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EPIC

Economic Performance Indicators for Cape Town

Quarter 2 (April - June) 2017

SECTOR FOCUS: THE FILM AND MEDIA INDUSTRY

Making progress possible. Together.

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Foreword



Good governance is essential to achieving and maintaining high levels of confidence in the local economy. In this respect the City of Cape Town has an excellent track record, having been the only metro to receive a clean audit for the 2015/16 financial year. This is our fourth consecutive clean audit. City governments are, however, increasingly recognised not just as the suppliers of services but also as the active promoters of the attractiveness of cities as investment and business destinations. City of Cape Town initiatives such as the Invest Cape Town business brand, the Investment Incentives Policy and the Organisational Development and Transformation Plan, aimed at modernising the City and making it more customer-centric, all seek to make Cape Town a more attractive place to invest and do business.

Cities also have a role to play in the development of catalytic infrastructure and facilities, that crowd in investment. Two examples in Cape Town, namely the Cape Town International Convention Centre (CTICC) and Cape Town Film Studios (CTFS), speak to this very idea. The investment by the City in the CTICC, and currently in its expansion, has helped to catalyse the conferencing industry in Cape Town.

Similarly, the opening of the CTFS in 2010, with funding for its bulk infrastructure coming from the City, has changed the face of the film industry in Cape Town and the Western Cape, and served as a catalyst for a gradual transition to 'film manufacturing', which encompasses the entire film industry value chain. This change is evidenced by the fact that the Western Cape accounted for 88 percent of the productions receiving the foreign film and television incentive from the DTI in 2015/16 and that the industry now employs almost 10 000 people in the city on a full-time equivalent basis.

A number of local and international movies and series have been filmed in Cape Town in recent years including *Black Sails* (Seasons 1-4), *Dominion* (Seasons 1-2), *Wallander*, *Grand Theft Auto*, *Detour* and *Honey 3*.

While global trends, domestic political developments and fiscal and monetary policy all impact on confidence levels in the economy, we, as the City administration, recognise the very important role we have to play in engendering confidence in our local economy.

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

P. de Lille

Patricia de Lille

Executive Mayor of Cape Town

Table of contents

FOREWORD	1
INTRODUCTION	5
1 OVERVIEW	8
Cape Town's economy in context	10
The structure of Cape Town's economy	10
Cape Town's comparative advantages	11
2 GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK	13
Recent global economic developments	14
Developed economies	14
Emerging economies	14
Global economic outlook	15
Commodities	15
Exchange rates	16
3 ECONOMIC GROWTH	17
Economic growth in South Africa	18
Quarter-on-quarter GDP growth rate	18
Sectoral determinants of GDP growth in South Africa	18
Economic growth in the Western Cape	20
Quarter-on-quarter GDP-R growth rate	20
Provincial economic growth comparisons	20
Sectoral drivers of economic growth in the Western Cape	21
Economic growth outlook	22
4 INFLATION	23
South Africa's inflation overview	23
Geographical inflation	24
Inflation outlook	25
Price basket analysis	25
Price changes over time	25
5 LABOUR MARKET TRENDS	27
Overview of the labour market in South Africa	30
Labour market trends for Cape Town	31
A broad overview of the Cape Town labour market	31
Unemployment in Cape Town	32
Labour force and employment	34
Sector employment trends for Cape Town	34
Labour market outlook	34
6 TRADE AND INVESTMENT	35
Trade	36
Global trade	36
South African trade	36
Cape Town trade with Namibia	38
Investment	39
Global foreign direct investment (FDI)	39
Cape Town foreign direct investment (FDI)	40
Investment facilitation	40

7	SECTOR FOCUS: THE FILM AND MEDIA INDUSTRY	41
	The nature and scope of the industry in Cape Town	42
	Defining the film and media industry	42
	Film and media industry value chain	43
	Recent performance of the film and media industry in Cape Town	44
	Film permit data trends	44
	Productions at Cape Town Film Studios	46
	DTI incentives for Western Cape productions	46
	Size and impact of the film and media industry on Cape Town's economy	48
	Competitive advantages of the film and media industry in Cape Town	49
8	INFRASTRUCTURE	50
	Cape Town port movements	52
	Volume of vessels	52
	Cargo (gross tonnage) and container handling	52
	Cape Town airport statistics	54
	Total passenger movements	54
	International versus domestic arrivals for South Africa's two busiest airports	54
	Electricity	55
9	TOURISM DEVELOPMENTS	56
	International tourism developments	58
	South African tourism developments – tourist arrivals in South Africa	58
	Cape Town's tourism developments	59
	Tourism accommodation in Cape Town	59
	Performance of Cape Town's top visitor attractions	60
	Most-visited tourist attractions	61
10	ADDITIONAL INDICATORS	62
	Building developments	64
	Construction industry overview	64
	Building plan applications in Cape Town	64
	Building plans completed	65
	Commercial property developments	65
	Performance of Cape Town's office and banking property market	65
	Top commercial developments	66
	Future developments	66
	New vehicle sales	67
	LIST OF REFERENCES	68
	LIST OF ABBREVIATIONS	68



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Over the next five years the City of Cape Town has set as one of its strategic priorities the positioning of Cape Town as a forward-looking, globally competitive business city. In November 2016, the **Invest Cape Town** initiative was launched. It was the start of a process to develop a business brand narrative that emphasises the unique characteristics of the city region. It concerns itself with crafting an authentic narrative about what Cape Town stands for as an investment destination, building on the compelling success stories and competitive advantages of the destination.

The essence of the narrative is that Cape Town is a functional African hub where ideas come to life through the energy and ambition of its people. Cape Town plays an important role in enabling growth across the continent by linking businesses to new insights, opportunities and unconventional solutions. It is a switched-on, in-tune and globally connected city with a business ecosystem driven by innovation and creativity. It is Africa's ideas centre.

The narrative will be further developed in 2017. Visit www.investcapetown.com for more information.

LIST OF FIGURES

Figure 1: Gross geographic product (GGP) contributions and employment contributions, 2016	10
Figure 2: Cape Town's GVA versus national GVA, 2016	11
Figure 3: Location quotients for industries in Cape Town (compared to other metros)	11
Figure 4: Industry performance for Cape Town	12
Figure 5: Economic growth trends in developed economies (Quarter 1, 2008 to Quarter 2, 2017)	14
Figure 6: Economic growth trends in emerging economies (Quarter 1, 2008 to Quarter 2, 2017)	14
Figure 7: World commodity indices (January 2012 to June 2017)	15
Figure 8: Indexed nominal exchange rate trends (January 2012 to July 2017)	16
Figure 9: Quarter-on-quarter real GDP growth in South Africa (Quarter 1, 2008 to Quarter 2, 2017)	18
Figure 10: Sectoral GDP growth rates for South Africa (Quarter 2, 2017)	19
Figure 11: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 2, 2017)	20
Figure 12: Provincial comparisons of real GDP-R growth rates (Quarter 2, 2017)	21
Figure 13: Sectoral real GDP-R growth rates in the Western Cape (Quarter 2, 2017)	21
Figure 14: Purchasing Managers' Index for South Africa	22
Figure 15: CPI and PPI trends for South Africa (January 2011 to June 2017)	23
Figure 16: CPI inflation rate at a provincial level (April 2017 to June 2017)	24
Figure 17: Employment trends versus strict unemployment rate in South Africa (Quarter 2, 2008 to Quarter 2, 2017) ..	30
Figure 18: Employment comparison with other metros (Quarter 1, 2017 to Quarter 2, 2017)	31
Figure 19: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 2, 2017)	32
Figure 20: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 2, 2017)	33
Figure 21: Expanded labour force and employment growth rates for Cape Town (Quarter 2, 2008 to Quarter 2, 2017) ..	33
Figure 22: Quarterly and annual change in employment per sector for Cape Town (Quarter 2, 2017)	34
Figure 23: Global imports of goods (Quarter 1, 2015 to Quarter 2, 2017)	36
Figure 24: South Africa's exports, imports and trade balance (Quarter 2, 2014 to Quarter 2, 2017)	37
Figure 25: South Africa's export markets (Quarter 2, 2014 to Quarter 2, 2017)	37
Figure 26: Cape Town trade with Namibia (2014 to 2016)	38
Figure 27: Global FDI (2006 to June 2017)	39
Figure 28: FDI flows into Cape Town (2005 to 2016)	40
Figure 29: Top 20 film locations according to number of permits issued	45
Figure 30: Trends in approved DTI film and media incentives	47
Figure 31: Cape Town film and media industry turnover (2015, R millions)	48
Figure 32: Total number of vessels (January 2014 to June 2017)	52
Figure 33: Total containers handled (TEUs) (Quarter 1, 2014 to Quarter 2, 2017)	53
Figure 34: Total passenger movements at South Africa's major airports (Quarter 1, 2014 to Quarter 2, 2017)	54
Figure 35: International and domestic passenger arrivals for Cape Town and OR Tambo airports (Q1 2014 to Q2 2017)	54
Figure 36: Cape Town's electricity consumption (July 2016 to June 2017)	55
Figure 37: Total visits to Cape Town's major (top six) tourist destinations (2014 to 2017)	60
Figure 38: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)	61
Figure 39: Building Confidence Index (2011 to 2017)	64
Figure 40: Building plans submitted (2011 to 2017)	64
Figure 41: Office/banking space sector developments (January 2015 to June 2017)	66
Figure 42: Passenger vehicle sales versus GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 2, 2017)	67

LIST OF TABLES

Table 1: Inflation levels by monthly household expenditure groups	24
Table 2: Fastest change in price of items increasing and decreasing during September 2016 and June 2017	26
Table 3: Labour market indicators: South Africa and Cape Town	31
Table 4: Official versus expanded unemployment rates	32
Table 5: Top 10 export and import products between Cape Town and Namibia (2016)	38
Table 6: Film and media industry forms	42
Table 7: Total bookings and permits by production type	44
Table 8: Cape Town Film Studios host productions from 2013 to 2016	46
Table 9: Macroeconomic indicators of the Cape Town film and media industry in 2015	48
Table 10: International tourist arrivals in South Africa	59
Table 11: Income derived from tourist accommodation – Cape Town	60
Table 12: Ranking of the most-visited tourist attractions in Cape Town	61
Table 13: Building plans completed in the second quarter of 2017	65
Table 14: Top commercial property developments – Cape Town	66

LIST OF DIAGRAMS

Diagram 1: Monthly average price for selected food items for a notional price basket (September 2016 to June 2017) ...	25
Diagram 2: Film and media industry value chain	43

Introduction

This is the 17th 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 second quarter of 2017, covering the period 1 April to 30 June 2017.

Rationale for a quarterly economic publication

Accurate and up-to-date economic information is critical in providing direction for economic development strategies. It is essential to understand the nature, composition and performance of the local economy to know what must be done. While there is a wealth of economic statistics and information available for Cape Town, it often exists in discrete, isolated parcels customised to serving a specific purpose at a given time. Furthermore, in most cases, relevant economic information is only presented 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. More specifically, the publication:

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

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

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

Acknowledgements

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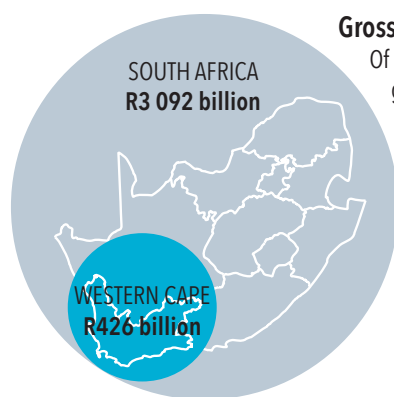
A multiplicity of other data and information sources were used in the publication, including Statistics South Africa, the Reserve Bank, Quantec, IHS Markit and the International Monetary Fund. These, along with other sources, are reflected in the list of references at the end of the publication. The statistics reflected in the publication are those that are most readily available at the time of writing. There are thus instances in which some data is reported on an annual or quarterly basis.

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Gross domestic product (GDP)

Of **South Africa's R3 092 369 million** gross domestic product generated in the second quarter of 2017, the **Western Cape¹** accounted for **R425 881 million²**.

Source: Quantec, September 2017.

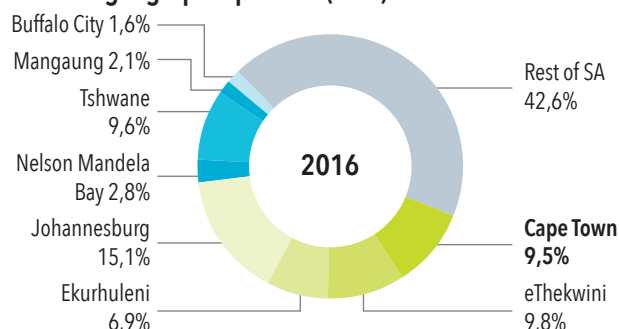
13,77%

GDP per capita³

In 2016, **South Africa** had a GDP per capita of **R77 862**, while the **Western Cape** value was **R92 494** and **Cape Town's** rate was **R100 270**.

Source: IHS Markit Regional Explorer (ReX), September 2017.

Gross geographic product (GGP) contributions



Source: Own calculations based on IHS Markit ReX regional data 2017.

2,1% **2,5%**

Western Cape **South Africa**

GDP growth

During the second quarter of 2017, the **Western Cape** had a quarter-on-quarter GDP growth of **2,1%**, against a **national growth** of **2,5%**⁴.

Source: Quantec, September 2017.

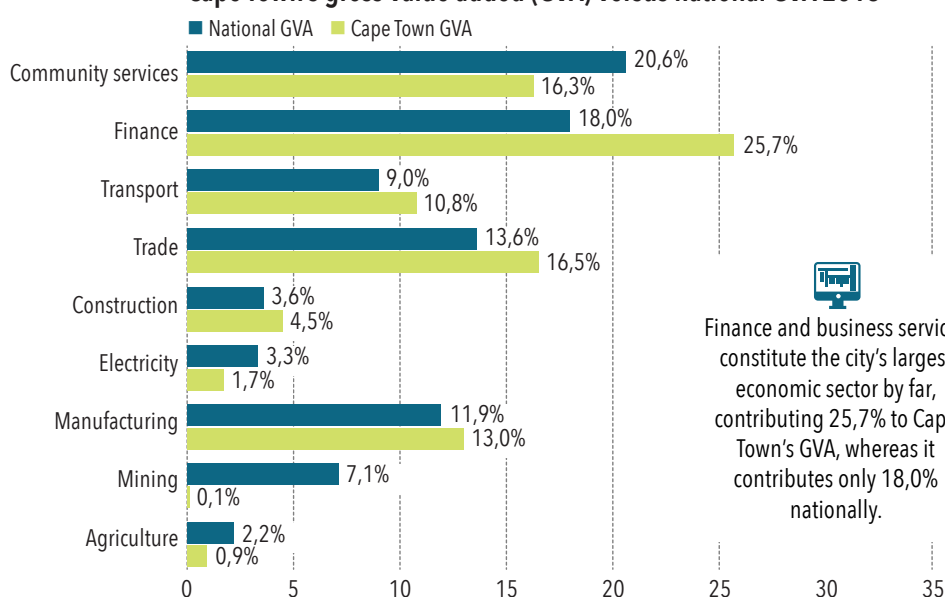
5,1% **6,0%**

Inflation

At the end of the second quarter of 2017, the **Western Cape** had a higher rate of inflation – **6,0%** – than the rest of **South Africa** at **5,1%**.

Source: Stats SA, Consumer Price Index July 2017.

Cape Town's gross value added (GVA) versus national GVA 2016



Source: Own calculations based on IHS Markit ReX regional data 2017.

Finance and business services constitute the city's largest economic sector by far, contributing 25,7% to Cape Town's GVA, whereas it contributes only 18,0% nationally.



Passenger vehicle sales

Of the **75 372** new passenger vehicles sold in **South Africa** during the second quarter of 2017, **9 415** were sold in the **Western Cape**.

Source: NAAMSA, September 2017.

Air passenger movements

Of the **8 927 453** passenger movements through **South Africa's three international airports⁵** during the second quarter of 2017, **2 456 337** were through **Cape Town International Airport**.

Source: ACSA, August 2017.



27,5%

Cargo tonnage handled at ports

During the second quarter of 2017, **55 420 414** tons of cargo were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **798 840** tons.

Source: Transnet, National Ports Authority, August 2017.

Containers handled at ports

During the second quarter of 2017, **1 135 338** containers were handled at **South Africa's ports**, of which the **Port of Cape Town** handled **213 090**.

Source: Transnet, National Ports Authority, August 2017.



18,8%



Visitor attractions

In the second quarter of 2017, tourists and residents made **6 212 114**

visits to Cape Town's six major attractions.

Source: Wesgro, August 2017.

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

2. At constant 2010 prices.
3. At current prices.

4. At constant 2010 prices.

5. The combined total for OR Tambo, Cape Town and King Shaka international airports.



Population

South Africa has 55 908 865⁶ people: 6 293 200 live in the Western Cape and, of those, 4 012 441⁷ are resident in Cape Town.
Source: Stats SA, City of Cape Town, January 2017.



Gini coefficient

In 2016, South Africa had a Gini coefficient⁸ of 0,63, while Cape Town had a slightly lower value of 0,62.
Source: IHS Markit, August 2017.

0,75

Human development index

In 2016, South Africa had an HDI⁹ of 0,65, while Cape Town's was 0,75.
Source: IHS Markit, August 2017.

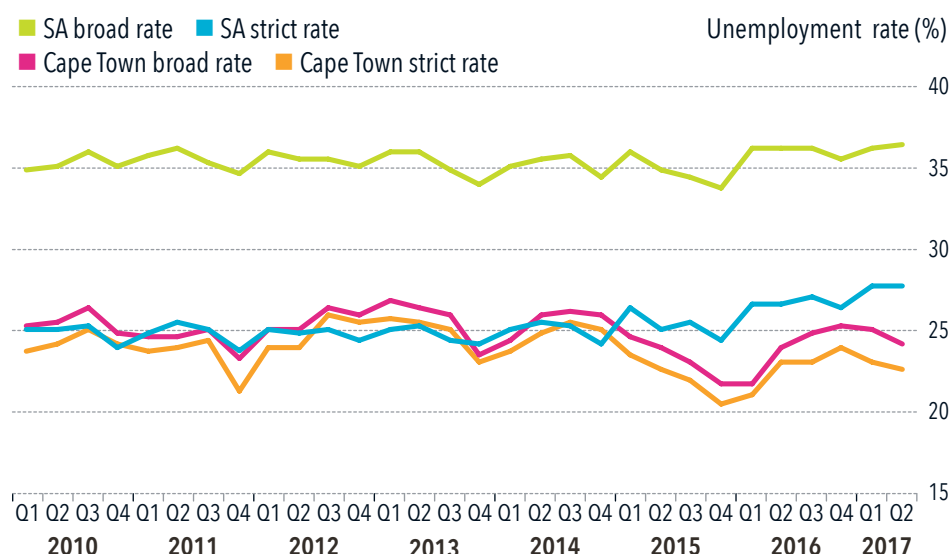
Functional literacy

South Africa has a functional literacy rate of 83,3%, while Cape Town has a rate of 91,7%.
Source: IHS Markit, August 2017.



Strict vs broad unemployment rates for Cape Town (Q1, 2010 to Q2, 2017)

■ SA broad rate ■ SA strict rate
■ Cape Town broad rate ■ Cape Town strict rate

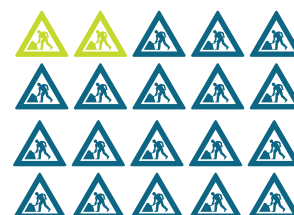


Source: Stats SA, September 2017.

7,64%

Working-age population

Of the 37 217 331 people aged 15–64 in South Africa, 2 842 660 are resident in Cape Town.
Source: Stats SA, Quarterly Labour Force Survey (QLFS), September 2017.



7,9%

Expanded labour force

Of South Africa's 25 403 337 labour force participants, 2 019 105 live in Cape Town.
Source: Stats SA, QLFS, September 2017.

36,6%

RATE

Expanded unemployment

Of the 9 303 628 unemployed people in South Africa during the second quarter of 2017, 488 280 live in Cape Town.
Source: Stats SA, QLFS, September 2017.

24,2%

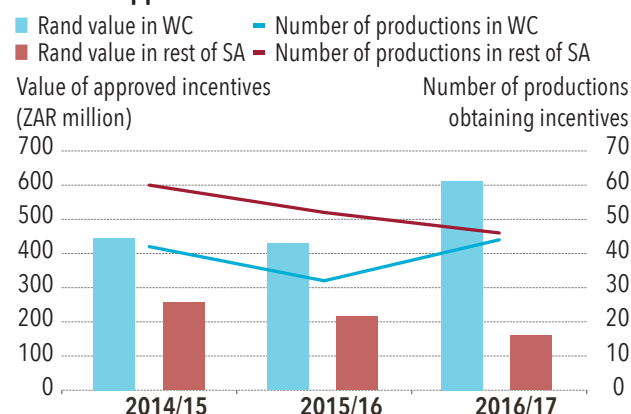
Labour absorption rate

South Africa had a 43,3% absorption rate – the percentage of the working-age population in employment – in the second quarter of 2017, while Cape Town had a rate of 53,9%.
Source: Stats SA, QLFS, September 2017.

SECTOR FOCUS – THE FILM AND MEDIA INDUSTRY

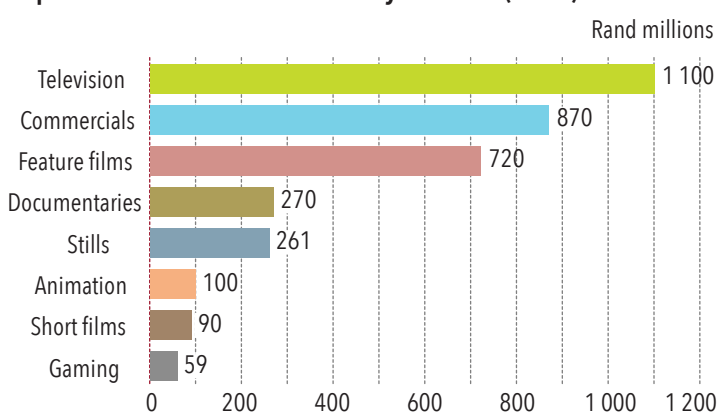
Cape Town is an internationally competitive film and media destination, with a growing number of international filmmakers making use of the destination's locations, facilities and services. The city has a variety of world-class locations, studios, facilitation companies and specialised crews.

Trends in approved DTI film and media incentives



Source: Adapted from DTI data, 2017.

Cape Town film and media industry turnover (2015)



Source: Cape Town and Western Cape Film and Media Sector Study, 2017.

6,7. Mid-year estimates, 2016.

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

Lower values represent greater equality. Values are for 2015.

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

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



Overview

Cape Town is the second-most-important contributor to national employment. Finance and business services constituted the city's largest economic sector by far, contributing 25,7% to Cape Town's GVA.

OVERVIEW

GLOBAL

ECONOMIC GROWTH

INFLATION

LABOUR

TRADE

SECTOR FOCUS

INFRASTRUCTURE

TOURISM

INDICATORS



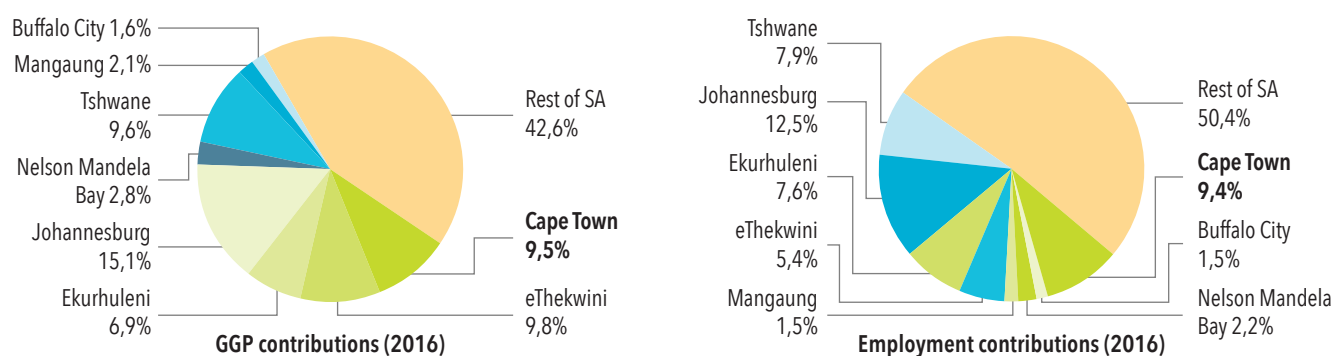
Cape Town's economy contributed 9,5% to national gross domestic product in 2016.

