



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD



EPIC

Economic Performance Indicators for Cape Town

Quarter 4 (October-December) 2014

Sector focus: Renewable energy

Making progress possible. Together.

Document navigation shortcuts

- Entries on the Contents pages link to the relevant page.
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- The document title in the footer of each page links to the first Contents page.

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Foreword



Six months ago, when the fifth issue of *EPIC – Economic Performance Indicators for Cape Town* was released, the oil price was over \$100/barrel. Today, as we prepare to publish this seventh edition, the oil price is hovering around \$55/barrel after being close to \$40/barrel at the beginning of this year. The price of petrol has in turn bounced around, affecting both our household budgets and the prices of the goods that we consume. All this is evidence of the volatility of the current economic climate, and serves to highlight the importance of up-to-date, credible economic information, whether we are planning our annual family holiday or budgeting for the operations of a massive organisation such as the City of Cape Town.

In addition to providing an update on the state of the economy, this edition of *EPIC* also looks at the issue of renewable energy – something that people across Cape Town, and indeed across the country, increasingly engage with as the implications of the energy crisis facing South Africa become apparent to business and households. The City has a long history of innovative approaches to the development of renewable energy and enhancing access to its benefits. Along with Province, it has prioritised a number of renewable and non-renewable energy-related interventions in order to ensure that businesses in the City stay open, parents can work to provide for their families, and children can study.

As I have said previously, the quarterly *EPIC* publication provides a platform for addressing the issues facing our City in a way that has lasting impact. I would encourage you to engage with its contents as the basis for this critical conversation on our City's economic future, enabling us to make progress possible, together.

P. de Lille

Patricia de Lille
Executive Mayor

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Introduction

This is the seventh 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 fourth quarter of 2014, covering the period 1 October to 31 December 2014.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development strategies. In order to know what must be done, it is essential to understand the nature, composition and performance of the local economy. 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 on an annual basis. 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. 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 effectively serve the purpose of promoting 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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Manager: Economic Information and Research: Tim Hadingham

Author and editor-in-chief: Paul Court

Authors: Monique Alexander, Nazeem Clarke, Dilshaad Gallie, Nicole Mack, Brett Plaatjes and Phila Gidi

E-mail: Economic.research@capetown.gov.za

Chapter contributions

Wesgro IQ: Jacyntha MacLennan and Jodie Posen; **Western Cape Economic Development Partnership:** Jodi Allemeier, GreenCape

Additional sources of information and analysis

Strategic Information, City of Cape Town: Karen Small

Planning and Building Development Management, City of Cape Town: Marius Crous

Wesgro IQ: Latecia Hendricks

Cape Town Tourism: Marisah Niewoudt

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 of this publication.

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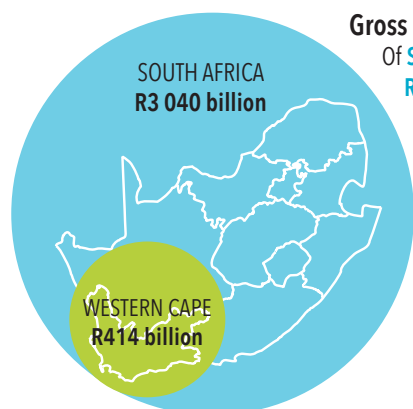
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WESGRO
cape town & western cape
tourism, trade & investment

EDP
WESTERN CAPE
Economic
Development
Partnership

GreenCape



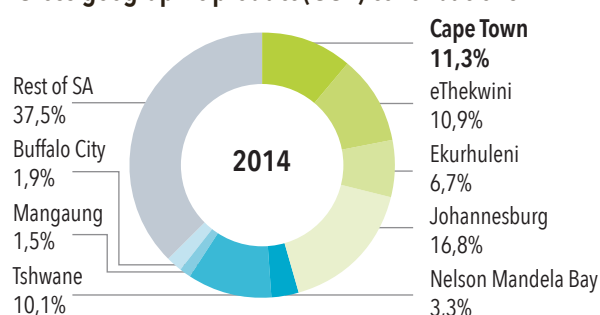
Gross domestic product (GDP)

Of **South Africa's**
R3 040 250 000 000
gross domestic product¹
generated in the fourth quarter
of 2014, the **Western Cape**
accounted for
R413 903 000 000.

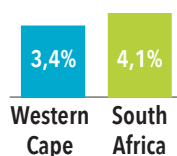
Source: Quantec, March 2015.

13,61%

Gross geographic product (GGP) contributions



Source: Own calculations based on IHS Global Insight ReX regional data 2015.



GDP growth

During the fourth quarter of 2014, the **Western Cape** had a quarter-on-quarter GDP growth rate of 3,4%, against a national rate of 4,1%.

Source: Quantec, March 2015.

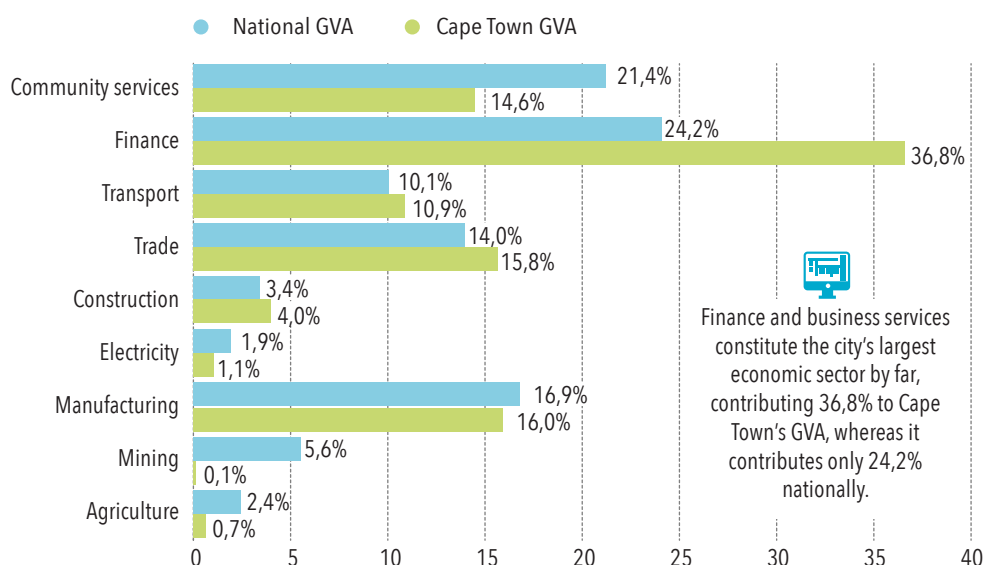


Inflation

During the fourth quarter of 2014, the **Western Cape** had a higher rate of inflation – **5,9%** – than did the rest of **South Africa** at **5,3%**.

Source: SA Reserve Bank, March 2015.

Cape Town's gross value added (GVA) versus national GVA 2013



Source: Own calculations based on IHS Global Insight ReX regional data 2015.

Finance and business services constitute the city's largest economic sector by far, contributing 36,8% to Cape Town's GVA, whereas it contributes only 24,2% nationally.



Passenger vehicle sales

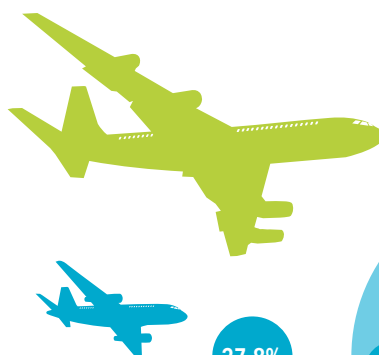
Of the **106 477**
new passenger vehicles sold in
South Africa during the fourth
quarter of 2014, **12 146** were
sold in the **Western Cape**.

Source: NAAMSA, March 2015.

Air passenger movements

Of the **8 550 000**
passenger movements through
South Africa's three
international airports² during
the fourth quarter of 2014,
2 380 000 were through **Cape**
Town International Airport.

Source: ACSA, February 2015.



27,8%

Cargo tonnage handled at ports

During the fourth quarter of 2014, **59 500 000**
tons of cargo were handled at **South Africa's**
ports, of which the **Port of Cape Town** handled
760 000 tons.

Source: Transnet, National Ports Authority, February 2015.

Containers handled at ports

During the fourth quarter of 2014, **1 152 000**
containers were handled at **South Africa's ports**,
of which the **Port of Cape Town** handled
205 000.

Source: Transnet, National Ports Authority, February 2015.



17,8%



Visitor attractions

In the fourth quarter of 2014, tourists and
residents made

8 273 000

visits to Cape Town's six major attractions.

Source: Wesgro, February 2015.

1. Seasonally adjusted and annualised at constant 2005 prices.

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



Population

South Africa has 52 982 000 people:³
6 116 300 live in the Western Cape and, of those,
3 861 000 are resident in Cape Town.
Source: Stats SA, City of Cape Town.



Gini coefficient

In 2013, South Africa had a Gini coefficient⁴
of 0,64, while Cape Town had a slightly
lower value of 0,61.
Source: IHS Global Insight, March 2015.

0,73

Human development index

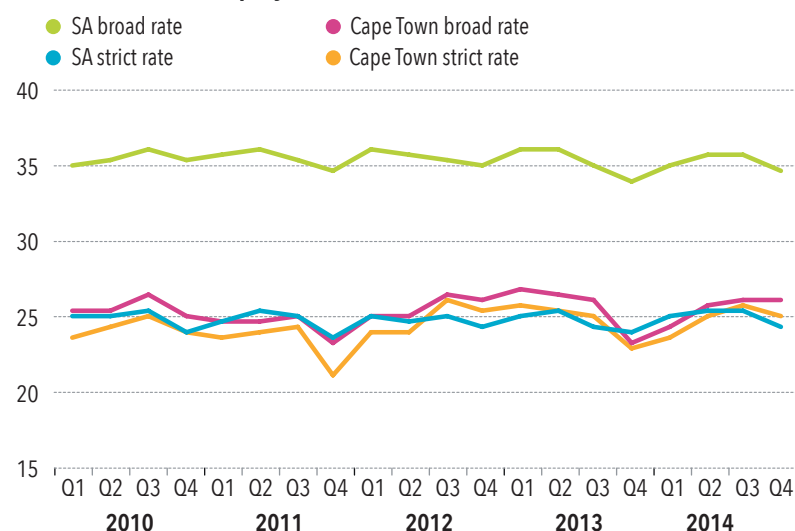
In 2013, South Africa had an HDI⁵ of
0,64, while Cape Town's was 0,73.
Source: IHS Global Insight, March 2015.

Functional literacy

South Africa has a functional
literacy rate of 82,3%, while
Cape Town has a rate of 92,0%.
Source: IHS Global Insight, March 2015.



Strict vs broad unemployment rates (Q1, 2010 – Q4, 2014)



Source: Stats SA, February 2015.

7,9%

Working-age population

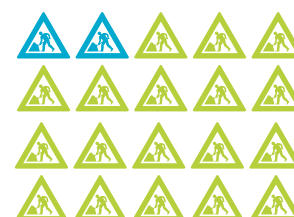
Of the 35 643 000
people aged 15–64
in South Africa,
2 832 000 are resident in Cape Town.
Source: Stats SA, Quarterly Labour Force Survey (QLFS), February 2015.

12,5%



Unemployment

Of the 4 909 000 unemployed people in South Africa
in the fourth quarter of 2014, 484 000 live in Cape Town.
Source: Stats SA, QLFS, February 2015.



Labour force

Of South Africa's 20 228 000 labour force
participants, 1 916 000 live in Cape Town.
Source: Stats SA, QLFS, February 2015.

Expanded unemployment rate

While South Africa had a 34,6%
unemployment rate during the fourth
quarter of 2014, Cape Town had a
lower rate of 26,0%.
Source: Stats SA, QLFS, February 2015.

Labour absorption rate

South Africa had a 43,0% absorption rate –
the percentage of the working-age population in
employment – in the fourth quarter of 2014, while
Cape Town had a higher rate of 50,6%.
Source: Stats SA, QLFS, February 2015.

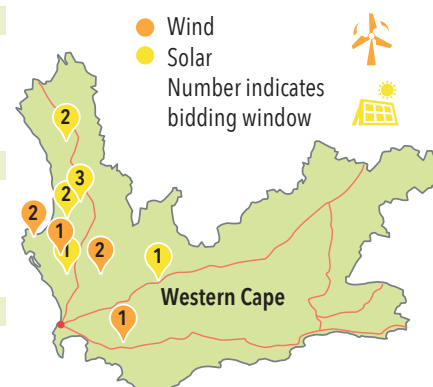
SECTOR FOCUS – THE RENEWABLE ENERGY SECTOR

The economic value of renewable energy (RE) has both an energy-supply imperative, with energy as an enabler of broader economic activity and service delivery, as well as presenting an economic opportunity in and of itself. Some of the figures from this new sector are as follows:

Renewable energy projects in the Western Cape – bid windows 1, 2 and 3

Projects	Bid window 1	Bid windows 1 and 2	Bid windows 1, 2 and 3
Wind	Two projects, 92 MW, 14% of national	Four projects, 319 MW, 26% of national	Four projects, 319 MW, 16% of national
Photovoltaic (PV) solar	Two projects, 41 MW, 9% of national	Four projects, 59 MW, 6% of national	Five projects, 134 MW, 7% of national
Spend and impacts: Western Cape			
Cumulative investment	R4 bn	R9,2 bn	R10,4 bn
Total procurement spend	R2,6 bn	R6,6 bn	R7,3 bn
Local procurement spend	R1 bn	R2,9 bn	R3,4 bn
Local enterprise development	R4,2 m	R14 m	R48 m
Employment creation (job years):			
During construction	547	1 575	1 799
Sustained employment	1 897	3 617	4 911

Renewable energy projects by type



3. Mid-year estimates, 2014.

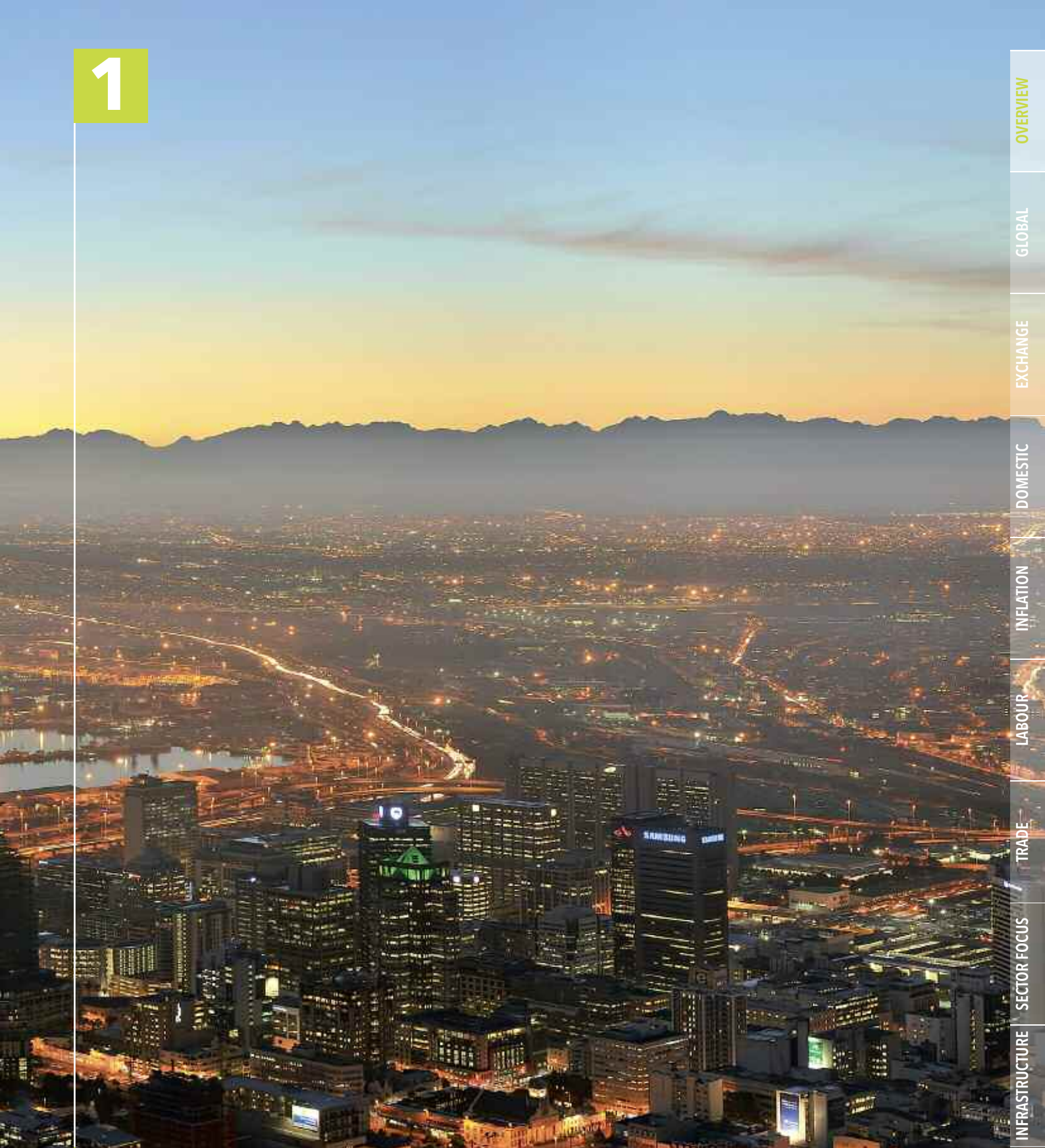
4. The Gini coefficient measures inequality in levels of income.

Lower values represent greater equality. Values are for 2013.

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

life expectancy, education and income indices. Higher values are better. Values are for 2014.





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.



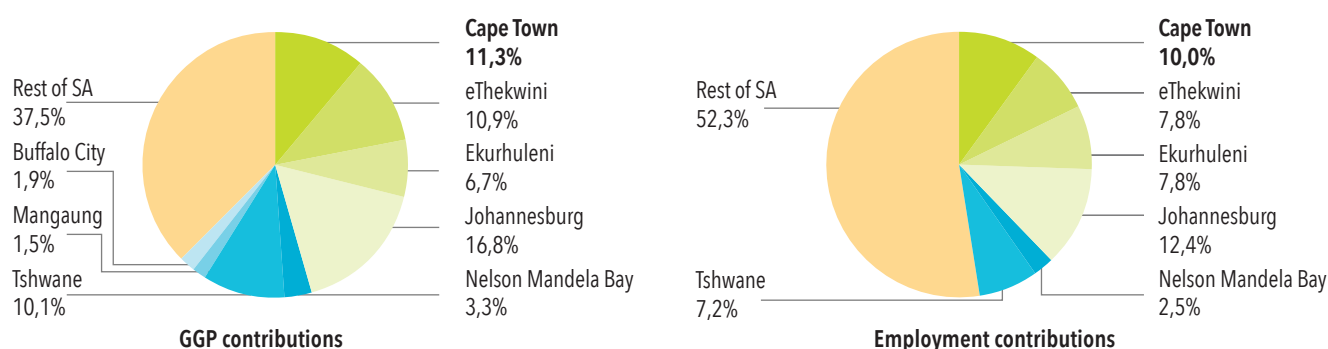
Cape Town's economy – contributing 11,3% to national gross domestic product in 2013 – is the second-largest municipal economy in the country.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy (contributing 11,3% to national gross domestic product in 2013) is the second-largest municipal economy in the country. The City of Johannesburg has the largest economy (contributing 16,8% to national GDP in 2013), while eThekweni (10,9%) and Tshwane (10,1%) closely follow behind Cape Town. Together, these four metropolitan municipalities accounted for almost half (49,2%) of the country's economic output in 2013.

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 contribute almost half of the country's output value, they account for only 37,4% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

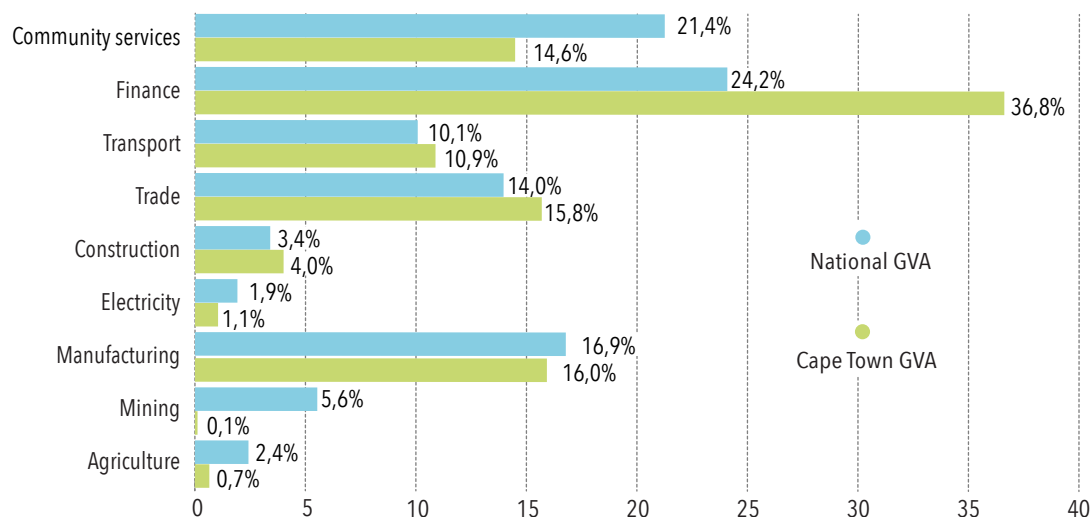
Figure 1: Gross geographic product (GGP) and employment contributions, 2013



Source: Own calculations based on IHS Global Insight ReX regional data and Stats SA's Quarterly Labour Force Survey data 2015.

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 36,8% to Cape Town's GVA, whereas it contributes only 24,2% nationally. At the other end of the scale, mining and quarrying contribute only 0,1% in Cape Town, as compared to 5,6% nationally.

Figure 2: Cape Town's GVA versus national GVA, 2013

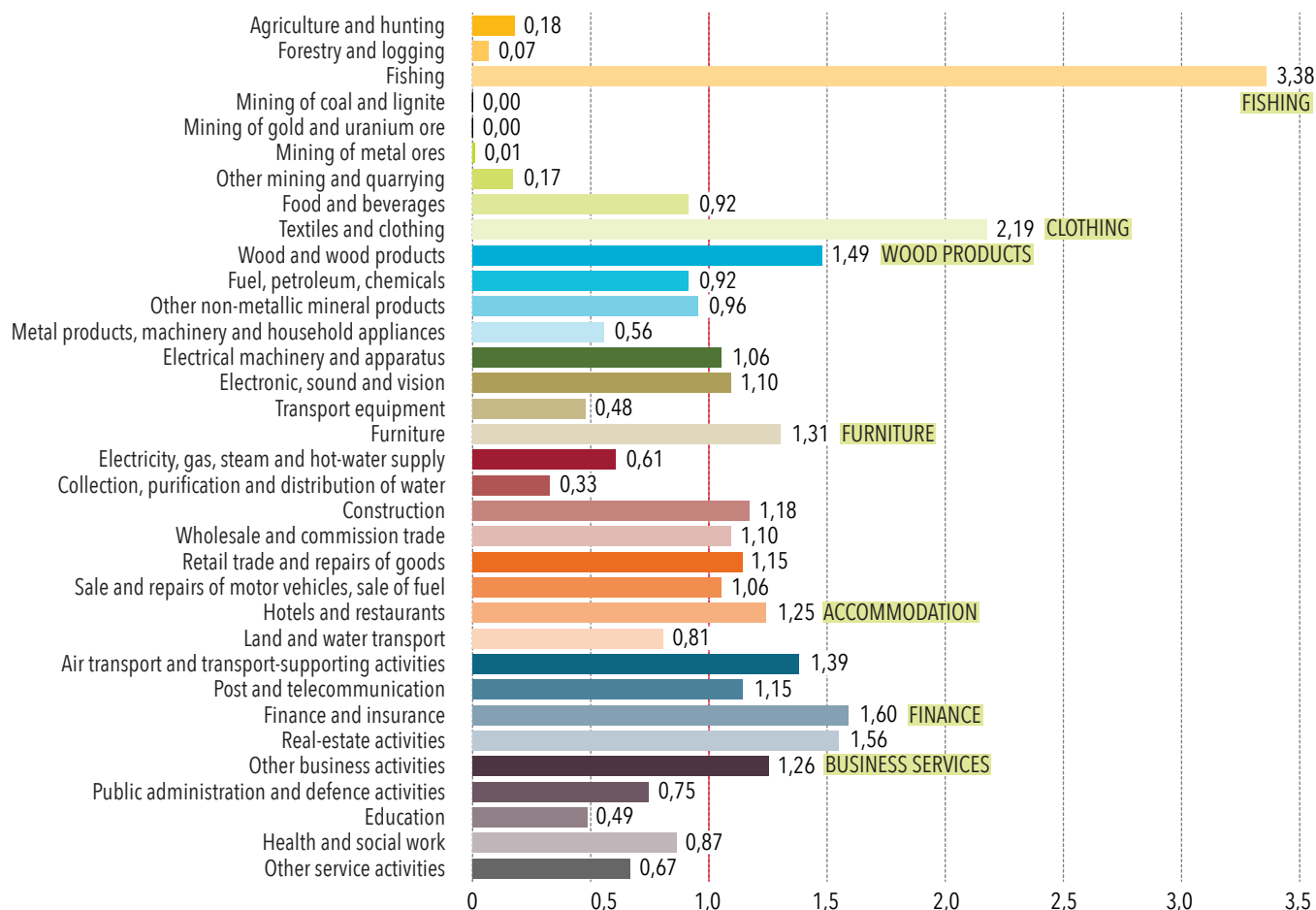
Source: Own calculations based on IHS Global Insight ReX regional data 2015.

Finance and business services constitute the city's largest economic sector by far, contributing 36,8% to Cape Town's GVA, whereas it contributes only 24,2% nationally.

