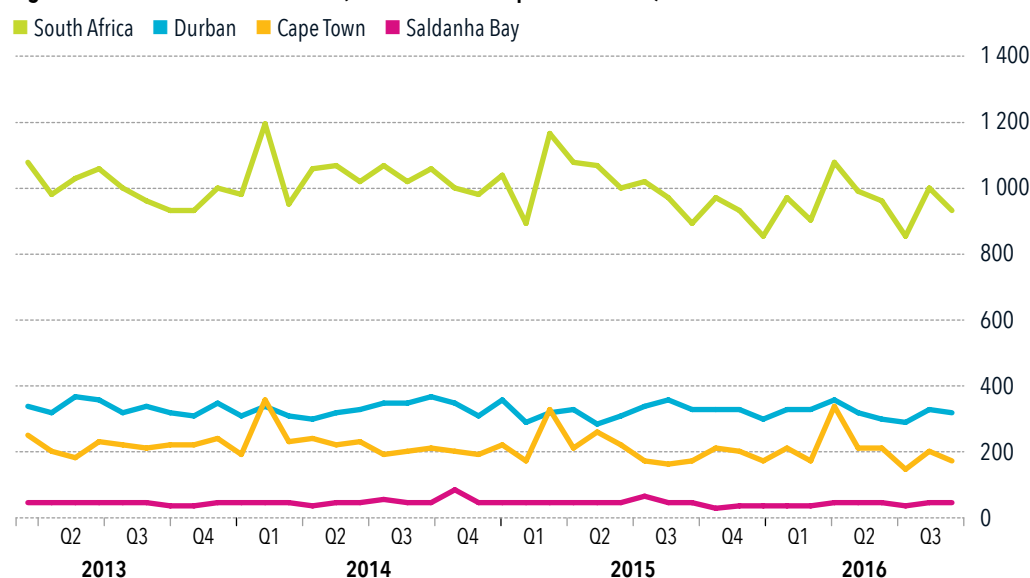
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports decreased by 237 vessels from 3 026 in the second quarter of 2016 to 2 789 in the third quarter of 2016. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the third quarter of 2016 was 517 vessels (accounting for 19% of total vessels). This represented a decrease on the previous quarter's figure of 753 vessels. On a year-on-year basis, vessel arrivals in Cape Town in the third quarter decreased by 38 vessels. However, Cape Town's share of national vessel arrivals remained unchanged at 19%, the same figure it stood at in the third quarter of 2015. The Port of Saldanha, the closest to the Port of Cape Town, sees far fewer vessel arrivals per month, as it currently focuses on the shipment of bulk cargo, predominantly steel and iron ore, and does not have container-handling facilities, which limits the volume of vessels utilising the port. The average tonnage per vessel handled at Saldanha, however, is substantially higher than at Cape Town. On average, the Port of Durban has more vessel movements than Cape Town, except in the peak fishing month of April, however Durban had 19 more vessel movements than Cape Town in April 2016.

The total volume of vessels arriving in South African ports decreased by 237 vessels from 3 026 in the second quarter of 2016 to 2 789 in the third quarter of 2016.

Figure 31: Total number of vessels (March 2013 to September 2016)



Source: Transnet National Ports Authority, November 2016.

Cargo (gross tonnage) and container handling

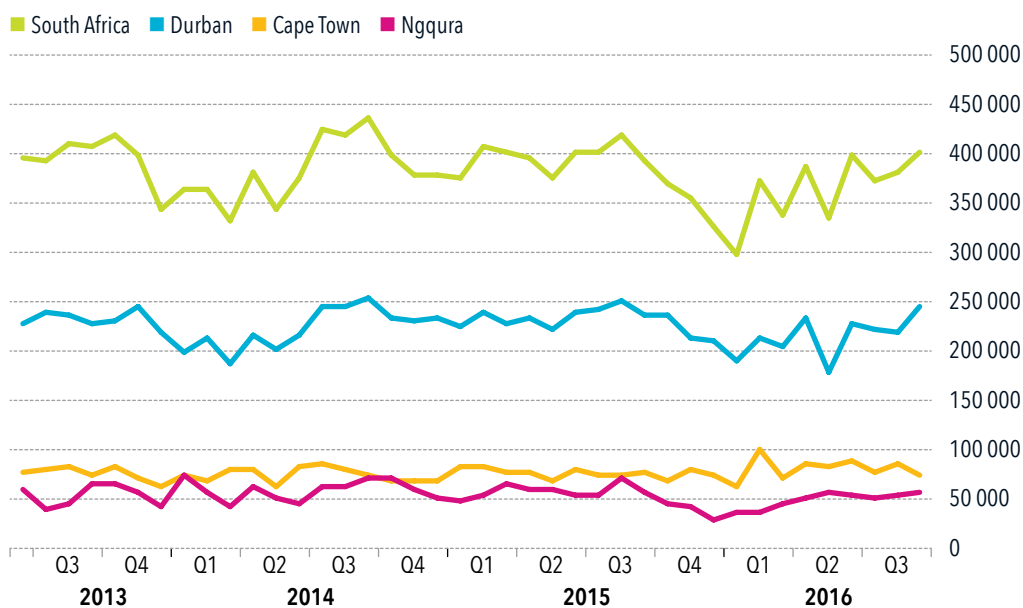
In the third quarter of 2016, South African ports handled 53,7 million tonnes of cargo compared to 57,6 million in the second quarter of 2016 and 56,9 million in the third quarter of 2015. The Port of Cape Town experienced a decrease in cargo handling, from 1,20 million tonnes in the second quarter of 2016 to just over 899 000 tonnes in the third quarter of 2016. There was a year-on-year decrease of 27,3% relative to the 1,2 million tonnes handled in the third quarter of 2015. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike Saldanha and Richards Bay). Therefore, it does not have a significant impact on the national cargo-handling performance. The Port of Durban experienced a quarter-on-quarter increase of 5,6% in cargo handled, whereas the Port of Saldanha experienced a decrease of 8,1% in the third quarter of 2016. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed a 2,1% decrease in cargo handled at the Port of Saldanha and a 1,9% increase for the Port of Durban.

The Port of Durban is South Africa's main container-handling port and contributed more than half (59%) of the total containers handled in South African ports in the third quarter of 2016. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban and accounted for only 20% of all containers handled in South African ports in the third quarter of 2016.

In the third quarter of 2016, South African ports handled 53,7 million tonnes of cargo compared to 57,6 million in the second quarter of 2016 and 56,9 million in the third quarter of 2015.



Figure 32: Total containers handled (TEUs¹²) (June 2013 to September 2016)



Source: Transnet National Ports Authority, November 2016.

The number of containers handled at the Port of Cape Town increased from 225 519 in the third quarter of 2015 to 236 037 in the third quarter of 2016 – an increase of 5%.