CAPE TOWN'S ECONOMY IN CONTEXT

As measured by gross geographic product (GGP), Cape Town's economy contributed 9,5% to national gross domestic product in 2016. The City of Johannesburg has the largest economy, contributing 15,1% to national GDP in 2016. The five largest metropolitan municipalities (Cape Town, Johannesburg, Tshwane, eThekweni and Ekurhuleni) accounted for 51% of the country's economic output in 2016.

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 five largest municipalities contributed 52,3% of the country's output value in 2016, they accounted for only 42,7% of the country's total employed population. Cape Town is the second-most-important contributor to national employment.

Figure 1: Gross geographic product (GGP) contributions and employment contributions, 2016¹⁰

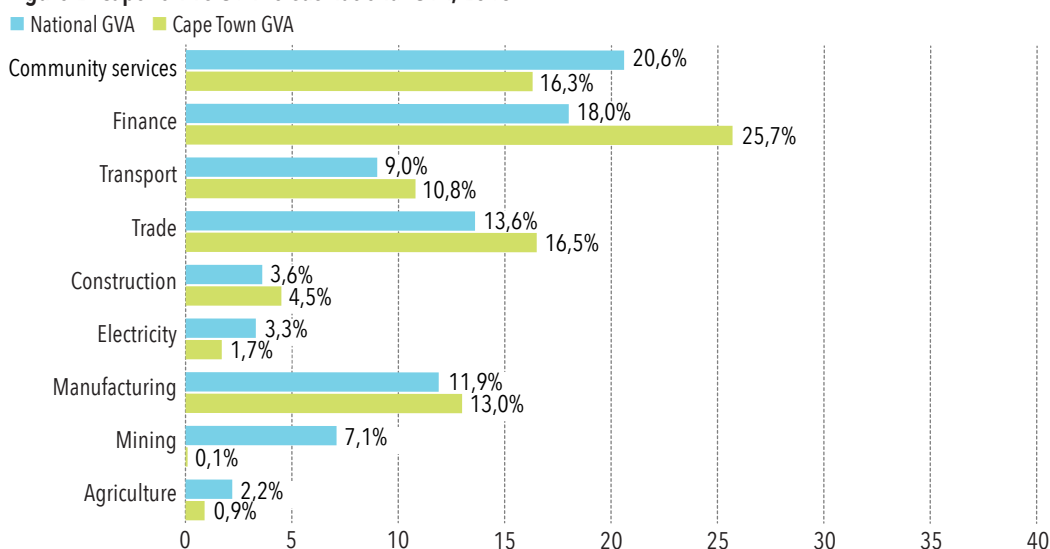


Source: Own calculations based on IHS Markit ReX data, 2017, and Stats SA's QLFS data, 2017.

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 constituted the city's largest economic sector by far, contributing 25,7% to Cape Town's GVA, whereas it contributed only 18% nationally. At the other end of the scale, mining and quarrying contributed only 0,1% in Cape Town, as compared to 7,1% nationally.

10. At current prices.

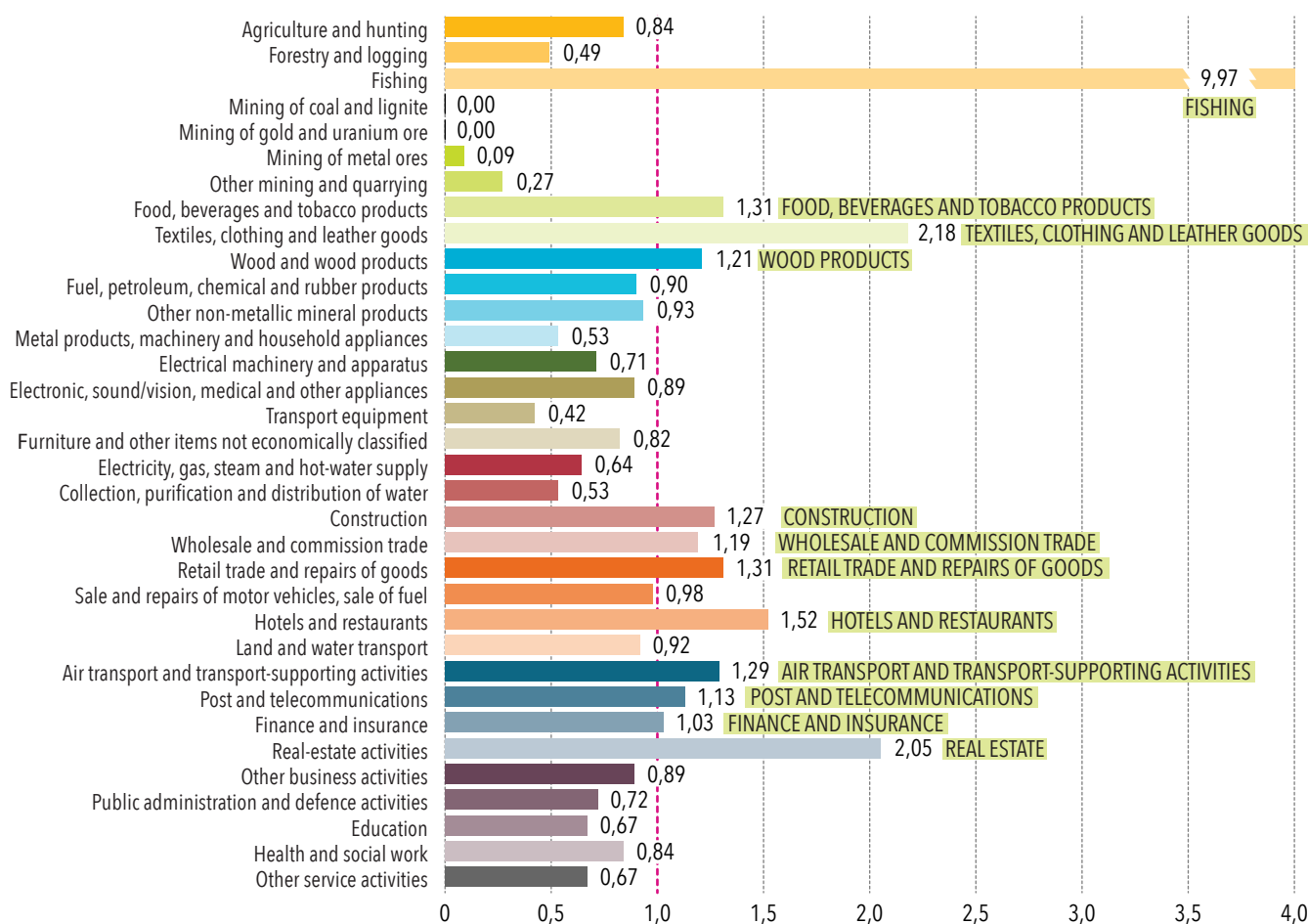
Figure 2: Cape Town's GVA versus national GVA, 2016¹¹

Finance and business services constituted the city's largest economic sector by far, contributing 25,7% to Cape Town's GVA.

Source: Own calculations based on IHS Markit ReX regional data, 2017.

CAPE TOWN'S COMPARATIVE ADVANTAGES

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

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

Source: Own calculations based on IHS Markit ReX regional data, 2017.

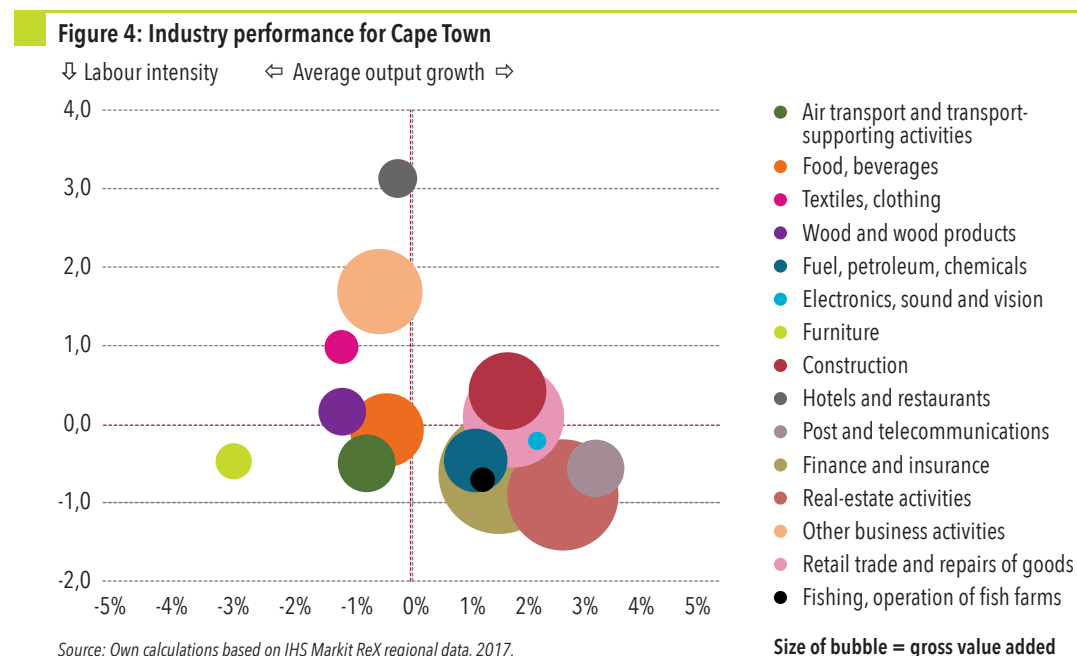
11. At current prices.

The industries in which Cape Town has the most pronounced comparative advantage as compared to the country as a whole are fishing, textiles and clothing, real estate activities, hotels and restaurants, food and beverage manufacture, retail trade and repairs of goods, air transport activities, construction, wood-product manufacturing, wholesale and commission trade, post and telecommunications and finance and insurance. These industries contribute a greater share of the city's economic output than they do to the combined economic output of all the metros in South Africa. While this analysis provides some idea of specific industries in which Cape Town has a comparative advantage, it is a static and one-dimensional analysis that fails to take into account the dynamic nature of the city's economy and the extent to which individual industries contribute to employment creation. In this respect, figure 4 provides a more nuanced, dynamic picture of the performance of some of Cape Town's industries that have a comparative advantage.

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

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

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



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

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

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



Global economic developments and outlook

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

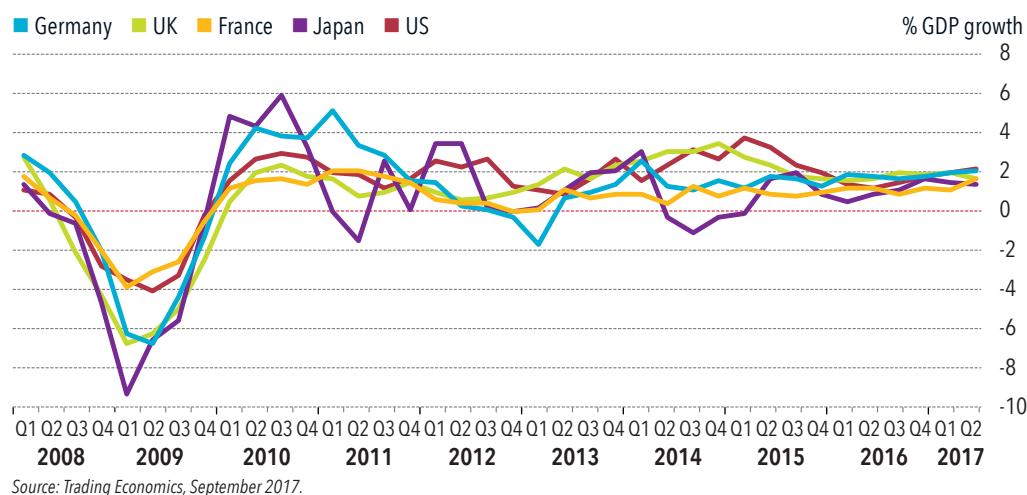
RECENT GLOBAL ECONOMIC DEVELOPMENTS

Developed economies

Year-on-year¹² GDP growth for most developed economies increased during the second quarter of 2017, with only two of the five economies analysed growing at a slower rate, namely the United Kingdom (UK) and Japan. The UK grew at 1,7%, compared to 2% in the previous quarter, largely due to a contraction in the country's production levels (*Trading Economics*, 2017). Japan saw a marginal decrease, growing at 1,4%, compared to 1,5% in the previous quarter. Both the US and Germany saw improvements, growing by 2,2% and 2,1% respectively in the second quarter from 2% growth in the first quarter of 2017. France saw the most marked improvement on its first quarter of 2017 performance growing by 1,7% in the second quarter of 2017, relative to its 1,1% growth in the first quarter, driven by an expansion in exports particularly in terms of transport equipment and refined petroleum products (*Focus Economics*, 2017).

France saw the most marked improvement growing by 1,7% in the second quarter of 2017, driven by an expansion in exports of transport equipment and refined petroleum products.

Figure 5: Economic growth trends in developed economies (Quarter 1, 2008 to Quarter 2, 2017)

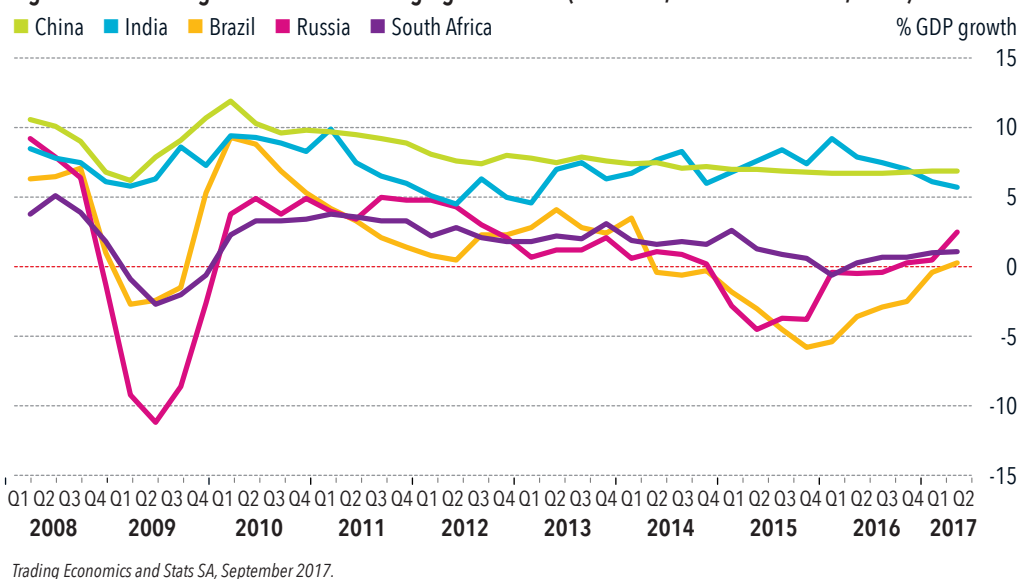


Emerging economies

For the first time since the beginning of 2014, all BRICS (Brazil, Russia, India, China and South Africa) economies posted positive year-on-year GDP growth rates. Of these economies only the Indian economy displayed a declining growth trend. *Trading Economics* (2017) reports that there are a number of reasons for the slowdown in the Indian economy, including the tapering off of consumer spending and exports, but also the lingering negative economic impact of the demonetization programme which was implemented in November 2016. While China's growth rate remained unchanged at 6,9%, Brazil's

For the first time since the beginning of 2014, all BRICS economies posted positive year-on-year GDP growth rates.

Figure 6: Economic growth trends in emerging economies (Quarter 1, 2008 to Quarter 2, 2017)



12. 'Year-on-year' is used here instead of annual, to reflect that the comparison is between the same quarters in two different years (Quarter 2, 2017 versus Quarter 2, 2016) as opposed to comparisons across different whole completed years (i.e. 2016 versus 2015). 'Quarter-on-quarter' refers to the comparison between the current quarter and the previous one (Quarter 2, 2017 versus Quarter 1, 2017).

economic growth rate improved from -0,4% in the first quarter to 0,3% in the second quarter, signalling an end to its nearly three-year recessionary trend. The largest improvement amongst the BRICS economies was, however, recorded by Russia, which saw a record growth rate of 2,5% year on year in the second quarter (compared to 0,5% in the first quarter) spurred on by growth across its wholesale and retail trade, mining, manufacturing and construction sectors (*Trading Economics*, 2017). The South African economy observed a year-on-year growth rate of 0,5% in the second quarter of 2017, facilitated by a rebound in the agricultural sector. The chapter on economic growth delves deeper into the other drivers of the South African economy's growth in the second quarter.

Global economic outlook

According to the latest *World Economic Outlook (WEO) Update* (2017) published by the International Monetary Fund (IMF) in July 2017, global economic growth in 2016 stood at 3,2%. The improved growth anticipated for 2017 in the previous Update remains, with the momentum of the growth in the first quarter of 2017 expected to continue into the rest of the year. As a result, the IMF held its global growth projection at 3,5% for 2017. For the advanced economies the IMF's growth forecast for 2017 remains at 2%. Growth forecasted for emerging market and developing economies in 2017 was revised to 4,6%.

The IMF projects that growth in the Eurozone will improve to 1,9% in 2017 – a further 0,2 percentage point improvement since the previous forecast estimates in April 2017. A slight decline to a growth rate of 1,7% is anticipated in 2018.

The IMF's forecast for China in 2017 has been revised upward to 6,7% – possibly indicative of the successful impact of previous policy easing and supply-side reforms. However, its forecast for the country in 2018 (6,4%) reflects the anticipation of a slowing Chinese economy. This is, however, an upward (0,2 percentage points) revision from its previous forecast and reflects a prediction that there may be a delay in authorities implementing the required fiscal adjustment, so as to reach their ambition of doubling 2010 real GDP by 2020 (IMF, 2017: 3). India's demonetization of the 500 and 1 000 rupee notes in November 2016 resulted in large cash shortages and payment disruptions throughout the Indian economy. However, India's economy is expected to pick up again in 2017 and 2018, with growth rates forecast at 7,2% and 7,7% respectively.

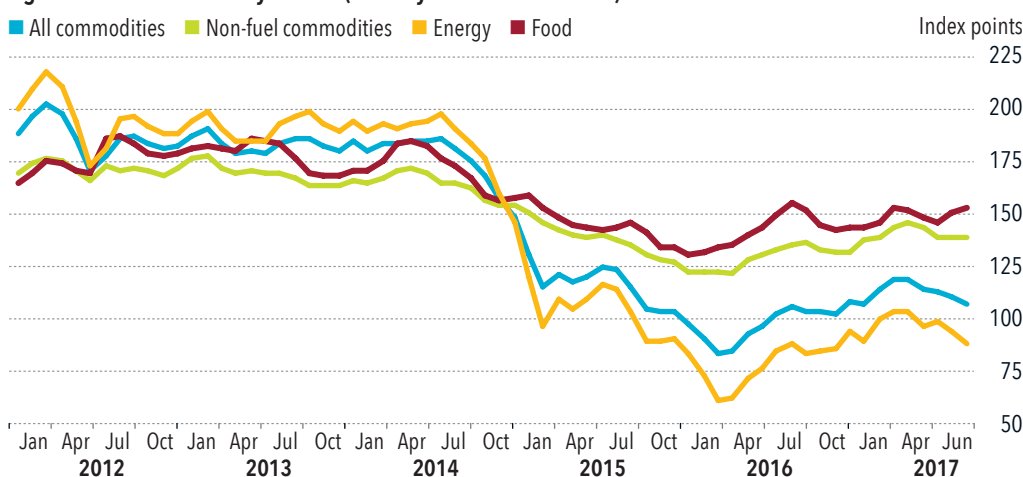
The IMF notes that 'modest recovery' is expected in sub-Saharan Africa in 2017, with a revised (higher) growth rate of 2,7%, rising to 3,5% in 2018. The relatively low growth forecast is attributable to challenging macroeconomic conditions in some of its largest economies such as South Africa. South Africa's economic growth forecast for 2017 was mildly revised up to 1%, enabled by the agricultural sector's recovery. However, the IMF cautions that political uncertainty, coupled with weak consumer and business confidence could have a negative impact on growth going forward.

Overall, the IMF anticipates growth moderation in the advanced economies with growth of 1,9% expected, while its forecast for emerging markets expands to 4,8% bringing its 2018 global growth prediction to 3,6%.

COMMODITIES

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

Figure 7: World commodity indices (January 2012 to June 2017)



Source: IMF, August 2017.

The all-commodities index showed signs of improvement from its downward trend in 2015 for most of 2016 and into the first quarter of 2017. However, it declined throughout the second quarter of 2017 from its 116,70 (average) index points level in the first quarter of 2017, to 110,22 (average) index points in the second quarter of 2017.

A number of factors drove the decline in the all-commodities index in the second quarter of 2017, predominant among which was a 7,2% quarter-on-quarter decrease in the energy index and 3,6% quarter-on-quarter decrease in the non-fuel

The IMF's forecast for China in 2017 has been revised upward to 6,7% – possibly indicative of the successful impact of previous policy easing and supply-side reforms.

The all-commodities index declined throughout the second quarter of 2017 from 116,70 (average) index points level in the first quarter of 2017, to 110,22 (average) index points in the second quarter of 2017.

commodities index. The food index also declined by 0,6% quarter on quarter in the second quarter of 2017. In all cases, this was a reversal on the upward trend in these indices in the previous year.

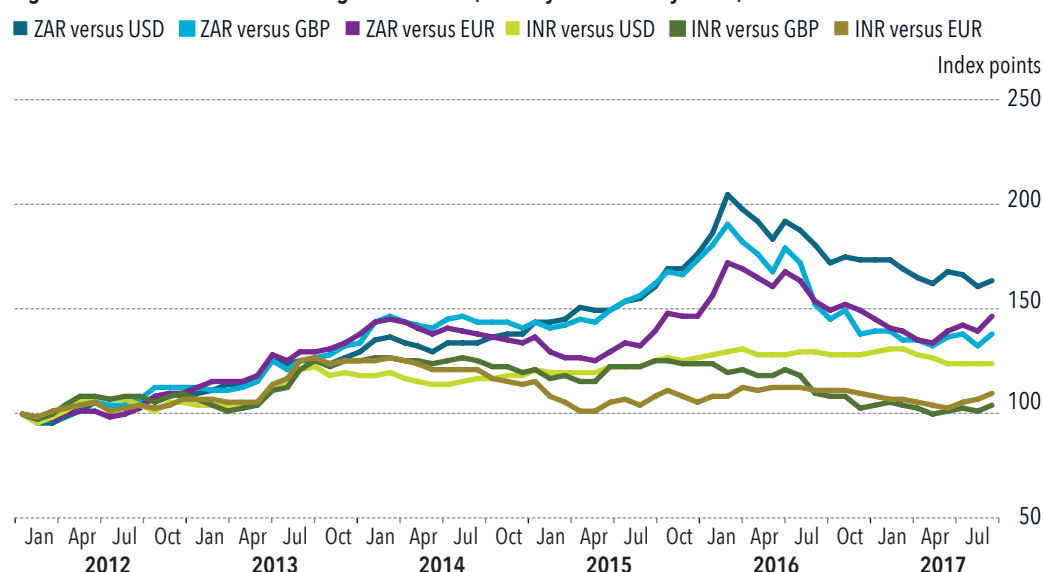
Crude oil prices fluctuated throughout the second quarter of 2017, starting out fairly stable in April at US\$52-US\$54 a barrel, but then declining to US\$49,91 a barrel in May 2017. The June edition of the IMF Commodity Market Monthly report indicated that the oil price subsequently continued to fall as the market responded to the US build-up of its petroleum inventories – driving a similar downward trend in the energy index. On 30 November 2016, the Organization of the Petroleum Exporting Countries (OPEC) agreed to reduce crude oil output to 32,5 million barrels per day as of January 2017. The OPEC production cut has been extended to March 2018, however, prices have since not been adversely impacted.

Futures markets anticipate oil prices to remain 'almost flat' at US\$49,67 a barrel in 2017 and US\$49,29 a barrel by 2018, both revised downward from the current IMF baselines of US\$51,92 and US\$52, respectively (IMF, 2017: 2).