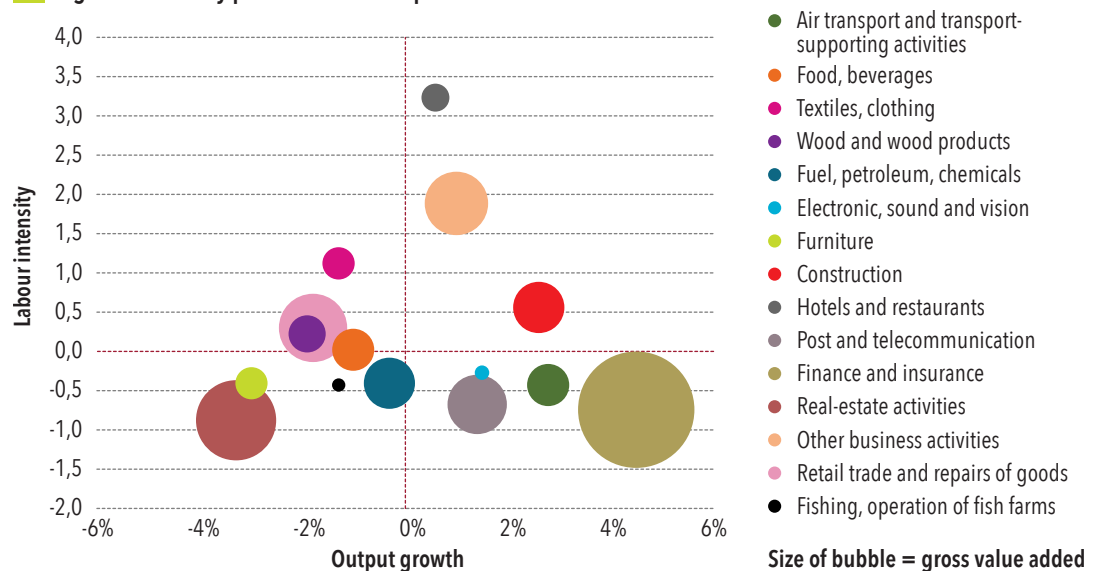
CAPE TOWN'S COMPARATIVE ADVANTAGES

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 Cape Town's comparative advantages lie. Using a location quotient analysis, figure 3 provides an indication of Cape Town's comparative advantages as compared to South Africa as a whole. A location quotient value of greater than 1 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, clothing and textiles, wood-product manufacturing, electronics, furniture, hospitality, finance and business services

Figure 3: Location quotients for industries in Cape Town

Source: Own calculations based on IHS Global Insight ReX regional data 2015.

Figure 4: Industry performance for Cape Town

Source: Own calculations based on IHS Global Insight ReX regional data 2015.

A number of tertiary sectors are the fastest-growing industries in the city, with finance, business services, hospitality, and post and telecommunication growing above the average rate.

industries. These industries contribute relatively more to the city's economic output than they do at a national level to South Africa's economic output. 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 sectors contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's sectors with 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, business services, retail trade, and real-estate activities. A number of these tertiary sectors are also the fastest-growing industries in the city, with finance, business services, hospitality, and post and telecommunication growing above the average rate. Unfortunately, a number of these industries are below 0 on the y-axis, indicating that they are capital as opposed to labour-intensive. This is true of post and telecommunication as well as finance and insurance. Industries that are growing fast and are labour-intensive, therefore offering good opportunities for employment creation, are construction, business services, and hotels and restaurants (a good proxy for tourism).

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 in the form of the University of Cape Town) and another 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.

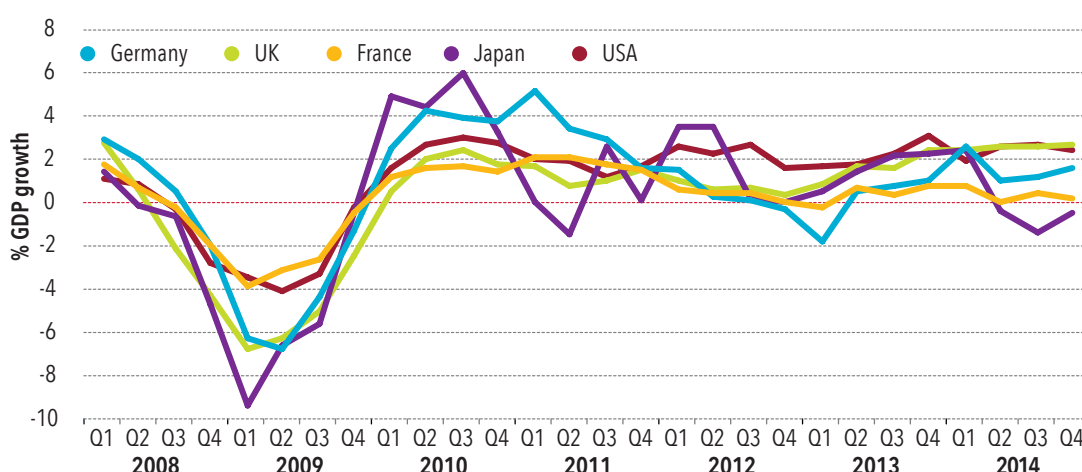
RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

The fourth-quarter GDP growth figures reflect a mixed performance by developed countries. While the German, United Kingdom and Japanese economies showed slight improvement in the fourth quarter of 2014, the United States (2,4%) and France (0,2%) recorded declining year-on-year growth rates (as compared to the previous quarter). The growth figures were largely in line with the respective local expectations, with the German economy's improved growth rate driven by private and public consumption spending, despite low investment levels, and the United Kingdom's growth rate underpinned by lower exports volumes. Although Japan experienced a slight improvement from the previous quarter, it still posted a third consecutive negative year-on-year growth rate. While Japan's positive quarter-on-quarter growth rate (0,4%) meant that it had technically emerged from recession, the lingering impact of the sales tax on consumption ensured that the year-on-year rate remained negative.

The fourth-quarter GDP growth figures reflect a mixed performance by developed countries: While the German, United Kingdom and Japanese economies showed slight improvement, the United States and France recorded declining year-on-year growth rates.

Figure 5: Economic growth trends in developed countries

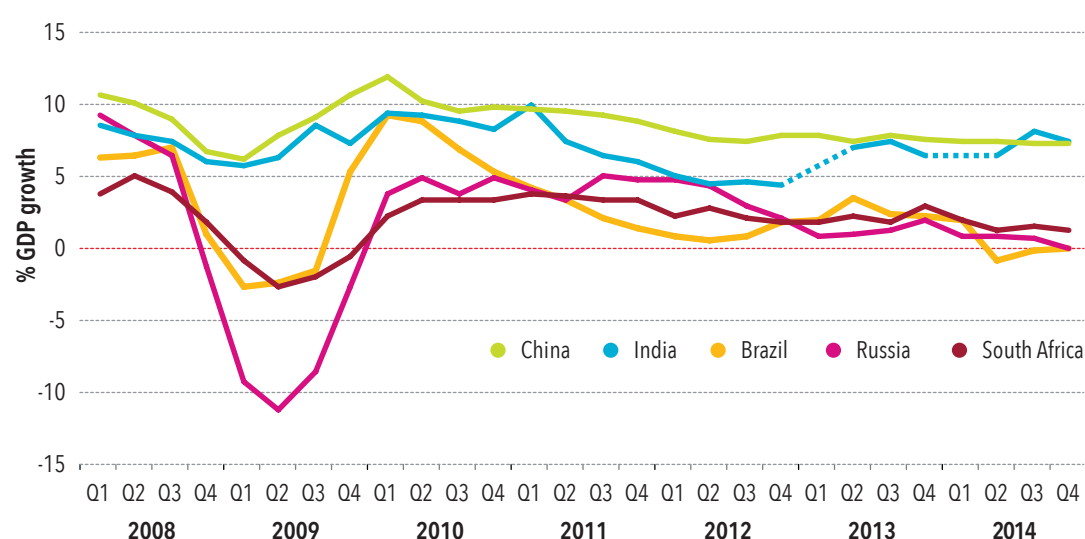


Source: Trading Economics, March 2015.

Emerging economies

Growth trends in emerging economies present a different picture from those in developed economies, as figure 6 indicates. BRICS countries (Brazil, Russia, India, China and South Africa) have achieved much higher growth rates, with an average rate of 4,8% since the beginning of 2010, compared with 1,6% for developed countries in the same period. While emerging economies have largely outperformed developed economies in this period, more recent indications are that economic growth in these countries is beginning to slow. In the fourth quarter of 2014, China's year-on-year economic growth rate remained constant at 7,3%, whilst India and South Africa's growth rates declined to 7,5% and 1,3% respectively. The sluggish performance of these countries may in part be a negative consequence of economic recovery in developed economies, particularly in the

Figure 6: Economic growth trends in emerging economies



Source: Trading Economics, March 2015.

light of fiscal tapering in the US and the shifting of capital investment from emerging to developed markets. However, local conditions such as severe strike action in South Africa, lower levels of property investment and weak industrial production volumes in China and a struggling oil industry in Russia have also been major factors in the declining growth rates of BRICS countries.

Global economic outlook

The International Monetary Fund's (IMF) World Economic Outlook Update (2015c), published in January 2015, shows that while global economic activity improved throughout 2013 and 2014, the completed-year global growth rate of 3,3% for both years remained below that of 2012, when a growth rate of 3,4% was recorded. Whilst 2014 saw a significant decline in oil prices, there were marked growth divergences amongst major economies – the United States' recovery was stronger than anticipated, whilst growth in the Eurozone was moderately weaker than expected. In its January update, the IMF further adjusted its global growth forecast for 2015 to 3,5% from its earlier forecast of 3,8% with 3,7% projected for 2016.

Following an improvement from -0,5% growth in 2013 to 0,8% growth in 2014, the IMF has adopted a more positive outlook for the Eurozone, projecting growth of 1,2% in 2015 and 1,4% in 2016. This recovery is however expected to be uneven, as lower oil prices, monetary policy easing and a more neutral fiscal policy stance are expected to be offset by weaker investment projections (IMF 2015c:3).

The moderation in the rate of growth of the Chinese economy (7,4%) continued for the completed year 2014, whilst the IMF has significantly revised its projected growth rates for China in 2015 and 2016, down to 6,8% and 6,3% respectively. Slowing growth in China is expected to have important regional effects in emerging Asian markets. After low growth rates (by its own standards) in 2013, economic growth in India picked up to 5,8% in 2014, and is expected to increase to 6,3% in 2015 and 6,5% in 2016 on the back of investment-supportive policies.

The IMF (2015c) has revised sub-Saharan Africa's economic growth projection for 2015 down to 4,9% from an earlier projection of 5,8%, with 5,2% projected for 2016. The forecasts for South Africa were revised to 2,1% for 2015 (previously 2,3%) and 2,5% for 2016. This downward revision reflects deteriorating domestic economic conditions in 2014. The reasons for South Africa's lower growth prospects compared to those in neighbouring countries are unpacked in more detail in chapter 4. In general, developing countries are expected to continue to lead global economic growth, with a rate of 4,3% predicted in these countries for 2015. Developed countries, however, are expected to close this gap slightly in 2015, with an expected growth rate of 2,4%.

There were marked growth divergences amongst major economies – the United States' recovery was stronger than anticipated, whilst growth in the Eurozone was moderately weaker than expected.

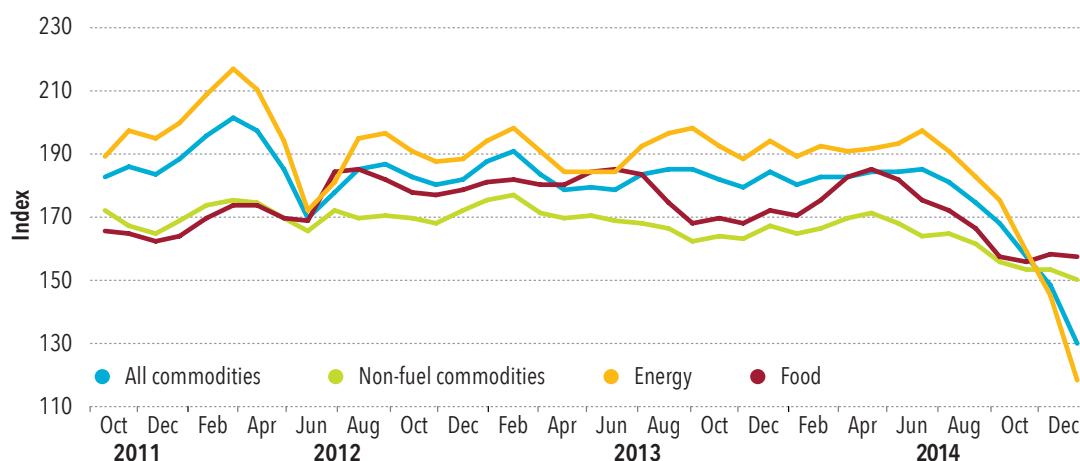
COMMODITIES

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 and generate valuable foreign exchange inflows.

The all-commodities index continued to fall sharply during the fourth quarter. After opening at 157,47 index points in October, the index fell to 148,46 index points in November and even further to 130,35 in December. The decline in the index can be attributed to an excess supply in most sectors, together with low demand, the appreciation of the US dollar against major currencies and the sharp drop in oil prices.

Removing the impact of the falling fuel price by looking at the non-fuel commodities index reveals a significantly different pattern, with a less sharp decline. The non-fuel commodities index decreased from 153,68 index points in October to 150,47 index points in December. This was due to a decrease in metal prices, largely as a result of the economic slowdown in China

Figure 7: World commodity indices (October 2011 to December 2014)



Source: IMF, 2015a.

and the low cost capacity from major producers, particularly Australia. Nickel prices dropped by 12% in October due to large exports from the Philippines. The decline in the food index in October was driven largely by the decrease in groundnut prices. However, the index increased for the first time in seven months in November due to gains in vegetable oils/meal, cereals and seafood prices. The upturn was short-lived though, and the index resumed its longer-term downward trajectory in December as low beef prices drove food prices down.

Brent crude oil

The price of Brent crude oil dropped from \$97,34 per barrel at the end of the third quarter to \$87,27 per barrel at the start of the fourth quarter. In the quarter under review, the price of Brent crude oil decreased by \$25,11 per barrel in total, from \$87,27 per barrel in October to \$62,16 per barrel in December. The market surplus of crude oil can be attributed to the excess supply of light oil production from the shale deposits in the US, continued strong supplies from OPEC countries, which are maintaining its production target of 30 mb/d, and the recovery in Libyan oil production despite the ongoing political instability (IMF, 2015b). This excess supply, combined with lower demand as many refineries underwent seasonal maintenance, resulted in a steep decrease in Brent crude oil prices.

The US has dramatically reduced its imports of light oil and sour oil from West Africa and the Middle East leading to an oversupply in the Atlantic basin. This has led to increased pressure on Middle East producers, and Saudi Arabia has had to reduce the official selling prices to maintain market share (IMF, 2015b).

The market surplus of crude oil can be attributed to the excess supply of light oil production from the shale deposits in the US, continued strong supplies from OPEC, and the recovery in Libyan oil production.

Figure 8: Brent crude oil (October 2011 to December 2014)

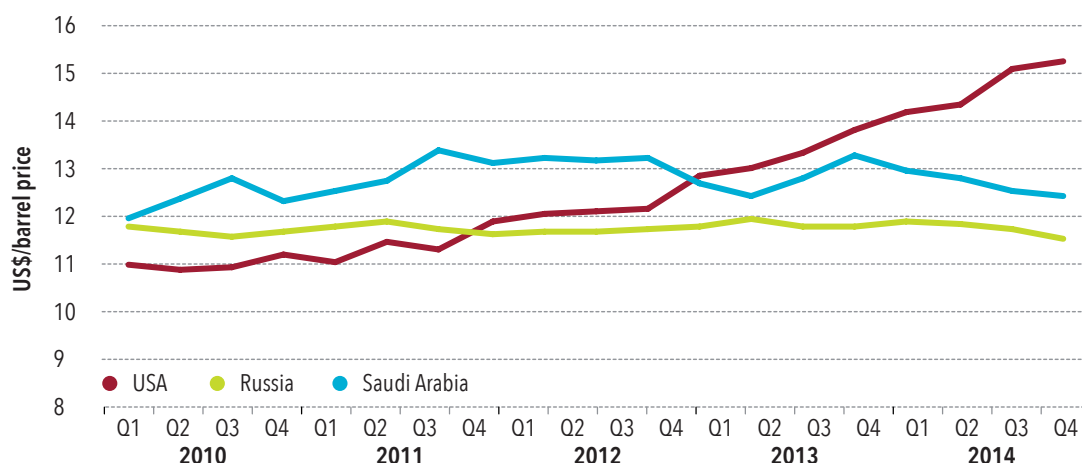


Source: IMF, 2015a.

World oil supply

There are a number of oil-producing nations, but the three largest are Saudi Arabia, the United States and Russia. The United States' contribution to global oil supply has been growing since mid-2011, surpassing the likes of Russia and Saudi Arabia. Saudi Arabia was the leading oil supplier in the world until being overtaken by the US in the fourth quarter of 2012. The US has been increasing its share of total oil supply by a percentage point annually, and at the end of the

Figure 9: % contribution to world oil supply (January 2010 to October 2014)



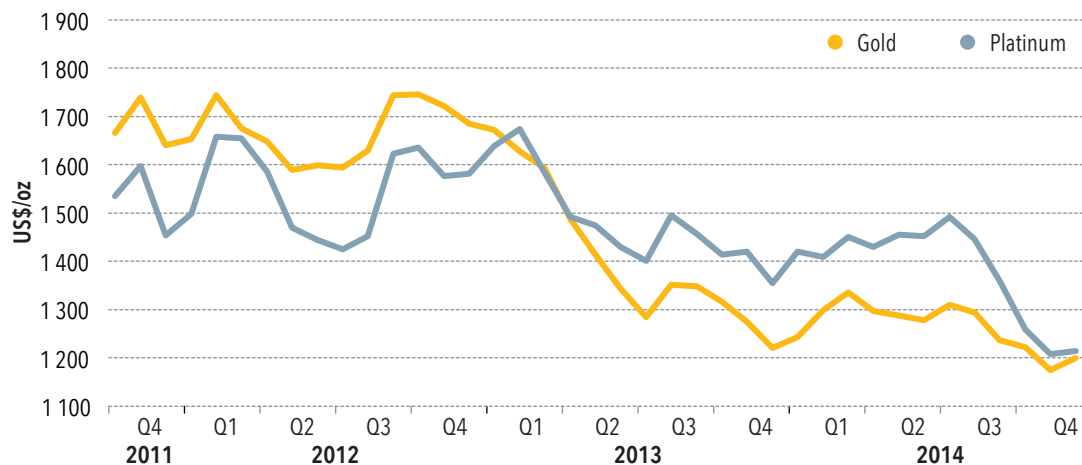
Source: EIA, 2015.

third quarter of 2014, accounted for 15,26% of global oil supply. The high volume production of shale oil is responsible for the rapid growth of the US share of global oil supply.

Gold and platinum⁶

The gold price maintained its downward trend in the fourth quarter. After closing on \$1 236,55/oz in September, the price of gold decreased to \$1 222,49/oz in October and fell further to \$1 200,62/oz at the end of December 2014. The platinum price lost \$144,16/oz of value in the final quarter of 2014, decreasing most sharply (by \$151,16/oz) between September (\$1 359,48/oz) and the end of November (\$1 208,32/oz), perhaps as a result of output recovery following strike-related work stoppages earlier in the year. The price subsequently stabilised at \$1 215,32/oz by the end of December.

Figure 10: Monthly averaged price of gold and platinum (October 2011 to December 2014)



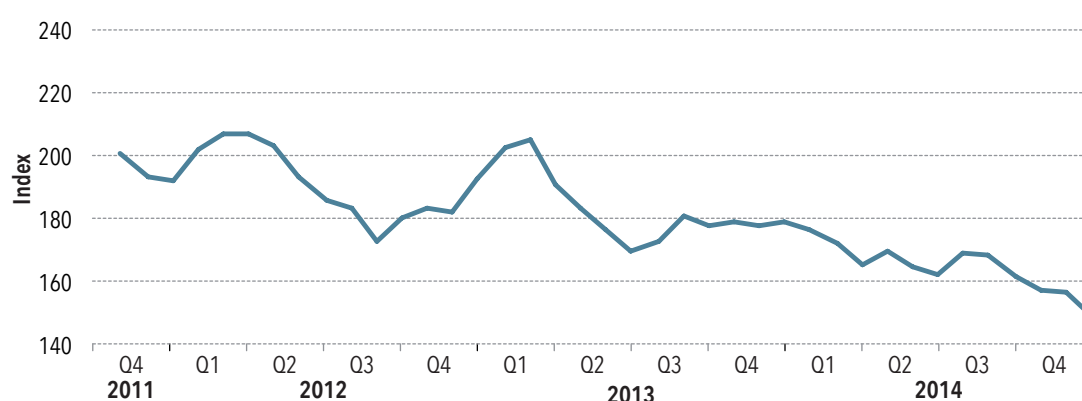
Source: World Bank, April 2015.

The platinum price lost \$144,16/oz of value in the final quarter of 2014, decreasing most sharply between September and the end of November, perhaps as a result of output recovery following strike-related work stoppages earlier in the year.

Non-precious metals

The metals' price index continued its downward trend at the beginning of the fourth quarter, falling from 161,45 index points at the end of September to 156,83 index points at the end of October. The largest price decreases were experienced in nickel, which fell 12%; tin, which dropped by 6%; lead, which dropped by 4%, and iron ore, which dropped by 3%. This was due to larger-than-expected exports from the Philippines and record-high LME (London Metals Exchange) inventories. This downward trend continued for the remaining months of the quarter, dropping to 156,4 index points in November and further to 148,73 index points in December. The index's decline between October and November, driven by falling demand from China, was moderated by a 14% surge in the price of uranium. With uranium prices falling by 9% in December following five months of gain, the metals' price index fell much more sharply in December. (IMF, 2015b)

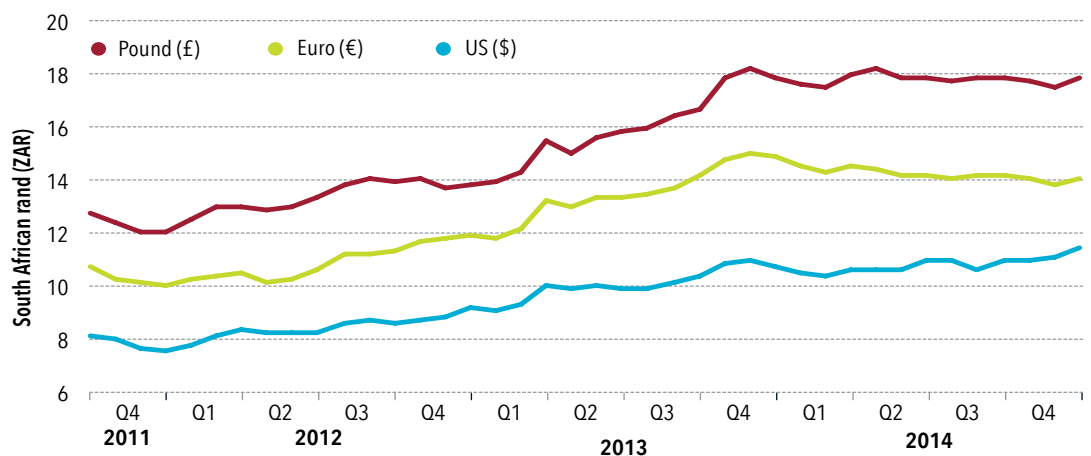
Figure 11: Metals index (October 2011 to December 2014)



Source: IMF, 2015a.

While cities do not influence the country's exchange rate, the strength or weakness of the rand has a direct impact on local consumers and exporters.

Figure 12: South African nominal exchange rates (December 2011 to December 2014)

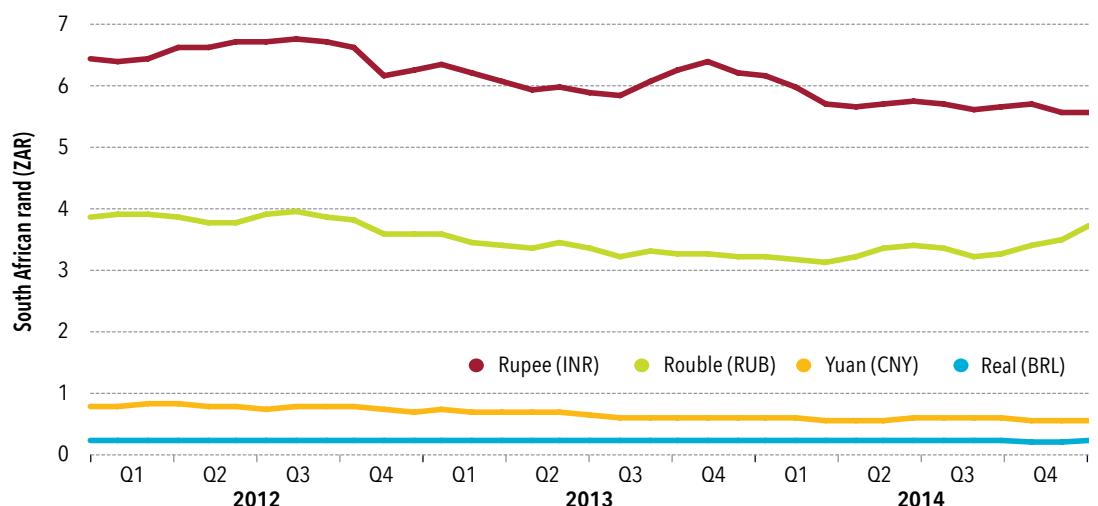


Source: South African Reserve Bank, February 2015.