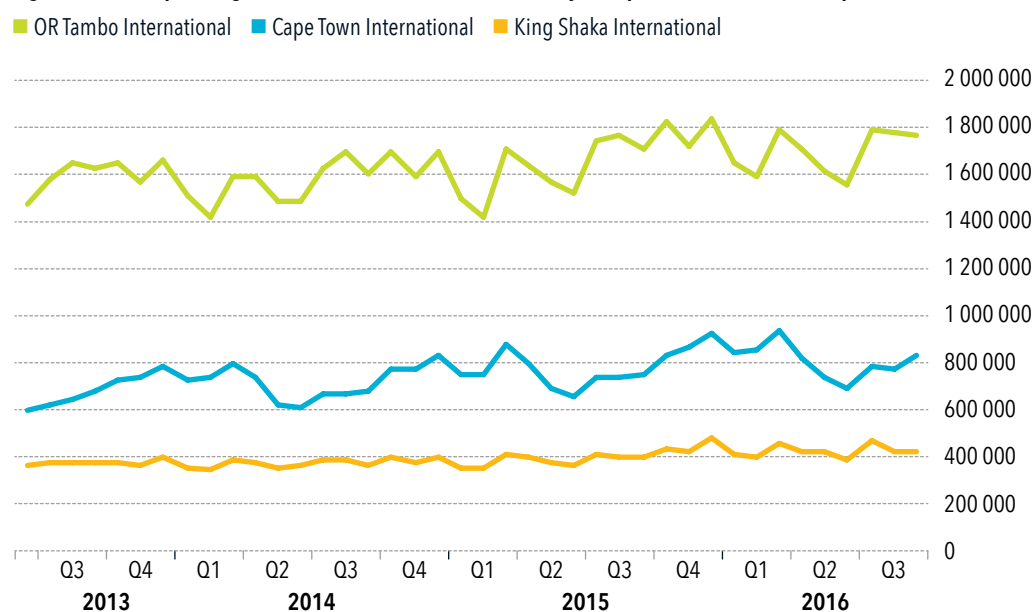
Container traffic is very seasonal, as figure 32 indicates, so it is more meaningful to compare total containers handled over the period of a year. The number of containers handled at the Port of Cape Town increased from 225 519 in the third quarter of 2015 to 236 037 in the third quarter of 2016 – an increase of 5%. In 2013 and 2014, the Port of Cape Town appeared to be losing ground to the Port of Ngqura in terms of container handling, as the latter port recorded a large increase in containers handled in those years. More recently, Ngqura has slipped notably behind Cape Town with respect to container handling, recording a year-on-year decline to 161 537 containers handled in the third quarter of 2016 from 180 120 in 2015. While the Port of Ngqura lags behind Cape Town in terms of the volume of containers handled, capacity constraints experienced at the Port of Cape Town mean that Ngqura may, in future, overtake it as the country's second-largest container-handling port. That said, Transnet has approved plans for a multibillion-rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

CAPE TOWN AIRPORT STATISTICS

Total passenger movements

Cape Town International Airport is South Africa's second-busiest airport. It recorded 2,39 million total passenger movements in the third quarter of 2016 compared to 5,34 million passenger movements at OR Tambo and 1,31 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the third quarter of 2016 were higher compared to the third quarter of 2015, when 2,23 million passenger movements were recorded. OR Tambo International and King Shaka International also recorded increases in passenger numbers in the third quarter compared to the same period in the previous year.

12. A TEU (20-foot equivalent unit) is an inexact unit of cargo capacity, based on the volume of a 20-foot-long (6,1 m) container. There is a lack of standardisation with regard to height, ranging between 4 feet 3 inches (1,30 m) and 9 feet 6 inches (2,90 m), with the most common height being 8 feet 6 inches (2,59 m). The 40-foot (12,2 m) or 45-foot (13,7 m) containers – the sizes most frequently used – are both defined as two TEU.

Figure 33: Total passenger movements at South Africa's major airports (June 2013 to September 2016)


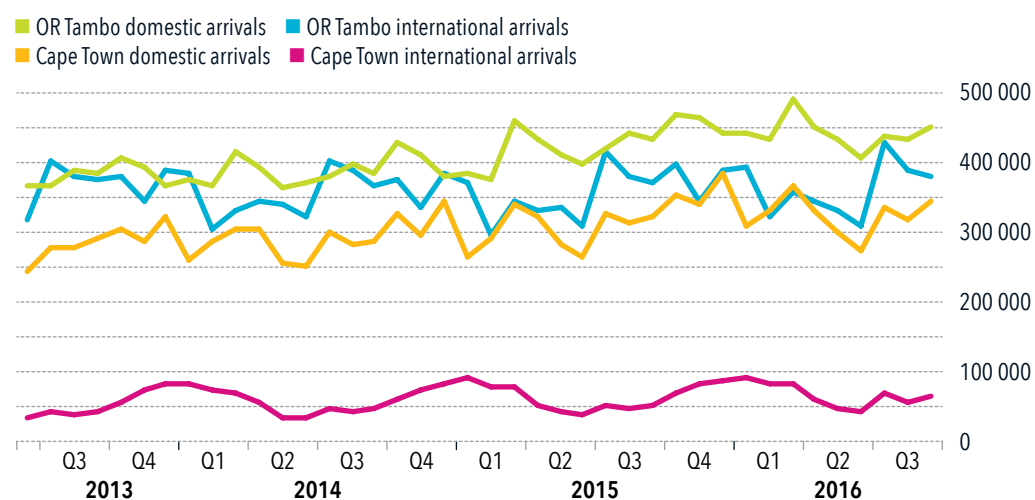
Source: ACSA, November 2016.

A quick glance at figure 33 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with these declining in the second quarter when the city enters its winter months. In contrast, OR Tambo International shows a more erratic distribution with a less-defined seasonal trend. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more erratic nature of business trends.

International versus domestic arrivals for South Africa's two busiest airports

The direct international proportion of passenger arrivals to Cape Town International for the third quarter of 2016 constituted 15,7% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 47,5% of its total passenger arrivals. This reflects the fact that Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. The figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight.

Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with the summer months of December to March being the peak period for travel to the city. Cape Town's domestic arrivals, however, show far more variation, with peaks and troughs dispersed throughout the year (clearly visible in figure 34). The total number of passenger arrivals to Cape Town International in the third quarter of 2016 increased by 7% year on year, with international arrivals increasing by 26%.

Figure 34: International and domestic passenger arrivals for Cape Town and OR Tambo International airports


Source: ACSA, November 2016.

The direct international proportion of passenger arrivals to Cape Town International for the third quarter of 2016 constituted 15,7% of the airport's total passenger arrivals.

While some of the growth in international arrivals can simply be attributed to increased occupancy on existing flight routes, the efforts of Cape Town International Airport, Wesgro, provincial government and the City of Cape Town to attract more direct international flights also appear to be paying off. This is evident in the growth of the number of international aircraft arrivals at Cape Town International, which observed an increase of 22% quarter on quarter and 45,7% year on year in the third quarter 2016.

Although Cape Town International received the Best Airport in Africa award for 2016 by SkyTrax (SkyTrax World Airports Awards, 2016), if it is to continue being able to accommodate increased tourist numbers it needs to expand its capacity. In line with this, ACSA has proposed to realign the runway at Cape Town International to make room for larger aircraft and accommodate greater passenger numbers. The proposal, which includes extending the runway length by 300 metres, would allow between 10 and 14 additional aircraft to land and take off each hour, as well as enable larger aircraft to land at the airport (SRK Consulting, 2014). The project is critical to Cape Town's strategic goals of attracting multinational investment and enhancing its global business and tourist appeal.