EXCHANGE RATES

The performance of the South African rand (ZAR) is measured by comparing the exchange rate with three other currencies, namely the US dollar (USD), the British pound (GBP) and the euro (EUR). Further, the Indian rupee (INR) is used as a proxy to measure the impact of global financial market developments on other emerging countries with respect to its rate of exchange with the US dollar, British pound and the euro.¹³

Figure 8: Indexed nominal exchange rate trends (January 2012 to July 2017)



The rand's exchange rate was strongest against the euro in April and against the US dollar and British pound in June 2017.

Source: South African Reserve Bank and OANDA Solutions for Business, August 2017.

The second quarter of 2017 saw the appreciation of the South African rand relative to the US dollar. In contrast, while the rand initially depreciated relative to the British pound and the euro, by the end of the quarter, it had appreciated relative to both currencies. Subsequently, by the beginning of the third quarter of 2017 the rand had once more depreciated against all three currencies. Domestically, the sovereign ratings agency's downgrade of South Africa's credit rating, coupled with concerns of changing the South African Reserve Bank's monetary policy mandate, as well as political instability, contributed to the depreciation experienced in the beginning of April (SARB, 2017). The rand's exchange rate was strongest against the euro in April and against the US dollar and British pound in June 2017. The beginning of the third quarter saw the rand depreciate against the US dollar, British pound and the euro.

The Indian rupee similarly displayed moderate movement against the three developed country currencies. It depreciated relative to the euro throughout the second quarter. Further, while the Indian rupee initially appreciated relative to the US dollar, by the end of the second quarter it depreciated relative to the dollar. A similar variation in movement was observed in its performance relative to the British pound. While the Indian rupee initially depreciated relative to the pound, it appreciated by the end of the quarter. Thus, while the rand and the Indian rupee evidence some variation in their performance relative to the major currencies during the quarter, in general a similar trend was seen at the start of the second quarter and in relation to the British pound. Both the rand and the Indian rupee depreciated against the pound between April and May, and then appreciated against the pound between May and June. The rand and the Indian rupee observed opposite trends in relation to the US dollar and the euro however, suggesting that these trends cannot be attributed to general trends in emerging markets at the time.

13. Note that all currencies were indexed to 100 in the base period (January 2012) in order to normalise them and contrast the relative trajectories these followed until the end of the period analysed (July 2017).

Economic growth

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



The South African economy observed a notable turnaround in the second quarter of 2017 growing by 2,5% quarter on quarter, moving it out of a technical recession.

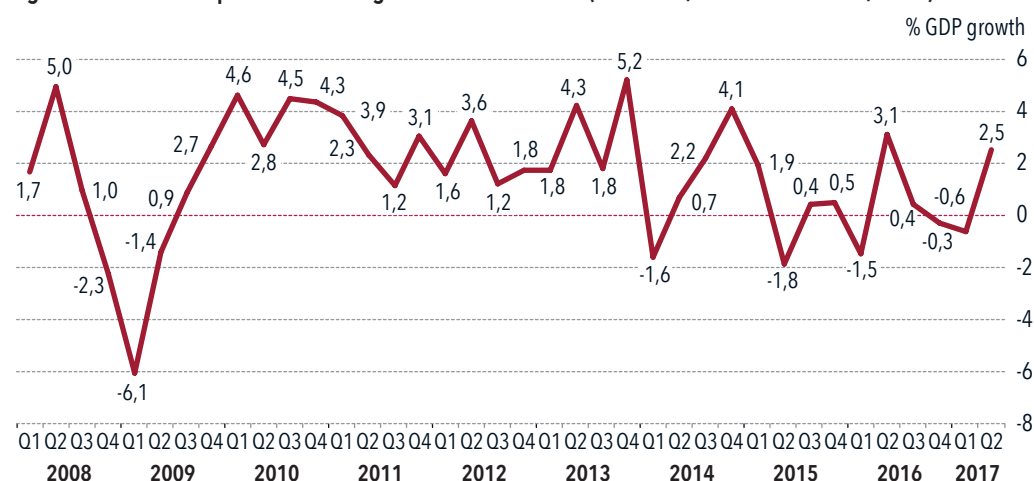
ECONOMIC GROWTH IN SOUTH AFRICA

Quarter-on-quarter (GDP) growth rate

The South African economy observed a notable turnaround in the second quarter of 2017 growing by 2,5% quarter on quarter, and reversing its prior two consecutive quarters of decline, thereby moving it out of a technical recession. The second quarter growth figure was notably higher than that forecast by the Bureau for Economic Research (BER) and the Bloomberg Consensus, which was of growth closer to 2% quarter on quarter (BER, 2017). The improvement in the economy's performance was brought about by strong quarter-on-quarter expansions in the agriculture (33,6%), electricity (8,8%) and mining (3,9%) sectors. The only sectors which observed declines in the second quarter were the construction (-0,5%) and government (-0,6%) sectors. Growth in all other sectors combined, however, notably outweighed this decrease.

On a year-on-year basis, the South African economy reported growth of 0,5% in the second quarter of 2017, relative to its 0,7% growth in the previous quarter.

Figure 9: Quarter-on-quarter real GDP growth in South Africa (Quarter 1, 2008 to Quarter 2, 2017)



Source: Stats SA, September 2017.

The primary sector led national economic growth fuelled by the agriculture sector's second consecutive quarter of pronounced growth of 33,6% quarter on quarter.

Sectoral determinants of GDP growth in South Africa

The positive performance of the South African economy in the second quarter of 2017 was spread across all sectors, with the exception of the construction and government sectors. The primary sector led national economic growth fuelled by the agriculture sector's second consecutive quarter of pronounced growth of 33,6% quarter on quarter (Statistics South Africa, 2017). While the mining sector also observed positive economic growth of 3,9%, it was slower than its 13,1% growth in the first quarter of 2017. The BER (2017) attributes this to regulatory uncertainty regarding the third edition of the Mining Charter. The sector is, however, currently advancing thanks to improved bulk commodity prices, enabling it to retain positive growth.

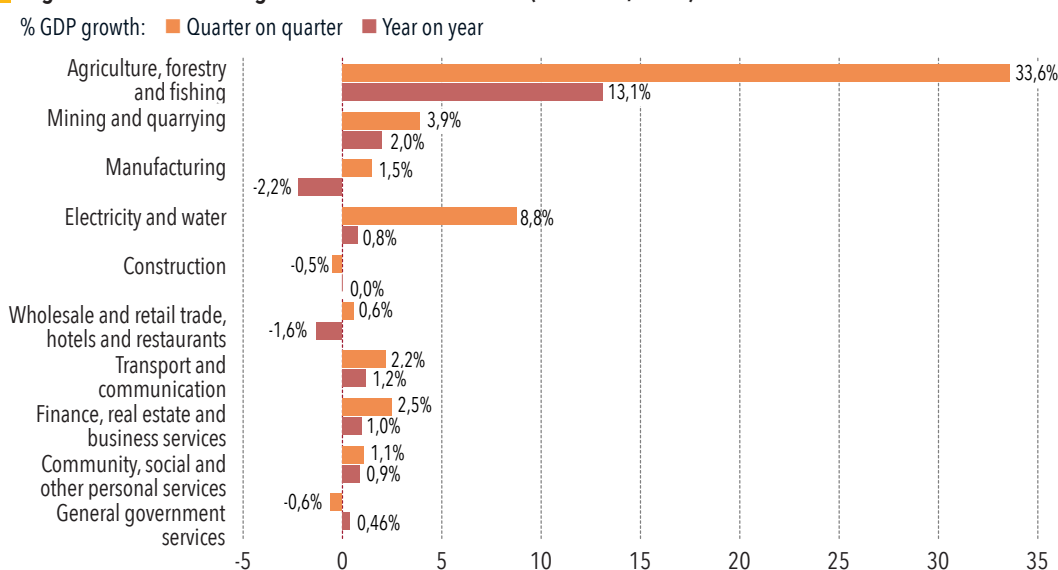


The secondary sector's output expanded by 1,9% in the second quarter of 2017, improving notably from its 3,3% contraction in the first quarter of 2017 (BER, 2017). Much of this expansion was related to the electricity sector's growth resulting from an increase in electricity consumed and produced (Statistics South Africa, 2017: 3). While the manufacturing sector also saw a positive turnaround from its poor first-quarter performance, growing by 1,5%, the BER (2017) suggests its recovery was lower than anticipated given the results of Statistics South Africa's high-frequency monthly output numbers. The construction industry's contraction was attributed to reduced residential and non-residential building works.

The tertiary sector saw a reversal in its 2,1% contraction in the first quarter of 2017, growing by 1,2% in the second quarter of 2017. All tertiary sub-sectors recorded quarter-on-quarter improvement in their growth rates in the second quarter. While the government sector saw negative growth of 0,6%, it was a 0,1 percentage point improvement on its first-quarter performance (-0,7%). The sub-sectors which observed positive quarter-on-quarter growth were the finance (2,5%), transport (2,2%), personal services (1,1%) and trade (0,6%) sectors.

Figure 10 shows that all sectors, with the exception of manufacturing, construction, trade and government, experienced quarter-on-quarter and year-on-year expansions in the second quarter of 2017. The top sectoral growth performers in the South African economy, reaching growth rates above 1%, on a year-on-year and quarter-on-quarter basis were the agriculture, mining, transport and finance sectors. Despite negative year-on-year growth, the trade and manufacturing sectors made strides on a quarter-on-quarter basis, growing by 0,6% and 1,5%, respectively. The construction sector saw a quarter-on-quarter contraction of 0,5% but managed to achieve growth on par with the second quarter of 2016.

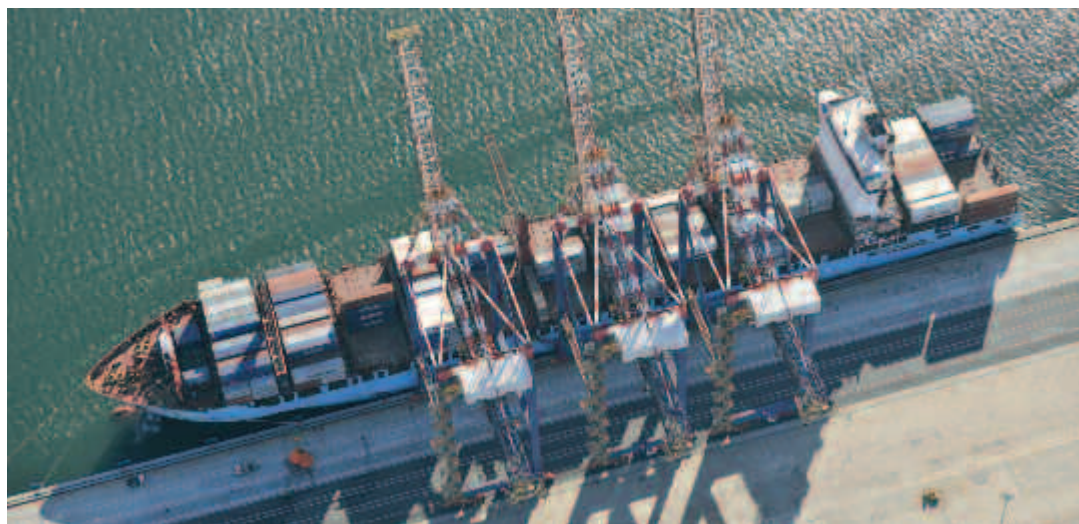
Figure 10: Sectoral GDP growth rates for South Africa (Quarter 2, 2017)



Source: Stats SA, September 2017.

The top sectoral growth performers in the South African economy were the agriculture, mining, transport and finance sectors.

The Western Cape economy grew by 2,1% in the second quarter of 2017, a significant upswing of 4,1 percentage points relative to the previous quarter.



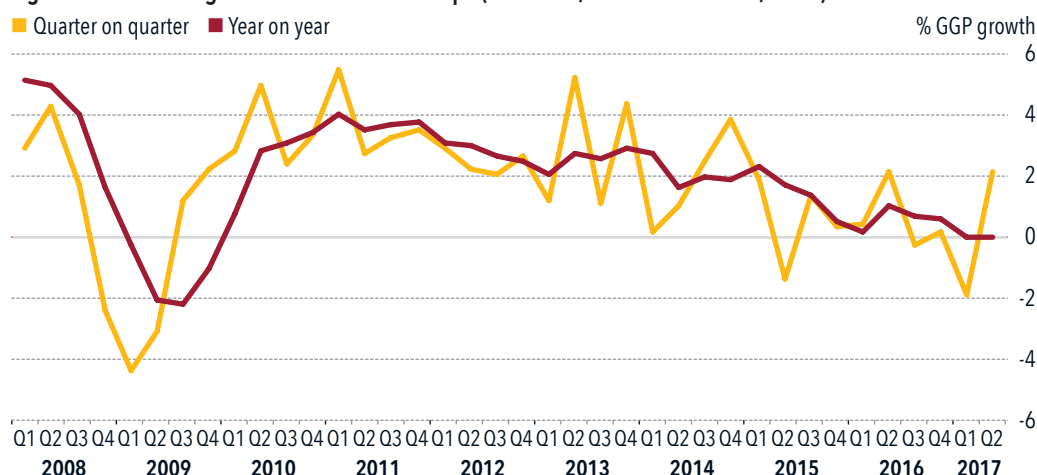
ECONOMIC GROWTH IN THE WESTERN CAPE

Quarter-on-quarter GDP-R growth rate

The Western Cape economy contributes around 10% of national GDP (IHS Markit, 2017). The province's economic performance is strongly influenced by national economic conditions, and in line with the quarter-on-quarter growth at the national scale, the Western Cape economy grew by 2,1% in the second quarter of 2017, a significant upswing of 4,1 percentage points relative to the previous quarter. In line with the national trend, this was driven by growth in the agriculture and finance sectors which saw quarter-on-quarter growth of 9% and 2,5%, respectively. Furthermore, the manufacturing sector, which made a 0,25 percentage point contribution to quarterly growth, was also a key impetus to growth in the province. On a year-on-year basis, the province's economic growth was on par with its growth in the first quarter of 2017.

While GDP-R statistics for Cape Town are not available on a quarterly basis, the performance of the metro's economy can be expected to typically mirror that of the provincial economy. This is because the metro contributes about 70% of the provincial economic output (IHS Markit, 2017). On average, in the last 15 years, the variation of the city's GGP growth rate from the provincial rate has been 0,1 percentage points.

Figure 11: Real GGP growth for the Western Cape (Quarter 1, 2008 to Quarter 2, 2017)

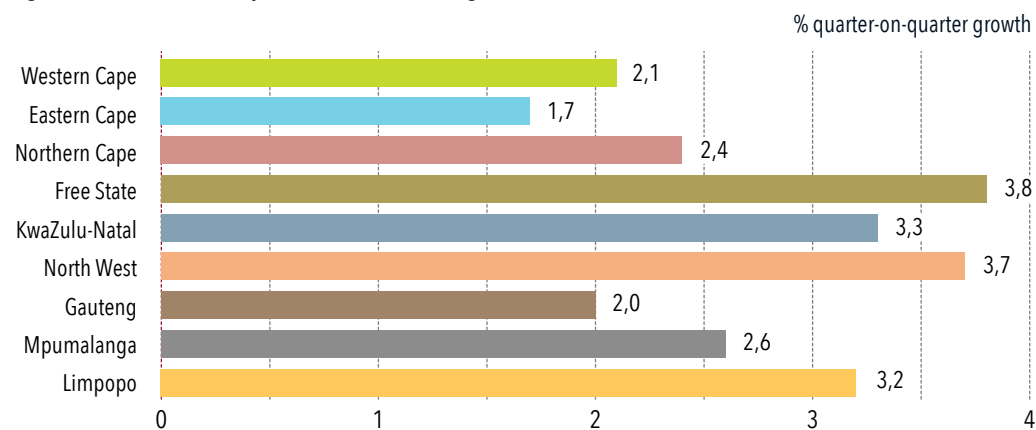


Source: Quantec, September 2017.

The provinces which saw the highest quarter-on-quarter growth rates were the Free State (3,8%), North West (3,7%) and Limpopo (3,2%).

Provincial economic growth comparisons

Economic growth was positive across all provinces in the second quarter of 2017, reversing the negative growth observed in the first quarter in the Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng. The provinces which saw the highest quarter-on-quarter growth rates were the Free State (3,8%), North West (3,7%) and Limpopo (3,2%). Following these provinces were Mpumalanga (2,6%), the Northern Cape (2,4%), the Western Cape (2,1%), Gauteng (2%) and the Eastern Cape (1,7%). The comparatively slower growth of the two more urbanised provinces reflects the degree to which the primary sector was a principal driver of growth in the country in the second quarter. Cape Town is not significantly affected by changes in the primary sector but the city is strongly affected by the performance of the tertiary sector, which accounts for 77% of its GDP (IHS Markit, 2017).

Figure 12: Provincial comparisons of real GDP-R growth rates (Quarter 2, 2017)

Source: Quantec, September 2017.

Sectoral drivers of economic growth in the Western Cape

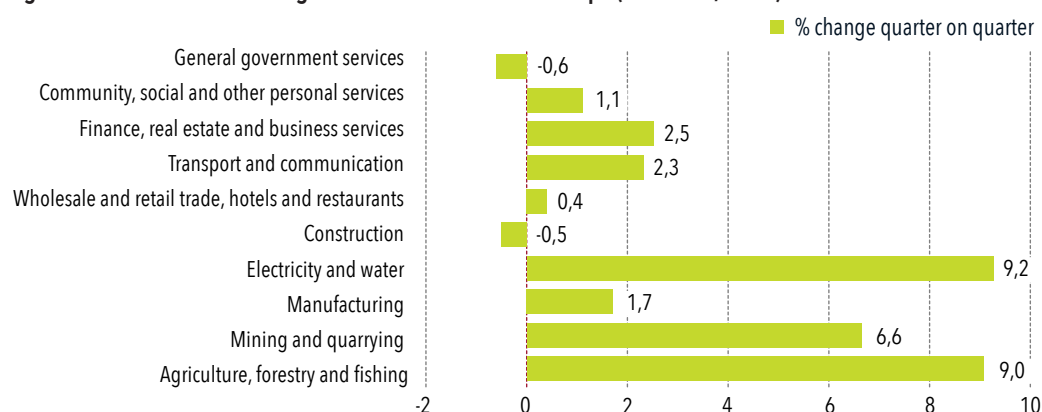
The Western Cape's economy grew in the second quarter of 2017, fuelled by growth across all except the construction and personal services sectors. The most prominent contributors to the Western Cape's total GVA (value) are the finance (30,7%), trade (16%) and manufacturing (15%) sectors. Of these, the finance and manufacturing sectors made the largest contributions to the province's quarterly economic growth rate of 0,77 and 0,25 percentage points respectively. The agricultural sector, despite constituting a relatively small share of the Western Cape's total GVA (3,9%), was also a large contributor to GVA growth (0,34 percentage points).

In terms of quarter-on-quarter growth of these prominent sectors (figure 13), the finance sector grew by 2,5% in the second quarter of 2017, an increase of 3,7 percentage points since the previous quarter's contraction. The agricultural sector continued its recovery with a quarterly growth rate of 9%, following poor growth levels throughout 2016. The manufacturing sector's growth of 1,7%, while still relatively low, marked the first time in the last four quarters that the sector recorded a positive growth rate. In addition, despite its low contribution to this quarter's total growth (0,06 points), the trade sector grew by 0,4%, a notable improvement from the previous quarter's 6% contraction.

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, 82% of the Western Cape's finance and business services, 77% of its transport, 72% of its wholesale and retail trade, and 67% of manufacturing sectors, can be attributed to the metropolitan area (IHS Markit, 2017). As such, the city is likely to have experienced very similar growth rates to those at a provincial level in these sectors in the second quarter of 2017.

In contrast to Cape Town's contribution to the tertiary sector output of the province, its contribution to the province's total primary sector GGP is only 19% (IHS Markit, 2017). 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 of the city, as the primary sector contributes 1% to Cape Town's GGP. The performance of the city's economy in the second quarter of 2017 would have been driven by the upticks in the finance, transport, trade and manufacturing sectors that comprise 29%, 12%, 18% and 15% of the city's economy, respectively.

The most prominent contributors to the Western Cape's total GVA (value) are the finance (30,7%), trade (16%) and manufacturing (15%) sectors. The finance and manufacturing sectors contributed 0,77 and 0,25 percentage points to the province's total growth rate in the second quarter.

Figure 13: Sectoral real GDP-R growth rates in the Western Cape (Quarter 2, 2017)

Source: Quantec, September 2017.

ECONOMIC GROWTH OUTLOOK

The second quarter of 2017 saw the South African economy transition out of a technical recession. The positive strides in quarterly economic growth, which the national economy saw in terms of the agriculture, mining, manufacturing, electricity, trade, transport, finance and personal services sectors, were echoed by the positive performance of these sectors in the Western Cape economy.

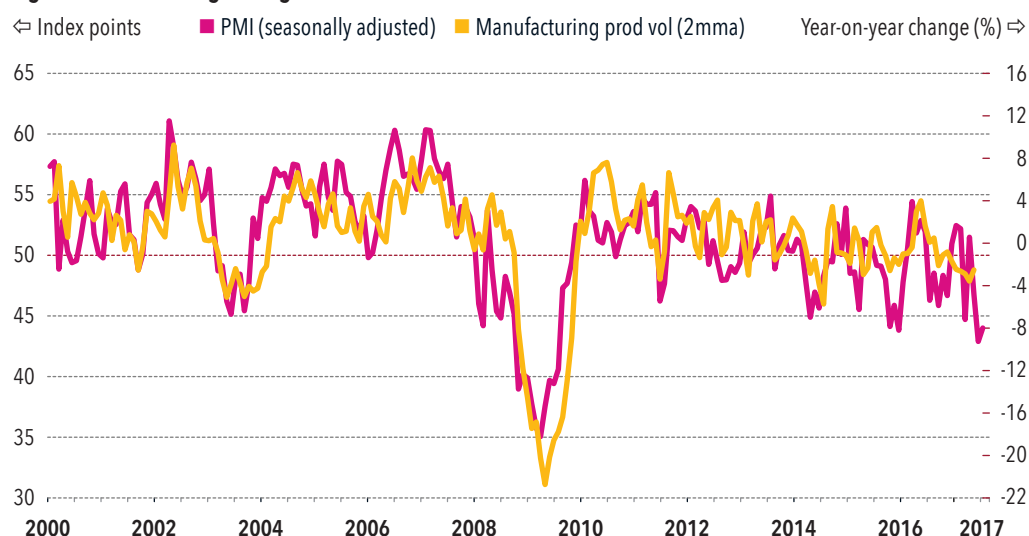
While the South African economy was able to reverse its 0,6% contraction in the first quarter of 2017, the BER (2017) remains concerned about the economy's ability to sustain the positive growth of the second quarter of 2017. In particular, the BER downscaled its prediction of 2017 national economic growth in April 2017 from 0,6% to 0,3%. One of the major drivers of this revision is concern regarding the national fiscus (budget) that at the start of 2017, was based on anticipated economic growth of 1,3% in 2017 (BER, 2017). The BER has further moderated its economic growth prediction for 2018 to 0,9% from a previous prediction of 1,3%. The latter is driven by the lack of certainty surrounding political and policy developments which are expected to result in further dampening of activity levels, including private sector fixed investment (BER, 2017).

The Absa Purchasing Managers' Index (PMI)¹⁴, an indicator of economic activity in the South African economy, averaged a value below the 50-point neutral mark in the second quarter of 2017. The PMI recorded its first slump since the beginning of 2017 at the start of the second quarter, when it reached 44,7 index points in April. Thereafter, it made a notable recovery reaching 51,5 index points in May. However, by June the index had again dropped to below the neutral mark reaching 46,7 index points. The BER reports that in the months of April and June, the downward movement in the index was likely a function of the continued uncertainty that surveyed manufacturers were facing in the wake of the unknown economic impacts of a Cabinet reshuffle and the subsequent credit rating downgrades. At the time of the August 2017 PMI survey, manufacturers revealed notable pessimism about the business environment going forward. In particular, the sub-index which measures expected business conditions in six months' time observed a decline to 46,6 points in August, marking the first time the sub-index dropped below the neutral mark since February 2016. The implication of this is that manufacturers foresee business conditions worsening further in the second part of 2017.