To measure the performance of the South African rand, its exchange rate is compared to seven other currencies, namely the United States dollar (\$), the British pound (£), the euro (€), the Brazilian real, the Russian rouble, the Indian rupee and the Chinese yuan. Figure 12 illustrates the performance of the rand against three major developed-economy currencies for the period December 2011 to December 2014. In February 2014, the rand hit a more-than-10-year low against the dollar with a rate of R10,98 to the US currency. In the third quarter, the rand eased to R10,96 to the dollar, before weakening to R11,46 to the dollar at the end of the fourth quarter. Despite the concerns about the economic growth in the European Union, the rand had remained constant overall compared with the pound and the euro.

The rand's weak performance against the dollar is on account of the US economy's sustained growth performance and, perhaps even more pertinently, the Federal Reserve's decision to end quantitative easing at the end of October. Other factors contributing to the weaker rand in the fourth quarter are industrial strike action within the steel and engineering sectors, slow economic growth and international commodity price declines, as well as the current account deficit. (SARB, 2015)

Figure 13: BRICS nominal effective exchange rates (January 2012 to December 2014)



Source: South African Reserve Bank, February 2015.

The rand's fourth-quarter performance against the other BRICS nations was stable overall. However, over the past two quarters, the Russian rouble dramatically depreciated, leading to it being rated one of the worst-performing exchange rates in 2014. This can be attributed to the declining value of Russia's oil exports as the oil price plummeted, as well as the unfavourable projections for economic growth (less than 2%) and interest rate hikes (up to a rate of 17% in 2015-2016) in the country. The decline in the price of oil may potentially strengthen the rand, as it could have a positive impact on the economy's current account.



Domestic economic performance

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 places 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

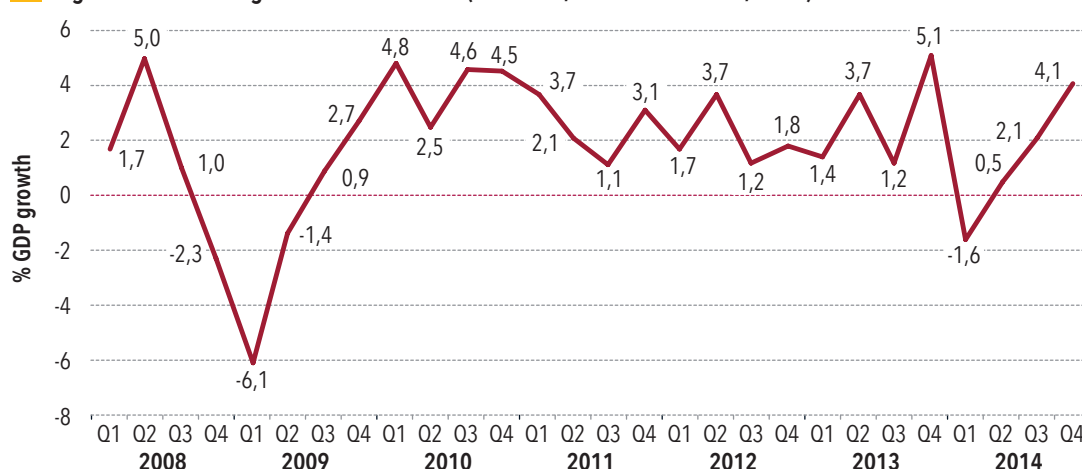
Quarter-on-quarter gross domestic product (GDP) growth rate

Economic growth (as measured by changes in GDP) in South Africa increased to 4,1% quarter-on-quarter in the fourth quarter of 2014 – this constituted the highest quarterly growth rate of 2014. While the improved performance of the economy was largely anticipated due to the resumption of normal operations in the mining and manufacturing sectors, the growth rate achieved was above the consensus forecast. This was because most economists had not expected such robust growth in the finance and business services sector.

Despite the vastly improved growth performance from a quarter-on-quarter perspective, the year-on-year growth rate (1,3%) in the fourth quarter was far more subdued. It also points to the poor performance of the economy in 2014 as a whole. For the completed year, the South African economy grew by only 1,5%, falling below expectations and constituting the worst annual performance since 2009. Indeed the strong quarter-on-quarter growth rate in the fourth quarter appears to have been an outcome of short-term fluctuations in the manufacturing and mining sectors rather than indicative of a sustainable upturn in the economy. In the context of an annual GDP growth target of 5% to 7%, as contained in government's New Growth Path and the National Development Plan (NDP), this relatively low annual growth rate undermines South Africa's ability to meaningfully reduce the country's unemployment rate.

In 2014, the South African economy grew by only 1,5%, falling below expectations and constituting the worst annual performance since 2009.

Figure 14: Real GDP growth in South Africa (Quarter 1, 2008 to Quarter 4, 2014)⁷



Source: Stats SA, March 2015.

Sectoral determinants of GDP growth in South Africa

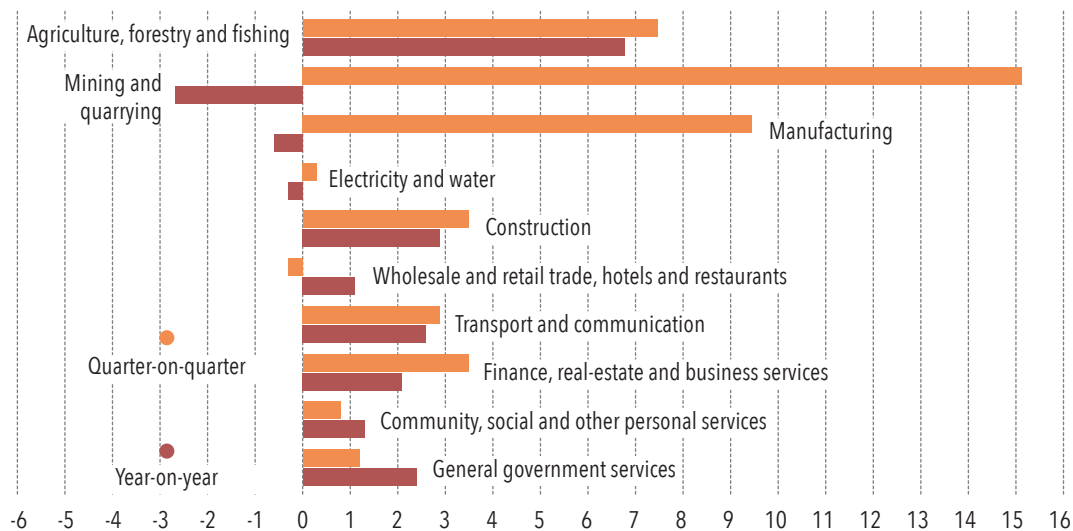
Growth in the fourth quarter of 2014 was predominantly driven by the primary and secondary sectors, while the tertiary sector's performance remained lacklustre. The mining and manufacturing sectors contributed nearly 60% of the country's GDP growth in the quarter, with manufacturing contributing 1,2 percentage points and mining 1,1 percentage points to the quarter-on-quarter growth rate. The strong growth rates in these sectors (9,5% and 15,2% respectively) can be attributed to recoveries in industries that had experienced production losses in previous quarters because of strike action. In the manufacturing sector, the strongest growth was in the fuel and chemicals, transport equipment and the metals and machinery industries. The latter industry had experienced protracted strike action in the third quarter. Similarly, growth in the mining industry was led by increased production in the mining of other ores (including platinum) and other mining and quarrying – the former of which continued to recover from the impacts of the strike in the platinum mining belt in the first half of the year.

While not contributing as much to overall growth, the agricultural sector posted a robust growth rate of 6,8% in the fourth quarter on the back of strong production in horticulture and animal products. In contrast, the electricity and water sector posted a weak growth rate of 0,3%. The continued poor growth performance of this sector was expected, considering the highly publicised losses in production at some of the country's major power stations. After a relatively subdued third quarter, construction was somewhat resurgent in the fourth quarter, posting a growth rate of 3,5%.

The tertiary sector was largely divided between finance and business services' better-than-expected performance and the wholesale and retail trade sector's widely expected poor performance. The finance and business services sector's 3,5% increase contributed 0,7 percentage points to overall economic growth and can mainly be attributed to increased turnover in domestic financial markets. In contrast, the 0,3% contraction in the trade sector reflected weak turnover in wholesale sales and may also reflect enduringly weak consumer confidence levels.

The quarter-on-quarter sectoral growth rates recorded in the fourth quarter can present a deceptive picture of the growth drivers of South Africa's economy in 2014, as they are heavily influenced by short-term vacillations in output. Figure 15 shows

The mining and manufacturing sectors contributed nearly 60% of the country's GDP growth in the quarter. The strong growth rates in these sectors can be attributed to recoveries in industries that had experienced production losses in previous quarters because of strike action.

Figure 15: Sectoral GDP growth rates for South Africa (Quarter 4, 2014)

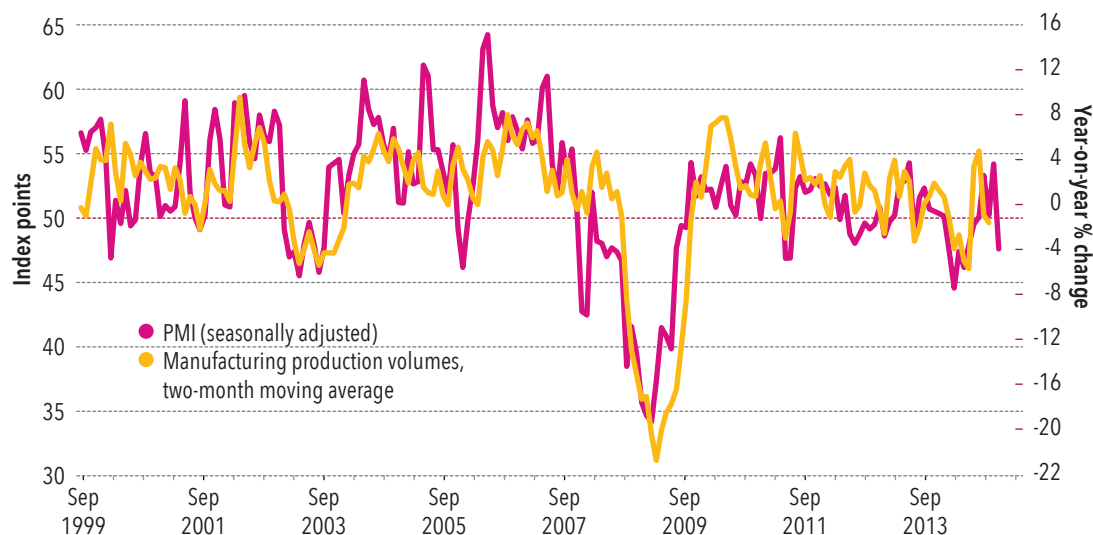
Source: Stats SA, March 2015.

that the year-on-year growth rates are less variable than their quarterly counterparts. According to year-on-year rates, three industries recorded negative growth, namely mining, manufacturing and electricity and water. This puts the mining and manufacturing industries' strong performance in the fourth quarter in perspective. These trends are further highlighted in an assessment of the annual sectoral performance for the year 2014, as all three sectors (mining, manufacturing and electricity and water) posted negative growth rates. Agriculture was by far the best-performing sector (5,6%) in 2014, followed by construction (2,9%) and transport (2,3%).

Economic growth outlook for South Africa

The tertiary sector has typically 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 past two years has exposed the country to the volatility of mining and manufacturing's growth performance. In the fourth quarter, both the mining and manufacturing industries benefitted from a period of minimal production disturbances and were able to return to normal operations. On a short-term basis, this may present itself in the guise of expansion, but from a longer-term perspective, it only represents fluctuations around a stagnating growth path. In the absence of robust tertiary-sector growth, however, the country's growth rate will continue to be heavily swayed by the fluctuations in mining and manufacturing. With this in mind, it is necessary to pay careful attention to the outlook for these two sectors. On the demand side, the weak exchange rate of the rand against the dollar can be expected to favour mining and manufacturing exports in 2015, while on the supply side, both sectors should benefit from the much lower fuel prices

The dampened performance of the tertiary sector over the past two years has exposed the country to the volatility of mining and manufacturing's growth performance.

Figure 16: Kagiso purchasing managers' index for South Africa

Source: Kagiso Tiso Holdings/Bureau for Economic Research, March 2015. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

Now made in Cape Town:

Gestamp Renewable Industries (GRI) Wind Steel

South Africa's new 12 000 m² wind tower mast production facility in the Green Technology Industrial Park in Atlantis.

The facility will have a manufacturing capacity of 150 three-section wind towers a year. See chapter 8.



compared to 2014, lowering their input costs. However, the main risk to these sectors, in the form of energy constraints, will also emerge on the supply side. The Bureau of Economic Research (BER) believes that these sectors will bear the “brunt of Eskom loadshedding” in 2015.

The outlook for the manufacturing sector, as conveyed by the Kagiso purchasing managers’ index (PMI),⁶ weakened in the first quarter of 2015 with the index dropping by 6,6 points to 47,6 in February. The PMI dipping under 50 indicates that the factory sector is “taking strain”. These findings are out of sync with global trends, which indicate buoyant activity in the manufacturing sector, and should rather be considered to be indicative of domestic constraints. In particular, interruptions in electricity supply and the uncertainty surrounding the timing of loadshedding hinder the ability of manufacturers to take new sales orders. This has led to the new sales orders index dropping below 50 points for the first time since September 2014. While the short-term outlook for the manufacturing sector is relatively poor, there remains optimism about the expected conditions in six months’ time.

The Bureau of Economic Research believes that energy constraints will weigh heavily on the South African economy in general, nullifying some of the positive impacts of certain global developments. As such, they forecast an economic growth rate of 1,9% for 2015, only marginally higher than the 1,5% recorded in 2014.

ECONOMIC GROWTH IN THE WESTERN CAPE

Quarter-on-quarter gross geographic product (GGP) growth rate

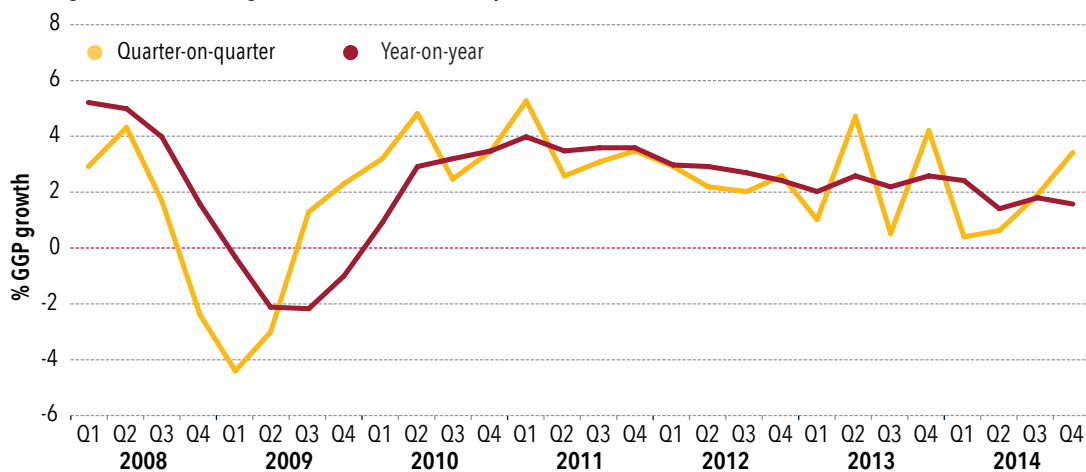
The Western Cape economy contributes around 15% of national GDP, and is strongly influenced by national economic conditions (Quantec, 2015). As expected, the Western Cape economy grew slower than the national economy in the fourth quarter. While the Western Cape’s economic growth trend increased from 1,9% to 3,4% between the third and fourth quarter, it remained below the national rate of 4,1%. This discrepancy in growth rates is due to the differing structure of the national and provincial economy. The Western Cape’s limited mining industry activity meant that it did not benefit as strongly from the ongoing recovery in that industry in the fourth quarter. On the other end of the spectrum, the Western Cape economy would have been more heavily affected than the national economy by the weak performance of the trade industry in the fourth quarter.

The differing structure of the Western Cape economy – being less invested in mining and more invested in tertiary sectors – also meant that it did not experience the same extent of fluctuations as the national economy. In fact, on an annual basis, the Western Cape economy grew by 1,8%, while the national economy grew by only 1,5%.

While GGP statistics for Cape Town are not available on a quarterly basis, the performance of the metro’s economy can be expected to largely mirror that of the provincial economy. This is because the metro contributes about 75% of the province’s economic output (Global Insight, 2015). On average, in the last 15 years, the variation of the city’s GGP growth rate from the provincial rate was 0,5 percentage points. If this were to hold in the fourth quarter of 2014, the city’s growth rate would be between 2,9% to 3,9%.

The differing structure of the Western Cape economy – being less invested in mining and more invested in tertiary sectors – meant that it did not experience the same extent of fluctuations as the national economy. On an annual basis, the Western Cape economy grew by 1,8%, while the national economy grew by only 1,5%.

6. 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.

Figure 17: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 4, 2014)

Source: Quantec, March 2015.

Provincial economic growth comparisons

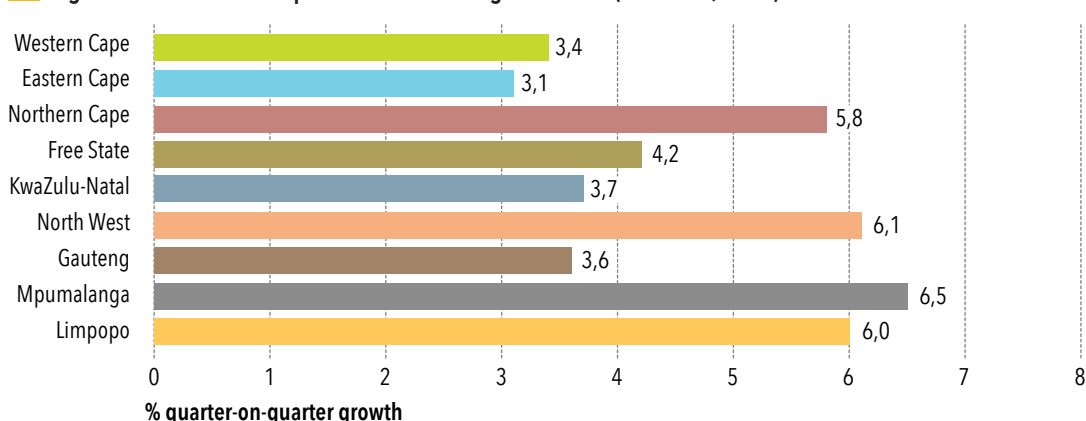
A comparison of economic growth rates between provinces reveals that the smaller, mining-based economies experienced the largest growth rates as mining production continued its recovery. In particular, the North West, Limpopo and Mpumalanga all recorded GGP growth rates of around 6%. Although the larger, more diversified economies, more specifically KwaZulu-Natal, Gauteng and the Western Cape, did not benefit to the same extent from mining production normalisation, they did benefit from the marked upturn in the manufacturing sector in the fourth quarter. KwaZulu-Natal, which proportionately has the largest manufacturing sector of the three, grew the fastest, recording a rate of 3,7%, compared to Gauteng's rate of 3,6% and the Western Cape's rate of 3,4%. These economies, however, remain constrained by the performance of the tertiary sector.

Cape Town would not have benefitted from a mining recovery like the North West or Limpopo did, but it would have enjoyed the benefits of the manufacturing sector's upturn, as it is by far the province's largest manufacturing hub. On the other hand, the relatively poor representation of agricultural activity in the city, a sector which grew quickly in the province, together with its reliance on the tertiary sector, means that Cape Town's growth performance in the fourth quarter is unlikely to have been stronger than the province's more broadly.

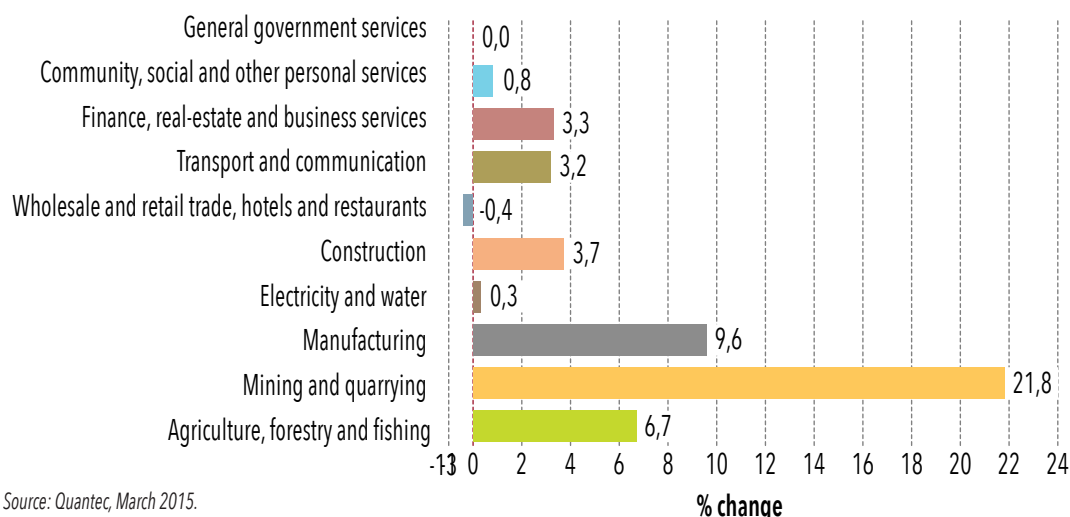
Although the larger, more diversified economies – KwaZulu-Natal, Gauteng and the Western Cape – did not benefit to the same extent from mining production normalisation, they did benefit from the marked upturn in the manufacturing sector in the fourth quarter.

Sectoral drivers of economic growth in the Western Cape

The Western Cape's growth performance by sector largely mirrors the trends in the national economy. As was the case nationally, manufacturing was the largest contributor to economic growth in the Western Cape, having recorded a growth rate of 9,6% in the fourth quarter. The second-largest contributor to the province's economic growth in the fourth quarter was the finance and business services sector, which also grew at a similar rate to the national sector (3,3% compared to 3,5%). The sectors that displayed marked divergence from the national figures were mining, agriculture and general government services. The mining sector grew faster in the Western Cape than nationally (21,8% compared to 15,2%), but this came off a much lower base and must be viewed with some caution. The agricultural sector in the province, however, is the second-largest in the country (after KwaZulu-Natal), and so the difference between the provincial (6,7%) and national

Figure 18: Provincial comparisons of real GGP growth rates (Quarter 4, 2014)

Source: Quantec, March 2015.

Figure 19: Sectoral real GGP growth rates in the Western Cape (Quarter 4, 2014)

Source: Quantec, March 2015.

agricultural (7,5%) growth rates is likely to be more significant. The reason for the discrepancy may be that the growth in the sector nationally came from the animal products sub-sector, a sub-sector which is not as prominent in the Western Cape. Finally, government services recorded no growth in the Western Cape in the fourth quarter, compared to a growth rate of 1,2% nationally.

On an annual basis, much like South Africa as a whole, the strongest growth sectors in the Western Cape for 2014 were agriculture (4,8%) and construction (3,1%). On an annual basis, general government grew by 2,8%. The poorest-performing sectors were mining, manufacturing and electricity and water.

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, 80% of the Western Cape's finance and business services, 74% of wholesale and retail trade, and 69% of manufacturing can be attributed to the metropolitan area (Quantec, 2015). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the fourth quarter. However, the greater contribution of these industries to the city's economy means that they would have a larger effect on the city's economic growth rate.

In contrast to Cape Town's contribution to the tertiary-sector output of the province, it contributes only 29% to the province's total primary-sector GGP. 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 fourth quarter would have depended on the extent to which strong manufacturing-sector growth was able to counter-balance the impact of negative growth in the trade sector, which is particularly prominent in Cape Town.

Growth outlook for Cape Town and the Western Cape

The main source of growth for both the Western Cape and Cape Town in the fourth quarter of 2014 would have been the manufacturing sector. In part, this is simply due to a recovery from previous declines in production owing to protracted strikes. A more sustained upturn in the manufacturing sector, however, should not be expected in the short term.

The Kagiso purchasing managers' index suggests that the manufacturing sector has begun taking strain. A key factor behind this is undoubtedly the impact of current loadshedding and the uncertainty surrounding electricity supply in the longer term. While a potential slowing of the manufacturing sector may weigh heavily on economic growth in the city, the relative unimportance of mining in the city's economy means that the city will not be as affected by the slowing of the sector once equilibrium is restored. This would suggest that while the city will continue to grow relatively slowly in the first quarter of 2015, it will perform better than the national economy.

In the medium term, a resurgence of consumer confidence, particularly in light of low oil prices and inflation rates, should see Cape Town's tertiary sector beginning to gain more ground again, allowing the city to appropriate the benefits of economies of scale.

Achieving a suitably higher future growth trajectory for Cape Town, however, will depend on the city's ability to increasingly realise the opportunities associated with the industries where it has some comparative advantages – namely tourism, finance and business services, agro-processing, creative industries, and oil and gas – as well as its ability to effectively attract new investment. In this respect, the weak exchange rate and the city's growing reputation as a major global tourist destination mean that the tourism industry holds significant potential as a strong growth contributor.

In the medium term, a resurgence of consumer confidence, particularly in light of low oil prices and inflation rates, should see Cape Town's tertiary sector beginning to gain more ground again, allowing the city to appropriate the benefits of economies of scale.

Inflation

In the fourth quarter of 2014, the headline inflation rate was lower than the 5,4% recorded in December 2013.