ELECTRICITY

In 2015 energy security in South Africa became a pressing economic issue with the implementation of a load-shedding programme as Eskom battled to match the demand for electricity from businesses and households with the existing sources of supply. The implementation of load shedding significantly contributed to the slowdown of industrial activities, in particular, the manufacturing sector which in turn heavily impacted South Africa's economy. This section focuses on electricity consumption in the industrial and commercial sectors. The Cape Town *State of Energy* report (City of Cape Town, 2015:61) states that the combined electricity consumption of the industrial and commercial sectors accounts for almost 60% of all (City and Eskom-distributed) electricity consumed in Cape Town.

Electricity consumers in the industrial and commercial sectors are categorised as either Small Power Users (SPU) or Large Power Users (LPU). SPU includes small commercial spaces, residential spaces as well as small tenanted spaces which are charged based on the consumptive-based electricity tariff. According to the City of Cape Town's policy, any supply to residential spaces such as residential complexes with large bulk electricity consumption (more than 100 amps) are classified as commercial customers, and are billed accordingly. LPU customers include large commercial buildings, large hotels and industrial spaces that have a demand-based tariff with a low consumption charge. Eskom implemented a tariff increase for the 2016/17 financial year to provide a reliable and predictable electricity supply. As of 1 July, the City charged an overall average tariff increase of 7,78%.

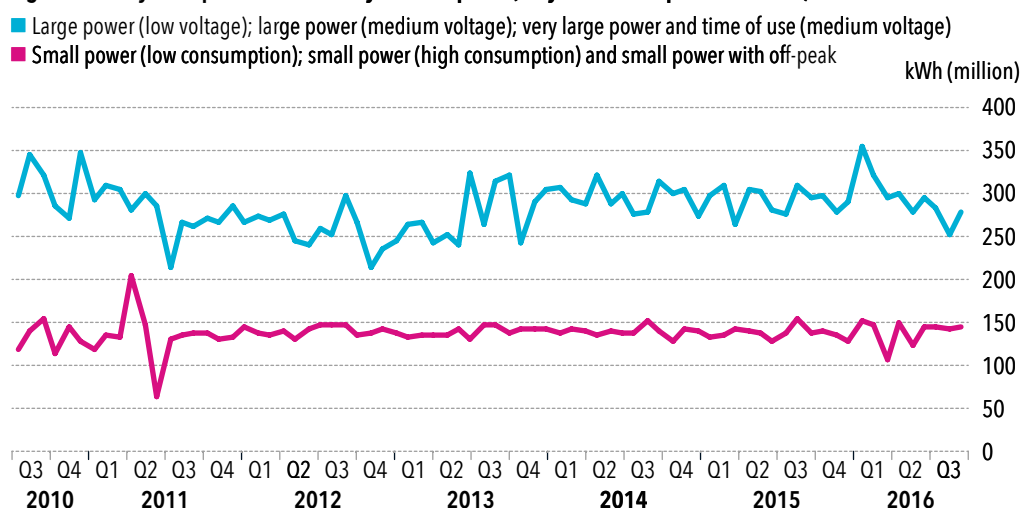
As figure 35 shows, the overall electricity consumption of the industrial and commercial sectors has followed a consistent pattern over the past six years. In interpreting these trends, readers should consider that where there is a decline in consumption, followed by an uptick immediately thereafter, this is potentially due to a timing issue in terms of when the reconciliation of a customer's electricity account is undertaken. Specifically, occasionally a period of billing or consumption information will not be captured in the required month but, instead, will occur at the beginning of the next month.

On a year-on-year basis electricity consumption for SPUs increased by 1 283 499 kWh (0,9%) in the third quarter of 2016 as compared to the same quarter in 2015. In contrast, LPUs reported a year-on-year decrease in electricity consumption of 21 300 625 kWh (-7,26%) in the third quarter of 2016 as compared to the same quarter in 2015. The decrease in electricity consumption for LPUs may well be attributed to the tariff increase as a sectoral electricity elasticity study for South Africa reveals that a majority of industrial sectors have become more sensitive to changes in electricity prices following the 2007/2008 electricity crisis (Blignaut, Inglesi-Lotz and Weideman, 2015: 1).

On a year-on-year basis electricity consumption for Small Power Users increased by 1 283 499 kWh (0,9%) in the third quarter of 2016 as compared to the same quarter in 2015.

In contrast, Large Power Users reported a year-on-year decrease in electricity consumption of 21 300 625 kWh (-7,26%).

Figure 35: City of Cape Town electricity consumption (July 2010 to September 2016)



Source: City of Cape Town, Electricity Services Department, November 2016.

Tourism developments

In a global climate of relatively subdued economic performance, tourism continues to outshine traditional economic sectors. As an internationally renowned tourist destination boasting iconic and world-class tourist attractions, including one of the New7Wonders of Nature, Cape Town is well placed to take full advantage of the vigorous global growth of the tourism industry.





In terms of regional year-on-year performance, growth in international arrivals for the period of January to September 2016 was driven by Asia and the Pacific (9%), followed by Africa (8%), the Americas (4%) and Europe (2%).

INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) *World Tourism Barometer* for November 2016, 956 million global tourist arrivals were recorded between January and September 2016. This constituted an increase of 34 million (or 4%) in tourist arrivals compared to the same period in 2015. While arrivals growth was more sedate in the second quarter, it picked up again in the third and it would seem likely that 2016 will be the seventh consecutive year in which tourist arrivals grew at above the average growth rate of 4%.

In terms of regional year-on-year performance, growth in international arrivals for the period of January to September 2016 was driven by Asia and the Pacific (9%), followed by Africa (8%), the Americas (4%) and Europe (2%). While growth in tourist numbers was spread relatively evenly across the globe, the Middle East was the one outlier with negative growth in arrivals (-6%), although there have been signs of improvement in the second half of the year. All the regions in Asia and the Pacific recorded strong arrivals growth but Oceania, in particular, stood out with a growth rate of 10,1%. South America (7%) led growth in the Americas, followed closely by Central America (6%).

Strong arrivals growth in Northern Europe (6%) and Central Europe (5%) was offset by a decline in arrivals to Western Europe (-1%) and stagnation in southern Mediterranean Europe (0%). This can largely be attributed to the declines in tourist arrivals to France and Belgium because of traveller concerns related to terrorist attacks. Africa's strong arrivals growth was driven by sub-Saharan destinations (12%), rebounding from a weak performance in 2015. After consecutive declines in the last two years, arrivals to North African destinations showed some improvement with a growth rate of 1%. The weak, albeit improved, growth in arrivals to North Africa is due to persistent safety concerns in that region. Conversely, the robust growth in arrivals to sub-Saharan Africa is likely reflective of the strong performance of the South African tourism industry following the lightening of its visa regulations.

China continues to sit atop the list of tourism source markets, with tourists from China recording a 19% growth in spend in the year to date. Strong growth in spending was also recorded by tourists from the US and the UK, with growth rates of 9% and 10% respectively. The UNWTO continues to have a positive outlook for tourism in the rest of 2016, especially for Africa, the Americas and Asia. The outlook for Europe and the Middle East, however, is more cautious.