The BER downscaled its prediction of 2017 national economic growth in April 2017 from 0,6% to 0,3%.

The PMI recorded its first slump since the beginning of 2017 at the start of the second quarter, when it reached 44,7 index points in April.

Figure 14: Purchasing Managers' Index for South Africa



Source: Adapted from BER, August 2017. PMI™ and Purchasing Managers' Index™ are trademarks of Stellenbosch University.

The resounding sentiment is that the South African economy, and by extension the Western Cape economy, is headed for uncertain times despite a positive upswing in economic growth in the second quarter of 2017. There have been some positive developments in the economy, such as the resilience of the rand, enabled by low global interest rates (BER, 2017). However, other indicators relating to employment and consumer confidence point to downside risks to economic growth in the short term.

While Cape Town and the Western Cape economies will be exposed to much the same challenges as the national economy, they may be able to resist some of the downside risks to growth through a focus on ramping up core sectors such as finance, transport, trade and manufacturing. Overall, the ability of the city's economy to realise the opportunities presented by international demand for exports, FDI inflows into Africa and increased tourism in the region will determine whether the city can move onto a sustained higher growth path in 2018.

14. 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.

CPI inflation slowly observed a downward trend throughout the second quarter of 2017.



SOUTH AFRICA'S INFLATION OVERVIEW

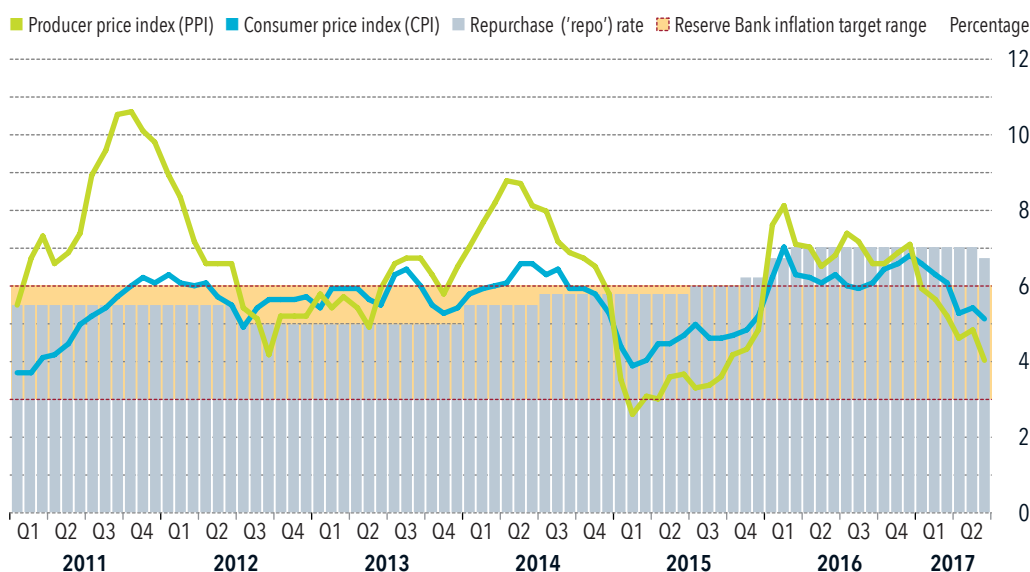
For the second quarter of 2017, the headline consumer price index (CPI) inflation rate decreased when compared to the first quarter of 2017. Following rates above the 6% target range in the first quarter of 2017, CPI inflation slowly observed a downward trend throughout the second quarter of 2017. However, it still hovered relatively close to the upper end of the inflation target, recording 5,3% in April, 5,4% in May and 5,1% in June. According to the Monetary Policy Committee (MPC) statement of June 2017, key factors influencing the improved CPI in the second quarter of 2017 included the moderation of food price inflation, subdued domestic demand pressures, as well as the decline of international oil prices (SARB, 2017: 1).

Correspondingly, the producer price index (PPI) decreased when compared to the previous quarter. Since reaching 5,2% at the end of the first quarter, the PPI decreased notably in the second quarter of 2017. It recorded rates of 4,6% for April, 4,8% for May and 4% for June 2017. The main contributors to PPI inflation (in terms of final manufactured products) were the prices of food, beverages and tobacco products (contributing 1,6 percentage points to PPI) and petroleum, chemical, rubber and plastic products (contributing 0,8 percentage points to PPI).

Figure 15 also illustrates changes in the repurchase rate (repo rate). As indicated on the graph, the repo rate was reduced in the last month of the second quarter of 2017. At the time of the MPC statement in June 2017, inflation had fallen below the 6% inflation target in the second quarter. As a result of the improved inflation outlook and the deteriorated growth

Key factors influencing the improved CPI in the second quarter of 2017 included the moderation of food price inflation, subdued domestic demand pressures, as well as the decline of international oil prices.

Figure 15: CPI and PPI trends for South Africa (January 2011 to June 2017)



Source: CPI and PPI extracted from Stats SA, 2017, and repurchase rate extracted from the SARB, 2017.

outlook, the MPC reduced the repo rate to 6,75% per annum. Although the inflation outlook has improved, risks still remain. These include the vulnerability of the rand exchange rate as a result of intensified political uncertainty, global monetary developments and potential further credit ratings downgrades.

Table 1: Inflation levels by household expenditure groups¹⁵

Quintiles	Level	Monthly expenditure	Inflation rate as at March 2017
1	Very low	R0 – R2 456	4,0%
2	Low	R2 457 – R4 742	4,6%
3	Middle	R4 743 – R7 907	4,6%
4	High	R7 908 – R14 419	4,8%
5	Very high	More than R14 420	5,3%
South African headline inflation rate			5,1%

Source: Own calculations using Statistics South Africa, July 2017.

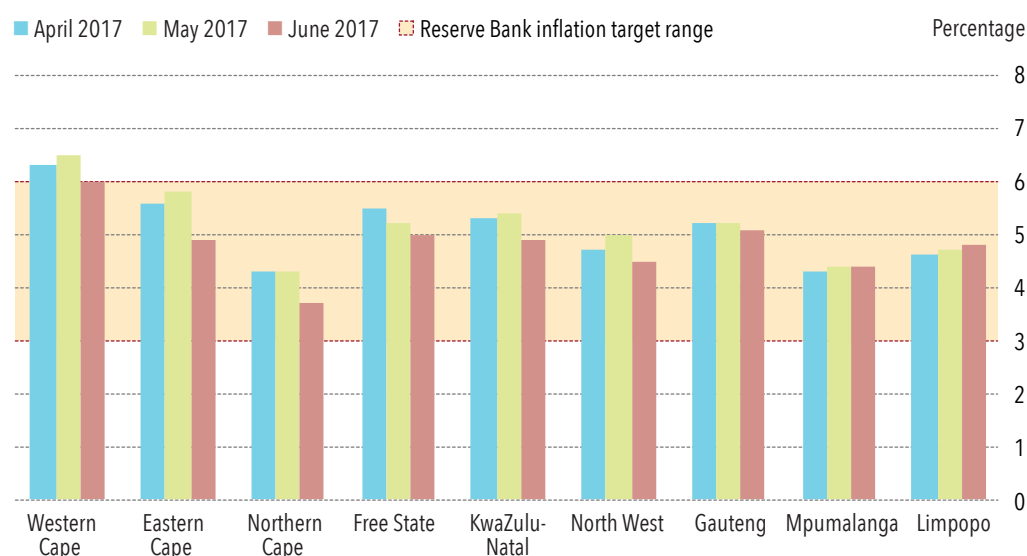
The significant decrease in the inflation rate for household quintiles with the lowest level of monthly expenditure can likely be attributed to the subdued food price inflation.

Table 1 indicates how different monthly household expenditure groups are affected by inflation. By June 2017, inflation decreased significantly across all quintiles with only the fifth quintile nearing the 6% inflation rate target. The first and second quintiles, the household quintiles with the lowest level of monthly expenditure, experienced the lowest inflation rates (4% and 4,6%, respectively). The middle expenditure quintile saw inflation on par with the second quintile at 4,6%, whilst the fifth household quintile, with the highest level of monthly expenditure, experienced the highest (5,3%) inflation rate, although this represented an improvement from an inflation rate of 6,2% at the end of the first quarter. The significant decrease in the inflation rate for household quintiles with the lowest level of monthly expenditure can likely be attributed to the subdued food price inflation, while both households in the lowest and highest expenditure quintiles would have benefitted from the downward fuel price adjustment in June.

Geographical inflation

The Western Cape recorded a higher inflation rate (6%) than the national inflation rate (5,1%) at the end of the second quarter of 2017. The inflation rate showed an upward movement from April to May and declined in June in most of the provinces, with the exception of the Free State which observed a steady decline through April to June and Limpopo which saw an increase in inflation throughout the second quarter. The largest declines, when comparing the change in inflation rate between April and June, were observed in the Eastern Cape (0,7 percentage points), Northern Cape (0,6 percentage points) and the Free State (0,5 percentage points). As illustrated in figure 16, the Northern Cape continued to record the lowest inflation rate (3,7%) at the end of June 2017. With the exception of the Western Cape, all provinces logged recordings under 6% for the entire quarter. The highest inflation rate at the end of the second quarter was recorded for the Western Cape (6%), followed by Gauteng (5,1%) and the Free State (5%). Food price inflation in the Western Cape was 7,7% in June 2017 (having decreased from 7,8% in May), while nationally it was lower at 6,7% (having decreased from 6,8% in May). Non-alcoholic beverages'

Figure 16: CPI inflation rate at provincial level (April 2017 to June 2017)



Source: Stats SA, July 2017.

15. Statistics South Africa recently revised its quintile categories to further disaggregate higher quintiles and has redefined the 'level' of each quintile. As such, note that the monthly household expenditure categories reflected in this table correspond to this new categorisation by the national statistics agency.

price inflation in the Western Cape was 6,6% in June 2017 (having decreased from 8,1% in May), while nationally it was higher at 6,9% (having decreased from 7,5% in May). Higher inflation in the Western Cape was recorded in household utilities (7,3% compared to 5,7% nationally) and in health (7,4% compared to 7% nationally), whereas lower inflation was experienced in water (4,6% compared to 8,8% nationally).

Inflation outlook

The overall inflation performance in the second quarter of 2017 improved notably when compared to the first quarter. In the first quarter, CPI went beyond the target range throughout the quarter and reached 6,6% in January, 6,3% in February and 6,1% in March. In contrast, in the second quarter, CPI improved moving to within the target inflation range to 5,3% in April, 5,4% in May and 5,1% in June 2017. This marked a significant change as this was the first time since December 2015 that CPI inflation was within the target range. The PPI moved similarly as it drifted to below the upper end of the target range in April 2017 and remained as such into June 2017. The SARB acknowledged that the inflation rate improved due to moderated food prices, subdued domestic demand and the decline in international oil prices.

According to the latest MPC statement, the SARB inflation outlook for 2017 has improved from an average of 5,7% to 5,3% and a lower turning point is expected in the first quarter of 2018 (SARB, 2017:2). The economic growth outlook remains a concern to the MPC, despite expectations of enhanced short-term economic growth (confirmed later when second-quarter growth results emerged in September), due to weak underlying demand in the economy (SARB, 2017: 8). At its June 2017 meeting, the MPC thus decided to reduce the repurchasing rate by 25 basis points to 6,75% per annum. The MPC noted however that, should the inflation outlook and risks deteriorate, it might have to reverse this decision.

The economic growth outlook remains a concern to the MPC, despite expectations of enhanced short-term economic growth due to weak underlying demand in the economy.

PRICE BASKET ANALYSIS

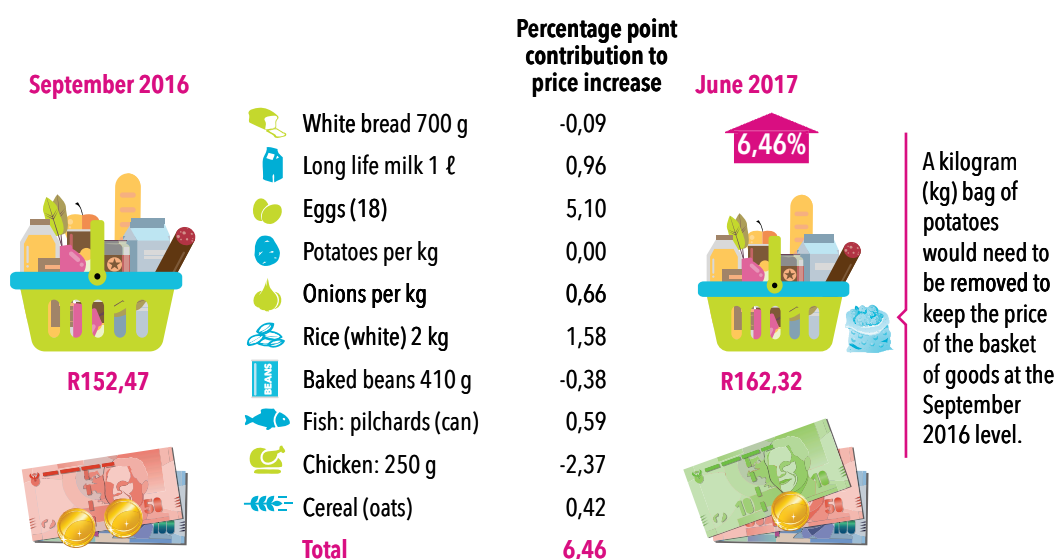
In order to better understand the effect that increases in the general price level (inflation) have on Cape Town households, the City of Cape Town's Economic Research Unit started collecting price data for typical grocery products in September 2016¹⁶. This section looks at which items have experienced the largest price increases and how the total cost of a notional basket of basic grocery items has changed between September 2016 and June 2017.

Price changes over time

The following indicates a notional price basket of potential food items that a household might consume during a month.

The price of the basket increased from R152,47 in September 2016 to R162,32 in June 2017, reflecting an upward price change of 6,46%. The basket reached the highest value of R164,08 in December 2016. This could be the result of a seasonal increase in demand associated with the festive season driving prices up. Thereafter, the basket decreased to R158,94 in March

Diagram 1: Monthly average price for selected food items for a notional price basket in Cape Town, (September 2016 to June 2017)



Source: City of Cape Town: Economic Research Unit, own calculations.

16. A few clarifying comments are required.

- This price basket is not related to the extensive one used by Statistics South Africa to derive CPI, but rather is a limited and subjective selection of typical household grocery items.
- The base data, which is collected monthly, consists of the average price of products across the main supermarket chains in Cape Town. Data gathering takes place at the end of each month.
- There is no assumption that these items are the only goods being consumed by households.
- The basket represents an assumed weekly household consumption expenditure (in rands).


Table 2: Fastest change in price of items increasing and decreasing during September 2016 and June 2017

Rank	Item from basket	Units	Min (R) values	Max (R) values	Average monthly growth rate (%)	Total growth rate (%)
Fastest increases in prices						
1	Juice (any)	2 ℓ	22,49	31,38	3,95	28,01
2	Eggs	18 eggs	27,22	40,19	3,65	28,56
3	Orange squash (concentrate syrup)	2 ℓ	24,99	32,38	2,63	20,01
4	Onions	per kg	8,59	12,79	2,49	10,01
5	Tomato sauce	700 ml	17,74	21,18	2,04	19,39
6	Sugar	2,5 kg	32,73	37,72	1,78	15,25
7	Peanut butter	400 g	22,22	26,38	1,76	15,13
8	Rice (white)	2 kg	17,97	21,17	1,62	13,41
Fastest decreases in prices						
1	Chicken 250g	per kg	42,39	59,46	-2,56	-24,33
2	Sunflower oil	750 ml	17,58	20,22	-1,32	-12,12
3	Apples (Golden Delicious)	1,5 kg	17,18	22,19	-1,06	-11,85
4	Mince (beef)	per kg	64,59	76,39	-0,53	-6,29
5	Baked beans	410 g	7,20	8,62	-0,53	-6,67
6	Rooibos tea	80 bags	28,78	33,99	-0,12	-3,06
7	White bread	700 g	11,39	12,34	-0,10	-1,17
8	Tomatoes	per kg	15,79	20,27	0,01	-6,85

Source: City of Cape Town: Economic Research Unit, own calculations.

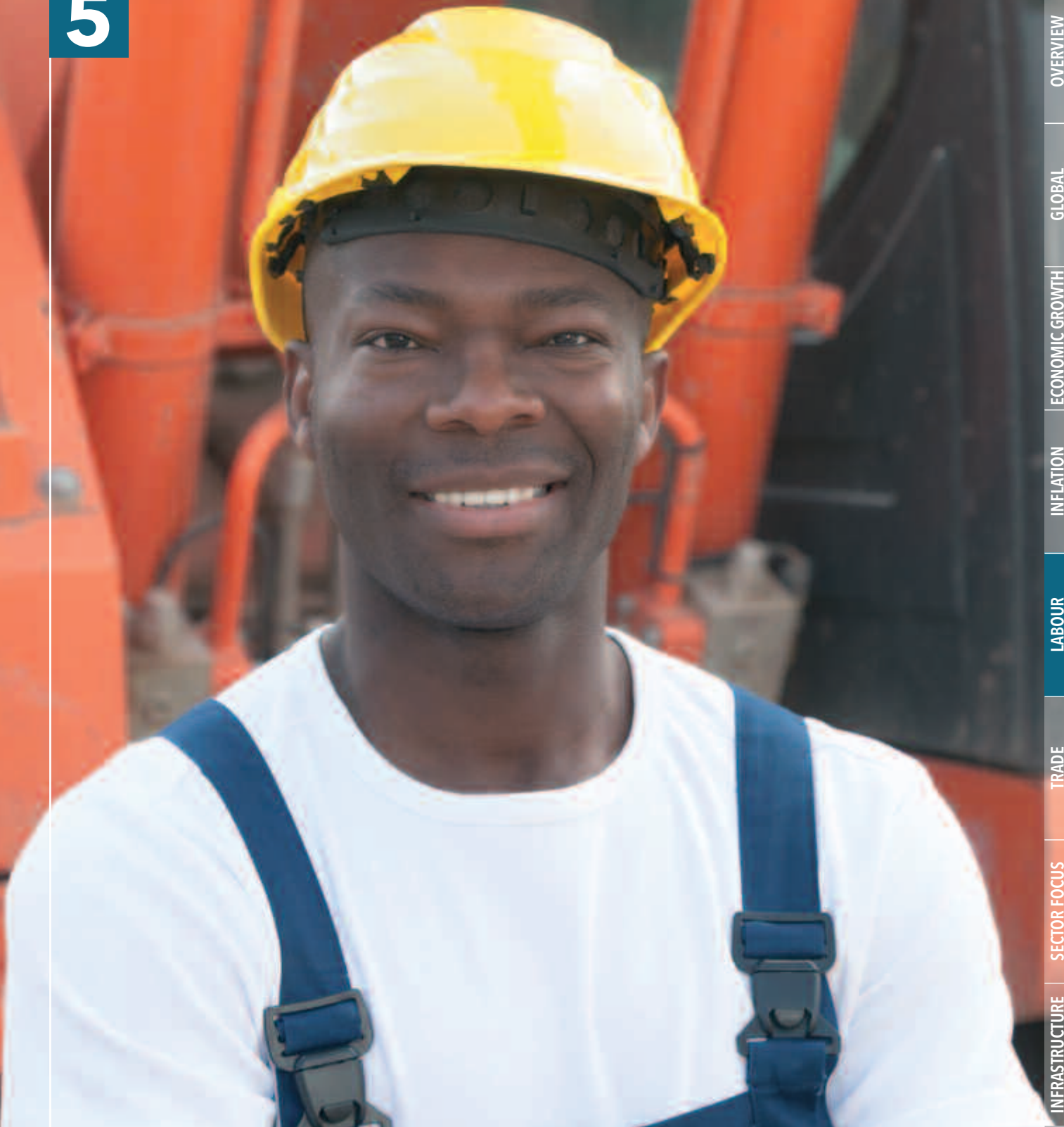
2017 whilst increasing in June to R162,32. The key driver of the increase in the value of the notional basket remained the price of eggs, as reported in both the fourth quarter of 2016 and the first quarter of 2017. The table above identifies the items that experienced the fastest and slowest price growth between September 2016 and June 2017.

The price of a two-litre bottle of juice remained the product with the fastest price increase, recording an average monthly growth rate of 3,95% with the price of eggs reflecting the second-fastest price increase. The increase in the price of juice could be driven by the increasing prices of its input ingredients such as fruit and sugar. The negative impact that the drought has had on fruit crops is still being felt and has resulted in upward pressure on fruit prices. Similarly, the price of sugar, which is a key input into juice, concentrated syrup, peanut butter and tomato sauce, saw the sixth fastest increase in price for items on which data was collected. Once again, the severe impact of the drought on the supply of sugar-cane crops likely drove this price increase. According to the South Africa Sugar Association (SASA), the total saleable sugar production to date decreased for the 2016/2017 season to 1 539 739 tons, compared to the 1 620 330 tons for the 2015/2016 season (SASA, 2017). Similarly, the price of eggs may have been impacted by the decrease in eggs produced, reflected in a 3,17% decline in the number of eggs produced per month in June 2017 (SAPA, 2017).

Chicken meat continues to record the fastest decline in price. As reported in the latest monthly report of the South African Poultry Association (SAPA), the number of poultry¹⁷ imports increased by 12,8% in May 2017 month on month (SAPA, 2017). The latest statistics published reflect that 95,5% of total poultry meat comprised of chicken. Brazil was the main poultry exporter in May 2017 with a share of 59,4% of the total poultry market, followed by the US. The Netherlands and other European Union (EU) countries' exports have significantly dropped due to the avian influenza (AI)-related trade ban on poultry. Reductions in production due to avian flu, a virus that has also recently been detected in the Western Cape, may lead to a slowing of the price decreases in poultry in the near future.

17. Poultry here refers to total poultry, which includes turkey and other poultry (duck, geese and guinea fowl).

Reductions in production due to avian flu, a virus that has also recently been detected in the Western Cape, may lead to a slowing of the price decreases in poultry in the near future.



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 - QUARTER 2, 2017

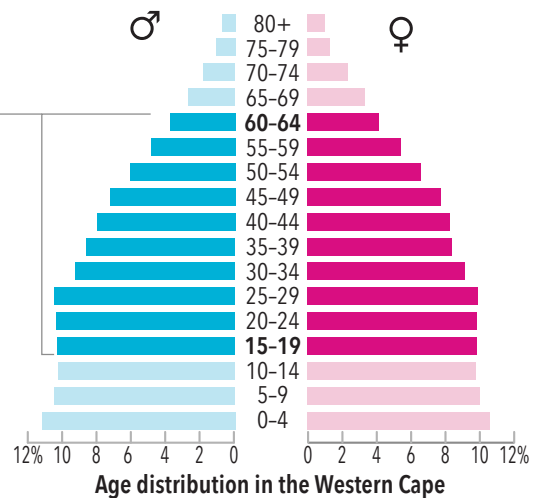
THE WORKING-AGE POPULATION



Cape Town has **2 842 660** people aged between 15 and 64. This group forms the **working-age population**. This is the value from which employment and unemployment figures are derived.



2 842 660
working-age population



Age distribution in the Western Cape

The dependency ratio

This refers to how many people depend on those of working age. In Cape Town **45,2%** of those of non-working age depend on those of working age.

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



EMPLOYMENT

Of the **2 842 660** people who make up the **working-age population**, **1 530 825** – 53,9% – are **employed**. This percentage is also known as the labour absorption rate.

1 530 825
employed people

53,9%
labour
absorption
rate

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

Of the **1 530 825** employed Capetonians, the majority are employed in the formal sector, with 11,2% in the informal sector.



Agriculture
16 576
(1,1%)



Private households
93 386
(6,1%)



Informal sector
171 593
(11,2%)



Formal sector

1 249 270
(81,6%)

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

How these figures are calculated

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

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

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

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

The surveys are conducted in 30 000 private

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

THE STRUCTURE OF THE CAPE TOWN LABOUR MARKET - QUARTER 2, 2017

UNEMPLOYMENT

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

Strict unemployment
The 'strict' definition of unemployment includes only people who are actively seeking work. By that definition, Cape Town has **448 312 unemployed people** – 22,7% of the strict labour force.