SOUTH AFRICA'S INFLATION OVERVIEW

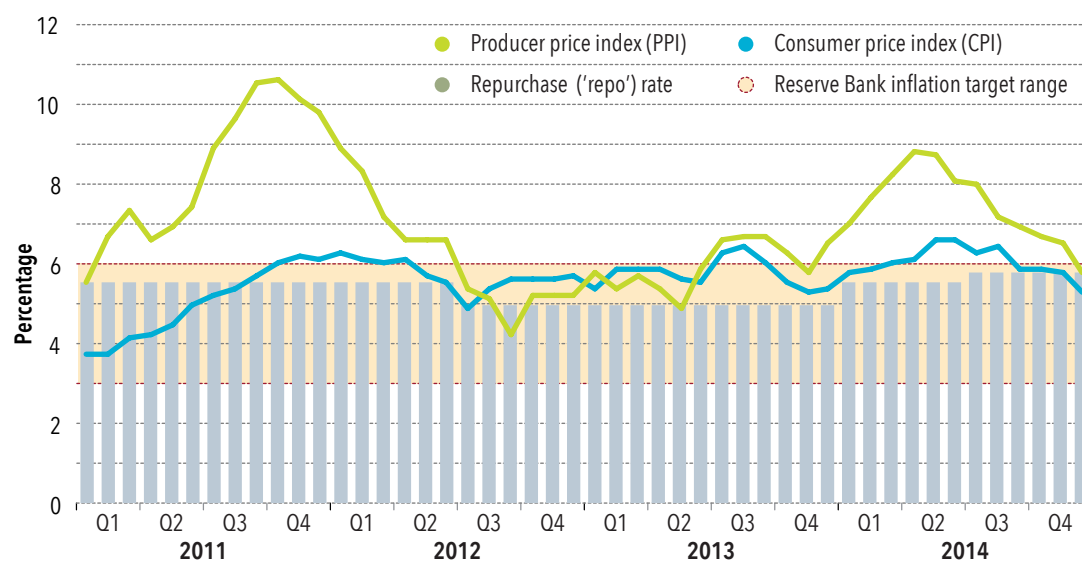
Overall, inflation was lower in the fourth quarter of 2014 than in the third. The headline consumer price index (CPI) decreased to a low of 5,3% in December 2014, compared to 5,9% in September 2014. The headline CPI reflected a declining trend over the entire three-month period. On an annual basis, the headline CPI was lower than the 5,4% recorded in December 2013.

As of the end of December 2014, the headline CPI annual inflation rate had decreased by 1,3 percentage points since its recent peak value of 6,6% during May and June 2014. Furthermore, the rate is at the lowest it has been since November 2013 (5,3%). This decreasing trend in the fourth quarter is the result of continuous decreases in the international oil price. Indeed, the downward movement in the world oil price has dominated the change in the inflation outlook. Decreasing oil prices, in particular, directly affected the South African petrol price, which declined by nearly R3 a litre, despite the rand depreciating against the US dollar. The main upside drivers of the CPI inflation rate in December 2014 were education inflation (8,8%) as well as restaurant and hotel inflation (8,4%), while petrol inflation recorded a low rate of -5,5%.

For the fourth quarter of 2014, the headline producer price index (PPI) was lower than the third quarter, ending with a recorded rate below 6%. After the peak in April 2014 (8,8%), the PPI has consistently reflected a decreasing trend, recording 6,7% in October, 6,5% in November and a new low of 5,8% in December 2014. Similar to the CPI, the previous period in which the PPI was below 6% was during November 2013. The key upside contributors to the PPI annual growth rate were food, beverages and tobacco products (8,0%), metals, machinery as well as equipment and computing equipment (9,1%) (Stats SA, 2015). The downward pressure on the PPI in the fourth quarter mainly reflects the impact of the declining oil price, as well as declining agricultural crop prices.

The downward pressure on the PPI in the fourth quarter mainly reflects the impact of the declining oil price, as well as declining agricultural crop prices.

Figure 20: CPI and PPI trends for South Africa (January 2011 to December 2014)



Sources: CPI and PPI extracted from Stats SA, 2015, and repurchase rate extracted from South African Reserve Bank, 2015.

Figure 20 also illustrates the movement of the repurchase rate (repo rate). As indicated on the graph, the repo rate has remained unchanged at 5,75% since the increase in July 2014. According to the Monetary Policy Committee's (MPC) statement (SA Reserve Bank, 2015b), the inflation outlook has changed positively and it is expected that inflation will remain below 6%. In accordance with these expectations, the MPC decided to keep the repo rate unchanged at 5,75% in the fourth quarter.

Table 1 overleaf indicates how different expenditure groups are affected by inflation. Overall for the fourth quarter, each expenditure group experienced an inflation rate decrease (all to below 6%) from the third quarter of 2014. The population quintile with the highest level of monthly expenditure was subject to an inflation rate of 5,2% in December 2014, while the population quintile with the lowest monthly expenditure was subject to an inflation rate of 5,9%. The main reason for this is that the highest quintile benefitted more significantly from substantially reduced petrol price inflation, while the lowest quintile was more severely affected by continued high (albeit reduced) food price inflation.

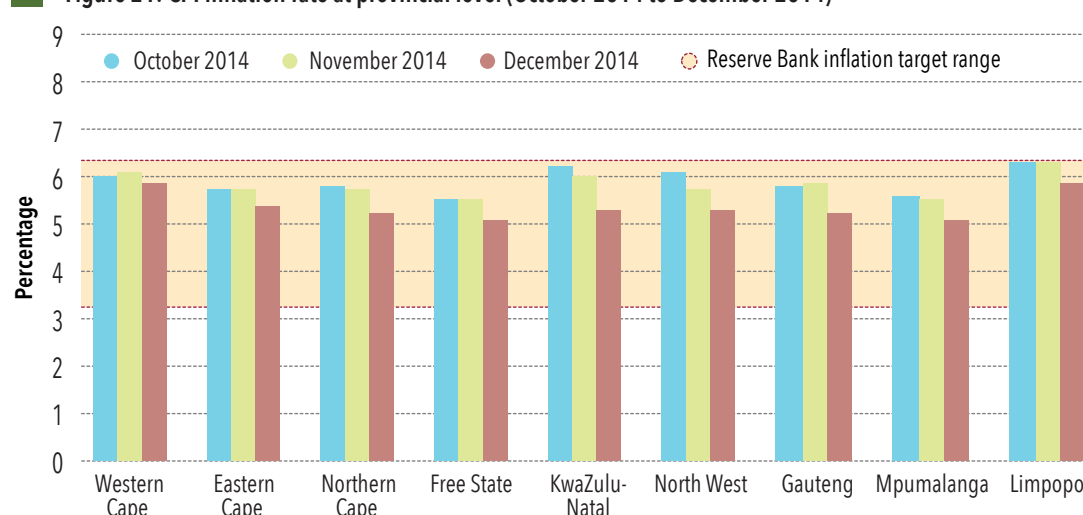
Table 1: CPI inflation by monthly household expenditure

Quintiles	Level	Monthly expenditure	CPI inflation rate in December 2014
	<i>Average</i>		5,3%
1	Very low	R0 to R1 213/month	5,9%
2	Low	R1 214 to R1 939/month	5,7%
3	Middle	R1 940 to R3 062/month	5,6%
4	High	R3 063 to R6 596/month	5,2%
5	Very high	R6 596 and more	5,2%

Source: Stats SA, March 2015.

GEOGRAPHICAL INFLATION

The Western Cape recorded a slightly higher inflation rate of 5,9% for the end of the fourth quarter of 2014 as compared to the national rate of 5,3%. As illustrated by figure 21, the majority of provinces experienced an inflation rate decrease over the three-month period to below 6%. The Western Cape and Limpopo recorded the highest inflation rates for December 2014, while Free State as well as Mpumalanga recorded the lowest rate at 5,1%. For the fourth quarter, the Western Cape's inflation performance was poorer than the rest of the provinces, as it recorded a rate of 6% and higher for both October and November, while moving below 6% for December. Food price inflation in the Western Cape was 8,8% in December 2014 (having increased from 8,4% in November), while nationally, it was 7,3% (decreasing from 7,7% in November). Transport cost inflation (0,2% compared to 2,0% nationally) was significantly lower in the Western Cape, but higher inflation rates were recorded in the price of housing and utilities (6,7% compared to 5,7% nationally) as well as alcoholic beverages (7,9% compared to 7,1% nationally).

Figure 21: CPI inflation rate at provincial level (October 2014 to December 2014)

Source: Stats SA, March 2015.

INFLATION OUTLOOK

Up to the end of December 2014, inflationary pressure decreased significantly, and inflation is expected to remain well below 6% for the year. According to the January 2015 statement of the MPC (SA Reserve Bank, 2015b) downward pressure on inflation in 2015 was mainly driven by the reduction of the world oil price, which dropped by \$29 per barrel between November 2014 and January 2015. This dramatic decrease in the oil price has resulted in the inflation outlook being revised down from an average of 5,3% expected in 2015 to a new figure of 3,8%.

The impact of loadshedding as well as the depreciation of the rand against the dollar did offset some of the positive outcomes from the decline in the world oil price and low inflation. Consequently, the Reserve Bank has kept the repo rate unchanged at 5,75%. The MPC stated in its bulletin (SA Reserve Bank, 2015a) that the future prospects for the international oil price are uncertain. It cannot be assumed that the world oil price will continue to decline, thus the MPC will monitor the second round of effects on inflation trajectory.

For January 2015, the inflation rate dropped to a new low of 4,4% – the lowest since April 2011. While inflation is still declining, there are some upward risks, as uncertainty regarding the oil price remains and the rand continues to be vulnerable. Until a more stable trend appears for the international oil price, the Reserve Bank is expected to keep the repo rate unchanged.

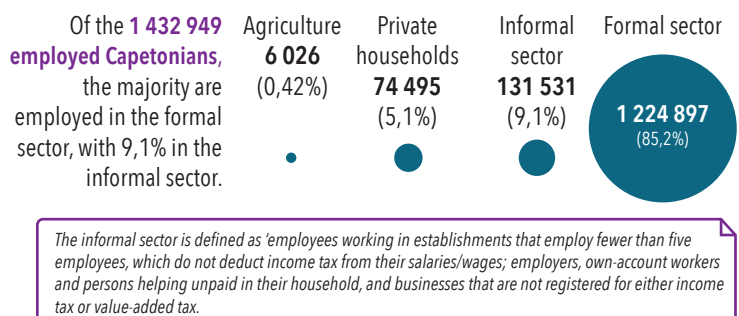
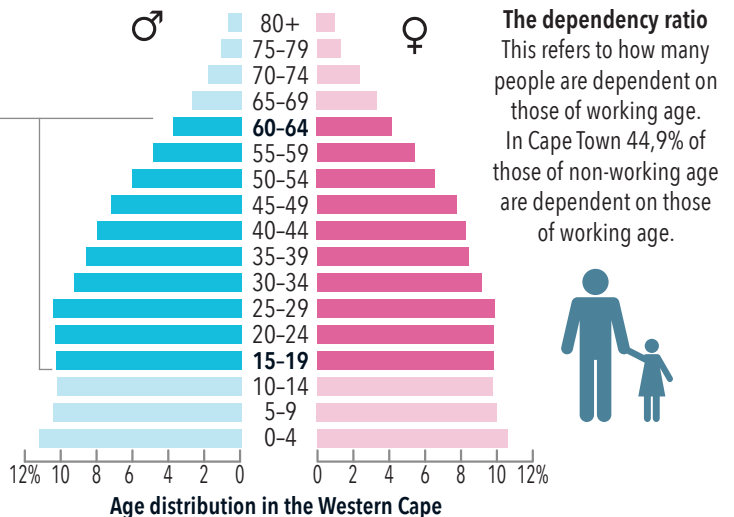
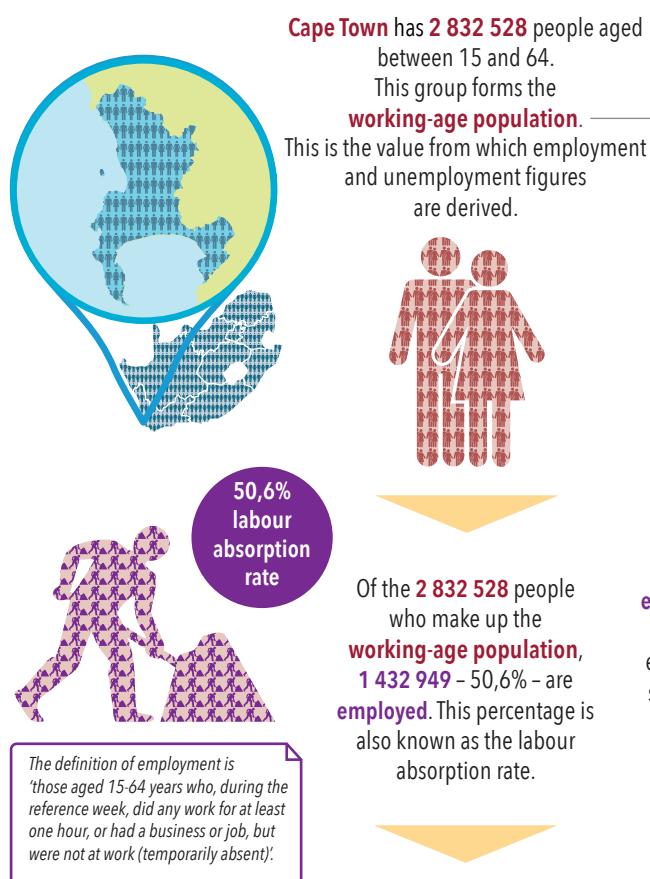
For January 2015, the Western Cape's inflation rate dropped to a new low of 4,4% – the lowest since April 2011.



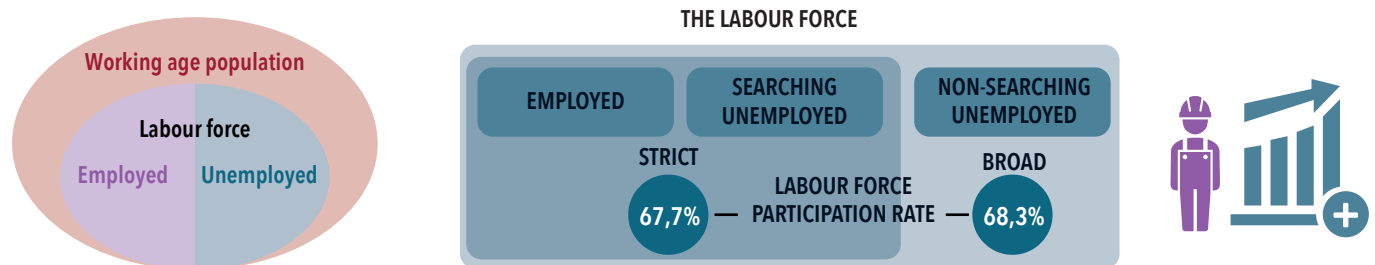
Labour market trends

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



THE 'STRICT' AND 'BROAD' DEFINITIONS OF UNEMPLOYMENT AND THE LABOUR FORCE.

Strict labour force = 1 916 957

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 **1 916 957** strong, being made up of **1 432 949 employed people** and **484 008 job seekers**.

Broad labour force = 1 935 675

The 'broad' definition of the labour force includes those under the 'strict' definition, and 'discouraged' or 'non-searching' job seekers. By this measure, Cape Town's labour force is **1 935 675** strong, being made up of **1 432 949 employed people**, **484 008 job seekers**, **5 650 discouraged or 'other non-searching' job seekers** and **13 070 non-searching unemployed**.



Strict unemployment rate = 25,2%

The 'strict' definition of unemployment includes only people who are actively seeking work. By that definition Cape Town has **484 008 unemployed people** – 25,2% of the strict labour force.

Broad unemployment rate = 25,9%

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 **502 726 unemployed people** – 25,9% of the broad labour force.

Unemployed persons actively seeking work are those aged 15-64 years 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
- 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.

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

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.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

In the fourth quarter of 2014, South Africa's labour force decreased by 39 000 individuals compared to the previous quarter. The number of employed people increased by 203 000 to 15,32 million in this period. Employment was largely driven by agriculture (56 000), construction (53 000) as well as trade (50 000). Whilst these three industries experienced strong employment growth, others experienced a decline in employment. Employment losses were led by utilities (-15 000) and mining (-14 000). Overall, the majority of the industries had positive growth for the fourth quarter of 2014.

Annually, 143 000 job opportunities were created compared to the fourth quarter of 2013, and 221 000 individuals were added to the labour force. The largest contributor to annual employment growth was the construction sector (130 000), with the second-largest contributor being the community and social services sector (31 000). A few sectors performed poorly on a year-on-year basis, while experiencing positive growth on a quarterly basis. These sectors included private households (-26 000), transport (-10 000) as well as manufacturing (-17 000). On the other hand, utilities performed poorly on both a quarterly basis and a year-on-year basis (-23 000).

Figure 22: Employment trends vs unemployment rate in South Africa (Quarter 2, 2008 to Quarter 4, 2014)



Source: Stats SA, March 2015.

For the fourth quarter of 2014, unemployment in South Africa decreased by 242 000 quarter-on-quarter to a total of 4,91 million people. This resulted in a 1,1 percentage point decrease in the official unemployment rate to 24,3%. Discouraged work seekers, who are only included in the expanded measure of unemployment, decreased by 111 000 to a total of 2,4 million individuals.

The figure above illustrates the predominantly inverse relationship between employment creation and the unemployment rate. As indicated on the graph, when employment levels increase, the unemployment rate typically decreases. The unemployment rate peaked at 25,2% in the second quarter of 2014, but has since fallen by 0,9 percentage points on the back of stronger employment creation.

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the fourth quarter of 2014, the working-age population of Cape Town decreased by approximately 46 000 individuals compared to the third quarter of 2014, but increased by nearly 56 000 individuals on an annual basis. Cape Town's labour force decreased by 89 000 individuals to a total of 1,916 million in the fourth quarter, and its labour force participation rate decreased by 2 percentage points to 67,7%. This remains significantly higher than the national rate of 56,8%, pointing to the greater inclusiveness of Cape Town's labour market.

The number of people employed in Cape Town in the fourth quarter of 2014 decreased by 59 000 individuals on a quarterly basis and by 43 000 individuals on an annual basis. The formal sector absorbs the bulk of the individuals who are employed in Cape Town, but reflected decreased employment in the fourth quarter (-16 000). Employment in the informal sector decreased by 28 000 quarter-on-quarter in the fourth quarter, but increased by 3 000 individuals on a year-on-year basis, which resulted in the informal sector's share of employment decreasing to 9,1%.

To measure the performance of Cape Town in creating job opportunities, it is helpful to compare the city with the other metros. From a static point of view, Cape Town has the second-most employed people in the country, with 1,42 million employed people compared to Johannesburg's 1,9 million. This is to be expected, as Johannesburg has a significantly larger population.

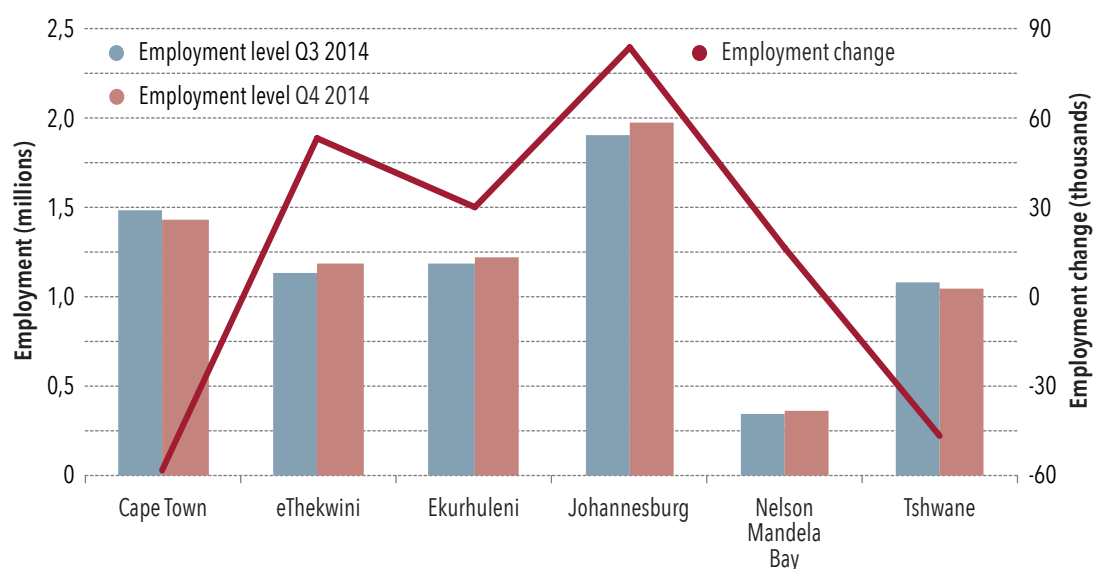
For the fourth quarter of 2014, countrywide unemployment decreased by 242 000 quarter-on-quarter. This resulted in a 1,1 percentage point decrease in the official unemployment rate to 24,3%.

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

Indicator	South Africa			Cape Town		
	Q4:2014	Q3:2014	Q4:2013	Q4:2014	Q3:2014	Q4:2013
Working-age population (000s)	35 643	35 489	35 022	2 832	2 878	2 776
Labour force	20 228	20 268	20 007	1 916	2 005	1 916
Employed	15 320	15 117	15 177	1 432	1 491	1 475
Employed by the formal sector	10 911	10 843	10 773	1 224	1 240	1 246
Employed by the informal sector	2 448	2 407	2 446	131	159	128
Unemployed	4 909	5 151	4 830	484	519	441
Not economically active	15 415	15 221	15 015	915	873	854
Discouraged work seekers	2 403	2 514	2 200	5	6	5
Other	13 012	12 707	12 815	909	867	849
Unemployment rate (%)	24,3	25,4	24,1	25,2	25,6	23,0
Youth unemployment rate (%)	48,8	51,3	48,9	53,7	52,7	51,3
NEET** as % of working-age population	39,3	39,9	N/A	36,0	35,0	N/A
Absorption rate (%)	43,0	42,6	43,3	50,6	51,8	53,1
Labour force participation rate (%)	56,8	57,1	57,1	67,7	69,7	69,0

Source: Stats SA, March 2015. * Figures in tables may not exactly add up due to rounding off. ** Not employed or in education or training.

In line with the national unemployment trends, Cape Town experienced a decrease in the number of unemployed people in the fourth quarter when compared to the third quarter.

Figure 23: Employment comparison with other metros (Quarter 3, 2014 to Quarter 4, 2014)


Source: Stats SA, March 2015.

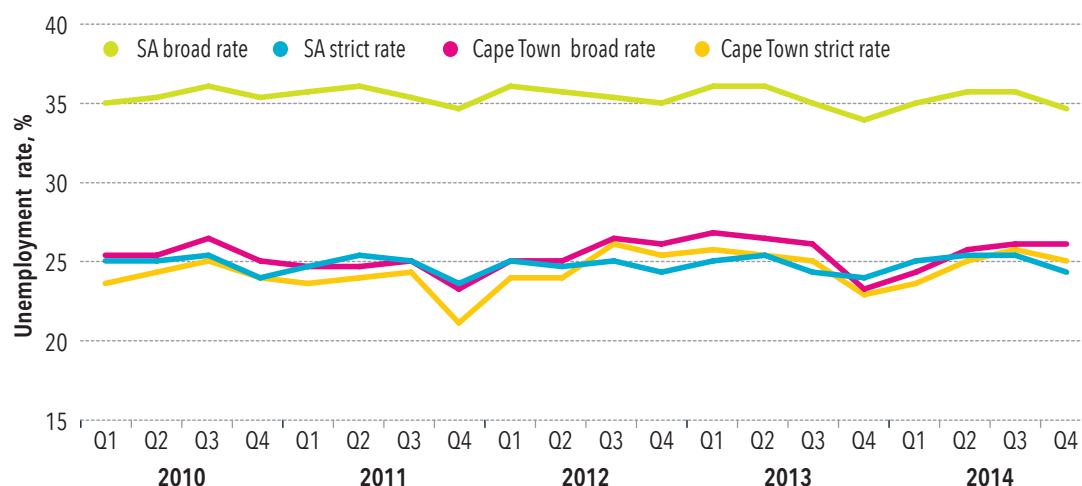
Turning attention to employment creation in the fourth quarter, as measured by the difference between the third and fourth-quarter employment levels for 2014, one observes a very varied performance. Both Cape Town (-58 358) and Tshwane (-46 825) shed jobs in the fourth quarter, while all the other metros created jobs. eThekweni (53 713) and Johannesburg (83 300) created the most jobs in the quarter. For the completed year however eThekweni shed jobs at the fastest rate (-7,0%) of all metros.

Unemployment in Cape Town

In line with the national unemployment trends, Cape Town experienced a decrease (35 000) in the number of unemployed people in the fourth quarter compared to the third quarter. On a year-on-year basis, the number of unemployed people in the city increased by approximately 43 000 individuals. As a result of decreasing unemployment on a quarterly basis, Cape Town's strict unemployment rate decreased by 0,4 percentage points to 25,2%. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 53,7% in the fourth quarter of 2014, having increased from 52,7% in the previous quarter. While this is not much higher than the national rate of 48,8%, it is nonetheless exceptionally high by developing-country standards, and poses a significant challenge to economic policymakers in the city.

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 desiring to work. It is thus revealing to present both the strict and expanded rates

Figure 24: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 4, 2014)



Source: Stats SA, March 2015.

of unemployment. As illustrated by figure 24, the two rates of unemployment for Cape Town have remained relatively close over the last three years, with the expanded rate on average 1,04% higher than the strict rate. Cape Town's strict unemployment rate decreased in the fourth quarter of 2014, but exceeded the national strict unemployment rate by 0,90 percentage points. However, this disparity is reversed if one uses the expanded rate of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 24). South Africa's expanded unemployment rate in the fourth quarter of 2014 was 34,6%, compared to Cape Town's expanded rate of 25,9%. On this basis, Cape Town's labour market can be considered to be 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 majority of the metros experienced a decrease in their expanded unemployment rate in the fourth quarter, with Ekurhuleni being the only metro to record an increase. Nelson Mandela Bay had the highest expanded unemployment rate (33,92%) and the highest official/strict unemployment rate (33,67%), while Johannesburg had the lowest expanded unemployment rate (25,03%) and eThekweni the lowest strict rate (16,66%). Cape Town, had until the last quarter, possessed the lowest expanded unemployment rate. It remains to be seen whether the lower expanded rates recorded by eThekweni and Johannesburg in the fourth quarter will be sustained or are merely reflective of short term, quarterly trends. For 2014 as a whole, Cape Town recorded the lowest expanded unemployment rate of all the metros. What is notable from table 3 is how similar Cape Town's expanded and official unemployment rates are, especially compared to metros such as eThekweni, where the expanded rate is almost 10 percentage points higher.