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS IN SOUTH AFRICA

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. As table 6 shows, in September 2016, 793 610 foreign tourists visited the country. Tourist arrivals to South Africa increased by 10,7% year on year for the period, notably more than the average global growth rate in international tourist arrivals. Arrivals from other parts of Africa (South Africa's largest tourist source market) increased by 8,5% with arrivals from the overseas market increasing by 18,1%, reversing the decline seen in 2015. The growth in tourist arrivals can be attributed to the weakened rand, the easing of the onerous regulatory measures relating to visas in 2015, the strong performance in the country's leading overseas tourist source markets and continuous security concerns in many other parts of the world making South Africa a more favourable tourist destination.

Examining arrivals from the overseas market, Europe remains South Africa's biggest regional overseas tourist market and accounted for 105 035 tourist arrivals in September 2016, having grown by 15,2% year on year. Within the European region, the UK, Germany, the Netherlands and France were South Africa's largest source markets. Arrivals from Germany and the Netherlands grew more strongly (25,6% and 28,8% respectively) than arrivals from the UK (11,1%) and France (5,6%). While these countries were the largest source markets in terms of absolute tourist arrivals, Austria (42,3%), Poland (33,2%) and

Europe remains South Africa's biggest regional overseas tourist market and accounted for 105 035 tourist arrivals in September 2016, having grown by 15,2% year on year.

Table 6: International tourist arrivals in South Africa

Region	September 2016	September 2015	% change	% change Jan-Sep 2015 to Jan-Sep 2016
Europe	105 035	91 143	15,2%	15,9%
Russia	647	515	25,6%	14,3%
North America	34 827	29 411	18,4%	17,9%
Central and South America	5 906	4 797	23,1%	19,6%
Brazil	3 425	2 519	36,0%	10,2%
Australasia	12 511	10 086	24,0%	12,7%
Asia	28 541	22 804	25,2%	39,1%
China	10 182	8 276	23,0%	58,0%
India	7 727	6 274	23,2%	26,6%
Middle East	6 927	6 064	14,2%	35,8%
Overseas total	196 098	166 053	18,1%	19,5%
Africa	594 691	548 101	8,5%	12,8%
Total	793 610	716 750	10,7%	14,3%

Source: South African Tourism, December 2016.



Spain (31%) posted the highest growth rates. The largest single overseas source market for South Africa in September 2016 was the US, with 29 947 tourist arrivals from that country in September 2016 at a year-on-year growth rate of 18,9%.

Tourist arrivals to South Africa from most emerging markets increased year on year in September 2016 with the exception of Mexico (-55,9%), Venezuela (-28,8%) and Indonesia (-14,9%). In contrast, tourist arrivals from China and India experienced strong growth (23% and 23,2% respectively) with these countries capturing an increasing share of South Africa's international tourist market. Chinese arrivals for the year to date (January to September) have rebounded strongly from the previous year, growing by 58%. This positive outcome is the result of systems put in place to improve visa and immigration regulations, with additional visa processing centres operating in both China and India. For this reason, Chinese and Indian tourist arrivals are expected to increase further in the years ahead.

South Africa as a tourist destination has performed well in the third quarter of 2016, with arrivals growing at more than double the global rate during the same period, and reflecting the increasing attractiveness of the country as tourist destination. This is predominantly attributable to the weakening of the rand, the comparative stability of the country, the implementation of reviewed visa regulations and the setting up of additional visa processing centres in many parts of the world to facilitate better travel arrangements to South Africa.

South Africa as a tourist destination has performed well in the third quarter of 2016, with arrivals growing at more than double the global rate during the same period, and reflecting the increasing attractiveness of the country as tourist destination.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourist accommodation in Cape Town

Accommodation spending typically constitutes the largest portion of total visitor spend at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in table 7 were derived from a survey of approximately 77 tourism accommodation establishments in the Cape Town metro area for the third quarter of 2016.

Table 7: Income derived from tourist accommodation – Cape Town

Indicator	July		August		September		Third-quarter average	
	2016	2015	2016	2015	2016	2015	2016	2015
Occupancy rate	55,7%	49,9%	64,8%	62,6%	70,8%	62,9%	63,8%	58,5%
Average room rate	R1 245	R1 147	R1 620	R1 415	R1 432	R1 269	R1 432	R1 277
Revenue per room	R694	R572	R1 050	R886	R1 013	R789	R919	R749

Source: Cape Town Tourism, November 2016.

All establishment types experienced average occupancy rate increases compared to the third quarter of 2015, except for backpacker establishments.

Occupancy rates at city accommodation establishments increased by an average of 5,3 percentage points in the third quarter of 2016 compared to the same period in 2015. The month of September recorded the highest occupancy rate (70,8%) with a year-on-year increase of 7,9 percentage points. On a year-on-year comparison, the average room rate and revenue per room increased in the third quarter, by R155 and R170, respectively. Overall, tourist accommodation in Cape Town did very well in the third quarter of 2016, compared to the corresponding period last year, as all three accommodation performance indicators reported positive growth rates.

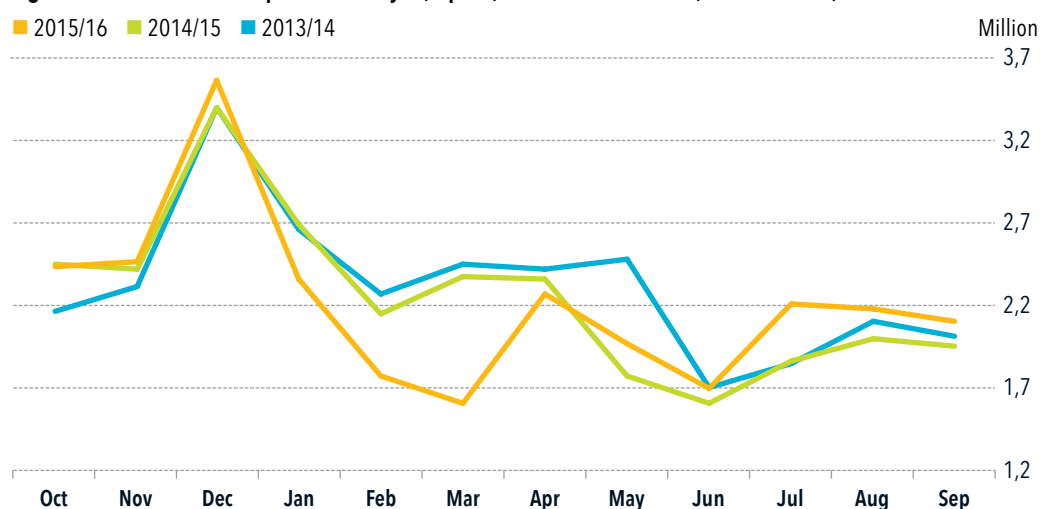
In terms of an occupancy breakdown by type of establishment, the highest average occupancy rate in the third quarter of 2016 was achieved by self-catering establishments (73%), up by 10,4 percentage points from the same period in 2015. All establishment types experienced average occupancy rate increases compared to the third quarter of 2015, except for backpacker establishments, which recorded a decline of 4,4 percentage points. Self-catering establishments also achieved the highest growth rate in average revenue per room (55,8%). By geographic location, the Northern Suburbs experienced the highest average occupancy rate in the third quarter of 2016 at 72% occupancy.