Strict rate
Searching unemployed
Labour force (employed + searching)
=

22,7%



Broad rate
Searching + non-searching unemployed
Broad labour force (employed + searching + non-searching)
=

24,2%

Broad unemployment
The 'broad' definition of unemployment includes those under the 'strict' definition as well as 'discouraged' and other 'non-searching' job seekers. By that definition, Cape Town has **488 280 unemployed people** – 24,2% of the broad labour force.

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

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

↑ SEARCH CRITERIA

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

The youth unemployment rate

This refers to people between the ages of 15 and 24 who are not employed, despite being willing and able to work. The strict youth unemployment rate is 48,5%, while the broad youth unemployment rate is 50,2%.

48,5%

50,2%

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

26,5%

The youth NEET rate in Cape Town is 26,5%.

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 their skills; lost hope of finding any kind of work.

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

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

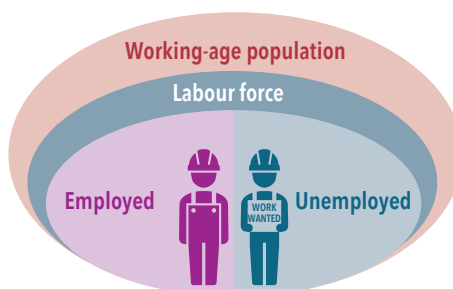
↓ SEARCH CRITERIA

THE LABOUR FORCE

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

Strict labour force = 1 979 137

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 1 979 137 strong, being made up of **1 530 825 employed people** and **448 312 job seekers**.



Broad labour force = 2 019 105

The 'broad' definition of the labour force includes those under the 'strict' definition, and 'non-searching' job seekers. By this measure, Cape Town's labour force is 2 019 105 strong, being made up of **1 530 825 employed people**, **448 312 job seekers**, **17 376 discouraged** and **22 592 other non-searching unemployed**.

THE LABOUR FORCE

1 530 825
EMPLOYED

448 312
SEARCHING
UNEMPLOYED

39 968
DISCOURAGED AND OTHER
NON-SEARCHING UNEMPLOYED

STRICT

69,6%

LABOUR FORCE
PARTICIPATION RATE

BROAD

71,0%

Labour force
participation rate

Labour force
Working-age population

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

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



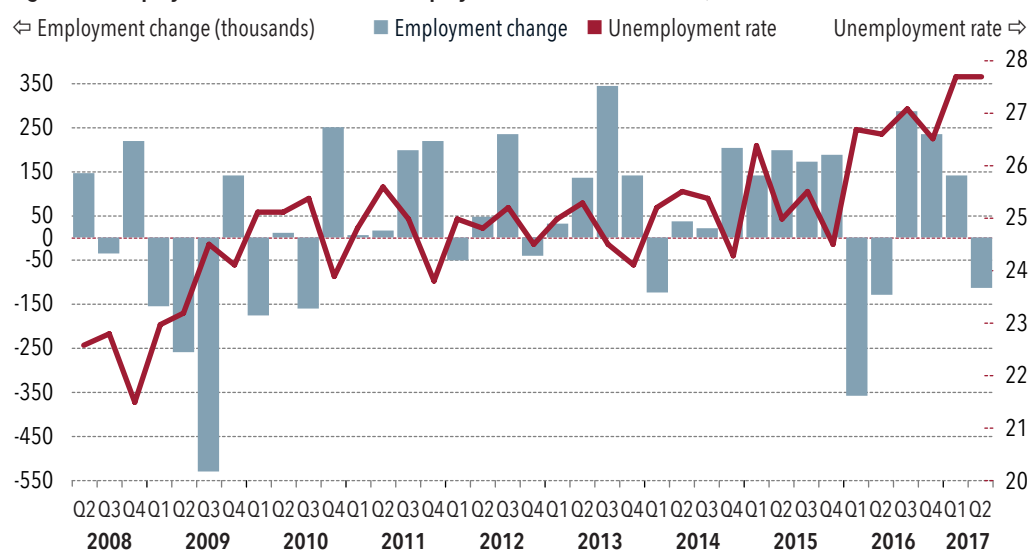
The finance and other business services (175 000), trade (129 000), transport (92 000) as well as manufacturing (88 000) sectors added significantly to year-on-year employment growth.

OVERVIEW OF THE LABOUR MARKET IN SOUTH AFRICA

In the second quarter of 2017, South Africa's labour force decreased by 149 000 individuals compared to the first quarter of 2017. The number of employed people decreased by 113 000 to 16,1 million from a previous figure of 16,21 million. Overall, the majority of the sectors displayed negative employment growth. The sectors that contributed significantly to quarterly employment growth were trade (58 000), finance and other business services (17 000) as well as manufacturing (10 000) whilst construction (-110 000), agriculture (-40 000) and mining (-13 000) were amongst the sectors that observed negative employment growth.

On a year-on-year basis, 1 098 000 more people were added to the labour force and employment increased by 554 000 individuals when compared to the second quarter of 2016. The finance and other business services (175 000), trade (129 000), transport (92 000) as well as manufacturing (88 000) sectors added significantly to year-on-year employment growth. The mining sector was the only sector to observe a reduction year on year (-13 000).

Figure 17: Employment trends vs strict unemployment rate in South Africa (Quarter 2, 2008 to Quarter 2, 2017)



Source: Stats SA, August 2017.

In the second quarter of 2017, unemployment in South Africa decreased by 37 000 quarter on quarter to a total of 6,18 million individuals. As a result, the official (strict) unemployment rate stayed unchanged at 27,7% from the previous rate in the first quarter of 2017, remaining the highest recording in 14 years. The number of discouraged work-seekers, who are only included in the expanded measure of unemployment, increased by 83 000 quarter on quarter. Despite a large decline in employment, the quarter-on-quarter decrease in unemployment, partly as a result of an increase in the number of discouraged work-seekers (83 000), resulted in the strict unemployment rate remaining the same as in the previous quarter, although it represented an increase on the previous year's figure (26,6%).

LABOUR MARKET TRENDS FOR CAPE TOWN

A broad overview of the Cape Town labour market

In the second quarter of 2017, the working-age population of Cape Town increased by nearly 15 000 individuals compared to the first quarter of 2017 and by approximately 57 000 individuals on a year-on-year basis. On a quarter-on-quarter basis Cape Town's labour force increased by 16 000 individuals to a total of 1,98 million in the second quarter, which led the labour force participation rate to increase by 0,2 percentage points to 69,6%. This remains higher than the national rate of 59,9%, pointing to the greater inclusiveness of Cape Town's labour market.

On a quarter-on-quarter basis Cape Town's labour force increased by 16 000 individuals to a total of 1,98 million in the second quarter.

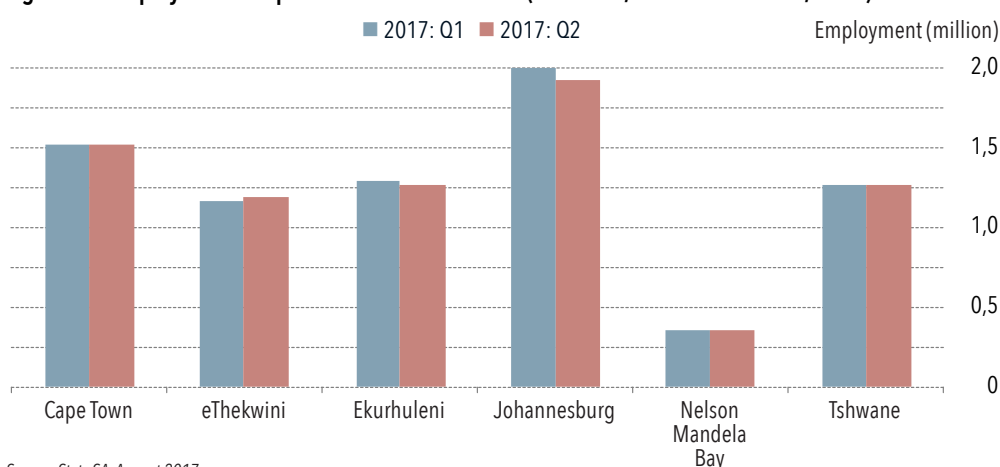
Table 3: Labour market indicators: South Africa and Cape Town*

Indicator	South Africa			Cape Town		
	Q2:2017	Q1:2017	Q2:2016	Q2:2017	Q1:2017	Q2:2016
Unit: Thousands ('000s)						
Working-age population	37 217	37 061	36 591	2 843	2 828	2 786
Labour force	22 277	22 426	21 179	1 979	1 963	1 905
Employed	16 100	16 212	15 545	1 531	1 511	1 468
Employed by the formal sector	11 193	11 337	10 917	1 249	1 217	1 219
Employed by the informal sector	2 761	2 681	2 507	172	183	146
Unemployed	6 177	6 214	5 634	448	452	438
Not economically active	14 941	14 634	15 412	864	865	880
Discouraged work-seekers	2 361	2 277	2 526	17	12	8
Other	12 580	12 357	12 886	846	853	872
Unemployment rate (%)	27,7	27,7	26,6	22,7	23,0	23,0
Youth (15-24) unemployment rate (%)	55,9	54,3	53,7	48,5	49,8	50,2
NEET** as % of working-age population	40,1	39,9	40,4	32,8	33,2	34,2
Absorption rate (%)	43,3	43,7	42,5	53,9	53,4	52,7
Labour force participation rate (%)	59,9	60,5	57,9	69,6	69,4	68,4

Source: Stats SA, August 2017. * Figures in tables may not exactly add up due to rounding off. ** Not in employment, education or training.

The number of people employed in Cape Town in the second quarter of 2017 increased by 20 000 individuals on a quarterly basis and by 63 000 individuals on a year-on-year basis. The formal sector absorbs the bulk of those employed in Cape Town, and recorded an increase of 32 000 in the second quarter of 2017, relative to the first quarter of 2017. Contrastingly, employment decreased in the informal sector by 11 000 on a quarter-on-quarter basis. Both formal and informal employment increased on a year-on-year basis. The share of total employment contributed by the informal sector decreased to 11,2% from a previous figure of 12,1% in the first quarter of 2017. Further, private households reflected negative quarter-on-quarter employment growth in the second quarter of 2017.

Figure 18: Employment comparison with other metros (Quarter 1, 2017 to Quarter 2, 2017)



Source: Stats SA, August 2017.

In the second quarter of 2017, Cape Town had the second largest number of people employed in the country, with 1,53 million people employed in the city.

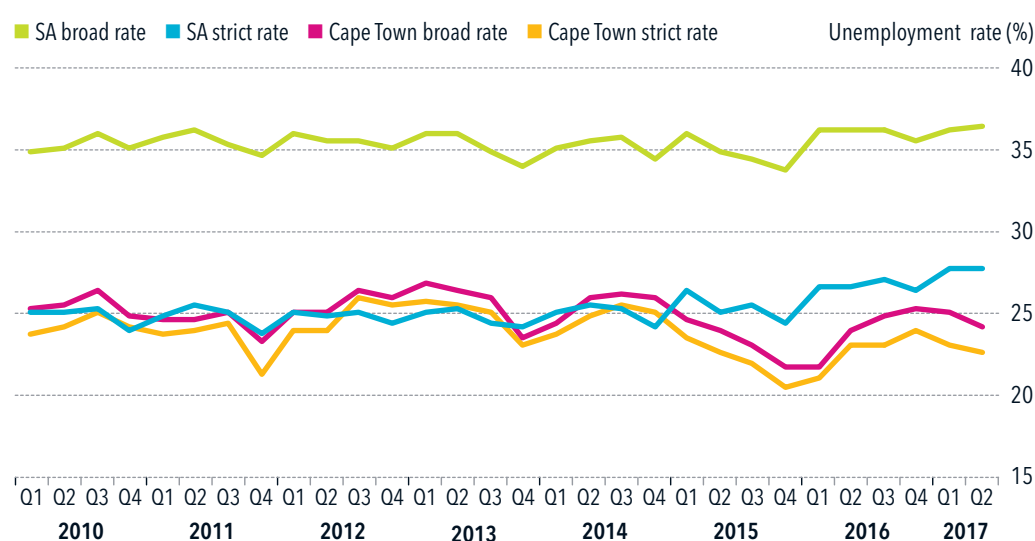
To measure Cape Town's job creation performance, a comparison with the other metros in the country is helpful. In the second quarter of 2017, Cape Town had the second largest number of people employed in the country, with 1,53 million people employed in the city compared to Johannesburg's 1,93 million. This is to be expected as Johannesburg has a significantly larger population.

Turning attention to employment creation in the second quarter of 2017, as measured by the difference in employment levels between the first quarter of 2017 and the second quarter of 2017, Ekurhuleni, Johannesburg, Nelson Mandela Bay and Tshwane experienced declines in employment. The metros which experienced an increase in employment were Cape Town (19 876) and eThekweni (6 597). Johannesburg reflected the highest decline with 58 386 jobs shed, followed by Ekurhuleni with a decline of employment of 36 969. On a year-on-year basis, Johannesburg shed jobs at the fastest rate (-1,5%), while employment in Ekurhuleni grew fastest (8,5%).

Unemployment in Cape Town

Cape Town experienced a decrease (4 005) in the number of unemployed people in the second quarter of 2017 compared to the previous quarter and an increase in the number of people unemployed (10 657) compared to the corresponding period in the previous year. This resulted in the strict unemployment rate decreasing, on a quarter-on-quarter basis, by 0,35 percentage points to 22,65%. The youth unemployment rate, defined as the strict unemployment rate for individuals aged 15 to 24, in Cape Town was estimated at 48,5% in the second quarter of 2017, having decreased from 49,8% in the previous quarter, and from 50,2% in the second quarter of 2016. While this is below the national rate of 55,9%, it is nonetheless remarkably high by developing-country standards, and poses a key challenge to economic policymakers in the city.

Figure 19: Strict vs broad/expanded unemployment rates for Cape Town (Quarter 1, 2010 to Quarter 2, 2017)



Source: Stats SA, August 2017.

By excluding discouraged work-seekers, the strict rate of unemployment does not always reflect the true ability of the labour market to absorb those individuals wishing to work. It is thus revealing to present both the strict and expanded rates of unemployment. As illustrated in figure 19, over the last few years the two rates of unemployment for Cape Town have remained relatively close, although over the last three quarters of 2016 and continuing into the second quarter of 2017, there has been a slight deviation. Cape Town's strict unemployment rate has since the first quarter of 2015, diverged in trend from the national strict rate. Whilst moving slightly closer during the third and fourth quarter of 2016, it started to diverge further in the first and second quarter of 2017. As a result, the gap between Cape Town's strict unemployment rate and that of the national strict unemployment rate has grown further to 5 percentage points in the second quarter of 2017, from a difference of about 4,7 percentage points in the previous quarter. On average, the expanded unemployment rate in Cape Town is only 1,09% higher than the city's strict rate. However, it is important to consider the expanded definition of unemployment, as South Africa's expanded and strict rates of unemployment are widely divergent (as depicted in figure 19). South Africa's expanded

The gap between Cape Town's strict unemployment rate and that of the national strict unemployment rate has grown further to 5 percentage points in the second quarter of 2017.

Table 4: Official vs expanded unemployment rates

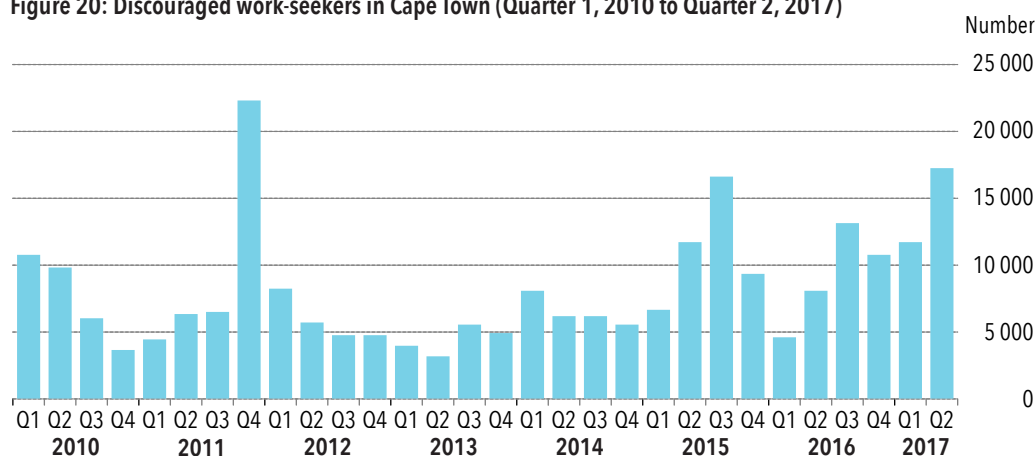
Metro	Official			Expanded		
	2017:Q2	2017:Q1	2016:Q2	2017:Q2	2017:Q1	2016:Q2
Cape Town	22,7	23,0	23,0	24,2	25,1	24,0
eThekweni	21,8	21,8	19,7	29,3	28,7	28,0
Ekurhuleni	31,2	30,8	34,6	34,4	34,0	38,2
Johannesburg	30,1	28,3	28,4	31,8	30,2	29,9
Nelson Mandela Bay	34,5	30,2	32,0	35,4	30,4	32,9
Tshwane	27,2	28,3	25,1	30,5	30,1	28,9

Source: Stats SA, August 2017.

unemployment rate in the second quarter of 2017 was 36,6%, compared to Cape Town's expanded rate of 24,2%. On this basis, Cape Town's labour market can be considered better performing and more inclusive than the national labour market. While comparing Cape Town's unemployment trends with South Africa as a whole is important, it is perhaps more revealing to compare these trends to other metros that have similar labour market dynamics. Cape Town was the only metro that recorded decreases in both the official and expanded unemployment rates in the second quarter of 2017. Contrastingly, eThekweni, Ekurhuleni, Johannesburg and Nelson Mandela Bay experienced an increase in both their respective rates. Tshwane saw an increase in the expanded unemployment rate while its strict unemployment rate decreased. In the second quarter of 2017, Nelson Mandela Bay had the highest strict unemployment and expanded unemployment rates (34,5% and 35,4% respectively), while Cape Town had the lowest expanded unemployment rate (24,2%) and eThekweni the lowest strict unemployment rate (21,8%). What is also notable from table 4 is how the difference between the strict and expanded unemployment rates varies for the six metros. On one end of the spectrum, Nelson Mandela Bay records a less than 1 percentage point difference between its strict and expanded rates of unemployment, while eThekweni records a 7 percentage point difference.

Cape Town was the only metro that recorded decreases in both the official and expanded unemployment rates in the second quarter of 2017.

Figure 20: Discouraged work-seekers in Cape Town (Quarter 1, 2010 to Quarter 2, 2017)

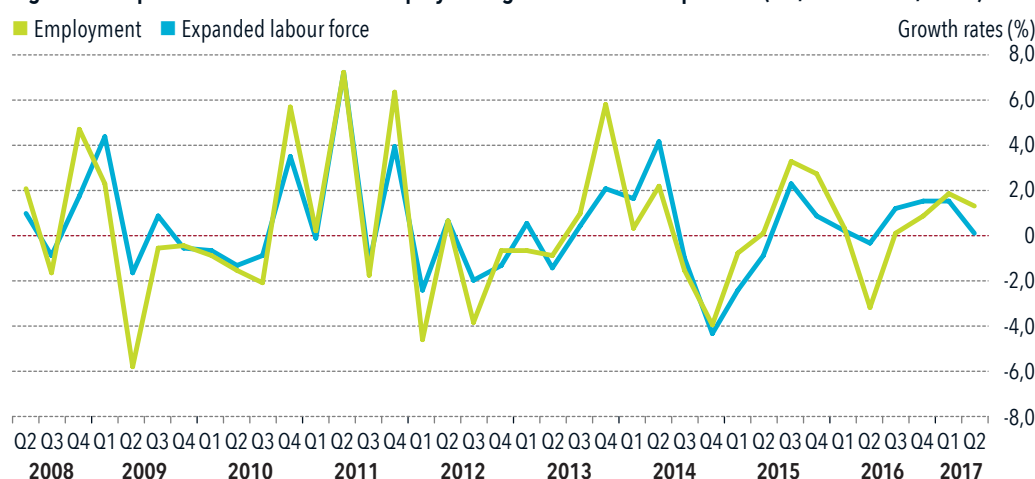


Source: Stats SA, August 2017.

The reason for the small disparity between Cape Town's strict and expanded unemployment rates, when the rest of the country experiences such profound differences, is the relatively low number of discouraged work-seekers in Cape Town. Discouraged work-seekers are included in the expanded unemployment figure, which explains why this is slightly higher than the strict unemployment figure. The number of discouraged work-seekers in Cape Town increased to 17 376 in the second quarter of 2017 from 11 710 in the first quarter of 2017.

Apart from the outliers in the fourth quarter of 2011, the third quarter of 2015 and the third quarter of 2016, figure 20 shows that the number of discouraged work-seekers has typically been below 12 000 individuals. However, in the second quarter of 2017 the number of discouraged work-seekers again breached the 12 000 level, nearly tripling since the first quarter of 2016. Despite this, for one of South Africa's major metropolitan regions, Cape Town encouragingly, contributes a disproportionately small percentage (0,72%) to the country's total number of discouraged work-seekers.

Figure 21: Expanded labour force and employment growth rates for Cape Town (Q2, 2008 to Q2, 2017)



Source: Stats SA, August 2017.

In the second quarter of 2017, the growth in Cape Town's employment significantly exceeded the growth in the labour force. This resulted in a decrease in the expanded unemployment rate for the period under review.

Labour force and employment

Two factors determine whether the expanded rate of unemployment increases or decreases: a change in the expanded labour force and a change in the level of employment. When the rate of employment growth is exceeded by the rate at which the expanded labour force grows, the expanded unemployment rate increases. Figure 21 (on previous page) shows that in the second quarter of 2017, the growth in Cape Town's employment significantly exceeded the growth in the labour force. This resulted in a decrease in the expanded unemployment rate for the period under review.

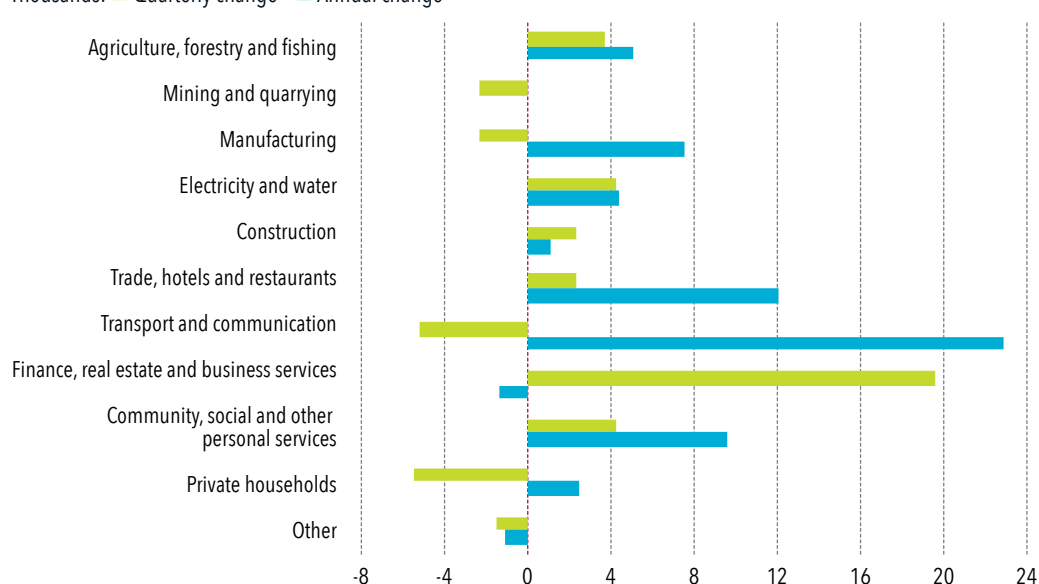
Sector employment trends for Cape Town

Figure 22 displays the change in the level of employment by sector within Cape Town. Overall six sectors displayed a positive contribution towards employment creation when compared to the previous quarter. The sectors that added significantly to job creation in Cape Town in the second quarter of 2017 were finance and other business services (19 666), electricity and water (4 352), community and social services (4 252) as well as agriculture (3 695). Both the construction and trade sectors added marginally to employment. The key sectors in Cape Town that recorded the largest job losses for this quarter were private households (-5 435), transport (-5 225), manufacturing (-2 339) and mining (-2 257).