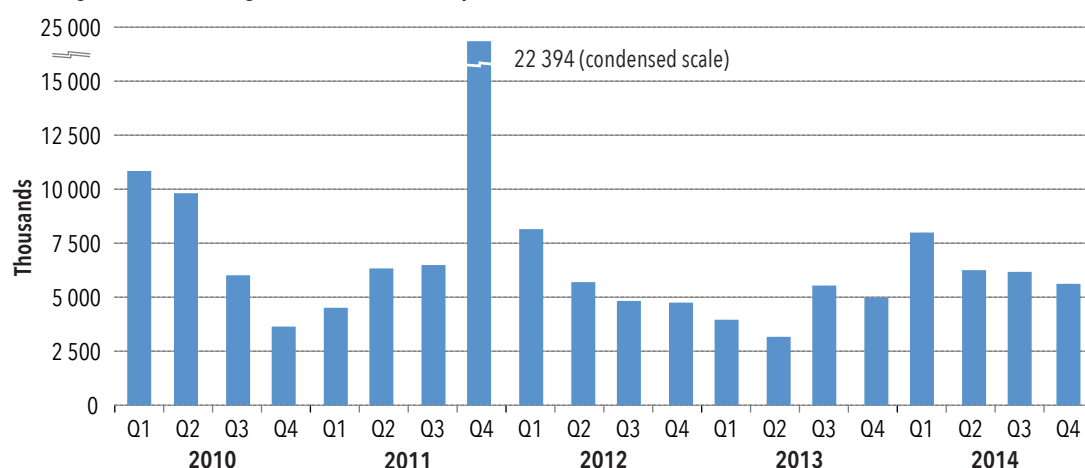
Using the expanded rate of unemployment, Cape Town's labour market can be considered to be better performing and more inclusive than the national labour market.

Table 3: Official vs expanded unemployment rates (%)

Metro	Official			Expanded		
	2014:Q3	2014:Q4	Year average	2014:Q3	2014:Q4	Year average
Cape Town	25,63	25,25	24,88	26,27	25,97	25,68
eThekweni	17,50	16,66	16,62	27,01	25,95	25,76
eKuhuleni	29,69	31,56	30,06	32,78	35,38	33,59
Johannesburg	23,77	22,06	23,93	26,90	25,03	26,53
Nelson Mandela	37,97	33,67	37,23	38,20	33,92	37,37
Tshwane	21,52	20,47	20,39	27,82	27,78	27,04

Source: Stats SA, March 2015.

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. According to Stats SA (2014), a discouraged work seeker "is a person who was not employed during the reference period, wanted to work, was available to work/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". Discouraged work seekers are included in the expanded unemployment figure, which explains why this figure is slightly higher than the strict unemployment figure. The number of discouraged work seekers in Cape Town decreased from 6 171 individuals in the third quarter to 5 650 in the fourth quarter.

Figure 25: Discouraged work seekers in Cape Town (Quarter 1, 2010 to Quarter 4, 2014)


Source: Stats SA, March 2015.

Figure 25 shows that the number of discouraged work seekers has (except for the outlier of the fourth quarter of 2011) consistently been below 10 000 individuals. For one of South Africa's major metropolitan regions, Cape Town contributes a disproportionately small percentage (0,24%) 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

There are two factors that can lead to an increasing expanded rate of unemployment: The first is a decrease in employment; the second, an increase in labour force participation. When the rate of employment growth is exceeded by the rate at which the expanded labour force grows, the expanded unemployment rate increases. Figure 26 shows that employment growth in the fourth quarter of 2014 decreased at a slower rate than the decrease in the expanded labour force. This, then, led to a decrease in the expanded unemployment rate for the period under review. The impact of the negative growth in employment creation in the fourth quarter of 2014 was countered by the shrinking of the labour force as people transitioned from unemployed to non-economically active.

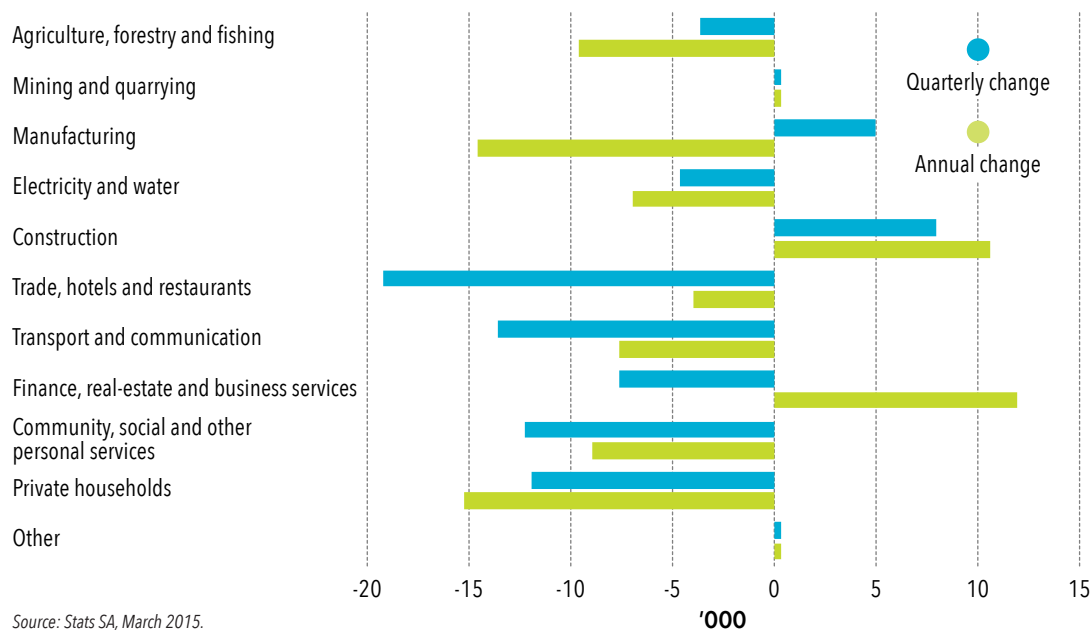
Figure 26: Broad labour force and employment growth rates for Cape Town (Q2, 2008 to Q4, 2014)


Source: Stats SA, March 2015.

Sector employment trends in Cape Town

Figure 27 (opposite) displays the level of employment by industry/sector within Cape Town. Overall, most sectors reflected negative growth for the fourth quarter of 2014 compared to the previous quarter. Construction was the largest contributor to total employment growth in the fourth quarter, with employment growth of 8 149 jobs. It was followed by manufacturing, which contributed 5 074 jobs. Annually, construction also added positively to employment, contributing 10 757 jobs. Overall, the performance of the construction sector was positive for both Cape Town and the rest of the country. Mining also fared better in the fourth quarter of 2014. The sectors with the biggest job losses were trade (-19 259), transport (-13 329) as well as community and social services (-12 177).

Figure 27: Quarterly and annual change per sector for Cape Town (Quarter 4, 2014)



On an annual basis, some of the sectors fared better. However, the majority contributed negatively to employment. The strongest contributing sector in respect of year-on-year employment growth was finance, which grew employment by 12 108 jobs. Further contributions came from construction and, to a lesser extent, mining. The sector that experienced the most year-on-year job losses in the fourth quarter of 2014 was private households (-15 171), followed by manufacturing (-14 428).

Labour market outlook

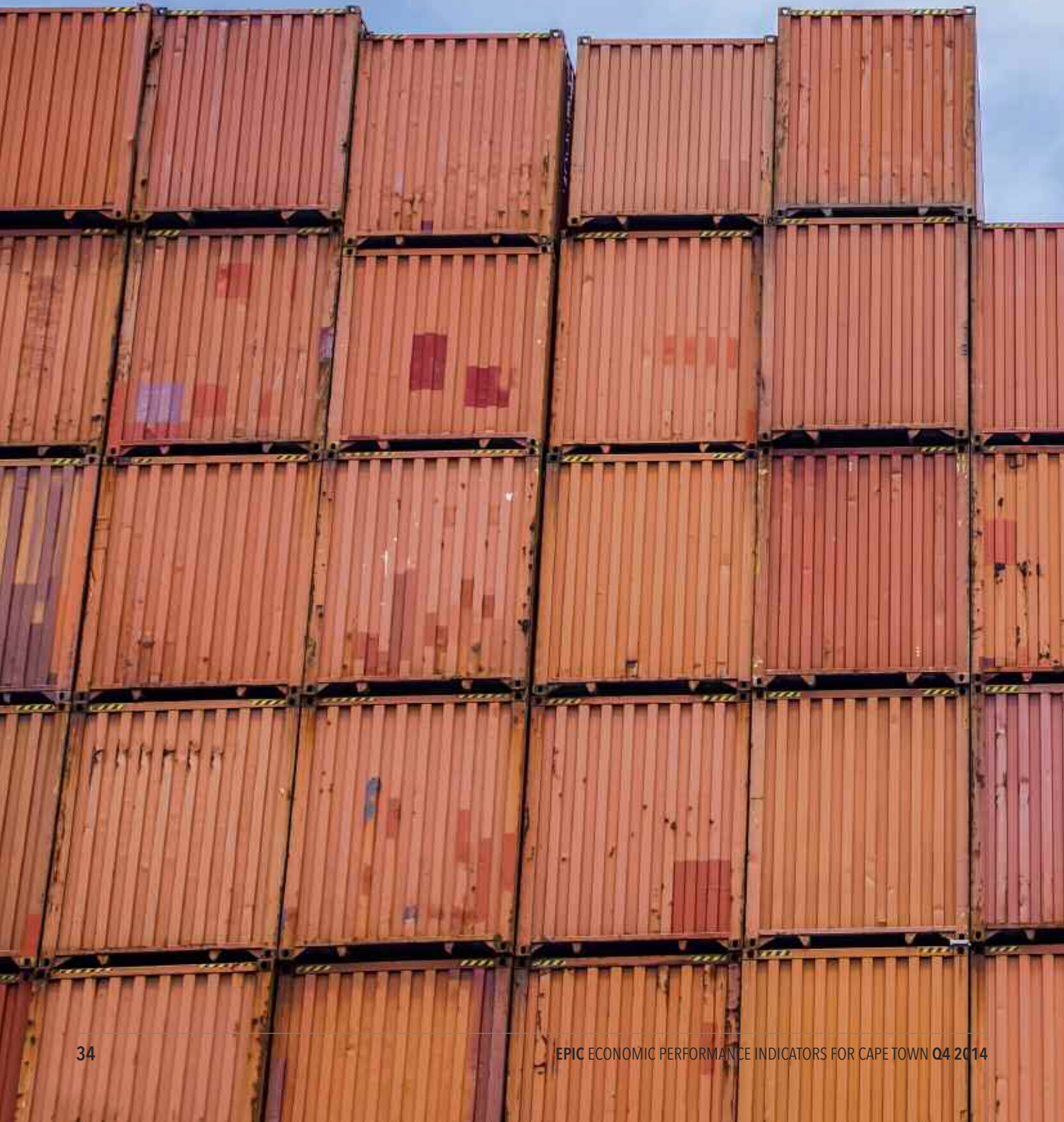
Cape Town's unemployment rate (both the official and expanded) dropped in the fourth quarter of 2014. This can't be attributed to job creation, as the city shed jobs in the quarter, but must rather be attributed to a decline in the labour force over this period. This may be related to migrant worker patterns, whereby unemployed work seekers returned to their family homes over the festive period. While Cape Town's labour market statistics are significantly better than the national figures, a comparison across metros reveals a more complex picture. Cape Town had recorded the lowest expanded rate in the third quarter of 2014, but the strong employment growth in Johannesburg and eThekwin in the fourth quarter pushed them ahead of Cape Town with regard to this indicator. The decrease in employment in Cape Town in the fourth quarter is however unlikely to be a long-term trend, and is probably just a consequence of the slow GGP growth in the tertiary sector, particularly the trade sector, which is comparatively more important in Cape Town than the other metros. Increasing consumer confidence should see a resurgence in the activity in these sectors, and a corresponding increase in employment. This is likely to reposition Cape Town as the metro with the lowest expanded rate of unemployment in the near future.

The decrease in employment in Cape Town in the fourth quarter is unlikely to be a long-term trend, and is probably just a consequence of the slow GGP growth in the tertiary sector, particularly the trade sector, which is comparatively more important in Cape Town than the other metros.



Trade and investment

Cape Town is an open economy, which embraces trade and investment with the rest of the world. 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 current trade balance deficit by increasing the country's volume of exports.





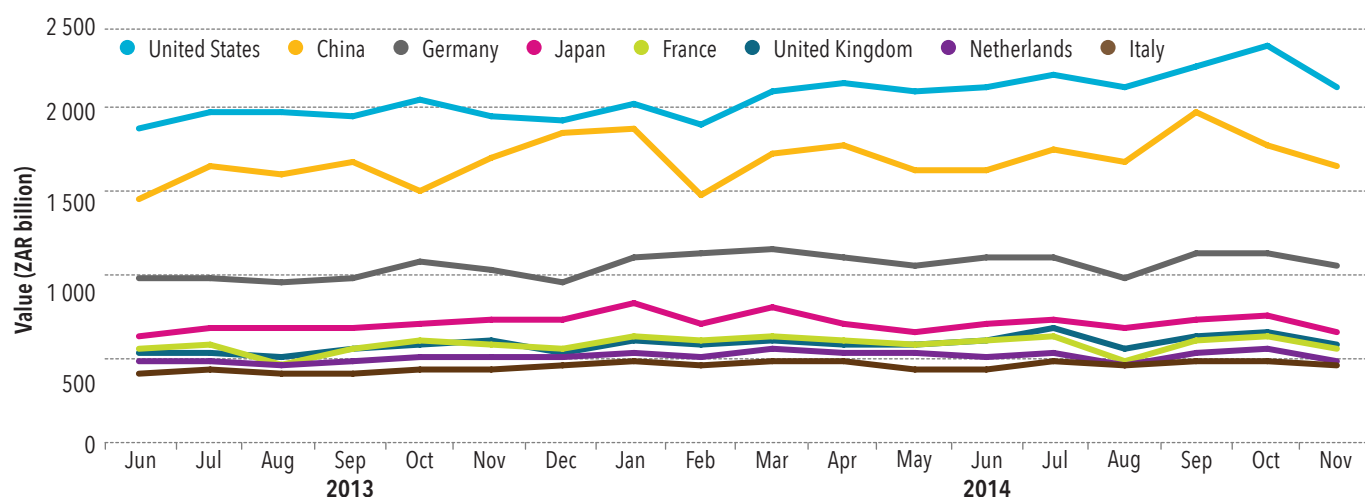
TRADE

Global trade

The world's largest importers of goods are the United States and China, with imports reaching R6,8 trillion and R5,5 trillion respectively in the fourth quarter of 2014. All of the top eight import markets shown in the figure below demonstrated positive import growth rates from the third quarter to the fourth quarter. China experienced the highest quarterly growth rate (6,8%), despite a 6,7% drop in imports between October and November due to lower commodity prices and poor domestic demand. China also experienced a large growth in the import of electronic integrated circuits and micro-assemblies in August, which dipped in the months following. The increases in imports in the United States for the months August to October were driven largely by the growth in automotive imports.

Year-on-year growth figures from the fourth quarter of 2012 and 2013 show positive import growth above 10% for each of the top eight importers, with the United States leading growth at 16,2%.

Figure 28: Global imports of goods (June 2013 to November 2014)



Values in ZAR bn	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
United States	1 902	2 009	1 990	1 967	2 082	1 972	1 939	2 053	1 922	2 125	2 173	2 137	2 159	2 238	2 150	2 280	2 406	2 150
China	1 474	1 667	1 627	1 701	1 527	1 715	1 884	1 894	1 503	1 743	1 792	1 659	1 654	1 764	1 690	1 999	1 788	1 669
Germany	993	996	958	990	1 095	1 052	966	1 113	1 138	1 176	1 112	1 060	1 114	1 118	993	1 136	1 147	1 076
Japan	641	695	693	696	729	734	741	837	710	823	708	666	707	750	690	751	763	677
United Kingdom	543	541	514	577	600	610	537	615	581	619	596	596	616	690	569	645	656	591
France	560	585	471	579	626	585	580	642	607	645	617	589	630	648	486	628	649	573
Netherlands	482	482	468	492	528	518	518	545	526	563	536	531	530	552	473	542	556	502
Italy	408	430	417	410	451	439	459	484	462	489	483	443	452	488	456	484	489	458

Source: International Trade Centre; Ministry of Commerce PRC, February 2015.

The 2015 update to the IMF World Economic Outlook report forecasts that trade growth in 2015 will be 3,8%, which represents a 1,1 percentage point downward adjustment from 2014 forecasts. Emerging markets and developing economies, with an expected growth rate of 6,1%, are still forecast to outperform advanced economies, which are forecast to grow by 4,8% in 2015. However, a decline in potential growth in emerging economies is a major factor in the downward adjustment. (IMF, 2015c)

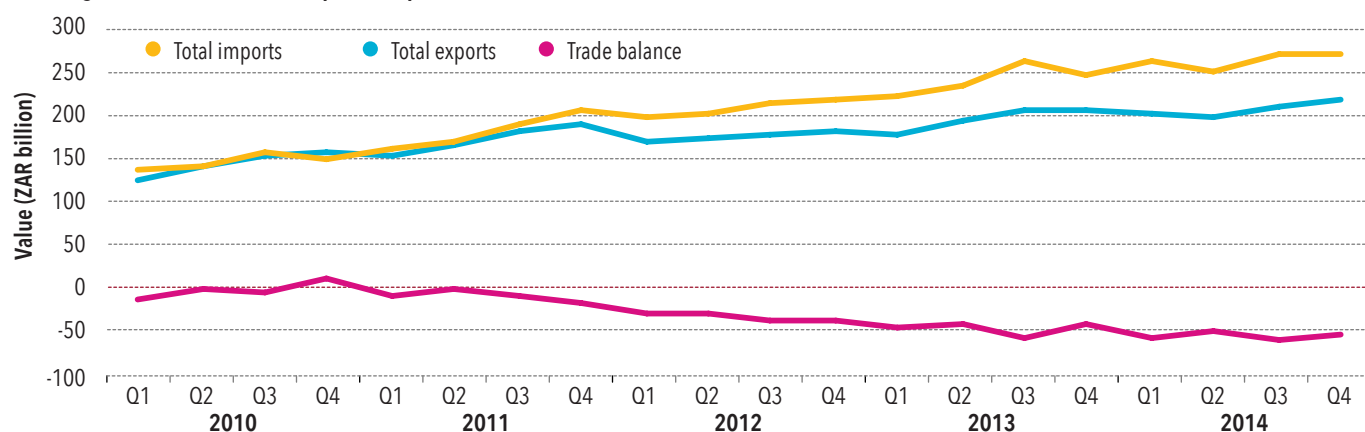
South African trade

South African trade has experienced strong and consistent growth since the first quarter of 2010, with an average quarterly growth rate reaching 3,1% for exports and 3,9% for imports. In the fourth quarter of 2014, both exports and imports increased – by 2,4% and 0,3% respectively. The trade deficit recovered slightly in the fourth quarter of 2014 due to the decline in the oil price, resulting in stagnant import figures. The deficit, however, still amounted to 22,7% of the nominal GDP (R979 billion) in the fourth quarter. The trade deficit has grown by 22% from 2013 to 2014. For the completed year 2014, exports and imports increased by 5,7% and 8,9% respectively, with total exports reaching R833 billion, while imports were R1,05 trillion.

China is South Africa's largest export destination, with exports reaching R21 billion in the fourth quarter of 2014. South Africa's exports to China are influenced by the Chinese appetite for South African mineral commodities, especially iron ore and concentrates, which continues to drive exports. There was an uptick in exports to China in the fourth quarter, with a quarter-on-quarter growth rate of 9,5% recorded. It is important to continue to stimulate the Chinese demand for South African manufactured products so as to limit the impact on exports when the demand for mineral commodities declines.

South Africa's second-largest export market is the United States, followed by Germany and Japan, with these countries

South African trade has experienced strong and consistent growth since the first quarter of 2010, with an average quarterly growth rate reaching 3,1% for exports and 3,9% for imports.

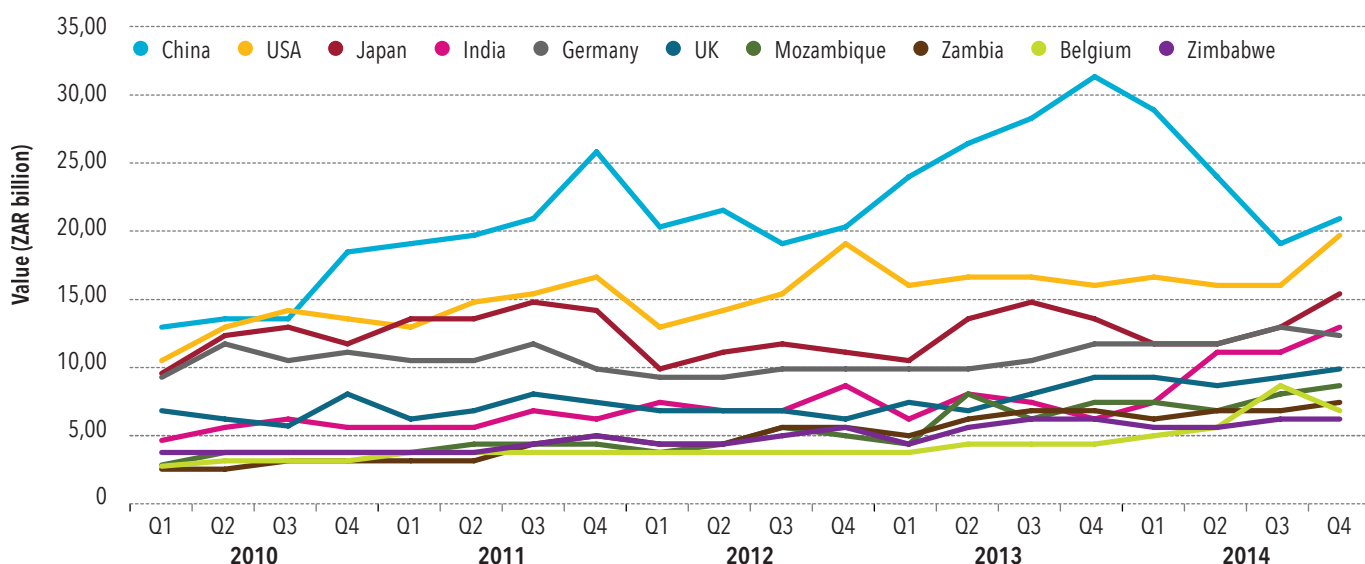
Figure 29: South Africa's exports, imports and trade balance (Quarter 1, 2010 to Quarter 4, 2014)

	2010				2011				2012				2013				2014			
Values in ZAR bn	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
• Total exports	125,3	143,1	152,6	159,1	155,0	165,9	181,6	189,0	168,5	173,3	178,7	180,4	176,9	195,1	208,3	207,7	203,9	199,5	212,3	217,4
• Total imports	136,8	143,6	156,9	148,8	161,9	168,0	190,9	205,4	198,3	201,7	214,8	218,5	221,2	237,0	265,3	247,7	262,2	249,6	271,9	272,7
• Trade balance	-11,6	-0,5	-4,2	10,3	-6,8	-2,1	-9,3	-16,5	-29,7	-28,4	-36,1	-38,1	-44,3	-41,8	-57,0	-40,0	-58,3	-50,2	-59,6	-55,3

Source: Quantec, February 2015.

also featuring prominently as source markets for South African imports. Exports to the United States are driven by platinum and motor vehicle exports, which increased by 75,1% and 6,5% respectively from the previous quarter. The large increase in platinum exports indicates a recovery from the decrease in production due to the industrial action that commenced in late January 2014 (SARB, 2015).

Mozambique has emerged as South Africa's top export market in Africa and the country's seventh-largest global export market in the fourth quarter of 2014, followed by Zambia, which ranked eighth. This highlights the growing importance of SADC and intra-African trade for South African exporters.

Figure 30: South Africa's export markets (Quarter 1, 2010 to Quarter 4, 2014)

	2010				2011				2012				2013				2014			
Values in ZAR bn	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
• China	12,79	13,69	13,63	18,44	18,83	19,66	20,85	25,95	20,52	21,44	18,83	20,35	23,90	26,32	28,02	31,12	28,80	23,94	19,18	20,99
• United States	10,45	12,97	14,43	13,65	13,10	15,05	15,15	16,33	13,09	14,06	15,38	19,02	16,27	16,54	16,82	15,71	16,47	16,11	16,06	19,43
• Japan	9,56	12,49	12,79	11,49	13,38	13,46	14,52	13,93	9,84	11,12	11,92	11,38	10,31	13,82	14,87	13,87	11,64	11,45	12,70	15,65
• India	4,65	5,66	6,07	5,83	5,50	5,52	7,10	6,21	7,70	6,97	6,88	8,52	6,48	7,91	7,48	6,13	7,26	10,96	10,99	12,88
• Germany	9,26	11,67	10,65	11,14	10,75	10,81	11,90	9,71	9,19	9,11	10,02	9,67	10,07	9,87	10,27	11,79	11,95	11,65	13,19	12,15
• United Kingdom	6,71	6,15	5,71	7,86	6,25	7,02	8,09	7,33	7,00	7,06	6,64	6,44	7,22	7,05	8,32	9,09	9,20	8,50	9,20	10,11
• Mozambique	2,84	3,62	3,61	3,78	3,89	4,35	4,37	4,57	4,02	4,61	5,33	4,94	4,68	8,30	6,16	7,49	7,55	7,12	8,32	8,38
• Zambia	2,36	2,75	3,00	3,33	3,11	3,39	4,63	5,08	4,39	4,62	5,45	5,62	4,79	6,08	6,63	7,11	6,25	6,75	6,82	7,49
• Belgium	2,76	2,90	3,41	3,38	3,86	3,89	3,58	3,73	3,79	3,97	3,53	3,67	3,86	4,38	4,54	4,31	4,95	5,77	8,53	6,71
• Zimbabwe	3,56	3,51	3,98	4,05	3,70	3,82	4,45	5,18	4,09	4,44	4,97	5,43	4,48	5,53	6,03	6,25	5,44	5,72	6,17	6,51

Source: Quantec, February 2015.