Cape Town Tourism's accommodation performance review showed that approximately 46,9% of room nights sold in the third quarter of 2016 were sold to the overseas market followed by the domestic market (46,5%). The regional (African) market accounted for approximately 6,6% of room nights sold during this period. A further analysis revealed that visitors preferred travelling in pairs (50%), mainly for holiday purposes (91%) and that three to four nights (29%) was the most popular duration of stay.

Performance of Cape Town's top visitor attractions

For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These include the city's most popular tourist attractions for which visitor information is available, and encompass a diverse set of sights and sounds. The six attractions are the world-famous Table Mountain (specifically the Table Mountain Aerial Cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 36 illustrates the cumulative number of visits by tourists to these attractions since October 2013. While all of them are open to everyone – resident or non-resident, domestic, regional or international – they attract large proportions of tourists, and are used in this section as a proxy for tourism demand in Cape Town.

Figure 36: Total visits to Cape Town's major (top six) tourist destinations (2013 to 2016)



Source: Derived from Wesgro data, November 2016.

The third quarter of 2016 reported a quarter-on-quarter increase of 9,2% in the number of visits to the six top tourist attractions in Cape Town and this can be attributed to improved weather conditions.

From figure 36, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality as higher tourist volumes are experienced in the summer period between November and March, followed by a decline during winter months and increasing slightly during the third quarter as weather conditions start improving. The third quarter of 2016 reported a quarter-on-quarter increase of 9,2% in the number of visits to the six tourist attractions and this can be attributed to improved weather conditions. When the impact of seasonality is removed by comparing the visitor statistics on an annual basis, the figure shows that visits to Cape Town's top attractions performed well relative to the corresponding period in 2015, with a 11,3% year-on-year increase in the number of visits.

It is important to note that the visitor attraction data are strongly skewed to the V&A Waterfront. The V&A contributed approximately 86% of the total number of visits to the six attractions analysed in the third quarter of 2016. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends. When the V&A Waterfront figure is removed, the number of visits to the five attractions decreases to 890 674 in the third quarter of 2016, representing a year-on-year increase of 27,5%.

The strong performance of Cape Town's tourism market continued in the third quarter of 2016 due to the weak rand, in-

fluenced by factors such as Brexit, making South Africa a highly favourable destination for international visitors as luxury destinations within the country became more affordable. In addition, local tourism has been benefiting from a continuous shift of domestic travellers seeking local holiday destinations as they try to reduce travelling costs in the tough economic conditions. Further, the relaxation of the onerous visa regulations of 2015 has contributed strongly to the rebound in overseas tourist arrival figures this year.

Most-visited tourist attractions

Table 8 indicates that, in terms of number of visits, the V&A Waterfront undisputedly outperforms any of the other major tourist destinations in Cape Town. However, for reasons described above, a more accurate reflection of the performance of major tourist attractions in Cape Town can be derived from the performance of the other five attractions. In this respect, the Cape of Good Hope recorded the second-highest number of visits (233 553) while the Table Mountain Aerial Cableway had the third-highest number of visits (218 482) for the period under review.

Table 8: Ranking of the most-visited tourist attractions in Cape Town

Rank*	Quarter 3, 2016	Quarter 2, 2016	Quarter 3, 2015	Year-on-year growth rate (%)
V&A Waterfront	5 592 802	5 142 779	5 127 242	9,1%
Table Mountain National Park: Cape of Good Hope	233 553	190 486	176 752	32,1%
Table Mountain National Park: Boulders Beach	168 977	139 454	125 224	34,9%
Table Mountain Aerial Cableway	218 482	218 129	147 987	47,6%
Kirstenbosch National Botanical Garden	198 387	170 608	178 988	10,8%
Robben Island	71 275	75 062	69 528	2,5%
Total	6 483 476	5 936 518	5 825 721	11,3%
Total (excluding V&A Waterfront)	890 674	793 739	698 479	27,5%

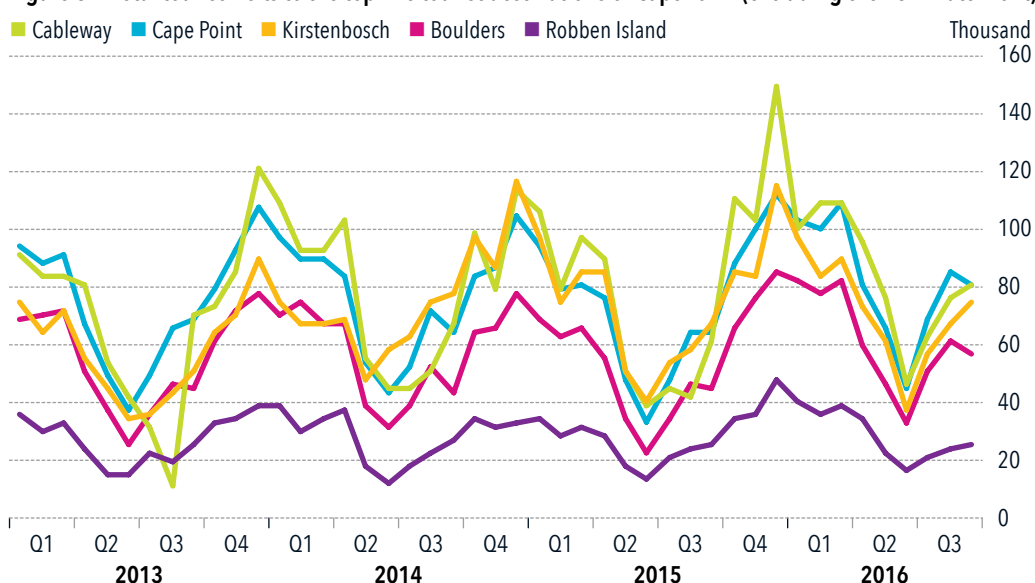
* Most-visited tourist destination in green; second-most-visited tourist destination in blue.

Source: Derived from Wesgro data, November 2016.

All attractions, except for Robben Island, reported positive quarter-on-quarter growth rates and this can be attributed to the improved weather conditions in the third quarter. On an annual basis, all attractions recorded an increase in the number of visits. The Table Mountain Aerial Cableway showed the highest year-on-year growth of 47,6%, with the number of visits increasing by 70 495 in the third quarter of 2016 as compared to the third quarter of 2015.

As figure 37 shows, all attractions are subject to strong seasonality, with peak visitor activity occurring in the summer period from November to March. The lowest tourist visit numbers are seen during the period May to July, which are Cape Town's winter months. Overall, in the third quarter of 2016 Cape Town's visitor attraction statistics demonstrated strong performance compared to the same period last year and this reflects an overall improvement in the tourism industry in South Africa.

Figure 37: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Derived from Wesgro data, November 2016.

On an annual basis, all attractions recorded an increase in the number of visits. The Table Mountain Aerial Cableway showed the highest year-on-year growth of 47,6%,

Additional indicators

In addition to macroeconomic indicators, which provide overall estimates of economic activity, administrative data capture specific consumer trends and provide strong indications of the performance of a local economy. Building plan developments, commercial property developments and passenger vehicle sales are three such sources of data. Building plans submitted and completed are key indicators of the level of economic development in Cape Town, and passenger vehicle sales mirror trends in the business cycle and are regarded as a leading indicator of GDP growth.





BUILDING DEVELOPMENTS

This chapter focuses on building developments recorded by the City of Cape Town for the third quarter of 2016. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, building plan submissions and building plans completed are key indicators of the level of economic development occurring within the city.