The sectors that added significantly to job creation in Cape Town in the second quarter of 2017 were finance and other business services (19 666), electricity and water (4 352), community and social services (4 252) as well as agriculture (3 695).

Figure 22: Quarterly and annual change in employment per sector for Cape Town (Quarter 2, 2017)

Thousands: ■ Quarterly change ■ Annual change



Source: Stats SA, August 2017.

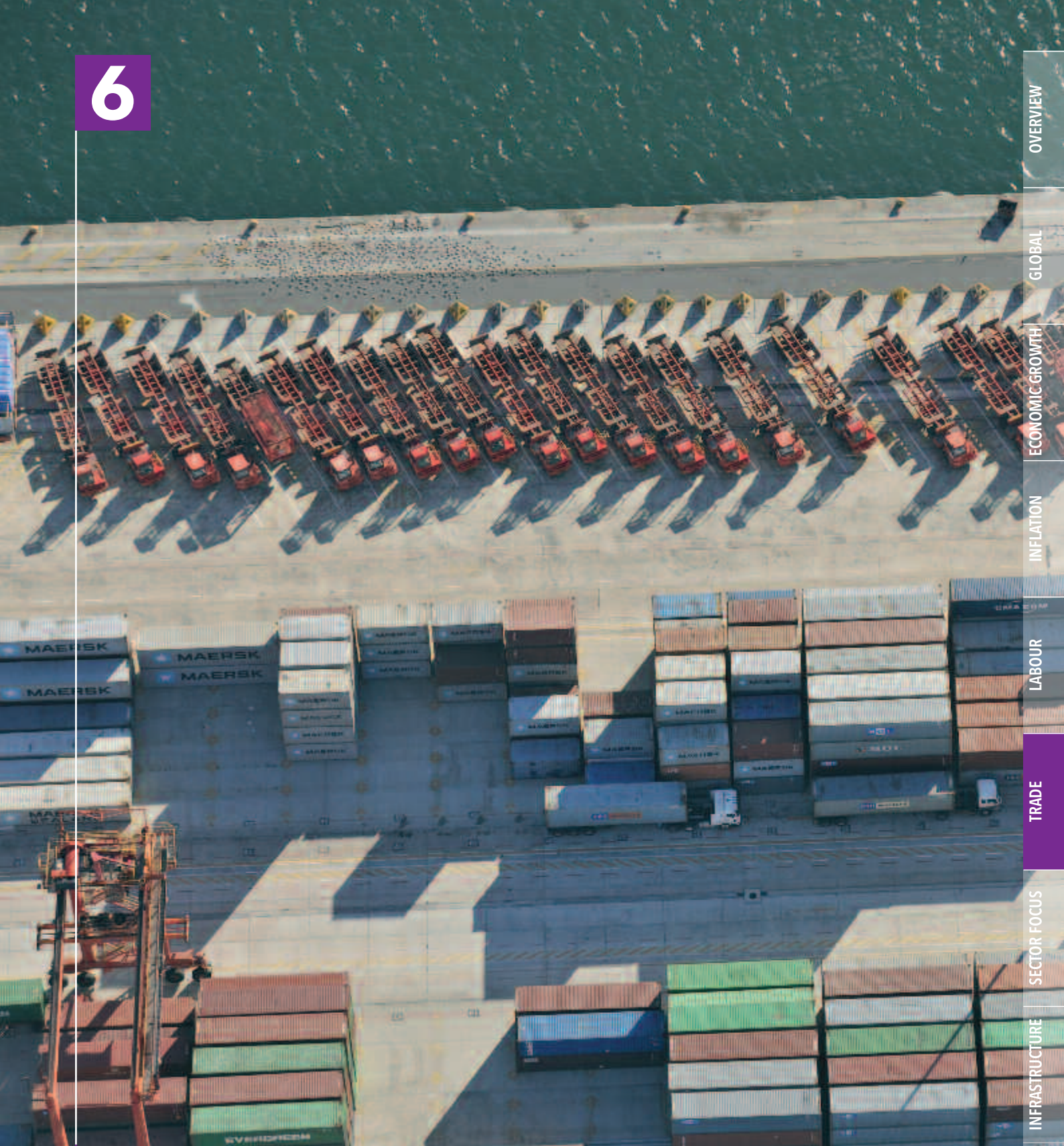
On a year-on-year basis, the sectors performed slightly better when compared to their quarterly performance, with eight sectors displaying positive employment growth and one sector displaying no change. In contrast to its quarter-on-quarter decline, the transport and communication sector was the largest job contributor year on year with employment in the sector increasing by 22 944. Trade (12 084), community and social services (9 596) as well as manufacturing (7 547) also added strongly to employment. The finance and other business services sector and the 'other' sector were the only sectors to observe negative year-on-year employment changes (-1 285 and -1 018 respectively).

LABOUR MARKET OUTLOOK

In the second quarter of 2017, Cape Town's labour market improved slightly when compared to the first quarter of 2017. Key positives for Cape Town's labour market in the second quarter were the increase in employment, the decrease in unemployment, as well as a decrease in the youth unemployment rate. This altogether contributed to a decline in both the strict and broad unemployment rates as well as an increase in the labour force absorption and labour force participation rates.

Encouragingly, Cape Town's labour market has displayed resilience despite recent developments at a national level, which have resulted in credit ratings downgrades. This together with the continued poor economic growth has put pressure on the national labour market, resulting in a 14-year high unemployment rate for South Africa. While there was substantial improvement in economic growth at both a national and local level in the second quarter, it may not be sufficient to make a positive impact on employment in the short to medium term, as growth forecasts for the full year remain on the low side. The enduringly low growth of the economy will certainly affect Cape Town's labour market but stronger levels of business confidence in the city are likely to mean that its labour indicators will continue to outperform national indicators.

Key positives for Cape Town's labour market in the second quarter were the increase in employment, the decrease in unemployment, as well as a decrease in the youth unemployment rate.



Trade and investment

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

TRADE

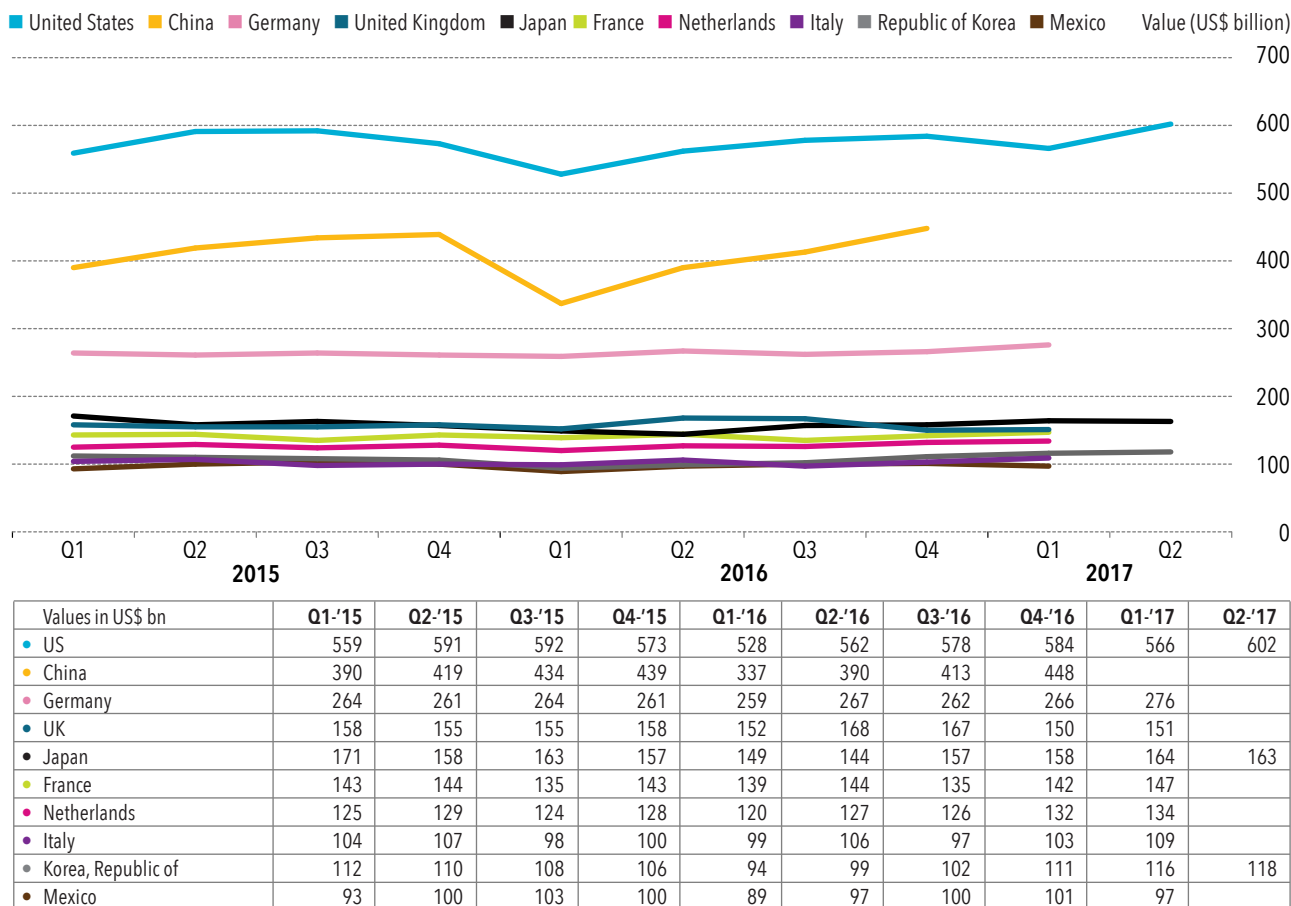
Global trade

Based on the most recently available trade estimates, the world's largest importer of goods remains the United States¹⁸. Weak global trade growth of just 1,3% in 2016 was partly due to cyclical factors as economic activity slowed across the board, but it also reflected deeper changes in the relationship between trade and economic growth (World Trade Organisation (WTO), 2017). The WTO's most recent prediction is that world trade growth will reach 2,4% in 2017 and will be between 2,1% and 4% in 2018.

Available data on the historically top importers in the second quarter of 2017 indicates that, in dollar terms, from the first quarter of 2017, a quarter-on-quarter increase in imports was reported for the United States (6,4%) and the Republic of Korea (1,5%) while imports by Japan decreased by 0,98%.

The WTO's most recent prediction is that world trade growth will reach 2,4% in 2017 and will be between 2,1% and 4% in 2018.

Figure 23: Global imports of goods (Quarter 1, 2015 to Quarter 2, 2017)



Source: International Trade Centre, August 2017.

South African trade

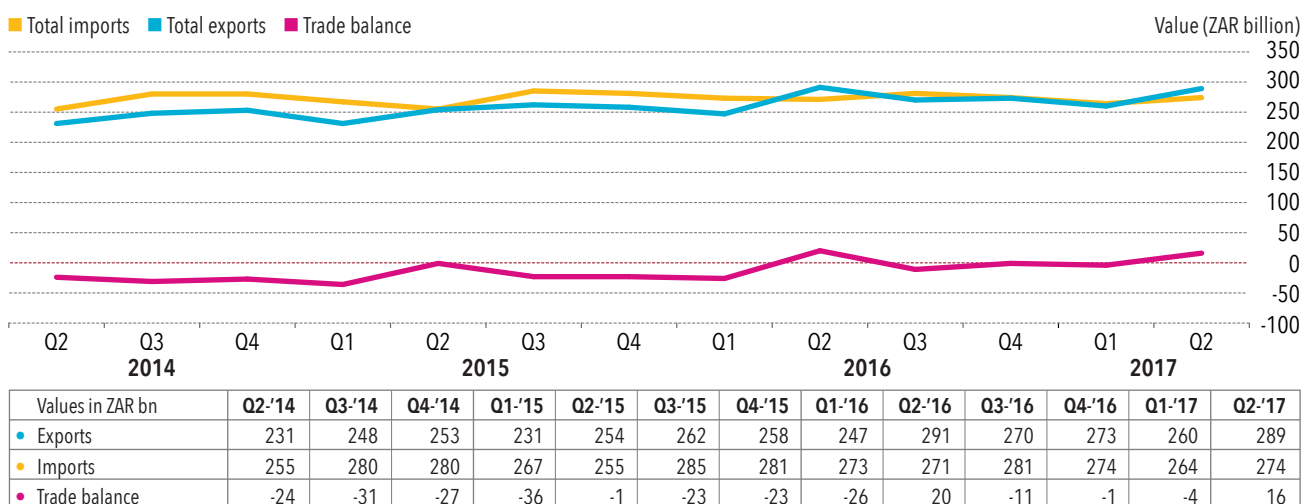
South Africa's exports experienced a quarter-on-quarter increase of 11,2% in the second quarter of 2017, reaching R289 billion. This was its highest value since its peak of R291 billion in the second quarter of 2016.

South Africa's exports exceeded imports in the second quarter of 2017, resulting in a positive trade balance of R16 billion versus a deficit of R4 billion in the first quarter of 2017. This was only the second positive trade balance observed since the second quarter of 2014. Export products which saw noteworthy growth were cobalt oxides and hydroxides; mechanical wood pulp; tugs and pusher craft; beryllium, chromium and germanium; silk-worm cocoons suitable for reeling; clock cases; propellant powders and biodiesel and mixtures thereof.

As figure 25 (opposite) shows, China was South Africa's largest export destination in the second quarter of 2017, with exports reaching R23,7 billion in the second quarter of 2017. Germany was South Africa's second-largest export market, followed by the United States, India and Japan as the third-, fourth- and fifth-largest export markets, respectively. The demand for iron ores, chromium ores, manganese, ferro-alloys, wool, chemical wood pulp and niobium drove South Africa's exports to China.

South Africa's exports experienced a quarter-on-quarter increase of 11,2% in the second quarter of 2017, reaching R289 billion.

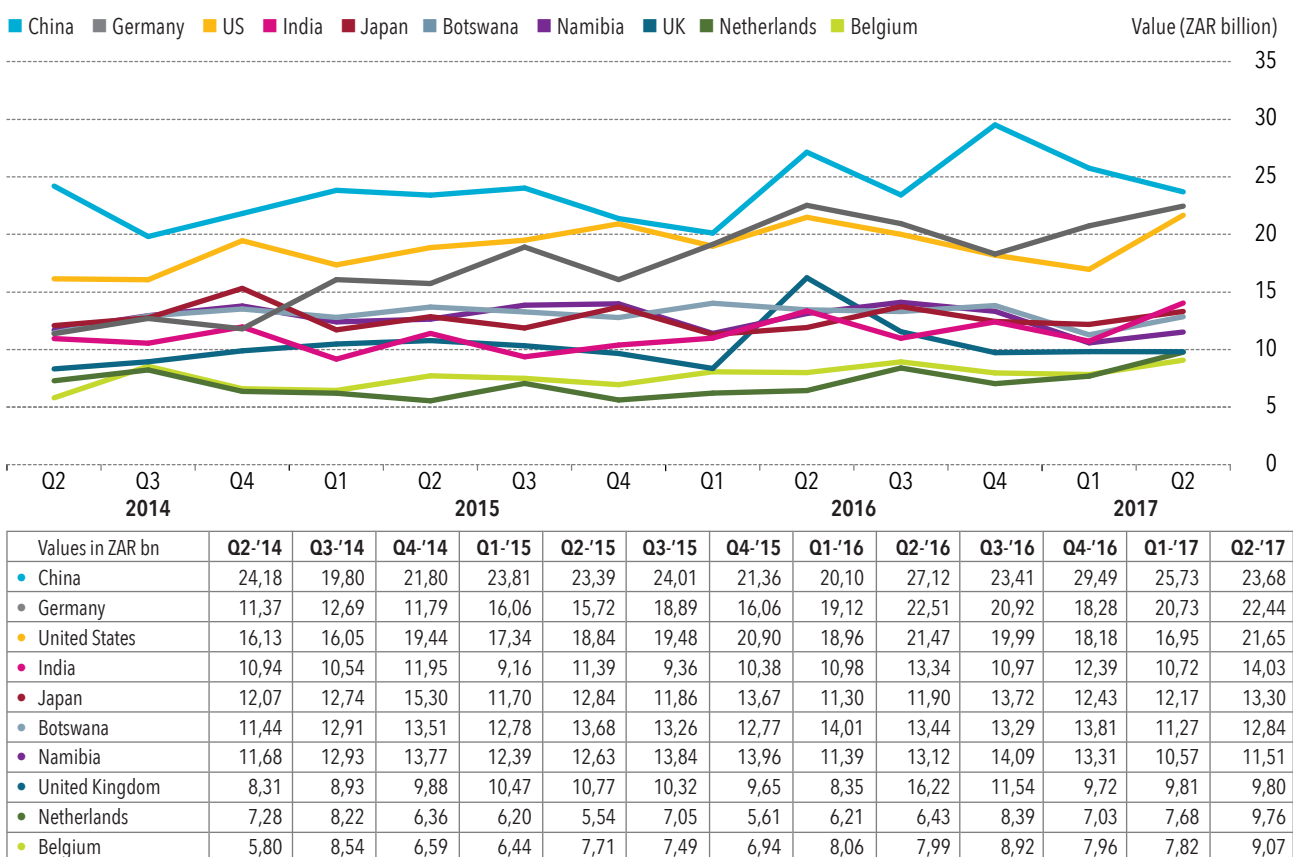
18. Note, however, that trade data for the second quarter of 2017 for China, Germany, the United Kingdom, France, the Netherlands, Italy and Mexico had not yet been reported at the time of writing. In addition, China's first quarter 2017 import data had also not yet been reported.

Figure 24: South Africa's exports, imports and trade balance (Quarter 2, 2014 to Quarter 2, 2017)¹⁹

Source: Quantec, August 2017.

Of its top 10 export markets, India, the United States and the Netherlands were the fastest-growing South African export markets, growing by 31,0%, 27,7% and 27,1% respectively, from the first quarter of 2017 to the second quarter of 2017. Exports to all countries, except for China and the United Kingdom, experienced positive growth. Exports to India were stimulated by increased demand for automatic data processing machines, electrical machines, leather, chemical wood pulp, paper board machinery maize and waste, parings and scraps of rubber. South Africa's exports to the United States increased due to growth in demand for iron rods, umbrella trimmings and accessories, yeasts, moulding boxes for metal foundry, chains and loading and unloading machinery. There was an increase across all products exported from South Africa to the Netherlands. In particular, crude petroleum oils (the top exported product) increased to R1,4 billion in the second quarter of 2017.

India, the United States and the Netherlands were the fastest-growing South African export markets.

Figure 25: South Africa's export markets (Quarter 2, 2014 to Quarter 2, 2017)

Source: Quantec, August 2017.

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

The European Union was the largest region for South Africa's exports in the second quarter of 2017, with exports to the region valued at R66,2 billion and accounting for 22,9% of total South Africa's exports. This was followed by Eastern Asia (18,2%), the Southern African Customs Union (SACU) (11,8%) and the Southern African Development Community (SADC) (10,8%). The Caribbean was the fastest-growing region for South Africa's exports in the second quarter of 2017 compared to the first quarter in 2017, growing by 92,7%. This was followed by Southern Europe which grew by 74,9%. Exports to SACU and SADC increased by 15,5% and 8,1% respectively. There were two African countries among South Africa's top 10 export markets in the second quarter of 2017 – Botswana and Namibia.

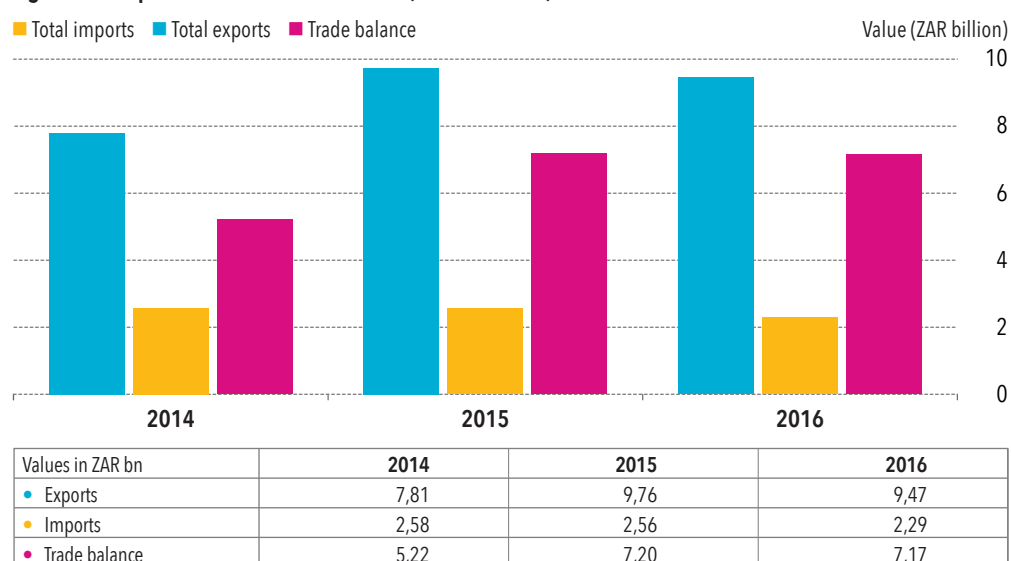
Cape Town trade with Namibia

Namibia was Cape Town's largest global export market in 2016, with exports to the country valued at R9,5 billion and accounting for 12,1% of total Cape Town exports. Since 2014 (from which point trade statistics for the country became available), Cape Town has consistently maintained a positive trade balance with Namibia, with exports on average, accounting for 78% of overall trade. Cape Town's exports to Namibia on average grew by 11,02% between 2015 and 2016. This was driven by exports of ferro-alloys, antiques, clothing, petroleum coke and bitumen, ceramic sinks, raw hides, pulley tackle and hoists, fertilisers, beer, vegetable products, spark-ignition reciprocating and molluscs²⁰.

Imports from Namibia declined by 10,3% in 2016 to reach R2,3 billion. The decline was driven mainly by the decrease in

Cape Town has consistently maintained a positive trade balance with Namibia, with exports on average, accounting for 78% of overall trade.

Figure 26: Cape Town trade with Namibia (2014 to 2016)



Source: Quantec, August 2017.

Table 5: Top 10 export and import products between Cape Town and Namibia (2016)

Top 10 exports from Cape Town to Namibia, 2016				Top 10 imports to Cape Town from Namibia, 2016		
Rank	Product	Value 2016 (R m)	% growth 2015-16	Product	Value 2016 (R m)	% growth 2015-16
1	Refined petroleum oils	1 858,68	-20,62%	Beer	702,48	1,44%
2	Cigarettes and tobaccos	324,42	-37,90%	Frozen fish	380,07	-14,22%
3	Medicaments	160,60	19,46%	Fish fillets	323,18	46,46%
4	Spirits (whiskies, vodka, rum and gin)	158,52	-16,78%	Meat of bovine animals	164,48	14,77%
5	Plastic stoppers, lids and caps	146,54	30,37%	Preserved meat, meat offal or blood	49,35	-12,63%
6	Beauty or make-up preparations, including sunscreen	139,49	15,93%	Preserved fish and caviar	48,59	-81,78%
7	Footwear	138,06	1,69%	Pasta (spaghetti, macaroni, noodles, etc.)	47,29	59,61%
8	Men's and boy's clothes (jackets, trousers, etc.)	125,72	14,14%	Unwrought zinc	41,38	1515,15%
9	Women's and girl's clothes (jackets, skirts, etc.)	107,53	20,87%	Live bovine animals	37,42	-54,42%
10	Knitted T-shirts, singlets and other vests	106,20	16,95%	Meat of sheep or goats	33,42	-23,90%
TOTAL EXPORTS TO NAMIBIA		9 466,98	-3,04%	TOTAL IMPORTS FROM NAMIBIA	2 294,63	-10,34%

Source: Quantec, August 2017.

20. The list of export product drivers is based on growth rates for products valued above R2 million in 2016.

imports of fish, edible offal of bovine animals, prepared leather and orthopaedic appliances.