Local tech-success:

The antennas that provide the satellite data and voice connectivity for the Solar Impulse 2 solar-powered aircraft are made in Cape Town. Pilots André Borschberg and Bertrand Piccard are attempting to fly the Swiss-made plane round the world over five months. In March 2015, they departed from Abu Dhabi in the United Arab Emirates, and hope to return by August 2015.



Western Cape trade: ICT

In the absence of quarterly trade data for the Western Cape, this section focuses on different selected trade and investment themes as they pertain to the Western Cape each quarter. In this particular edition, the section focuses on the Western Cape and Cape Town's trade of ICT products based on 2013 figures. Information and communications technology (ICT) is a specific term that stresses the role of unified communication and the integration of telecommunication (telephone lines and wireless signals), computers as well as necessary enterprise software, middleware, storage and audio-visual systems that enable users to access, store, transmit and manipulate information. Broad categories within ICT stipulated by UNCTAD include:

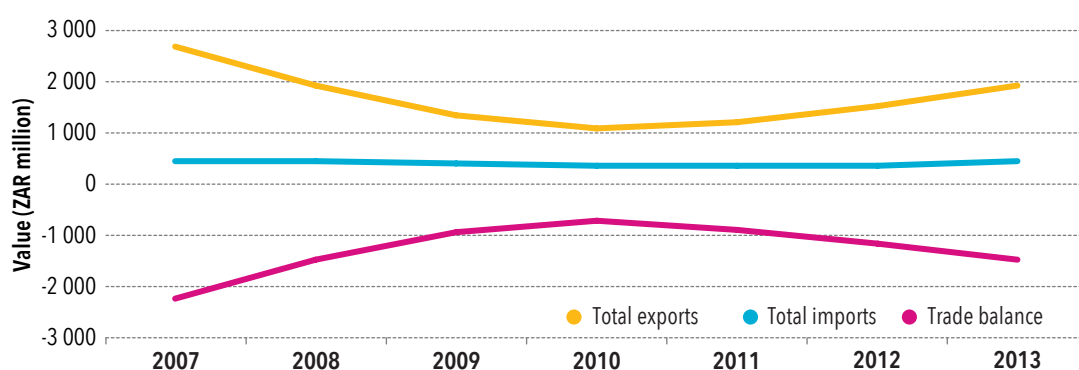
- computers and peripheral equipment;
- communication equipment;
- consumer electronic equipment;
- miscellaneous ICT products; and
- Electronic components.

Due to the current overlap of goods in the electronic components classification between the ICT sector and the renewable energy sector, this classification is under review to consider the two sectors separately. Due to this review, the latter has been omitted from the analysis below. Please note that this affects the recording of passive and magnetic components widely used in portable devices, cloud computing equipment and smart home applications in the ICT analysis.

The Western Cape's imports of ICT experienced strong growth from 2012 to 2013 (R1,98 billion) and increased by 24%. The highest ICT imports were recorded before the financial crisis in 2007 at a value of R2,75 billion. Total ICT exports in the Western Cape grew by 24% from 2012 to 2013, to R502 million. This was the highest export value in the past decade. Aerials and aerial reflectors were the leading ICT export product from the Western Cape in 2013, valued at R214,9 million and making up 42% of South African exports of this product. This was followed by burglar or fire alarms and similar apparatus valued at R79,9 million.

Aerials and aerial reflectors were the leading ICT export product from the Western Cape in 2013, valued at R214,9 million and making up 42% of South African exports of this product.

Figure 31: Cape Town ICT trade (2007 to 2013)



Values in ZARm	2007	2008	2009	2010	2011	2012	2013
• Total exports	446,46	434,88	414,07	358,81	356,28	380,70	469,12
• Total imports	2694,36	1926,86	1352,47	1089,91	1228,07	1518,31	1934,69
• Trade balance	-2247,89	-1491,99	-938,40	-731,10	-871,78	-1137,62	-1465,57

Source: Quantec, 2015.

Table 4: Top 10 Cape Town trade markets for ICT products (2013)

Exports from Cape Town				Imports to Cape Town			
Destination country	Value 2013 (Rm)	% share 2013	% growth 2013	Source country	Value 2013 (Rm)	% share 2013	% growth 2013
1 United States	132,3	28,21	8,0	1 China	1 000,2	51,7	35,5
2 Netherlands	63,0	13,43	38,4	2 United States	167,4	8,7	-1,7
3 France	58,9	12,57	45,1	3 Germany	132,6	6,9	3,5
4 United Kingdom	36,6	7,79	32,0	4 Taiwan	104,5	5,4	21,3
5 Mozambique	30,9	6,58	4,1	5 United Kingdom	90,0	4,7	99,1
6 Zimbabwe	13,3	2,85	74,2	6 Ireland	55,0	2,8	1 374,3
7 United Arab Emirates	11,4	2,42	2 254,9	7 Hong Kong	41,4	2,1	-20,7
8 Ethiopia	9,5	2,02	1 086,9	8 Canada	39,3	2,0	-4,1
9 Canada	8,5	1,80	253,5	9 Republic of Korea	27,9	1,4	20,2
10 Kenya	8,2	1,76	101,4	10 Mexico	25,1	1,3	32,3
Total exports	469,12	100,00%	23,3%	Total imports	1 934,7	100,0%	27,4%

Source: Quantec, 2015.

Cape Town trade: ICT

Cape Town trade in ICT follows the same trend as that of the Western Cape, as Cape Town accounted for 93% of total Western Cape exports in 2013 and 98% of imports. Export growth of 23,3% and import growth of 27,4% reflect a growing trade deficit in the sector, which reached around R1,5 billion in 2013. The large dip in imports in 2008 was due to a decrease in the import of parts and accessories of data-processing equipment, which decreased by 50%, and parts for radio or TV transmission or reception equipment other than aerials, which decreased by 72%.

Table 5: Top 10 ICT export and import products for Cape Town (2013)

Top 10 exports from Cape Town, 2013				Top 10 imports to Cape Town, 2013			
Rank	Product	Value 2013 (ZAR m)	% growth 2013	Rank	Product	Value 2013 (ZAR m)	% growth 2013
1	Aerials and aerial reflectors	214,9	21,2	1	Solid-state non-volatile storage devices for the recording of sound, etc.	198,8	37,87
2	Burglar or fire alarms and similar apparatus	79,8	38,2	2	Television cameras, digital cameras and video camera recorders	195,0	46,26
3	Parts and accessories of data-processing equipment nes	16,6	-5,6	3	Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus	155,7	20,31
4	Transmission apparatus for radio-broadcasting or television (not incorporated)	15,0	43,6	4	Video game consoles and machines	116,6	4,83
5	Transmission apparatus for radio-broadcasting or television (incorporated)	13,1	26,5	5	Parts and accessories of data-processing equipment	100,8	19,25
6	Other cathode-ray tube monitors	11,8	32,5	6	Parts for radio/TV transmission/reception equipment other than aerials	93,4	24,28
7	Magnetic/optical readers for transcribing data onto media in coded form	10,9	120,4	7	Aerials and aerial reflectors	88,6	26,72
8	Other automatic data-processing machines	7,9	32,5	8	Storage units for computers	81,8	148,44
9	Other apparatus for transmission/reception of voice/image/other data, including wired and wireless networks other than those below (10)	7,26	544,44	9	Parts of telephone sets	54,4	46,78
10	Machines for the reception/conversion/transmission of voice/image/other data, including switching and routing apparatus	6,88	-44,80	10	Telephones for cellular networks or for other wireless networks other than cordless line telephones	50,0	100,00
Total		469,12	23,23	Total		1 934,7	27,42

Source: Quantec, 2015.

The United States is the largest destination market for ICT goods exported from Cape Town. The top export product to this market is aerials and aerial reflectors, with a total worth of R119,7 million. This product was also the largest export item to the United Kingdom and France whereas the largest Cape Town export to the Netherlands was burglar or fire alarms and similar apparatus worth R60,4 million.

The ICT export basket changes when looking at African markets. Cape Town's top ICT export to Mozambique was cathode-ray tube monitors worth R11,4 million, and the top product exported to Zimbabwe was digital processing units (not sold as complete systems) worth R4,1 million. The top export to Ethiopia was other loudspeakers valued at R5,4 million. Large growth in exports from Cape Town was seen for the United Arab Emirates and Ethiopia.

China is the top source market for Cape Town's ICT imports, valued at R1 billion and accounting for 52% of total ICT imports. The largest-value import was parts for radio or TV transmission or reception equipment other than aerials, worth R158,9 million. The largest-value import from the United States in 2013 was machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus worth R43,6 million.

In 2013, ICT exports amounted to ZAR469 million, having grown by 23% from the 2012 figure. Aerials and aerial reflectors (R215 million) and burglar or fire alarms (R80 million) made up the bulk of the exports from Cape Town, which were mainly destined for Europe and America.

INVESTMENT

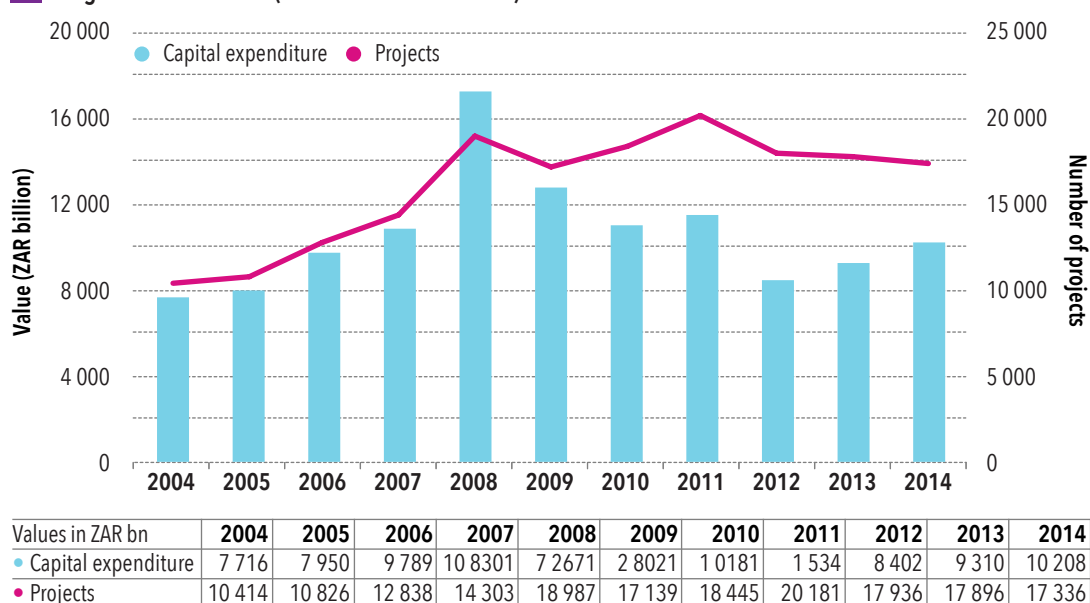
Global foreign direct investment

Global FDI (in terms of value) increased by 10% in 2014 to reach R10,2 trillion, up from R9,3 trillion in 2013. Global FDI projects declined by 3,1% in 2014, with 560 fewer projects in 2014 than in 2013. This shows that the global trend of lower capital expenditure investments per project from 2009 onwards, which resulted in diverging capital expenditure and number of projects, began to re-converge in 2014. Investors on average spent R69 million more per project in 2014 than they did in 2013.

Between October 2014 and December 2014, a total of 4 010 FDI projects were recorded, representing a total capital investment of R2,196 trillion, which represents an average investment of R547,19 million per project. The United States attracted the highest number of projects (1 139) as well as the highest capital expenditure value (R532 billion) in this quarter. When using capital expenditure as a measure, emerging markets such as China, Mexico and Vietnam ranked second, third and fourth respectively. South Africa was the top-ranking African country (36th) in the quarter, receiving R10,6 billion worth of investment. Kenya was the second-best-performing African country (57th), receiving R4,4 billion. In terms of projects, South Africa ranked 38th globally with 16 projects, followed by Nigeria (45th) and Egypt (46th) with 12 projects each.⁷

The top sub-sectors globally for FDI (in terms of projects) in the fourth quarter of 2014 were software publishing, with a 7,4% share of total projects, followed by clothing and clothing accessories (6,8%) as well as retail banking (5,2%). The services sector has dominated global FDI in the fourth quarter in terms of projects. However, the sub-sectors receiving the highest capital expenditure were automobiles (6,4%), construction (5,8%) and natural, liquefied and compressed gas (4,2%).

Figure 32: Global FDI (2004 to December 2014)⁸



Source: Financial Times, 2015.

7. When countries have the same number of projects, they are ranked according to capital expenditure, hence Nigeria is ranked above Egypt.

8. Please note that global FDI figures in this edition may differ from previous editions, as some figures have been revised.

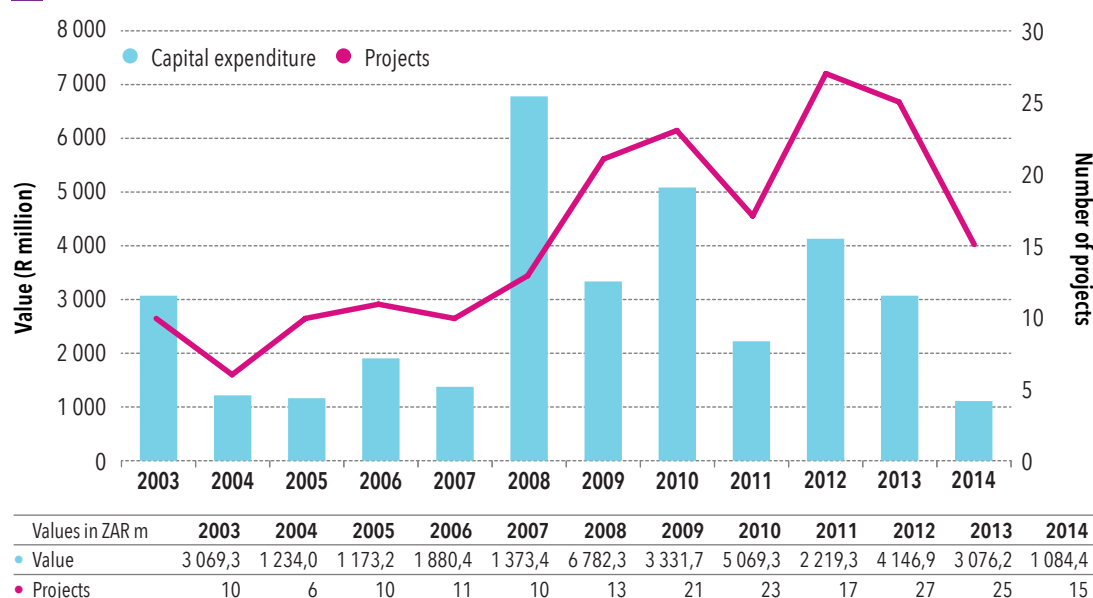
South Africa was the top-ranking African country (36th) in the quarter, receiving R10,6 billion worth of foreign direct investment.

Cape Town foreign direct investment

FDI flows into Cape Town in terms of capital investment have not recovered to the pre-crisis levels attained in 2008, although capital investments from 2009 to 2013 exceeded investments from 2003 to 2007. The number of FDI projects received into Cape Town increased from six projects in 2004 to 27 projects in 2013. The growth in project numbers indicates that more companies are investing in Cape Town than in previous years, despite lower levels of capital investment.

From July 2014 to September 2014, Cape Town attracted six investment projects worth R500,32 million. Should this trend continue, it is expected that the number of projects in 2014 will exceed the amount received in 2013, although capital expenditure is likely to be lower than 2013 figures. The largest investment in this quarter, at a value of R138 million, was carried out by Germany-based SMA Solar Technology. The company opened a new manufacturing facility that produces the firm's photovoltaic inverter products for distribution across South Africa. The second-largest investment of R127 million was by US-based Milliman, a global consulting and actuarial firm that opened a new office in Cape Town to provide actuarial consulting services to the sub-Saharan African market.

Figure 33: FDI flows into Cape Town (2003 to December 2014)



Source: Financial Times, 2015.

The largest number of projects receiving FDI in Cape Town in the third quarter were in the electronic components sector, with three projects worth R260 million. The financial services sector was the second-largest recipient of FDI in the quarter, receiving R126 million, followed by the business services sector with R79 million.

In terms of outward FDI, Cape Town companies committed R390,18 million to seven FDI projects globally from July to September in 2014, indicating that Cape Town was a net recipient of investment in terms of capital expenditure, even though they invested in one more project over the quarter.

Investment facilitation

Between October and December 2014, Wesgro facilitated one new investment project and one expansion project in Cape Town. The new investment was a R35 million manufacturing project, creating an estimated 150 jobs in the metal-recycling sub-sector. The expansion project was a R65,4 million investment that also occurred in the metal manufacturing sector.

The largest number of projects receiving FDI in Cape Town in the third quarter were in the electronic components sector, with three projects worth R260 million.



RENEWABLE ENERGY

The economic value of renewable energy (RE) has both an energy-supply imperative, with energy as an enabler of broader economic activity and service delivery, as well as presenting an economic opportunity in and of itself. This profile focuses primarily on the latter: The performance of value chains in the renewable energy (RE) sector. This is a relatively new sector, for which very little data is available. This profile tells a story of the emerging trends and the drivers of increasing market maturity.

OVERVIEW

For many years, the renewable energy (RE) sector in Cape Town was limited to relatively small-scale, private installations of solar panels and/or solar water heating systems. In the late 2000s, this sector was given additional impetus through the City of Cape Town's Kuyasa project, which used funding through the Clean Development Mechanism (CDM) to install rooftop solar geysers on low-income houses.

A shift to utility-scale installations and associated value chains has been more recent with the introduction of the National Integrated Resources Plan 2010-2030 (IRP2010) and the associated introduction of the Independent Power Producers (IPP) programme. Current Eskom capacity is 42 GW, but not all of the production capacity is functional all of the time, with the country's average supply at around 35 GW. The IRP2010 estimated a need for new capacity of about 38,3 GW, of which 17,8 GW would come from RE sources (46% of additional capacity). With the first three rounds of the RE Independent Power Producer Procurement Programme (known as REIPPPP or REI4P) completed, the price trajectory is such that the RE market is an increasingly competitive option, and may even exceed these targets. The anticipated revision of the IRP is expected to reflect this, with higher targets for renewables. This offers a number of upstream and (predominantly) downstream opportunities for Cape Town.

RECENT PERFORMANCE TRENDS IN THE RENEWABLE ENERGY SECTOR

Progress towards these national targets has already begun, with 3,91 GW already procured nationally from a combination of wind, solar, landfill gas, hydro and biogas sources across the three bidding windows. The CSIR report *Financial benefits of renewables in South Africa in 2014*, released on 21 January 2015, demonstrates that the 1,6 GW of RE installed by December 2014 has saved the country ZAR5,3 billion in diesel and coal and has avoided loadshedding, while costing the country only ZAR4,5 billion in tariffs. While round 3 of the REI4P has seen the prices for electricity from the major renewable technologies generally fall well below the likely cost for new Eskom power, the constrained grid and the very high costs for diesel/loadshedding have meant that renewables built under round 1 saved the country more in 2014 than they cost. This situation will only improve as prices become more competitive and the cumulative additional power to the grid grows as allocated projects come on line.⁹ More detail is provided for three categories of RE is provided below, namely:

- **Utility scale:** Large scope production that feeds into the grid and is (currently) procured via the IPP office, with Eskom as the guaranteed off-taker in the deal. To date, this has been related to wind and photovoltaic (PV) solar in the Western Cape, as well as wind, PV solar and concentrated solar in the Northern Cape.
- **Commercial and industrial scale:** This refers to private installations of RE systems providing energy directly for private users (for example solar panels on an office block or factory), with more recent investments also including additional capacity to feed into the City of Cape Town grid.
- **Residential scale:** Private households investing in their own energy security solutions through investments in residential RE technologies, such as solar PV and solar geysers.

Table 6 below shows the intensity of the value chain impact for various services and activities associated with each category. It is within these value chains that the majority of Cape Town's involvement in RE lies.

The 1,6 GW of RE installed by December 2014 has saved the country ZAR 5,3 billion in diesel and coal and has avoided loadshedding, while costing the country only ZAR4,5 billion in tariffs.

Table 6: Value chains within the various RE markets

Value chain component	Utility scale	Industrial and commercial scale	Residential scale
	→ Intensity of value chain impact →		
Import/export services			
Transport and logistics			
Consultant engineering			
Design consultants			
EIA consultants			
Deal-structuring (legal and financial) services			
Manufacturing			
Civil and construction works			
Installations			
Operations			
Maintenance			

Source: IPPP Western Cape Overview, Revision 1, December 2014.

9. CSIR report welcomed by SA renewables bodies. <http://www.energy.org.za/reipp/160-csir-report-welcomed-by-sa-renewables-body>. View the full report: http://www.sarec.org.za/wp-content/uploads/2015/01/Financial-benefits-of-Wind-and-PV-in-2014-CSIR-21Jan2014_FINAL-2.pdf

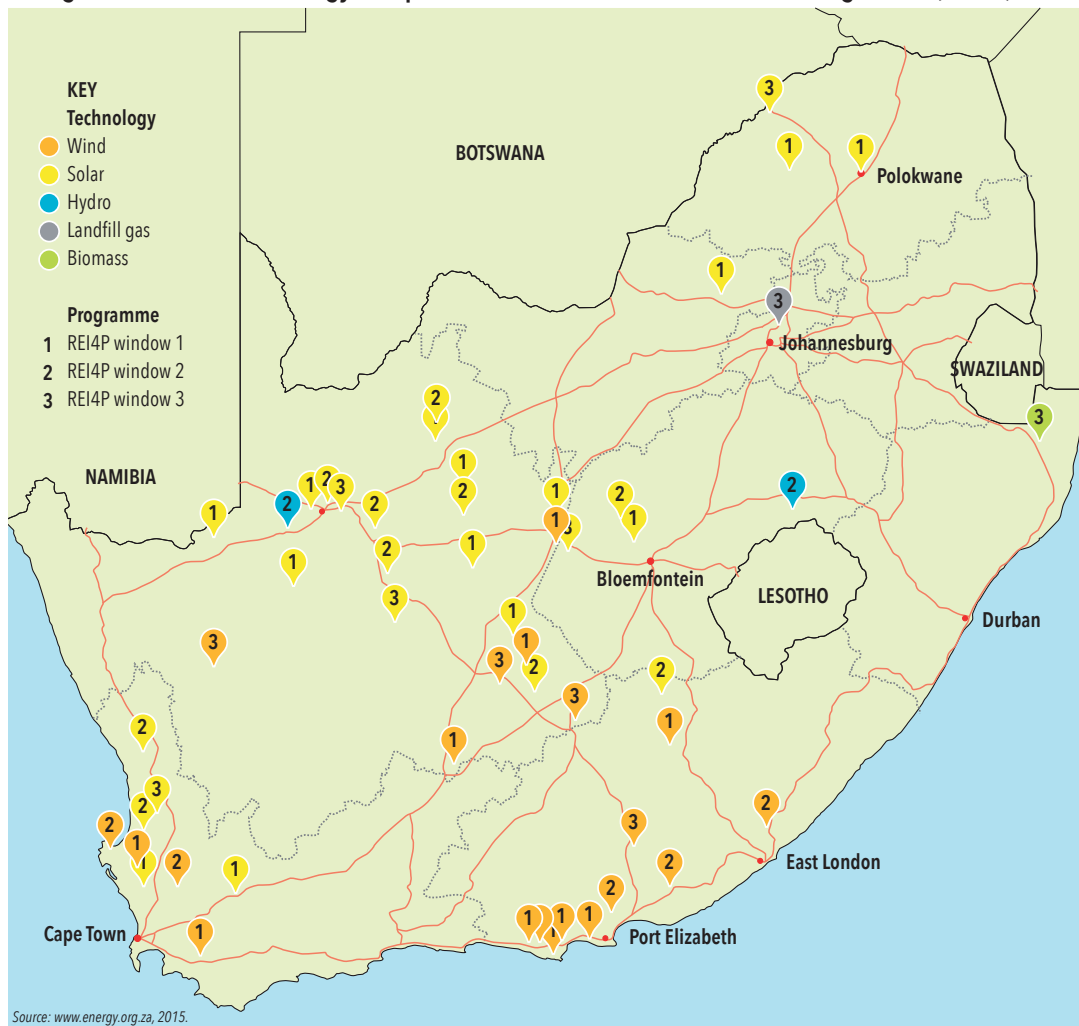


Utility-scale renewable energy

The utility-scale RE market is new in South Africa and is in effect exclusively made up of the successful REI4P allocations. In the Western Cape, there have been nine projects (five solar PV and four wind) across the three bidding windows, adding a total of 964 megawatts to the grid at a total project cost of R23,6 billion, of which R7,3 billion was local content.

The 70/30 price-to-economic-development weighting approach taken in the REI4P assessment criteria ensures that local content and local job creation are prioritised. IPP submissions are evaluated with 70% of the points going to price competitiveness and 30% going to the ability to create local jobs, procure local content, support local enterprise development and contribute to local development (with the latter achieved largely through community trusts as shareholders). The emphasis on local content procurement has resulted in investments in local content production. Table 7 overleaf summarises these projects and their associated investment and impacts.