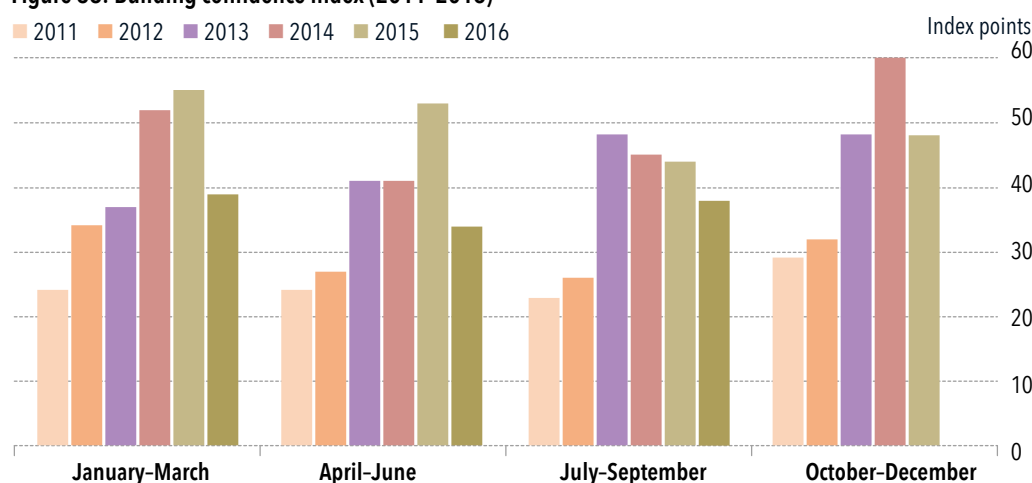
The building confidence index rose from 34 points in the second quarter of 2016 to 38 points in the third quarter of 2016. Confidence declined by 6 index points on a year-on-year basis.

Construction industry overview

The economic growth chapter showed that output in the national construction industry grew by 0,3% quarter on quarter in the third quarter of 2016. On a year-on-year basis the sector observed growth of 0,5% in the third quarter, making it the sixth-fastest-growing industry (on par with the mining sector) in South Africa. The Western Cape construction industry grew at rates of 0,4% and 0,3% on a year-on-year and quarter-on-quarter basis, respectively.

The First National Bank (FNB)/BER (2015b) composite Building Confidence Index (BCI) captures the percentage of architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions. The building confidence index rose from 34 points in the second quarter of 2016 to 38 points in the third quarter of 2016. Confidence declined by 6 index points on a year-on-year basis.

Figure 38: Building confidence index (2011–2016)



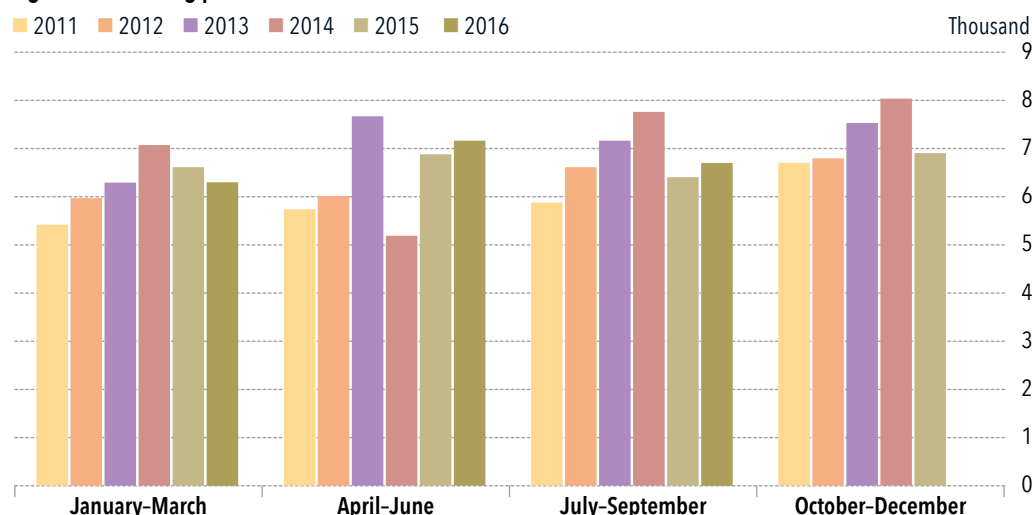
Source: BER, 2016b.

Building plans submitted to the City of Cape Town in the third quarter of 2016 decreased by 5,9% from the previous quarter. Building plans submitted in the third quarter of 2016 increased by 5,7% compared to the corresponding period in 2015.

Building plan applications in Cape Town

Building plans submitted to the City of Cape Town in the third quarter of 2016 decreased by 5,9% from the previous quarter. Figure 39 provides an annual comparison of the number of building plans submitted in each of the quarters over the past six years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted in the third quarter of 2016 increased by 5,7% compared to the corresponding period in 2015.

Figure 39: Building plans submitted



Source: City of Cape Town, November 2016c.

Building plans completed

While the number of building plans submitted is certainly an indicator of the level of confidence in the construction industry, and points to its future performance, it does not measure the current actual output of the industry. The better indicator of actual growth in the industry is the number of building plans completed. These represent actual construction activity as opposed to building plans submitted, which represents the anticipated level of construction activity in the future. While building plan approvals must have a turnaround time of 30 to 60 days after submission, the completion of building work can take up to five years after approval. The completion of building plans reflects the current economic climate within a region. By measuring the actual work undertaken to complete a building plan, actual economic activity – including employment and remuneration as well as spending on materials – is captured.

Cape Town experienced an upward trend in the number of completed building plans in the third quarter.

Table 9: Building plans completed in the third quarter of 2016

Measure	Cape Town		South Africa	
	Number/value	Year-on-year change	Number/value	Year-on-year change
Building plans completed	5 728	7,45%	N/A	N/A
Value of building plans completed	R3 913 million	-0,7%	R14 611 million	-3,2%

Source: City of Cape Town, November 2016; Statistics South Africa, 2016.

Table 9 reviews the number of completed building plans in Cape Town in the third quarter of 2016. It suggests that Cape Town experienced an upward trend (7,45% increase year on year) in the number of completed building plans in the third quarter of 2016.

The table also compares the value of building plans completed in Cape Town and South Africa in the third quarter of 2016. In Cape Town these completions amounted to R3,9 billion, which accounted for 26,8% of the total value (R14 billion) of building plans completed in South Africa's larger municipalities. Cape Town recorded a year-on-year decrease of 0,7% in the rand value of building plans completed during the third quarter while South Africa recorded a year-on-year decrease of 3,2%. The decrease in the rand value of building plans completed in Cape Town might have been driven by quarter-on-quarter decreases in residential (1,07%) and non-residential (23,84%) building plans completed, although there was an increase in additions and alterations (38,05%) and minor works (81,29%).