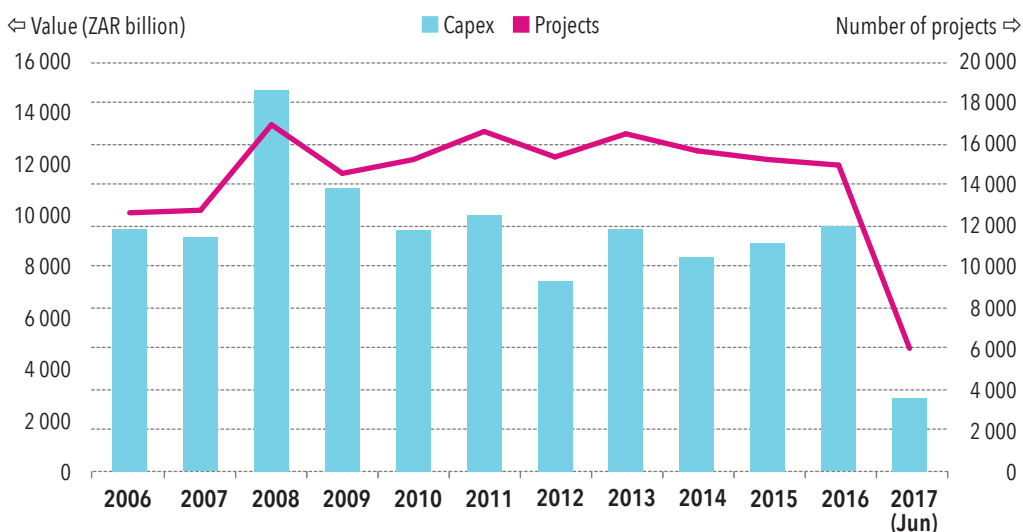
Cape Town's largest export to Namibia in 2016 was refined petroleum valued at R1,86 billion, accounting for 19,6% of the city's exports of this product (table 5). Cigarettes and tobacco products, and medicaments were the second and third largest exports to Namibia, worth R324 million and R161 million respectively. Export products which observed growth of more than 20% include plastic stoppers, lids and caps (30,4%) and women's and girl's clothing (20,9%). Beer was the top import product from Namibia worth R702 million, followed by frozen fish worth R380 million and fish fillets and other fish meat at R323 million.

INVESTMENT²¹

Global foreign direct investment (FDI)

Global foreign direct investment (FDI) grew by 7,21% (in capex terms) between 2015 and 2016 to reach R9,7 trillion. Project numbers declined by 1,8% between 2015 and 2016 with 277 fewer projects than the previous year. From 2005 to 2016 both capex and projects increased by an annual average growth rate of 4,7% and 3,9% per annum respectively. Over the past three years, the trend line for projects indicates that the number of investments taking place globally is beginning to decrease, however, capex values over the past few years have indicated that the FDI projects are of a greater value. Nevertheless, neither capex nor projects have recovered to their 2008 or post-crisis 2011 values (*Financial Times*, 2017).

Figure 27: Global FDI (2006 to June 2017)²²



Values in ZAR bn	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
• Capex	9 607	9 282	15 130	11 236	9 577	10 180	7 568	9 634	8 524	9 065	9 719	2 932
• Projects	12 827	12 952	17 194	14 780	15 465	16 859	15 596	16 744	15 902	15 468	15 191	6 106

Source: Financial Times, August 2017.

Global FDI reached R1,5 trillion in the second quarter of 2017. If the trend in this quarter is repeated throughout the year, total FDI for 2017 could reach around R6 trillion. In terms of projects there were 2 974 projects recorded in the second quarter of 2017 which may amount to 11 896 projects in total for 2017, if the trend was to continue until year end.

The US was the largest source market in terms of projects (638) and capex value (R246 billion) in the second quarter of 2017. This was followed by Germany, the UK, France and Japan in terms of projects. When considering the capex value, the US is followed by China, Germany, Saudi Arabia and Japan.

The top sub-sectors globally for FDI (in terms of projects) in the second quarter of 2017 were clothing and clothing accessories with an 8,8% share of total projects, followed by software publishing (except video games) (7,2%) and freight or distribution services (3,2%). Despite services dominating in terms of the number of projects attracted globally chemicals have received the bulk of spend with basic chemicals making up 13,9% of capex. Automobiles received the second-largest share of capex (3,9%).

Despite services dominating in terms of the number of projects attracted globally, chemicals have received the bulk of spend with basic chemicals making up 13,9% of capex.

21. Investment in this section is defined as cross-border greenfield investments in a new physical project or expansion of an existing investment which creates new jobs and capital investment. Joint ventures are only included where they lead to a new physical operation. Mergers and acquisitions (M&A) and other equity investments are not tracked (*Financial Times*, 2017).

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

Cape Town foreign direct investment (FDI)

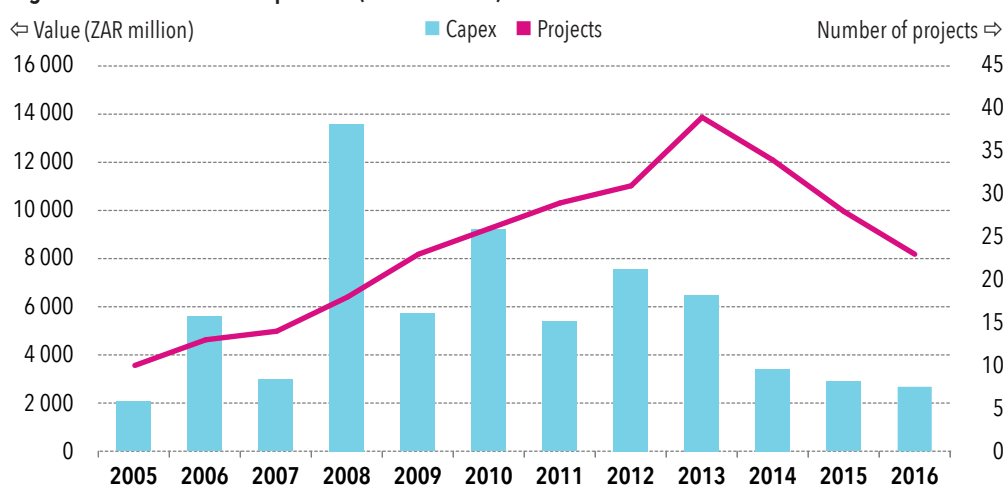
FDI flows into Cape Town in terms of capital investment have not recovered to the pre-crisis levels attained in 2008. The number of FDI projects received into Cape Town increased from 11 projects in 2003 to 39 projects in 2013, declining to 23 projects in 2016. Although the number of projects decreased in 2015 and 2016, relative to its upward post-crisis trend in 2012 and 2013, they have remained above the pre-crisis levels attained in 2008.

From October to December 2016, Cape Town attracted eight investment projects worth a combined total of R1,36 billion. The sectors for these investments were business services, metals, transportation, communications, textiles and software and IT services. Through these investments, 521 jobs were created.

Three of the eight investments in the fourth quarter of 2016, with a combined value of R351 million, were made by United States firms (Michael Kors, ASCO Sintering and Thomson Reuters). The largest investment was made by Air Menzies International from the United Kingdom worth an estimated R535,5 million in the air transportation sector. Three of the eight investments were in the software and IT services sectors made by Infront, Adglow and Thomson Reuters. According to the chief executive officer of Infront, they see a huge potential for Cape Town's services and are excited about the city's plans to break through in this market (*Financial Times*, 2017).

From October to December 2016, Cape Town attracted eight investment projects worth a combined total of R1,36 billion.

Figure 28: FDI flows into Cape Town (2005 to 2016)



Source: Financial Times, August 2017.

Investment facilitation

Between April and June 2017, Wesgro facilitated three expansion investment projects into Cape Town. The investments were as follows:

- R500 million in a real estate and infrastructure project creating 150 jobs;
- R1 million in a manufacturing project creating 10 jobs; and
- R75 million in an information communications and technology project, creating 150 jobs.

Wesgro also facilitated two new projects in the second quarter of 2017. The investments were as follows:

- R10 million in an information communications and technology project, creating 60 jobs; and
- R100 million in an agro-processing project creating 450 jobs.



PHOTO: THE FARM FILM PRODUCTIONS - BIS PHOTOGRAPHER: BRIGITTE STANFORD

Sector focus: The film and media industry

Cape Town is an internationally competitive film and media destination, with a growing number of international filmmakers making use of the city's locations, facilities and services. The city has a variety of world-class locations, studios, facilitation companies and specialised crews. It's also a very popular commercial production destination, and is home to more than half of the nationally registered gaming companies as well as the largest animation studio in Africa.

While Cape Town is undoubtedly a renowned filming destination, its film and media industry go beyond purely location-based production activities.

Cape Town is an internationally competitive film and media destination, with a growing number of international filmmakers making use of the destination's locations, facilities and services. The city has a variety of world-class locations, studios, facilitation companies and specialised crews. While Cape Town is undoubtedly a renowned filming destination, its film and media industry go beyond purely location-based production activities. The opening of the Cape Town Film Studios (CTFS) in 2010, a project initiated by the City of Cape Town (CCT) and Western Cape Government, served as a catalyst for a transition to 'film manufacturing', which encompasses the entire length of the feature film value chain, including sound, editing and other postproduction activities as well as set design and related engineering. Feature film production is, however, just one component of the broader film and media industry. Cape Town is also a very popular commercial production destination, with 62% of national shoot days located in the province, of which the vast majority would be city-based. In addition, the city is considered the new-media hub of South Africa and is home to more than half of the nationally registered gaming companies, as well as the largest animation studio in Africa.

THE NATURE AND SCOPE OF THE INDUSTRY IN CAPE TOWN

Defining the film and media industry

The film and media industry is defined to include feature films, television series and documentaries, commercials, stills photography and so-called 'new media', such as animation and interactive computer games.

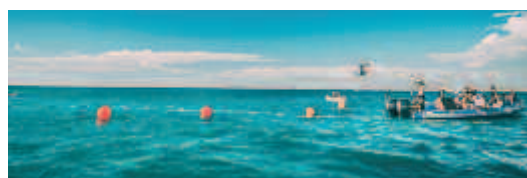
Table 6: Film and media industry forms

Industry category	Description	Examples of Cape Town companies or companies with a Cape Town footprint
Long-form productions	This refers to a range of filmed production outputs, such as feature films, made-for-TV movies and direct-to-DVD productions. A production is classified as long form when it meets the relevant length criterion, which could be a minimum of 40, 60 or 90 minutes. Even an unusually long episode of a television show (e.g. a season finale) might be considered by some to be long form.	• Film Afrika • Kalahari Film and Media • Moonlighting Films • Out of Africa • Two Oceans Productions
Television productions	This refers to a range of productions that are typically shorter than the long-form variety and are geared for viewing on the small screen, such as documentaries, game shows, reality TV shows and corporate videos.	• Broadcasters – Cape Town TV – SABC – Multichoice (Suidooster) • Film Afrika
Commercials	These refer to very short productions (generally from 10 to 60 seconds in duration) that are designed to advertise a product or service. Commercials are well suited to the television medium.	• Gatehouse • CAB Films • 7 Films • Lucky Fish
Stills	Stills productions include posters, billboards, point-of-sale advertising materials, catalogues, magazine spreads, fashion photography and product brochures.	• GS Productions • Magic Mountain Productions • Nomad production house
New media	These are new or contemporary platforms for creating and delivering material, such as video games, animations, internet (including social media) websites, augmented and virtual reality and podcasts.	• Triggerfish • Sea Monster • Black Ginger • The Brotherhood, QCF

Source: Adapted from the Cape Town and Western Cape Film and Media Sector Study, (CCT and Wesgro, 2017).

There is significant overlap between the activities of companies listed in each category. For example, a number of the companies considered to be major players in the long-form space also facilitate or produce commercials and television productions. New media tends to be the most vertically integrated of the industry categories, with a studio like Triggerfish doing most of its pre- and postproduction activities in house. For the rest of the industry, it is perhaps more useful to adopt a value chain approach to understanding industry structure as companies tend to service a range of film and media forms depending where they are situated in the broader value chain.

PHOTOS: THE FARM FILM PRODUCTIONS - BIS PHOTOGRAPHER: BRIGITTE STANFORD

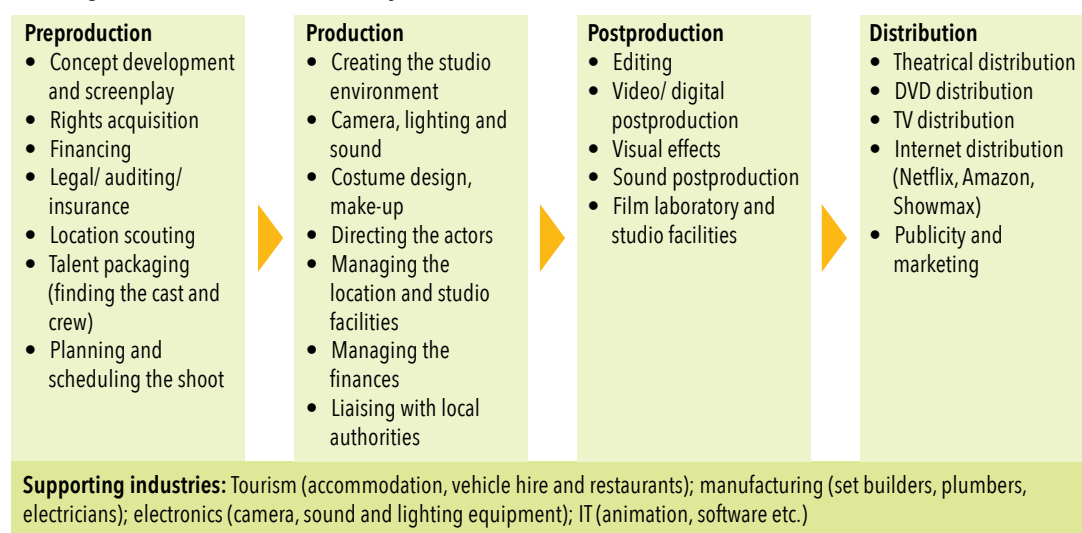




Film and media industry value chain

The film and media industry value chain encompasses the connected series of activities required for the completion of a production, from the initial conceptualisation of a creative work to its final delivery to a designated target audience, which could be local or international, or both (CCT and Wesgro, 2017). There are four components that make up the direct film and media value chain, as seen in Diagram 2.

Diagram 2: Film and media industry value chain



Source: Adapted from the Cape Town and Western Cape Film and Media Sector Study, (CCT and Wesgro, 2017).

Cape Town's strengths in the film and media value chain vary according to category. The long-form and television sectors in Cape Town are heavily geared towards the production phase, with the industry consisting of predominately service-related companies that assist foreign production companies, although there is growing independent features work. Currently, relatively little preproduction or postproduction work on long-form productions takes place in Cape Town, while postproduction on local television tends to be centred around the broadcasters based in Johannesburg.

The commercials and new-media sectors, on the other hand, have developed significant capacity for both pre- and post-production activities within the city. Cape Town is a highly popular destination for commercial productions, both in terms of local and international content. The industry enjoys strong demand from advertising agencies to work in the destination (CCT

Cape Town is a highly popular destination for commercial productions, both in terms of local and international content. The industry enjoys strong demand from advertising agencies to work in the destination.

The film and media industry requires extensive supporting services that cut across a variety of industries. Production draws on the largest number of additional services and is reliant on the tourism industry, the manufacturing industry, the electronics industry and the ICT industry.

and Wesgro, 2017). Cape Town has also become a technology hub and, as such, is home to the largest animation studio on the continent – Triggerfish Animations. The studio is involved in international as well as local productions. In addition, more than half of the gaming companies registered with Interactive Entertainment South Africa (IESA) are located in the city. All postproduction activity in new media in the city is undertaken in the region and generally by the same company producing the work (CCT and Wesgro, 2017).

The film and media industry requires extensive supporting services that cut across a variety of industries. Production draws on the largest number of additional services and is reliant on the tourism industry (through the use of accommodation establishments and restaurants and the hiring of vehicles), the manufacturing industry (through the use of set builders, set designers, electricians and plumbers), the electronics industry (through the use of camera, sound and lighting equipment) and the ICT (software) industry.

RECENT PERFORMANCE OF THE FILM AND MEDIA INDUSTRY IN CAPE TOWN

Assessing the performance of the film and media industry in Cape Town is constrained by a lack of macroeconomic data on the industry. Most activities commonly associated with the film industry are captured under the broader industry classification, 'other service activities', which was the fastest growing industry in Cape Town's economy over both a 10-year (8,0% in 2007-2016) and five-year (13,5% in 2012-2016) period. However, the 'other service activities' industry classification encompasses a range of personal services and cultural and entertainment activities, many of which are unrelated to film or media, making it very difficult to isolate the performance of the film and media industry directly. Through administrative data like the number of film permits issued by the City, the number of productions filmed at the Cape Town Film Studio and the amount of money disbursed for incentives by the Department of Trade and Industry (DTI), a better understanding of how the industry has been performing in the last few years can be gained.

Film permit data trends

There are approximately 5 000 identified City of Cape Town locations and countless privately owned locations available to the film and media sector within the city. These locations vary from city centre locations to mountainous and nature-based locations, therefore providing flexibility for filmmakers wishing to shoot a multitude of locations in one destination (CCT and Wesgro, 2017).

Table 7: Total bookings and permits by production type

Production type	2017: Q2		2016: Q2		Year-on-year growth in number of permits
	Total bookings	Total permits	Total bookings	Total permits	
Commercial	457	233	576	286	-18,5%
Documentary	46	28	23	15	86,7%
Feature film	93	65	64	35	85,7%
Micro shoot	436	376	403	319	17,9%
Movie of the week	1	-	21	13	-100,0%
Music video	7	6	12	9	-33,3%
Other	2	-	12	9	-100,0%
Short film	54	37	227	178	-79,2%
Stills photography	179	131	76	54	142,6%
Student projects	16	8	1	1	700,0%
TV films and productions	9	8	2	1	700,0%
TV series	59	42	35	24	75,0%
Grand total	1 359	934	1 452	944	-1,1%

Source: City of Cape Town Film Permit Office, 2017.

In the second quarter of 2017, 1 359 locations were booked with 934 location permits issued during the period.

The Cape Town Film Permit Office (CTFPO) is responsible for issuing permits to shoot in public spaces. In the second quarter of 2017, 1 359 locations were booked with 934 location permits issued during the period. The difference between bookings received and location permits issued relates to the practice of location scouts to book all potential locations so that the director can choose the final number of locations upon arrival in the city. The number of permits issued on an annual basis in Cape Town puts the city on par with the number of permits issued in other major film destinations like Toronto.

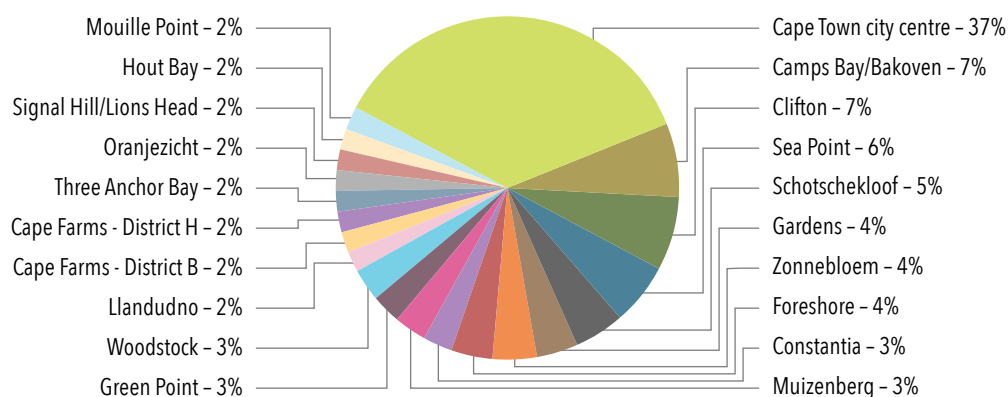
Between the second quarter of 2016 and the second quarter of 2017, the number of permits issued by the City declined by 1,1%. This was mainly attributable to an 18,5% decline in permits issued for commercials, the production form historically requiring the highest number of permits in Cape Town. In contrast, the long-form categories: feature films, documentaries,



TV series and TV films and productions, all displayed strong growth. The number of permits issued for feature films, in particular, rose by 85,7% year-on-year, attesting to the city's steady growth as a major international filming destination. These figures are also likely to under-report growth in the feature film segment as a number of feature film and TV series productions tend to make exclusive use of studio facilities such as those supplied by CTFS, for which the City does not issue permits.

Figure 29 indicates the top 20 locations used between the period 1 July 2015 and 30 June 2016. The city centre continues to be the most popular location for filming with 37% of film permits issued for this area, followed by Camps Bay/Bakoven and Clifton (CCT and Wesgro, 2017).

Figure 29: Top 20 film locations according to number of permits issued



Source: The Call Sheet, 2017.

The city centre continues to be the most popular location for filming with 37% of film permits issued for this area, followed by Camps Bay/Bakoven and Clifton.



Productions at Cape Town Film Studios

An indicator of the growth in the film and media industry in Cape Town is the oversubscription of the CTFS, which has had to turn away a number of illustrious international productions in the last few years due to being overbooked. In the past six years, the CTFS has hosted more than 20 productions (refer to table 8 for number of productions in the past four years), creating approximately 70 000 annualised full-time equivalent (FTE) jobs (CTFS, 2016).

An indicator of the growth in the film and media industry in Cape Town is the oversubscription of Cape Town Film Studios, which has had to turn away a number of illustrious international productions in the last few years due to being overbooked.

Table 8: Cape Town Film Studios host productions from 2013 to 2016

Production	South African production company	Foreign production company	Year
Long Walk to Freedom	Film Afrika	Videovision	2013
The Perfect Wave	The Fabulous Boomtown Boys	-	2013
Mary and Martha	Moonlighting Films	Working Title Television, NBC Universal Television	2013
House Party	Film Afrika	Warner Brothers	2013
North Men	Two Oceans Productions	Elite Film Productions	2014
Fury Road	Moonlighting Films	Warner Brothers	2015
Black Sails Seasons 1 – 4	Film Afrika	Starz	2013 – 2015
Momentum	Thaba Media	Azari Media	2015
Eye in the Sky	Moonlighting Films	Raindog Films, eOne Productions	2016

Source: Cape Town Film Studios, 2016.

DTI incentives for Western Cape productions

The DTI offers three types of incentives for the film and media industry. These are the Foreign Film and Television Production and Post-Production Incentive; the South African Film and Television Production and Co-Production Incentive; and the Emerging Black Filmmakers Transformation Fund. Figure 30 makes use of the latest DTI data to track the number of productions obtaining incentives and the total rand value of approved incentives between 2014/15 and 2016/17 for both the Western Cape and the rest of South Africa.

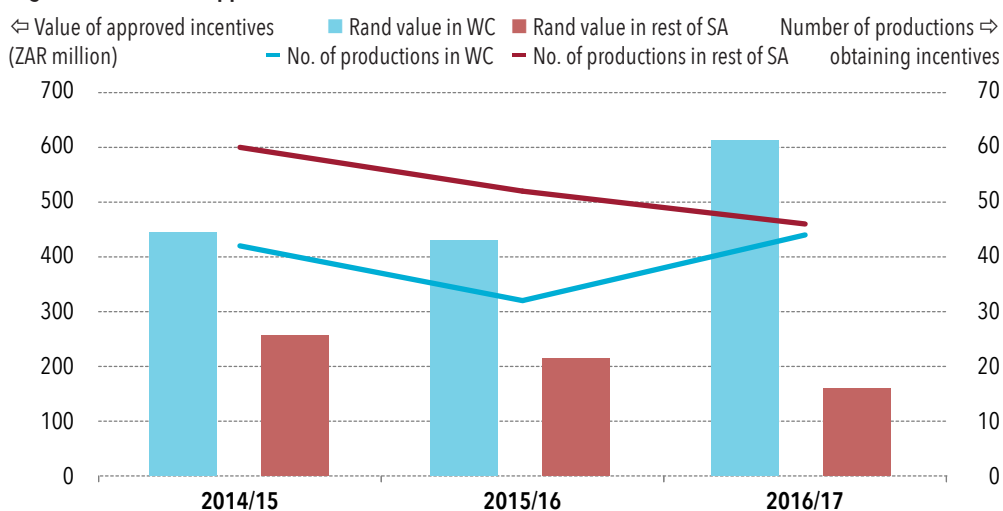
The Western Cape's share of the total approved rand value of production incentives has risen steadily over the past three years, reaching almost 80% in 2016/17. The province was also the location for 49% of the number of productions receiving incentives in 2016/17. Figure 30 only tells a part of the story, however, as it masks the differences in the spatial distribution



of different types of productions. For instance, between 2014/15 and 2016/17, 88% of productions receiving the foreign film and television incentive were based in the Western Cape, but only 39% of productions receiving the South African film and television co-production incentive were based in the province. This finding points to the province, and by extension, the city's particular strength in attracting foreign film productions.