Figure 34: Renewable Energy Independent Power Producer Procurement Programme (REI4P)



In the Western Cape, there have been nine projects (five solar PV and four wind) across the three bidding windows, adding a total of 964 megawatts to the grid at a total project cost of R23,6 billion, of which R7,3 billion was local content.

None of the projects detailed in table 7 below are within the boundaries of the City of Cape Town. Cape Town is, however, home to many of the service providers within the value chain – both professional and material (not only for Western Cape projects, but arguably also for Northern Cape and other regions).

According to GreenCape, there are currently four large-scale PV manufacturers and four inverter manufacturers in the Western Cape. Unfortunately, there has been no comprehensive assessment of all of the investments across the value chain. Major investments in manufacturing are however indicative of the new industrial activity that has been largely attributed to the investor/market confidence created through the REI4P structure and targets. In the fourth quarter of 2014, these have included the following:

- In August 2014, China-based solar photovoltaic producer Jinko Solar opened a state-of-the-art factory in Cape Town, creating 250 sustained jobs and producing 1 300 solar PV modules a day. Located in Epping Industria 1, Cape Town, the factory covers an area of 5 000 m² and has an annual production capacity of 120 MW. Jinko Solar invested a total of approximately US\$7,5 million in the factory.
- In November 2014, Spanish firm Gestamp Renewable Industries (GRI) opened its facility in Atlantis (pictured opposite). The R300 million wind turbine tower production facility will produce 150 turbine towers per year, employing and upskilling 200 local members of the Atlantis community. It will reach full production capacity by early 2016.

Commercial and industrial-scale renewable energy

The most common example of commercial and industrial-scale RE are rooftop PV installations, the primary objective of which is to secure energy supply and mitigate the rising cost of electricity. In some instances, these investments have also been related to corporate sustainability targets and reporting. As many of these pre-date embedded-generation policies and are smaller than the EIA-triggering 1 MW capacity, they are difficult to track.

Table 7: Bid windows 1, 2 and 3: REIPP projects in the Western Cape

Western Cape IPPs	Cumulative project capacity		
	Bid window 1	Bid window 1 and 2	Bid window 1,2 and 3
Projects			
Wind	Two projects, 92 MW, 14% of national	Four projects, 319 MW, 26% of national	Four projects, 319 MW, 16% of national
Photovoltaic (PV) solar	Two projects, 41 MW, 7% of national	Four projects, 59 MW, 6% of national	Five projects, 134 MW, 9% of national
Hydro	0	0	0
Solar CSP	0	0	0
Biomass	0	0	0
Landfill gas	0	0	0
Spend and impacts: Western Cape			
Cumulative investment	R4 bn	R9,2 bn	R10,4 bn*
Community trusts (cumulative local equity expected over 20-year project lifespans)			R1,3 bn†
Total procurement spend (incl. international)	R2,6 bn	R6,6 bn	R7,3 bn
Location share (local procurement/local content spend)	R1 bn	R2,9 bn	R3,4 bn ‡
Local enterprise development §	R4,2 m	R14 m	R48 m
Employment creation: during construction (job years)	547	1 575	1 799
Employment creation: sustained (job years)	1 897	3 617	4 911
Development share (socio-economic development contribution to local community ¶)	R0,2 bn	R0,5 bn	R0,6 bn

* 7% of national cumulative total and 2% of Western Cape province's annual GDP.

† R67 m/annum, average, although bulk will kick in after debt-servicing is completed around 2028.

‡ While WC projects' total procurement spend is 7% of the national totals, the local procurement spend is 8%, indicating that projects in the WC have an advantage in their ability to procure local goods and services.

§ While no comparative figures have been provided, the IPP office indicates that the WC province has had comparatively large local enterprise development commitments. Employment intensity also seems to be higher in the WC, with 11% of total job creation being in the WC.

|| 41% are retained within the province.

¶ Typically spent on education, skills development, social and welfare and health-care projects in local communities.

Source: GreenCape, 2015.

Figure 35: The GRI facility in Atlantis



Source: Bruce Sutherland, City of Cape Town, 2015.

Eskom has however collected some data on projects larger than 10 kwp. They estimate that in 2013, across 37 private projects nationally, there was a capacity total of 7 MW, of which 51% was in the Western Cape.

In mid-2014, the City of Cape Town announced its small-scale embedded generation (SSEG) tariffs and regulations.¹⁰ This means that, for the first time, the City's electricity users are permitted to connect their RE systems to the grid and feed excess power back into the grid. The Blackriver Parkway solar PV installation was the first commercial installation to sign an agreement with the City.

In August 2014, German-owned SMA Solar Technology South Africa opened its inverter manufacturing facility in Diep River, Cape Town. The facility includes a production line and quality test centre for SMA's Sunny Central inverters, warehousing as well as the African branch of the SMA Solar Academy training centre. SMA inverters are one of ten brands with various inverter models approved by the City of Cape Town for embedded-generation systems.

Residential-scale renewable energy

The residential-scale RE sector is the most mature of the three, and as a result, there are a number of large, medium and smaller companies producing, installing and maintaining products for this sector. The City of Cape Town has accredited¹¹ 19 service providers in the solar water heater space alone, giving an indication of the size of this sector.

The re-introduction of loadshedding in late 2014, combined with increasing energy tariffs and improvements in price competitiveness amongst suppliers, has resulted in reported growth in demand in this sector. For larger, upper-middle and high-income households (higher energy-use households), the SSEG tariffs are also increasing the viability of embedded-generation installations.

OPPORTUNITIES AND CHALLENGES IN THE RENEWABLE ENERGY SECTOR

The boundary-pushing economic development criteria applied to the assessment of applicant IPPs are a key factor in ensuring that local manufacturing and installation markets are developed. According to the IPP office, which manages the procurement of independent generation projects under the IRP2010, IPPs in the Western Cape procured 55% of content locally (a rand-value measure, where local content is defined as being produced within South Africa).

Boosting the availability of local content available for procurement into IPP projects is an area that offers significant opportunity for Cape Town, and is a key motivator behind the green manufacturing hub concept of the Atlantis special economic zone. The availability and affordability of local content will boost the competitiveness of IPP projects within the Western Cape, nationally and into our neighbouring countries.

On a policy (and thus investor confidence) side, the IRP is due for revision. While it is speculated that targets for RE will be increased, which will boost investment potential in the utility-scale RE sector, there remains some uncertainty in the sector until the revised plan is released. At a more local level, the newly released City of Cape Town SSEG tariffs and regulations require some time to tease out and test the appropriate tariffs, connection regulations and demand-side (efficiency) interventions to ensure that the funding of smaller installations (less than 1 MW) is viable. As more successful cases come on stream, it is anticipated that the value chain for solar PV in particular will experience significant expansion.

There are however limits to local market growth. Cape Town firms positioning themselves as national, continental and even global suppliers will need to ensure the longevity of the impacts of growth in the RE space.

Boosting the availability of local content available for procurement into IPP projects is an area that offers significant opportunity for Cape Town, and is a key motivator behind the green manufacturing hub concept of the Atlantis special economic zone.



10. Guidelines for embedded generation: http://www.capetown.gov.za/en/electricity/Application%20Forms/CTGuidelinesforEmbeddedGeneration_V26_2014_10_31.pdf.

11. City of Cape Town accredited service providers: <http://savingelectricity.org.za/pages/asp.php>.



Four stars, twice over:

The City of Cape Town's Electricity Services headquarters in Bloemhof, Bellville, is the second local government building in South Africa to achieve a four-star rating from the Green Building Council SA (GBCSA) – the first was the City's Manenberg contact centre (pictured below).



STRATEGIC INTERVENTIONS

Province has set an ambitious target of becoming the green economic hub of the African continent and has a number of strategic frameworks to achieve this goal. Energy has also been included as “game changer” in the provincial strategic goals for 2014-2019. Key to achieving the target of becoming the green economic hub of Africa is the work of GreenCape, a sector development agency established by the Western Cape Government's Department of Economic Development and Tourism. GreenCape focuses on supporting the growth of the green economy as a set of market opportunities that support a resource-efficient, low-carbon and socially inclusive economic pathway. Its RE programme seeks to leverage the opportunities that emanate from the national REIPPPP/REI4P.

The **Atlantis special economic zone (SEZ)** is another initiative aimed at supporting manufacturing for RE projects within the province, country, region and globally. A rapid land release programme by the City has offered crucial support to manufacturing suppliers of IPPs by ensuring that land sales can proceed at a sufficient pace to allow for the construction of factories to commence manufacturing within the stipulated 12-month time frame.

The **South African RE Technical Centre (SARATEC)** is an initiative aimed at increasing skills in the sector. SARATEC forms part of Cape Peninsula University of Technology (CPUT), and a new dedicated teaching facility is currently under construction on its Bellville campus. The facility will focus on skills in the installation, operation and maintenance sectors to aid the longevity of the REIPPP. This is in addition to existing educational, research and development programmes such as the Centre for Renewable and Sustainable Energy Studies at Stellenbosch University, the University of Cape Town's Energy Research Centre and the University of the Western Cape's various engineering and natural sciences programmes that have produced innovations for landfill gas and other energy technologies.

The City of Cape Town's **Energy and Climate Change Strategy**, and associated programmes such as the **Energy Efficiency Forum** (where commercial property managers share information on energy efficiency and RE investments), as well as the accreditation of solar water service providers and associated incentives, are another way to move towards a more energy-efficient and low-carbon city, while creating and supporting opportunities in the local manufacturing and installations sectors.

The **Low Carbon Central City Strategy** is an example of a sub-place level strategy that focuses on lesson-sharing between property owners pursuing a green building agenda, and includes tools to support commercial-scale RE investments.



Infrastructure

Cape Town is home to South Africa's second-busiest airport as well as its second-busiest container-handling seaport, 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.

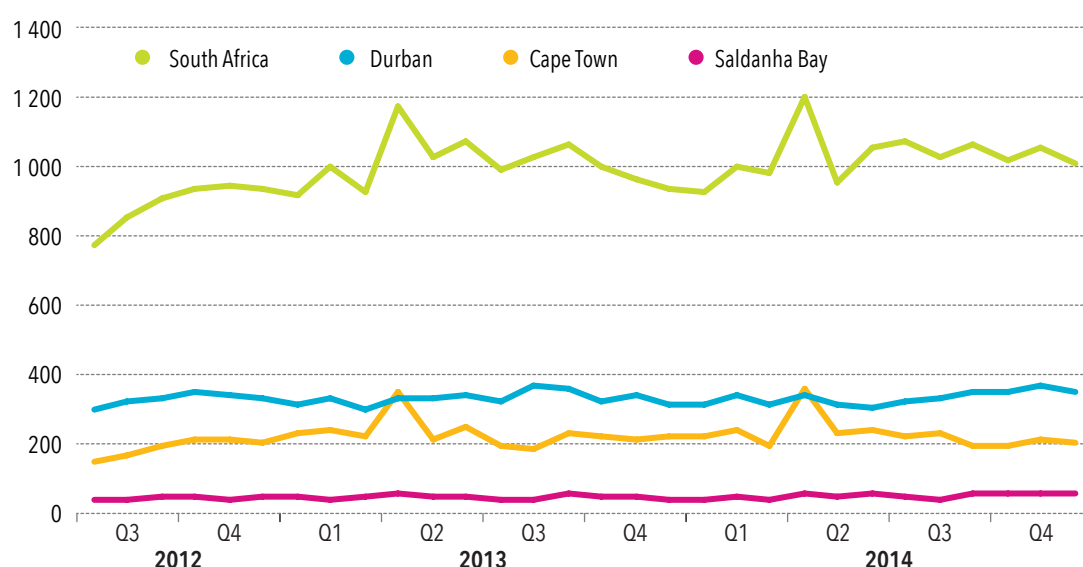
Cape Town is often promoted as the gateway to South Africa, and to Africa more generally. This status is in part historically derived from the use of Cape Town as a refreshment station for ships embarking on long voyages to the East, but is currently sustained by the quality of the transport infrastructure that exists within the city, ensuring that it is both globally and locally 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 79 vessels from 3 149 in the third quarter of 2014 to 3 070 in the fourth quarter. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the fourth quarter of 2014 was 607 vessels (accounting for 20% of total vessels). This represented a slight decrease on the previous quarter's figure of 633 vessels, but constituted the same share of national vessel movements. On a year-on-year basis, vessel arrivals in Cape Town in the fourth quarter decreased by 52 vessels, and its share of South Africa vessel arrivals decreased from 22,8% to 20%. For the completed year 2014, the total volume of vessels arriving in South African ports grew by 2,2% on the previous year's figures. In line with the increase nationally, the Port of Ngqura and the Port of Saldanha recorded positive annual growth in vessel movements (21,9% and 4,45% respectively). In contrast, the Port of Cape Town recorded a negative growth rate of -1,9% in vessel movements for 2014.

Figure 36: Total number of vessels (July 2012 to December 2014)



Source: Transnet National Ports Authority, January 2015.

The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the fourth quarter of 2014 was 607 vessels (accounting for 20% of total vessels). This represented a slight decrease on the previous quarter's figure of 633 vessels, but constituted the same share of national vessel movements.

Cargo (gross tonnage) and container handling

In the fourth quarter of 2014, South African ports handled 59,5 million metric tonnes of cargo. This is against 54,9 million in the third quarter of 2014, and 54,8 million in the corresponding period in 2013.

Cape Town experienced a slight increase in cargo-handling activity, from 0,68 million tonnes in the third quarter of 2014 to 0,76 million tonnes in the fourth quarter. However, contrary to the national trend, there was a substantial 23% decrease from the 0,99 million tonnes handled in the corresponding period in 2013. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike Saldanha or Richards Bay). Therefore, it does not have a significant impact on the national cargo-handling performance. The Port of Cape Town concentrates more on container handling than cargo handling. The ports of Durban and Saldanha, which are much larger cargo handlers than the Port of Cape Town, experienced contrasting quarter-on-quarter results. Cargo handling at the Port of Durban decreased by 5,2%, while it increased robustly by 26,4% at the Port of Saldanha. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, saw increases in cargo handling for both the ports of Durban and Saldanha (4,3% and 30,4% respectively) in the fourth quarter of 2014.

The Port of Durban is South Africa's main container-handling port and contributed more than half (60%) of the total containers handled in South African ports in the fourth quarter of 2014. 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 18% of all containers



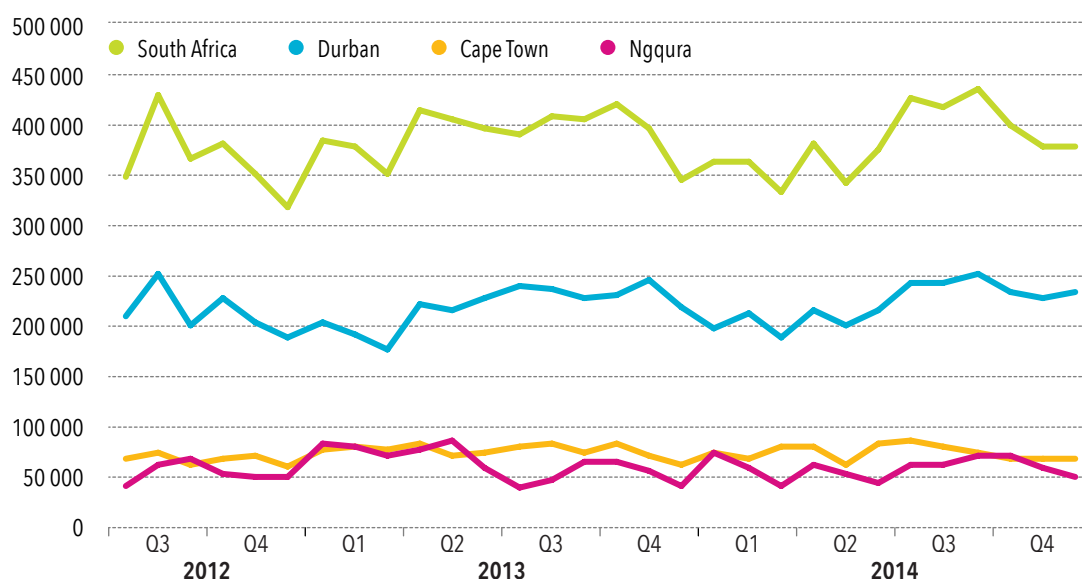
handled in South African ports in the fourth quarter of 2014.

Container traffic is very seasonal, as figure 37 indicates, so it is more meaningful to compare total containers handled on an annual basis. In the fourth quarter, the number of containers handled at the Port of Cape Town decreased from 218 049 containers handled in 2013 to 204 784 containers handled in 2014 – a decrease of 6%.

In 2013, 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 that year. However, the first two quarters of 2014 revealed a decrease in year-on-year container handling by the Port of Ngqura. This negative trend was reversed in the last two quarters, following an increase of 29,3% in the third quarter and, lastly, an increase of 8% in the fourth quarter in the number of containers handled at Ngqura. While the Port of Ngqura still remains behind Cape Town in terms of the volume of containers handled, the recent increase points to the possibility that it may in the future overtake the Port of Cape Town as the country's second-largest container-handling port. This said, Transnet has approved plans for a multibillion rand upgrade to the Port of Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

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Figure 37: Total containers handled (TEUs¹²) (July 2012 to December 2014)



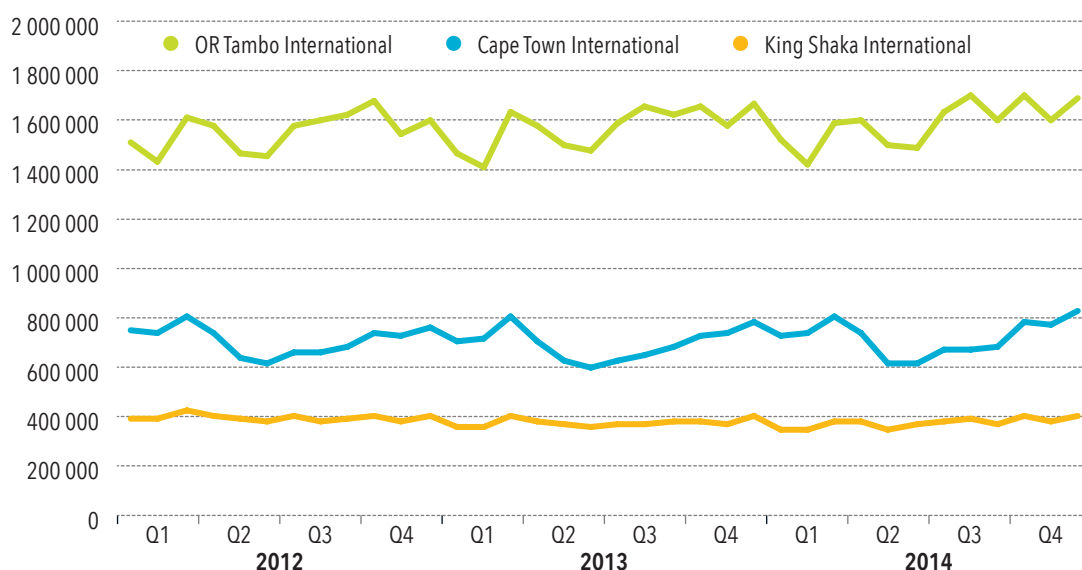
Source: Transnet National Ports Authority, January 2015.

12. A TEU (twenty-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.

CAPE TOWN AIRPORT STATISTICS

Total passenger movements

Figure 38: Total passenger movements at South Africa's major airports (January 2012 to December 2014)



Source: ACSA, February 2015.

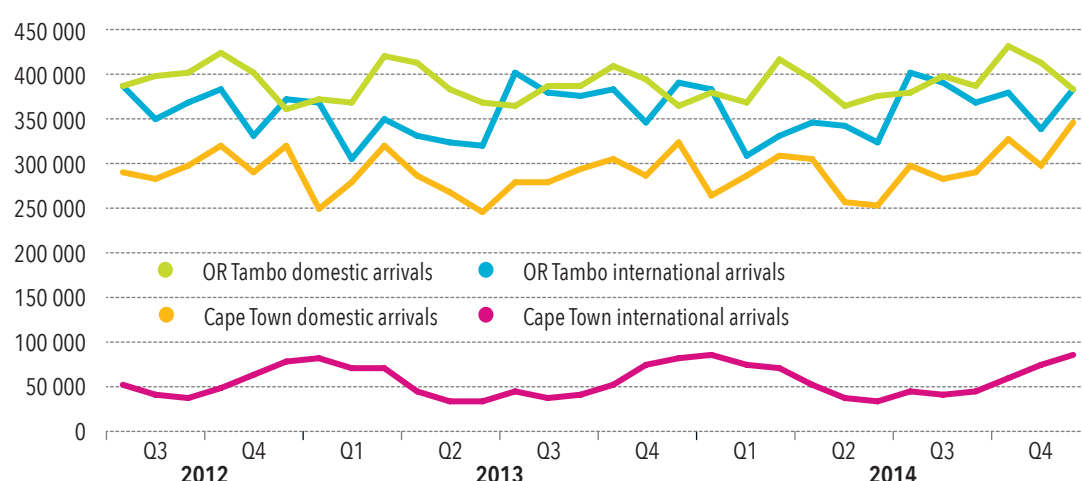
Total passenger movements at Cape Town international for the fourth quarter of 2014 were slightly higher than in the fourth quarter of 2013.

Cape Town International Airport, voted the best airport in Africa in 2013 (SKYTRAX, 2013), is South Africa's second-busiest airport. It recorded 2,38 million total passenger movements in the fourth quarter of 2014, compared to 4,99 million passenger movements at OR Tambo and 1,18 million at King Shaka international airports during the same period. Total passenger movements at Cape Town International for the fourth quarter of 2014 were slightly higher than in the fourth quarter of 2013, when 2,24 million passenger movements were recorded. Similarly, OR Tambo international and King Shaka international recorded increases in passenger numbers in the fourth quarter. A quick glance at figure 38 indicates a pronounced degree of seasonality in Cape Town's passenger movements, while OR Tambo shows a more erratic distribution. 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 fourth quarter of 2014 constituted 18% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 47% of its total passenger arrivals. This reflects the fact that the Airports Company South Africa (ACSA) operates OR Tambo as the international airport hub for South Africa. While Cape Town

Figure 39: International and domestic passenger arrivals for Cape Town and OR Tambo international airports



Source: ACSA, February 2015.

International hosts 15 international airlines with 89 international flights a week, the figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many international tourists 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 39). The total number of passenger arrivals to Cape Town International in the fourth quarter of 2014 increased by 5,8% year on year, with international arrivals increasing by 4,8%.

While Cape Town International remains behind OR Tambo International in terms of passenger movements and number of flights available, Cape Town is an increasingly popular tourist destination. In order to respond to increasing tourist visits, the airport 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 m, 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

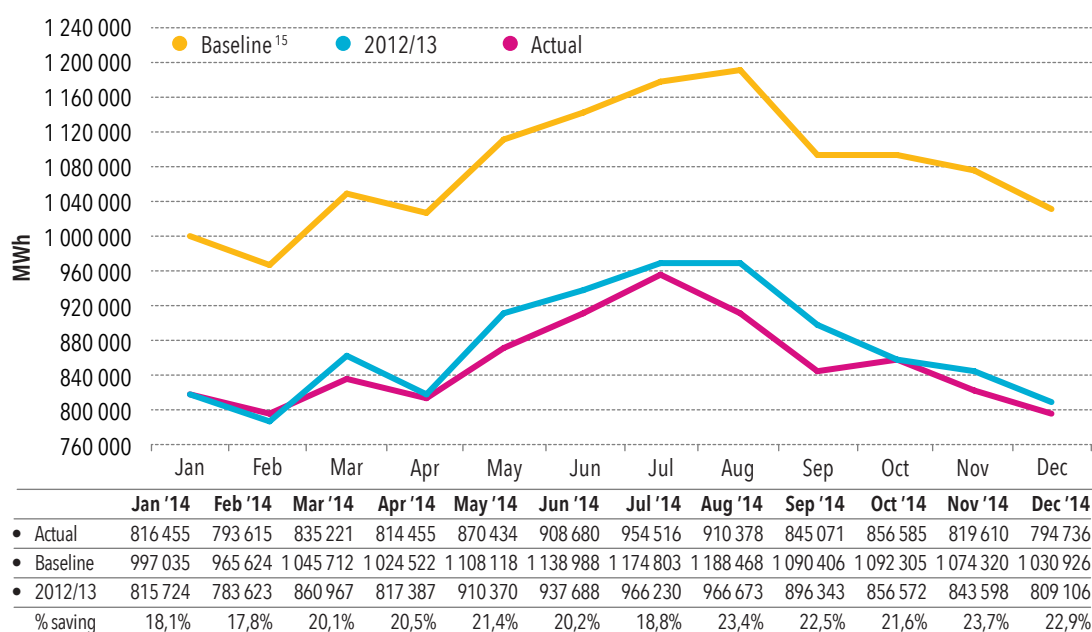
Electricity is an important aspect of economic infrastructure. The availability, reliability and affordability of electricity supply are key considerations in the location decisions of major investors. In recent years, however, the electricity sector has been plagued with volatility as a result of increased pressure on electricity suppliers to meet the demand for electricity. This has resulted in loadshedding and price increases, affecting not only households, but businesses as well.

Figure 40 depicts the City's baseline consumption forecast as well as the actual consumption of electricity over the past two years. A clear decline in electricity consumption between October and December can be observed as winter abated and there was less need for heating appliances. Continued efficient energy-saving practices in the face of high electricity prices and interrupted supply resulted in electricity savings of 21,6% over the baseline forecast in October, 23,7% in November and 22,9% in December.

The high demand for electricity around the country, coupled with ageing and insufficient infrastructure, has resulted in more frequent loadshedding in the fourth quarter. In addition, the Medupi power station, which was scheduled to be complete and on line by the end of 2014, missed this deadline. The electricity challenges have forced Eskom and government to be more proactive in investing in green, solar and wind energy in order to meet the growing demand for electricity across the country – also see chapter 8.