COMMERCIAL PROPERTY DEVELOPMENTS

Cape Town's services industry represents the largest sector of the economy, as measured by Gross Value Add (GVA). Within this broad sector, the finance sector is also the fastest growing sector of the city's economy and comprised 33% of the city's GVA in 2015 (IHS Global Insight, 2016). Considering the importance of the services sector to the city's economy, an understanding of the factors that underpin its performance provides useful insights into Cape Town's economic performance at large. In addition to being the largest sector of the economy, the services industry is also the largest consumer of office space and the uptake thereof is an indication of business confidence in an economy (Rode, 2015). In light of this, this section provides an overview of commercial property trends in Cape Town as a means of understanding trends in business confidence in the city's economy. In this instance, commercial property is understood to encompass two categories of property development, namely office or banking space and shopping or retail space.

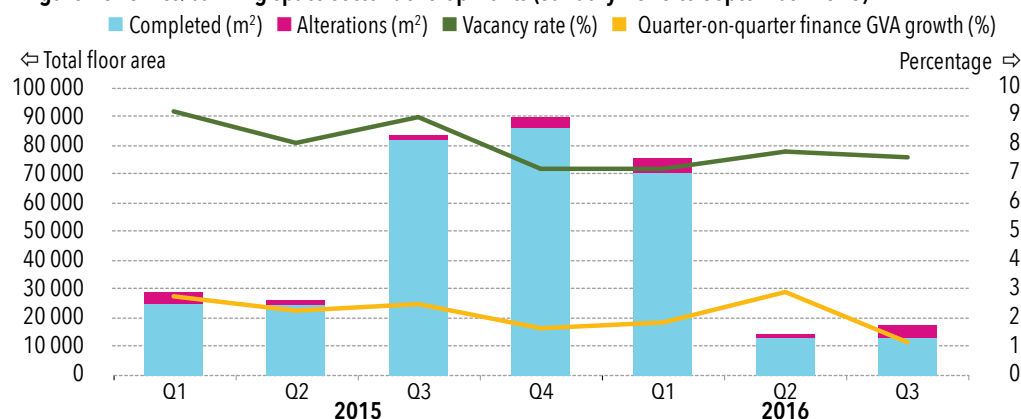
Performance of Cape Town's office and banking property market

The performance of the commercial property market can be tracked in a number of ways. An indicative trend analysis is provided in figure 40 by review of observed variation in the quarterly office vacancy rate¹³, the total floor area of completed office buildings added to the office property stock, the total floor area of completed office building alterations as well as the quarter-on-quarter percentage change in provincial GVA in the finance and business services sector.

In the third quarter of 2016, 12 951 m² of new office or banking space was reported to have been completed and 4 540 m² of office or banking space alterations were completed. In terms of completions, this represents a relative decrease of 1% when compared to the previous quarter in which 13 045 m² of office or banking space was completed. Uncertain weather conditions in the third quarter could potentially have caused delays in the completion of new building as some completion timeframes have been delayed by a quarter (Jones Lang Laselle (JLL), 2016). Over the period analysed (first quarter of 2015 to the third quarter of 2016) there was, on average, a quarter-on-quarter growth of 23% in new office building completions. As a share of all new buildings and alterations completed in Cape Town during this period, office and banking space represents 2% of rand value of all such completions.

In the third quarter of 2016, 12 951m² of new office or banking space was reported to have been completed and 4 540m² of office or banking space alterations were completed.

13. Rode (2015) defines this as the floor area available for leasing at any given time, irrespective of whether there is still a valid lease over the space. Here it is expressed as a percentage of the stock in rentable m².

Figure 40: Office/banking space sector developments (January 2015 to September 2016)


	Q1-'15	Q2-'15	Q3-'15	Q4-'15	Q1-'16	Q2-'16	Q3-'16
• Total floor area of alterations office/banking space (m²)	4 480	1 605	1 444	4 075	5 203	1 294	4 540
• Total floor area of completed office/banking space (m²)	24 777	24 551	82 139	86 014	70 671	13 045	12 951
• Office vacancy rate (%)	9,20%	8,10%	9,00%	7,20%	7,20%	7,80%	7,60%
• Q-on-Q change in finance, real estate and business services, GVA	2,76%	2,26%	2,49%	1,65%	1,85%	2,91%	1,16%

Source: Planning and Building Development Management Department, City of Cape Town, August 2016; Jones Lang LaSalle (JLL), November 2016; and Quantec, December 2016

The office vacancy rate in the third quarter of 2016 dropped by 0,2 percentage points to 7,6% when compared to the previous quarter.

As figure 40 shows, the office vacancy rate in the third quarter of 2016 dropped by 0,2 percentage points to 7,6% when compared to the previous quarter. The quarter-on-quarter change in GDP of the finance and business services sector reported a decline of 1,7 percentage points to 1,16% compared to the previous quarter's growth of 2,9%, quarter on quarter. According to the South African Property Owners Association (SAPOA), a sustained improvement in the office vacancy rate (i.e. return to the natural vacancy rate), depends on the strength of key economic drivers such as economic growth and business confidence. Overall, JLL reported that in the third quarter of 2016 Cape Town had the lowest office vacancy rate in South Africa and this continues to reflect the stable demand in the city's office space market.

While it might prove insightful to contrast economic growth with the evolution of building completions and the office vacancy rate, readers are cautioned that there tends to be a significant lag between these relationships. In the case of GDP and the office vacancy rate in particular, this lag can be up to 12 months. Vacancies are a function of supply meaning that vacancies may still increase with GDP if there happens to be an excess supply of office space. In general, however, vacancies are sticky downwards due to the contractual obligations of rental agreements. Similarly, in terms of the relationship between GDP and building completions, the effects of changes in the former are often lagged by a number of quarters (McGaffin and Viruly, 2016). Overall, these relationships are best assessed through the use of econometric modelling analyses and over a longer (annualised) time series.

Top commercial developments

In the third quarter of 2016, there were 17 new commercial buildings, up by seven from the previous quarter, with a total value of R250 million and a combined total floor area of 36 899m². Office or banking space developments accounted for 13 of these buildings and shopping space for the remainder. In some cases, developments took the form of mixed uses.

Table 10: Top 10 commercial property developments – Cape Town

No.	Area	Property segment	Building description	Rand value	Total floor area (m²)
1	Philippi	Shopping space	Shops	77 841 000	14 415
2	Khayelitsha	Shopping space	Shops	76 616 750	8 743
3	Montague Gardens	Office/bank space	Offices	21 591 200	2 720
4	Milnerton	Office/bank space	Offices	20 929 720	2 790
5	Rustdal (Blackheath)	Office/bank space	Offices	20 142 530	2 995
6	Montague Gardens	Office/bank space	Offices	8 945 720	1 164
7	Cape Town	Office/bank space	Offices and warehouse	5 419 400	980
8	Blue Downs	Shopping space	Shops and flats	3 481 450	490
9	Kuilsriver	Office/bank space	Offices	2 945 790	461
10	Khayelitsha	Office/bank space	Workshop	2 389 920	383

Source: Planning and Building Development Management Department, City of Cape Town, November 2016.

In the third quarter of 2016, there were 17 new commercial buildings, up by seven from the previous quarter, with a total value of R250 million.

Future developments

According to JLL's *Cape Town Office Market Outlook* report for the third quarter of 2016, Silo District Development in the Waterfront was completed in the third quarter of 2016 as per the timeline, adding 18 000m² of office space to Cape Town's commercial

property market. There are still three major ongoing developments expected to be completed by the fourth quarter of 2017, adding approximately 37 500m² of office space to the city's commercial property market. KPMG Place is reported as a major development in the Central Business District (CBD), adding a total of 16 000m² of office space, and is expected to be completed in the fourth quarter of 2017. Waterway House in the Waterfront will add 15 000m² of office space and is expected to be completed in the first quarter of 2017. Citadel Place in Claremont is expected to add office space of 6 500m² in the fourth quarter of 2016.