Continued efficient energy-saving practices in the face of high electricity prices and interrupted supply resulted in electricity savings of 21,6% over the baseline forecast in October, 23,7% in November and 22,9% in December.

Figure 40: City of Cape Town electricity consumption (January 2014 to December 2014)



Source: City of Cape Town, Electricity Services Department, February 2015.

15. The baseline is the amount of electricity the City makes provision for based on historical trends.

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 New 7 Wonders of Nature, Cape Town is well placed to take full advantage of the vigorous global growth of the tourism industry.





INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO) *World Tourism Barometer* for January 2015, 1 138 million global tourist arrivals were recorded for the completed year 2014. This constituted an increase of 51 million (or 4,7%) tourist arrivals compared to 2013, and is the fifth consecutive year that tourist arrivals increased above the long-term projected rate since the financial crisis of 2009. UNWTO calculates that international tourism has gained 211 million arrivals since the pre-crisis year of 2008. The fourth quarter recorded the second-highest growth rate for the year, at 4,9%, while the highest growth rate was recorded in the second quarter (5,8%), and April recorded the highest monthly growth rate at 9,5%.

In terms of regional performance, growth in international arrivals in 2014 was driven by strong arrivals growth of 7% (equivalent to 13 million more arrivals) in the Americas and 5% (equivalent to 13 million more arrivals) in the Asia and Pacific region. Within the Americas region, the leading sub-region in terms of arrivals growth was North America (8,2%), where Mexico posted a double-digit increase, while within Asia and the Pacific, the leading sub-region was South Asia and North-East Asia (both recording 7,1% increases).

Europe, the world's leading tourist destination region, continued to grow at 3,9% in 2014, which equated to a 22 million increase in arrivals, with the sub-regions of Southern Mediterranean Europe and Northern Europe recording growth rates of 7%. Africa's international tourist arrivals for the completed year 2014, however, grew at a disappointing 2,3%, led by growth of 3,3% in arrivals to sub-Saharan Africa. These low growth rates are likely to be linked to the outbreak of Ebola in West Africa at the beginning of 2014, and the subsequent misconceptions surrounding the safety of travel to other African countries. The UNWTO (2015:5) reports that figures for Africa and the Middle East should be read with caution, as they are based on limited and volatile data.

The UNWTO forecast tourist arrivals to grow between 3% and 4% for 2015. In terms of expected regional performance, the Americas and Asia and the Pacific are expected to grow the strongest, with rates forecast at between 4% and 5%, while arrivals to Europe are expected to grow more moderately at between 3% and 4%. Africa and the Middle East are currently experiencing high degrees of uncertainty and volatility, and therefore, the UNWTO provide a larger (2%-5%) range for expected growth in these regions.

Africa's international tourist arrivals for the completed year 2014 grew at a disappointing 2,3%, led by growth of 3,3% in arrivals to sub-Saharan Africa.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourism accommodation in Cape Town

Table 8: Income derived from tourist accommodation – South Africa

Indicator	October		November		December		Fourth-quarter average	
	2014	2013	2014	2013	2014	2013	2014	2013
Occupancy rate	68,80%	66,50%	78,20%	77,30%	70,30%	73,90%	72,43%	72,57%
Average room rate	R1 283	R1 273	R1 337	R1 177	R1 531	R1 489	R1 384	R1 313
Revenue per room	R883	R846	R1 045	R910	R1 076	R1 101	R1 001	R952

Source: Cape Town Tourism, February 2015.

Accommodation spend 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 8 were derived from a survey of 65 tourism accommodation establishments in the Cape Town metro area.

Dissecting the statistics presented in table 8 in greater detail, occupancy rates at city accommodation establishments decreased by an average of 0,1 percentage points in the fourth quarter of 2014 compared to the fourth quarter of 2013. The decrease is mainly due to the 3,6 percentage point decrease in the occupancy rate for December. However, occupancy rates increased for both October and November. It is clear that occupancy rates tend to be higher in the months of November and December than for the rest of the year. The increase in demand in these months is matched by the increase in average room rates, from R1 283 in October to R1 531 for December 2014. Compared to the previous year, the average room rate for the fourth quarter increased from R1 313 (2013) to R1 384, while the average revenue per room increased from R952 to R1 001. The combination of increased room rates and revenue per room helped to override the year-on-year decline in the average occupancy rate in December, and points to the continued health of the tourism industry in Cape Town.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rates in November were achieved by backpackers (85,0%). Similarly, backpackers were the type of establishment that experienced the greatest increase in occupancy rates (15,1 percentage points). Backpackers also recorded the largest increase in revenue per room (32,6%), followed closely by bed-and-breakfast establishments (32,3%). Spatially, the highest occupancy rates in the city in November were found on the Atlantic seaboard (88,3%).



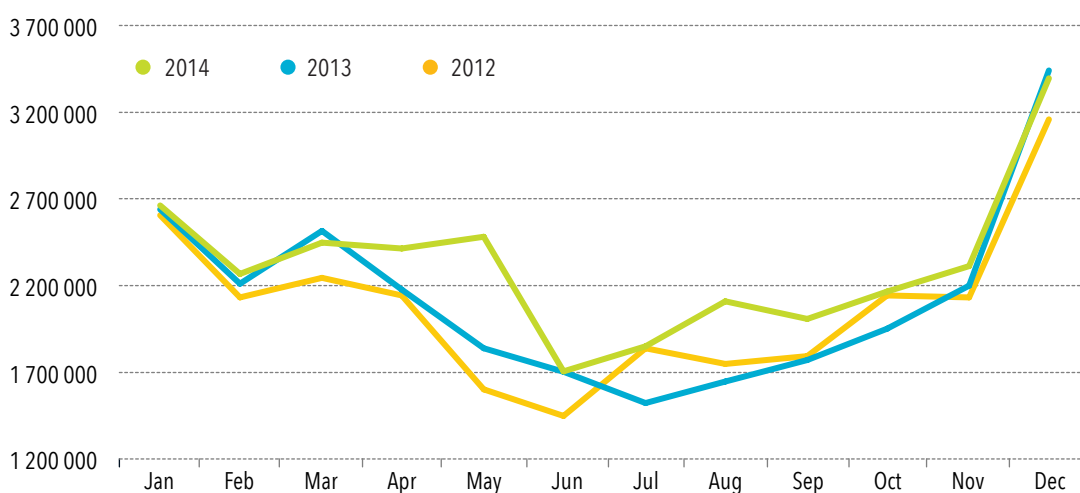
Performance of Cape Town's top visitor attractions

For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These six attractions 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 cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 41 indicates the cumulative number of visits by tourists to these six tourist attractions since January 2012. While all of these attractions are open to everyone – resident or non-resident, domestic or international – they attract large proportions of tourists and, as such, are used in this section as a proxy for tourism demand in Cape Town.

From figure 41, it is clear that the frequency of visits to Cape Town's top attractions is subject to pronounced seasonality.

Cape Town's six major attractions are the world-famous Table Mountain (specifically the cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island (pictured above).

Figure 41: Total visits to Cape Town's major (top six) tourist destinations (2012 to 2014)



Source: Derived from Wesgro data, February 2015; Robben Island Museum, February 2015.



Figures for the V&A include 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.

The fourth quarter of 2014 showed a 38,7% quarter-on-quarter increase in the number of visits to these attractions. This typifies the seasonal nature of tourism activity in Cape Town, as higher tourist volumes are experienced in the summer months of December to March. Removing the impact of seasonality by comparing the visitor statistics on an annual basis, the fourth quarter of 2014 yielded a 5,0% increase in visits compared to the corresponding period of 2013. Interestingly, in line with the accommodation occupancy figures, December 2014 recorded fewer visits to the main attractions than in the same month of the previous year.

It is important to note, however, that the visitor attraction data are strongly skewed by the V&A Waterfront. The V&A contributes more than 85% of the total number of visits to the six attractions analysed for the period under review. 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. If the V&A is removed, the number of visits to the five attractions decreases to 1 172 727 in the fourth quarter of 2014. However, the year-on-year growth rate for these five attractions, at 6,9%, was stronger when the V&A figures were removed. The growth in visits to these attractions corroborates the positive findings of the the air passenger arrivals figures, and is further evidence of the increasing popularity of Cape Town as a world-class tourist destination.

Most-visited tourist attractions

Table 9 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, Kirstenbosch National Botanical Garden managed to record the second-highest visitor numbers for the fourth quarter of 2014, with 299 373 visits, while the Table Mountain aerial cableway recorded the third-highest number of visits (289 967).

Table 9: Ranking of the most-visited tourist attractions in Cape Town

Rank	Q4 2014	Q3 2014	Q4 2013	Year-on-year growth rate % (Q4 2013–Q4 2014)	Annual growth rate % (2013–2014)
V&A Waterfront	7 100 002	5 195 904	6 781 733	4,69%	5,55%
Table Mountain National Park: Cape of Good Hope	275 832	187 125	279 685	-1,38%	3,63%
Table Mountain aerial cableway	207 906	134 451	209 739	-0,87%	4,43%
Kirstenbosch National Botanical Garden	289 967	162 870	278 631	4,07%	14,75%
Table Mountain National Park: Boulders Beach	299 373	215 826	223 253	34,10%	29,05%
Robben Island Museum	99 649	67 598	1 060 56	-6,04%	3,11%
Total	8 272 729	5 963 774	7 879 097	5,00%	6,33%
Total (excluding V&A Waterfront)	1 172 727	767 870	1 097 364	6,87%	11,65%

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

Source: Wesgro, Robben Island Museum, February 2015.

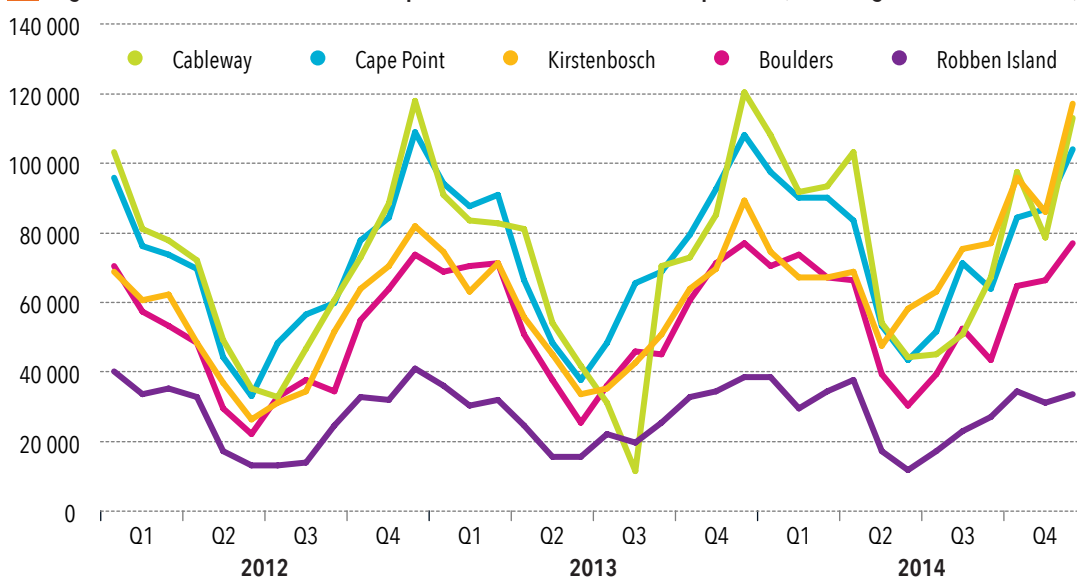


Positive year-on-year growth rates for the number of visits in the fourth quarter were recorded for Kirstenbosch National Botanical Garden, with a robust growth rate of 34,1%, and the Table Mountain aerial cableway with a growth rate of 4,07%. In contrast, negative growth in the number of visits was recorded for Robben Island (-6%), Table Mountain National Park: Cape of Good Hope (-1,38%) and Boulders Beach (-0,87%). The Table Mountain aerial cableway recorded a positive growth rate, but was hampered by weather conditions, cutting down operational time in December. The weather conditions also contributed to the negative growth experienced by Robben Island. Following a strong performance in October, November and December saw negative growth rates recorded at Robben Island. The Cape Town region experiences strong south-easterly winds over this period, reducing the number of suitable days for taking the trip to the island.

From an annual perspective for 2014, strong year-on-year growth rates were recorded for all the major attractions, with visits to Kirstenbosch National Botanical Garden recording the highest growth rate at 29,05%. Kirstenbosch's success in increasing visitor numbers in 2014 can largely be attributed to the development of the 'Boomslang' aerial boardwalk, which opened on 17 May 2014 and has since attracted record visitor numbers to the gardens. The Table Mountain aerial cableway grew at 14,75%, but part of this growth rate was due to it coming off figures in the previous year, which included five-week-long maintenance work that took place in the third quarter of 2013. Table Mountain National Park: Boulders Beach and Cape of Good Hope grew by 4,43% and 3,63% respectively in 2014, and Robben Island grew by 3,11%. All attractions are subject to strong seasonality, with peak visitor activity occurring in the period November to March. The lowest visitor numbers are seen during the period May to July, which are the Cape Town winter months.

Kirstenbosch's success in increasing visitor numbers in 2014 can largely be attributed to the development of the 'Boomslang' aerial boardwalk, which opened on 17 May 2014 and has since attracted record visitor numbers to the gardens.

Figure 42: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Derived from Wesgro data, February 2015.



Additional indicators

In addition to macroeconomic indicators, which provide overall estimates of economic activity, administrative data that capture specific consumer trends and provide strong indications of the performance of a local economy. Building plan developments and passenger vehicle sales are two 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 section focuses on building developments recorded by the City of Cape Town for the fourth quarter of 2014. 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.

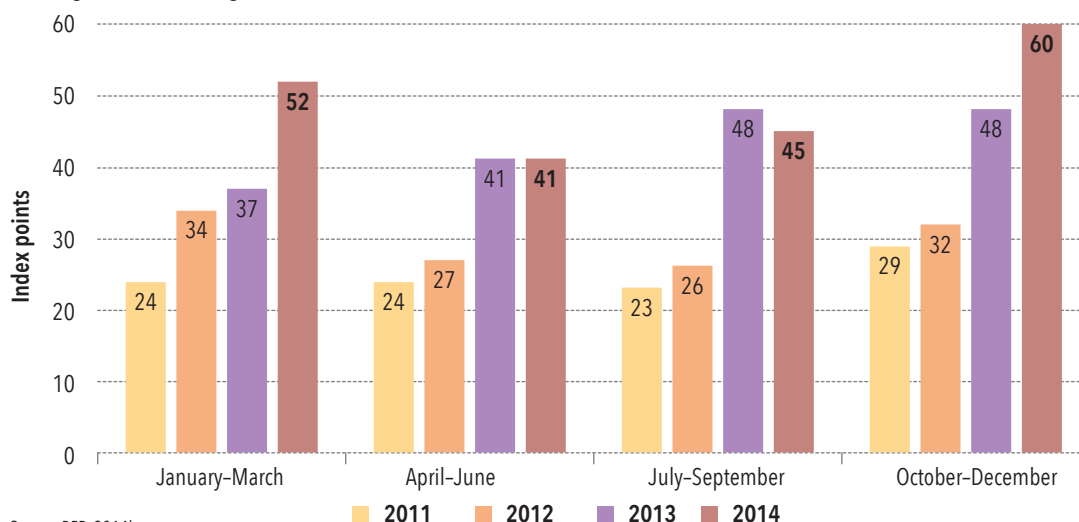
CONSTRUCTION INDUSTRY OVERVIEW

Chapter 4 showed that output in the national construction industry grew by 3,5% quarter on quarter in the fourth quarter of 2014. The industry recorded a year-on-year growth rate of 2,9%, making it the second-fastest-growing industry in South Africa on a year-on-year basis. The Western Cape recorded a 3,7% quarter-on-quarter expansion in the construction industry for the fourth quarter. The growth of the industry in the Western Cape compared to nationally was also slightly higher on a year-on-year basis – with the Western Cape construction industry growing at 3,0% and South Africa at 2,9%.

The First National Bank (FNB) BER composite building confidence index (BER, 2014b) reveals the percentage of respondents, namely architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied or wary of the prevailing business conditions. The building confidence index rose from 45 points in the third quarter to 60 points in the fourth quarter of 2014, which is the highest level since 2008. The increase in the fourth quarter was a result of increased confidence by main contractors as well as residential and non-residential contractors. The building confidence index found that the residential market was much more buoyant than the non-residential market which boosted overall productivity. However, the non-residential activity and profitability is also expected to increase (BER 2014b).

The building confidence index rose from 45 points in the third quarter to 60 points in the fourth quarter of 2014, which is the highest level since 2008.

Figure 43: Building confidence index (2011-2014)

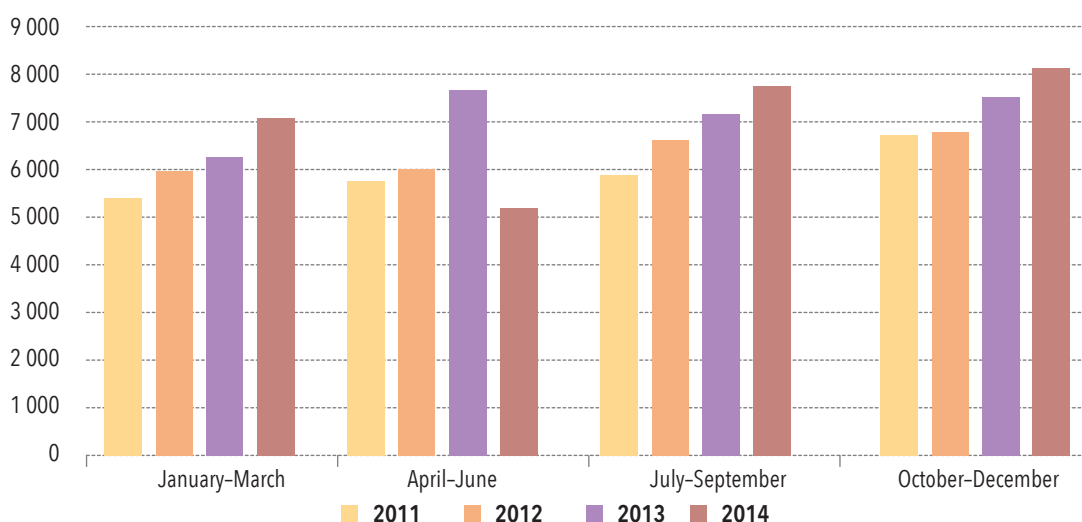


Source: BER, 2014b.

Building plan applications in Cape Town

Building plans submitted to the City of Cape Town in the fourth quarter of 2014 increased by 3,95% compared to the previous quarter. Figure 44, however, provides an annual comparison of the number of building plans submitted in each of the quarters over the past four years, thereby accounting for seasonal trends in the building and construction industry. It clearly depicts the increase in the number of building plans submitted to the City in the fourth quarter of 2014 compared to the corresponding periods in 2013 and 2012, corroborating the record level of building confidence. The year-on-year growth rate in the number of building plans submitted in the fourth quarter of 2014 was 7,01%.

Figure 44: Building plans submitted



Source: City of Cape Town, Planning and Building Development Management Department, February 2015.

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. Building plans completed represent actual construction activity, as opposed to building plans submitted, which represent 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.

Table 10 compares the number of completed building plans in Cape Town in the fourth quarter of 2014 to the number of completed building plans in South Africa over the same period. The figures presented in the table for Cape Town stand in stark contrast to the record level of building confidence indicated by the FNB/BER building confidence survey, while the figures for the value of building plans completed in South Africa have increased along with the increased building confidence.

The value of building plans completed in Cape Town in the fourth quarter amounted to R4,3 billion, which accounted for 25,54% of the total value (R16,7 billion) of building plans completed in South Africa's larger municipalities. Cape Town recorded a year-on-year decline for the fourth quarter (-8,3%), while South Africa as a whole recorded a year-on-year increase in the value of building plans completed (27,64%). In Cape Town, this decline was largely driven by a 59,8% reduction in additions and alterations and a 76,8% decline in minor works, while there were increases in residential (2,8%) and non-residential (22%) building plans completed. The decline in these categories may simply be reflective of the migration of the manual building applications system to an online system, and the potential associated data discrepancies between the two systems.

Table 10: Building plans completed in the fourth quarter of 2014

Measure	Cape Town		South Africa	
	Number/value	Year-on-year change	Number/value	Year-on-year change
Building plans completed	4 185	-30,08%	N/A	N/A
Value of building plans completed	R4 269 million	-8,35%	16 716 million	27,64%

Source: City of Cape Town, Planning and Building Development Management Department, February 2015; Stats SA, 2015.

The value of building plans completed in Cape Town in the fourth quarter accounted for 25,54% of the total value of building plans completed in South Africa's larger municipalities.



NEW VEHICLE SALES

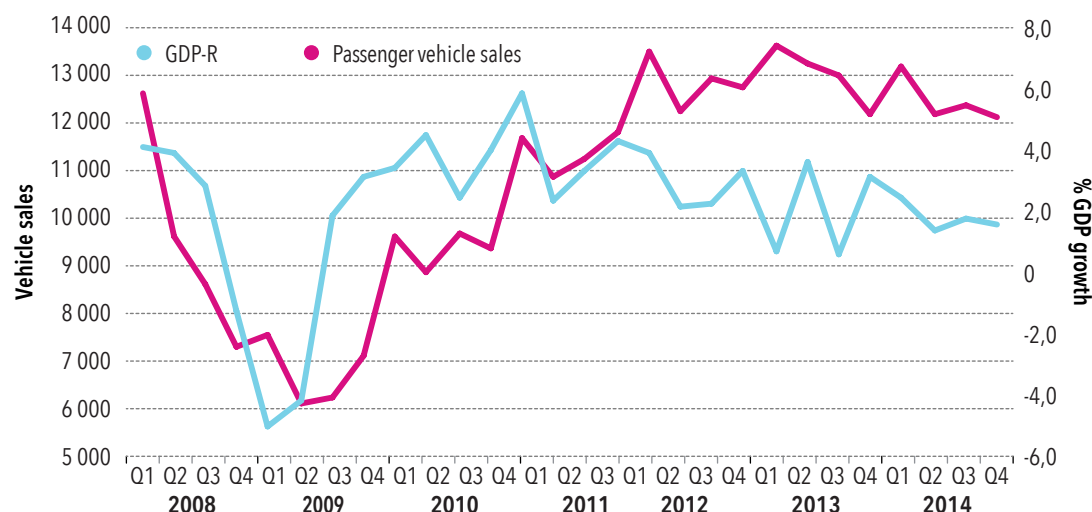
This section will track new vehicle sales in the province on a quarterly basis. Typically, vehicle sales, especially passenger vehicle sales, are considered to mirror trends in the business cycle and, in particular, are often regarded as a leading indicator for GDP growth. New vehicle sales are sensitive to changes in economic indicators such as 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 more than likely in a contraction phase, while if sales reflect a sustained growth trend, 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 17 741 vehicles sold in the third quarter of 2014 to 17 645 in the fourth quarter. Year-on-year results, which offer a more precise reflection of vehicle sales performance over time, saw an increase of 661 from the 16 984 total vehicles sold in the corresponding period in 2013. Passenger vehicle sales, which is the private consumer segment of the market, saw a decrease from 12 390 in the third quarter of 2014 to 12 146 in the fourth quarter for the Western Cape. Year-on-year results saw a slight decrease of 25 vehicles from the 12 175 passenger vehicles sold in the corresponding period in 2013. Nationally, there was a 2% increase in the number of passenger vehicles sold in the fourth quarter of 2014 compared to the corresponding period in 2013.

From an annual perspective for 2014, South Africa recorded negative growth rates for passenger vehicles sales (-3%). Similarly, the Western Cape recorded negative annual growth rates for passenger vehicles sales (-4%) and total vehicle sales (-1%). The subdued and, to an extent, stagnating vehicle sales compared to 2013 should be viewed in light of a year-on-year economic growth rate of below 2% and a 0,75 percentage point increase in the interest rate, both of which would have had a negative impact on consumer confidence and consumers' willingness to make large purchases.

Figure 45 plots the total passenger vehicle sales per quarter alongside the regional gross domestic product (GDP-R) for the Western Cape. The South African Reserve Bank 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. Looking at figure 45, however, it would appear that in the Western Cape, GDP growth seems to lead passenger vehicle sales growth, and not vice versa. This said, the actual nature of this relationship can only be fully appreciated when one isolates the impact of passenger vehicle sales on GDP through the use of regression analysis. The City of Cape Town is currently working on a composite leading indicator for GDP growth, which will analyse these relationships in more detail.

Figure 45: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 4, 2014)



Source: Quantec, Vehicle Sales (NAAMSA) February 2015.

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List of abbreviations

ACSA	Airports Company South Africa	NDP	National Development Plan
BER	Bureau of Economic Research	NERSA	National Energy Regulator of South Africa
BRICS	Brazil, Russia, India, China, South Africa	NPA	National Ports Authority
CDM	Clean Development Mechanism	OPEC	Organisation of the Petroleum Exporting Countries
CPI	consumer price index	PMI	purchasing managers' index
CSP	concentrated solar power	PPI	producer price index
EIA	US Energy Information Administration	PV	photovoltaic
FDI	foreign direct investment	RE	renewable energy
GDP	gross domestic product	REI4P	Renewable Energy Independent Power Producer Procurement Programme
GGP	gross geographic product	QLFS	Quarterly Labour Force Survey
GVA	gross value added	SADC	Southern African Development Community
HDI	human development index	SARATEC	South African Renewable Technical Centre
IMF	International Monetary Fund	SARB	South African Reserve Bank
IPP	Independent Power Producers programme	SEZ	special economic zone
IRP	Integrated Resources Plan	SSEG	small-scale embedded generation
MPC	Monetary Policy Committee	Stats SA	Statistics South Africa
NAAMSA	National Association of Automobile Manufacturers of South Africa	UNWTO	United Nations World Tourism Organisation
		WTO	World Trade Organisation



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