Overall, despite the stable demand in Cape Town's commercial property market the economic slowdown in the third quarter may well affect developer confidence in forthcoming quarters. Further, with economic forecasts for the remainder of 2016 looking dim, there is a possibility that the demand for office space will decrease further over the short term. Evidence hereof has begun to show itself in terms of a slowing development pipeline and a preference by occupiers for recently completed office space, all while the pressure to gain and retain tenants mounts as landlords compete for existing tenants (JLL, 2016: 1-3).

NEW VEHICLE SALES

This section tracks new vehicle sales in the province on a quarterly basis. Typically, vehicle sales – especially passenger vehicle sales – are considered to mirror trends in the business cycle and are often regarded as a leading indicator for GDP growth. New vehicle sales are sensitive to changes in economic indicators like the interest rate, inflation, disposable income, and consumer and business confidence levels. As such an analysis of vehicle sales can provide an indication of the current stage or health of the business cycle. If sales decrease consistently, the economy is likely to be in a contraction phase while if sales reflect a sustained growth trend then the economy may be entering an expansion phase.

In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). The total vehicle sales in the Western Cape decreased from 15 878 vehicles sold in the second quarter of 2016 to 15 400 in the third quarter of 2016. Year-on-year results, which offer a more precise reflection of vehicle sales' performance over time, saw a decrease of 2 854 from the 18 254 total vehicle sales in the corresponding period in 2015. Passenger vehicle sales, which are the private consumer segment of the market, decreased from 10 320 in the second quarter of 2016 to 10 045 in the third quarter of 2016 in the Western Cape. Year-on-year results saw a decrease of 2 392 vehicles (-19,23%) from the 12 437 passenger vehicles sold in the corresponding period in 2015. Nationally there was a 15,98% decrease in the number of passenger vehicles sold in the third quarter of 2016 compared to the corresponding period in 2015.

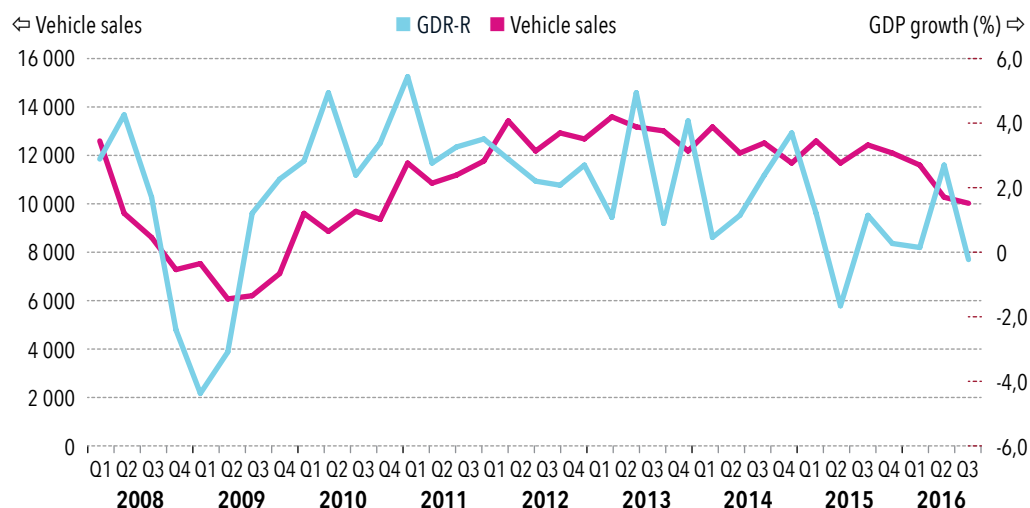
The year-on-year decrease in passenger vehicle sales in the Western Cape during the third quarter is seemingly in line with the prevailing macroeconomic conditions in the country. This includes contraction across a number of sectors in the third quarter of 2016, a low GDP growth rate outlook as well as low levels of consumer and business confidence.

Figure 41 plots the total passenger vehicle sales per quarter alongside the quarter-on-quarter GDP-R for the Western Cape. The South African Reserve Bank (SARB) includes new passenger vehicle sales as one of the variables in its leading indicator for GDP growth, with the assumption that new passenger vehicle sales and GDP growth are positively correlated and that passenger vehicle sales 'lead' GDP growth. This assumption is not unique to the Reserve Bank as passenger vehicle sales have been used as a leading variable in a number of leading indicator models.

It is not immediately clear from figure 41 which indicator leads which, although it would appear that vehicle sales are far less erratic than GDP and respond to long-term trends not short-term movements. The actual nature of this relationship can only be fully appreciated when one isolates the impact that vehicle sales have on GDP through the use of regression analysis. The City of Cape Town is working on a composite leading indicator for GDP growth, which will analyse these relationships in more detail.

Passenger vehicle sales, which are the private consumer segment of the market, decreased from 10 320 in the second quarter of 2016 to 10 045 in the third quarter of 2016 in the Western Cape. Year-on-year results saw a decrease of 2 392 vehicles (-19,23%) from the 12 437 passenger vehicles sold in the corresponding period in 2015.

Figure 41: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 3, 2016)



Source: NAAMSA, Stats SA, October 2016.

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LIST OF ABBREVIATIONS

ACSA: Airports Company South Africa
 B2C: business to consumer
 B2B: business to business
 C2C: consumer to consumer
 BCI: Building Confidence Index
 BER: Bureau for Economic Research
 BREXIT: British Exit
 BRICS: Brazil, Russia, India, China and South Africa
 CBD: Central Business District
 CPI: consumer price index
 EPA: Economic Partnership Agreement
 FDI: foreign direct investment
 FNB: First National Bank
 GDP: gross domestic product
 GDP-R: regional gross domestic product
 GGP: gross geographic product
 GVA: gross value added
 HDI: Human Development Index
 ICT: information and communications technology
 IDC: Industrial Development Corporation
 IMF: International Monetary Fund
 JLL: Jones Lang Laselle
 LPU: Large Power Users
 MPC: Monetary Policy Committee

MTBPS: Medium Term Budget Policy Statement
 NAAMSA: National Association of Automobile Manufacturers of South Africa
 NPA: National Ports Authority
 OPEC: Organization of the Petroleum Exporting Countries
 PMI: (Barclays) Purchasing Managers' Index
 PPI: producer price index
 QLFS: Quarterly Labour Force Survey
 SAA: South African Airways
 SACU: Southern African Customs Union
 SADC: Southern African Development Community
 SARB: South African Reserve Bank
 SAPOA: South African Property Owners Association
 SAVCA: Southern African Venture Capital and Private Equity Association
 SIC: Standard Industrial Classification
 SPU: Small Power Users
 TDCA: Trade, Development and Co-operation Agreement
 UK: United Kingdom
 UNCTAD: United Nations Conference on Trade and Development
 UNWTO: United Nations World Tourism Organisation
 US: United States
 US Fed: United States Federal Reserve Bank
 V&A: Victoria and Alfred
 VC: Venture capital
 WEO: World Economic Outlook



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