If one zooms in on productions receiving the foreign film and television incentive, one does not see the dip in value and number of productions that the aggregated picture in figure 30 presents. Rather the rand value of incentives received in the Western Cape increased by around 2% between 2014/15 and 2015/16. The subsequent growth in these figures in 2016/17²³ would suggest that the foreign film production industry has been enjoying particularly strong growth in the province and city in the past 18 months. This is also reflected in the number of permits issued for feature films over the past year.

Figure 30: Trends in approved DTI film and media incentives



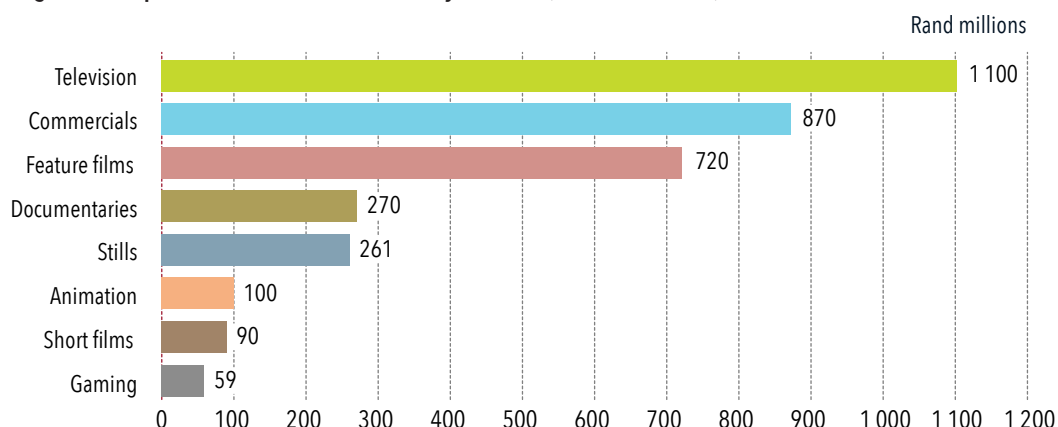
Source: Adapted from DTI data, 2017.

23. At the time of writing the 2016/17 data was not complete, meaning the figures for 2016/17 could be higher.

Size and impact of the film and media industry on Cape Town's economy

The Cape Town and Western Cape Film and Media Sector Study (2017) estimated that the size of the film and media industry in the Western Cape in 2015, by turnover, was R3,9 billion, of which R3,5 billion was based in Cape Town. Television productions formed the largest component in Cape Town, at R1,1 billion, followed by commercials (all types collectively) at R870 million and feature films at R720 million. Documentaries amounted to R270 million and stills production R261 million. Animation contributed R100 million, short films R90 million and gaming R59 million.

The Cape Town and Western Cape Film and Media Sector Study (2017) estimated that the size of the film and media industry in the Western Cape in 2015, by turnover, was R3,9 billion, of which R3,5 billion was based in Cape Town.

Figure 31: Cape Town film and media industry turnover (2015, R millions)


Source: CCT and Wesgro, 2017.

Table 9, shows that the direct gross value added of the film and media industry in Cape Town is estimated at R1,3 billion and direct full-time equivalent employment is estimated at 6 550 jobs (CCT and Wesgro, 2017). This means that the industry contributed 0,4% to GVA in the city in 2015 (similar to the electronics industry contribution of 0,34%) and 0,5% to employment (the same as the utility sector). Utilising the multipliers derived from the City's Social Accounting Matrix, indirect and induced impacts can also be calculated in order to obtain the total impact of the industry on the city's economy. In this respect, in 2015 the Cape Town film and media industry contributed:

- R3,91 billion to total South African GDP and R2,63 billion to Cape Town GGP (0,7% of total GGP);
- 9 490 direct, indirect and induced FTE jobs; and
- R501 million in taxes and R886 million in net foreign exchange.

Table 9: Macroeconomic indicators of the Cape Town film and media industry in 2015

Values in rand million for 2015	Total turnover	Direct GVA	Impact on SA GDP	Impact on CT GGP	Direct CT jobs	Indirect CT jobs	Total CT jobs	Total SA jobs	Taxes	Net foreign exchange
Film production	2 180	900	2 443	1 638	4 260	1 840	6 100	9 180	323	263
Documentaries	270	117	288	188	530	230	760	1 150	41	20
Feature films	720	312	768	500	1 400	630	2 030	3 060	110	54
Television	1 100	435	1 282	878	2 150	910	3 060	4 590	160	174
Short films	90	36	105	72	180	70	250	380	13	14
Commercials	870	310	905	584	1 770	660	2 430	3 660	120	518
Local	267	100	273	176	470	210	680	1 050	37	-11
Service	509	175	540	350	1 140	380	1 520	2 240	70	446
International	94	35	93	58	160	70	230	370	13	82
Stills	261	107	384	291	250	290	540	890	37	26
Gaming	59	22	65	44	130	50	180	260	8	44
Animation	100	37	110	76	140	100	240	420	14	35
Total	3 470	1 375	3 907	2 632	6 550	2 940	9 490	14 410	501	886

Source: CCT and Wesgro, 2017

While the industry may be relatively small in relation to the broader Cape Town economy, its production multipliers are such that growth in the industry yields comparatively high returns. The production multiplier is defined as the increase in total production across the economy as a result of expenditure in the film industry. For the film and media industry the production multipliers vary between 2.46 (for documentaries and feature films) and 2.72 (for commercials), with a weighted average multiplier of 2.56 for the film and media industry as a whole (CCT and Wesgro, 2017).



Competitive advantages of the film and media industry in Cape Town

The apparent growth of the film and media industry in Cape Town, as evidenced by the growth in permits issued and productions obtaining DTI incentives, is predicated on a number of factors which make Cape Town a compelling film and media destination²⁴.

- **Cape Town is a highly rated tourism destination:** With world-class infrastructure and a multitude of high-quality accommodation establishments and additional tourism amenities and offerings, the City is able to cater to the diverse needs of the film and media sector.
- **Diverse landscape:** The natural beauty of the region and diverse locations provides the opportunity for producers to replicate a variety of destinations all in one region.
- **Competitive production costs:** When benchmarked against other international cities, Cape Town remains a cost-effective destination for foreign productions. This can be attributed to a favourable exchange rate, but is also a reflection of hardworking crews that save time on set.
- **Strong international reputation as a high-quality film-making destination:** The film and media industry in Cape Town has an excellent international reputation, with international production companies noting the level of service provided in destination, the quality of local crew and the availability of purpose-built infrastructure (CCT and Wesgro, 2017).
- **Innovative postproduction services:** The postproduction sector is currently small in comparison to other sectors within the film and media value chain, however the services provided in Cape Town, which hosts the leading postproduction organisations in the country, are of international quality and this sector has been identified as a future growth area.
- **Government support:** The DTI offers relatively generous incentives for foreign film and television production and postproduction activities that take place in South Africa, while local and provincial government support the film and media industry in Cape Town through Wesgro and the CTFPO.
- **The presence of an international film studio:** The CTFS provides world-class facilities and backlots to meet the needs of the international market.

The natural beauty of the region and diverse locations provides the opportunity for producers to replicate a variety of destinations all in one region.

24. Most of these factors are adapted from the Cape Town and Western Cape Film Industry Study, 2017.

Infrastructure

Cape Town is home to South Africa's second-busiest airport as well as its second-busiest container-handling port, and is connected to the rest of the country by two major highways and an extensive railway network. These crucial transport infrastructure assets enable Cape Town to act as a gateway to South Africa, and to the west coast of Africa more broadly.



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. It is currently sustained by the transport infrastructure that exists within the city, ensuring that it is globally and locally well connected. Cape Town is home to South Africa's second-busiest airport as well as the second-busiest container port in the country. The city also benefits from two major national highways connecting it to the rest of the country as well as an extensive rail network. This section provides statistics relating to the performance of these crucial transport infrastructure facilities on a quarterly basis.

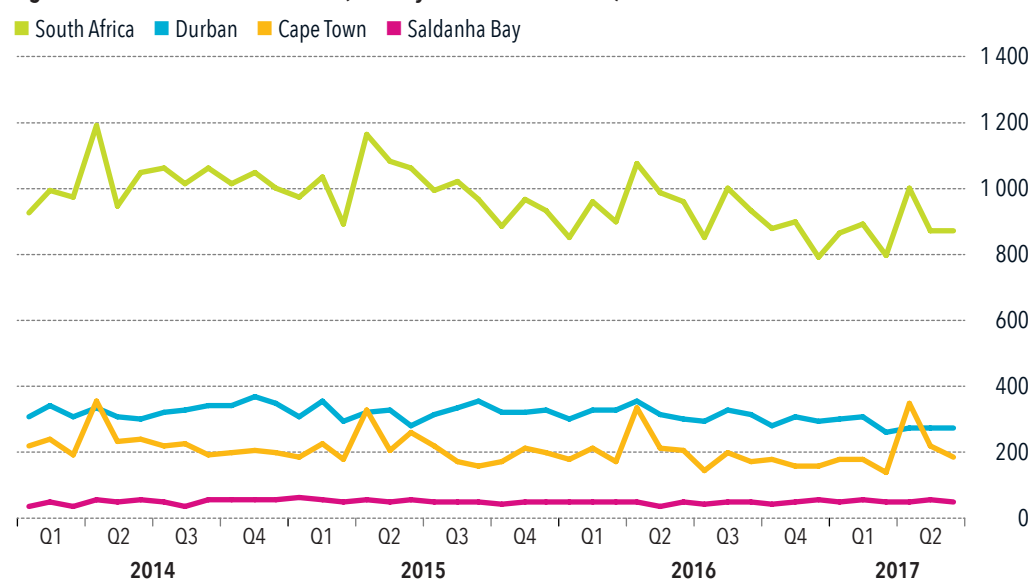
CAPE TOWN PORT MOVEMENTS

Volume of vessels

The total volume of vessels arriving in South African ports increased by 197 vessels from 2 557 in the first quarter of 2017 to 2 754 in the second quarter of 2017. The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the second quarter of 2017 was 753 vessels, an increase from 501 vessels in the first quarter of 2017. This meant the Port of Cape Town accounted for 27% of total vessels nationally in the second quarter of 2017, an increase from its 25% contribution in the second quarter of 2016. On a year-on-year basis, vessel arrivals in Cape Town in the second quarter of 2017 remained unchanged from the same period in 2016. The Port of Saldanha, the closest to the Port of Cape Town, sees far fewer vessel arrivals per month (averaging 52 vessels per month over the second quarter of 2017), as it currently focuses on the shipment of bulk cargo, predominantly steel and iron ore, and does not have container-handling facilities, which limits the volume of vessels utilising the port. The average tonnage per vessel handled at Saldanha, however, is substantially higher than at Cape Town. On average, the Port of Durban has more vessel movements than Cape Town, the exception usually being in the peak fishing month of April.

The Port of Cape Town's overall contribution to the total number of vessel arrivals in South Africa in the second quarter of 2017 was 753 vessels, an increase from 501 vessels in the first quarter of 2017.

Figure 32: Total number of vessels (January 2014 to June 2017)



Source: Transnet National Ports Authority, August 2017.

Cargo (gross tonnage) and container handling

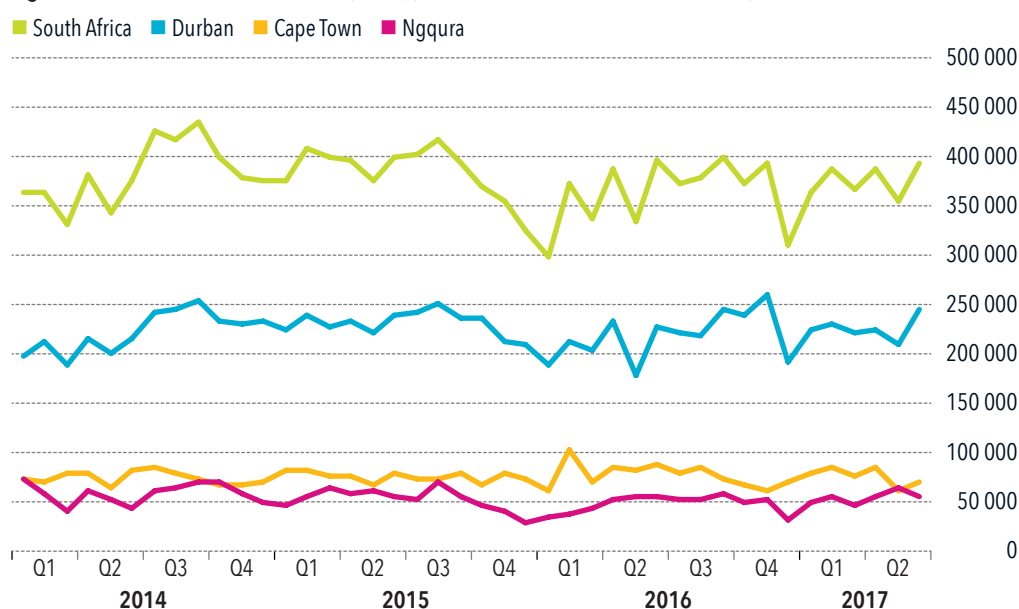
In the second quarter of 2017, South African ports handled 55,4 million tonnes of cargo compared to 57,2 million in the first quarter of 2017 and 57,6 million in the second quarter of 2016. The Port of Cape Town experienced a dramatic decrease in cargo handling, from 1,5 million tonnes in the first quarter of 2017 to just 798 840 tonnes in the second quarter of 2017. There was a year-on-year decrease of 33,6% relative to the 1,2 million tonnes handled in the second quarter of 2016. Cape Town does not have extensive cargo-handling facilities, nor is it considered a cargo-handling hub (unlike the Saldanha and Richards Bay ports). Therefore, it does not have a significant impact on the national cargo-handling performance. The Port of Durban experienced a quarter-on-quarter decrease in cargo handled of 7,4%, similarly the Port of Saldanha experienced a quarter-on-quarter decrease of 7,2%. Year-on-year results, which are a more precise reflection of whether cargo handling has grown over time, revealed a 4,2% decrease in cargo handled at the Port of Saldanha and a 0,7% increase for the Port of Durban.

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 second quarter of 2017. 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 18,8% of all

South African ports handled 55,4 million tonnes of cargo compared to 57,2 million in the first quarter of 2017 and 57,6 million in the second quarter of 2016.



Figure 33: Total containers handled (TEUs) (Quarter 1, 2014 to Quarter 2, 2017)²⁵



Source: Transnet National Ports Authority, August 2017.

Transnet has approved plans for a multibillion-rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

containers handled in South African ports in the second quarter of 2017.

Container traffic is very seasonal, as figure 33 indicates, so it is more meaningful to compare total containers handled over the period of a year. The number of containers handled at the Port of Cape Town decreased from 256 339 in the second quarter of 2016 to 213 090 in the second quarter of 2017 – a decrease of 16,9%. In 2013 and 2014, the Port of Cape Town appeared to be losing ground to the Port of Ngqura in terms of container handling, as the latter port recorded a large increase in containers handled in those years. In recent years, Ngqura has slipped notably behind Cape Town with respect to container handling despite recording a year-on-year increase to 174 636 containers handled in the second quarter of 2017 from 161 139 in the second quarter of 2016. While the Port of Ngqura lags behind Cape Town in terms of the volume of containers handled, capacity constraints experienced at the Port of Cape Town mean that Ngqura could overtake it as the country's second-largest container-handling port. That said, Transnet has approved plans for a multibillion-rand upgrade to Cape Town's container-handling facilities, which should alleviate congestion problems in the medium term.

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

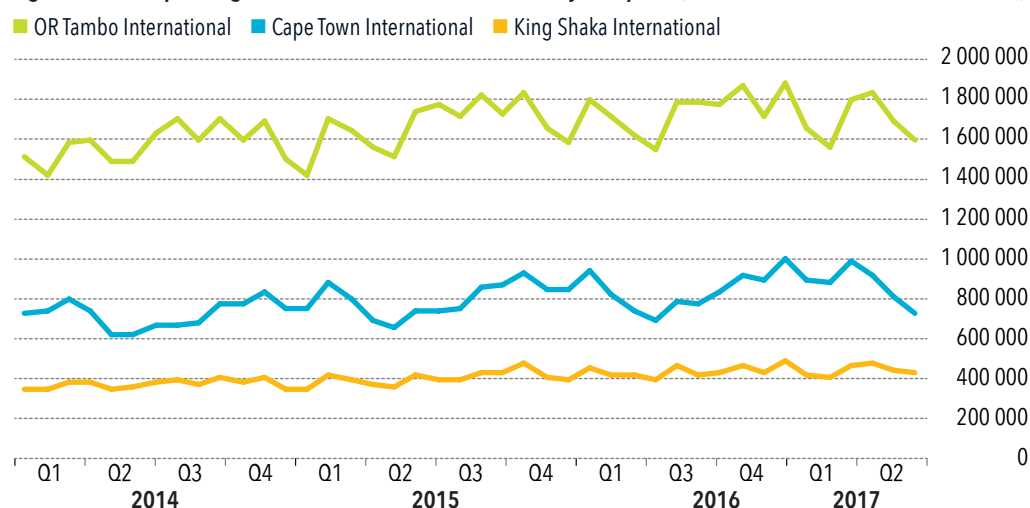
CAPE TOWN AIRPORT STATISTICS

Total passenger movements

Cape Town International Airport is South Africa's second-busiest airport, after OR Tambo International Airport. It recorded 2,45 million total passenger movements in the second quarter of 2017 compared to 5,11 million passenger movements at OR Tambo International and 1,36 million at King Shaka International airports during the same period. Total passenger movements at Cape Town International in the second quarter of 2017 was 9,1% higher compared to the second quarter of 2016, when 2,25 million passenger movements were recorded. King Shaka International also recorded an increase in passenger numbers in the second quarter of 2017 compared to the same period in the previous year, similarly OR Tambo International observed a 4,8% increase in passenger movements, year on year.

Total passenger movements at Cape Town International in the second quarter of 2017 was 9,1% higher compared to the second quarter of 2016.

Figure 34: Total passenger movements at South Africa's major airports (Quarter 1, 2014 to Quarter 2, 2017)



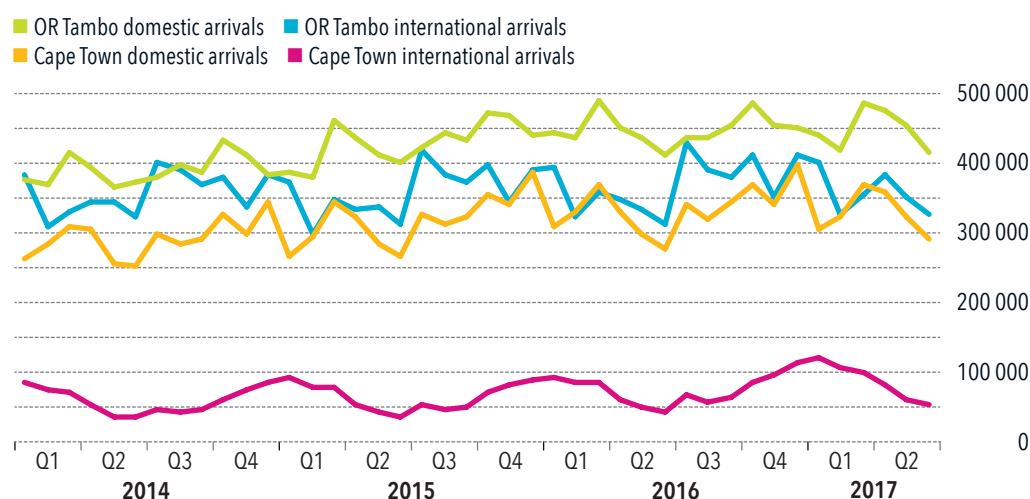
Source: ACSA, August 2017.

Figure 34 indicates a pronounced degree of seasonality in Cape Town's passenger movements, with these declining in the second quarter when the city enters its winter months. In contrast, OR Tambo International shows a more erratic distribution with a less-defined seasonal trend. This reflects Cape Town's standing as a popular tourist destination, subject to seasonal demand, and Johannesburg's standing as the country's foremost business destination, thereby subject to the more variable 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 second quarter of 2017 constituted 16,6% of the airport's total passenger arrivals. In contrast, in the same period, OR Tambo International's share of direct international arrivals constituted 44,2% of its total passenger arrivals. This reflects the fact that Airports Company South Africa

Figure 35: International and domestic passenger arrivals for Cape Town and OR Tambo airports, (Q1 2014 to Q2, 2017)



Source: ACSA, August 2017.

(ACSA) operates OR Tambo as the international airport hub for South Africa. The figure for direct international arrivals highly underestimates total international tourist arrivals to the city, as many take advantage of the greater number of flight options to Johannesburg, flying to OR Tambo first and then connecting to Cape Town on a domestic flight.

Direct international arrivals to Cape Town display a greater seasonal pattern than international arrivals to Johannesburg, with the summer months of December to March being the peak period for travel to the city. Cape Town's domestic arrivals, however, show far more variation, with peaks and troughs dispersed throughout the year (clearly visible in figure 35). The total number of passenger arrivals to Cape Town International in the second quarter of 2017 increased by 10,3% year on year, with international arrivals increasing by 28,2%.

While some of the growth in international arrivals can be attributed to increased occupancy on existing flight routes, the efforts of Cape Town International Airport, Wesgro, the Western Cape Government and the City of Cape Town to attract more direct international flights also appear to be paying off. As evidence of these efforts, the number of international aircraft arrivals at Cape Town International increased by 55% on a year-on-year basis in the second quarter 2017.

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

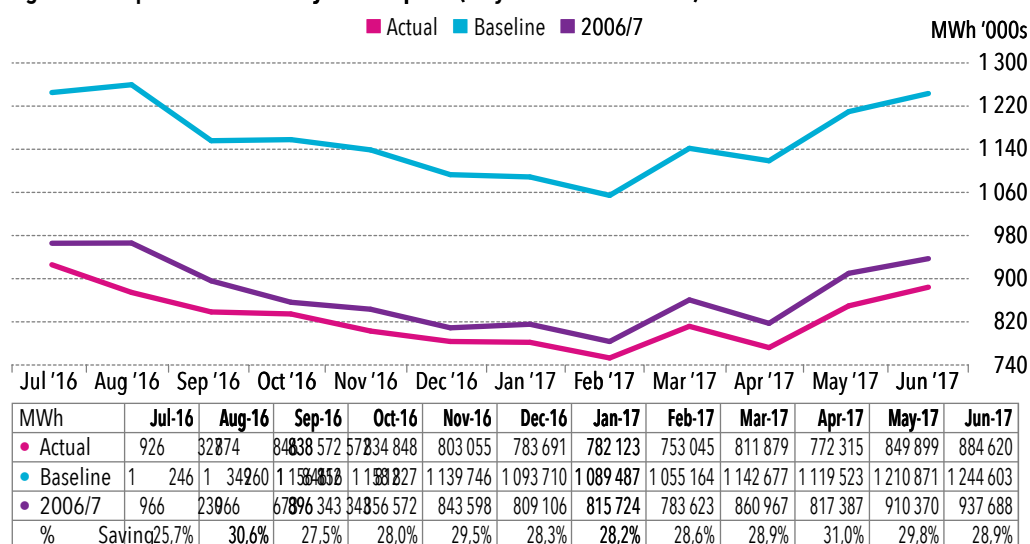
ELECTRICITY

Eskom, South Africa's state-owned electricity utility, generates approximately 95% of the electricity used in South Africa. A review of South Africa's energy mix reveals that almost 90% of the country's electricity is generated in coal-fired power stations and the rest through nuclear, hydropower and renewable energy sources.

Eskom's primary mandate is to ensure energy: security, efficiency and sustainability in South Africa. In 2008 and again in 2015, however, energy security became a pressing economic issue as Eskom battled to balance supply and demand. This led to the implementation of a load-shedding programme and resulted in upward pressure on electricity prices as Eskom sought to provide a reliable and predictable electricity supply. Eskom is currently in the third year of the Third Multi-Year Price Determination (MYPD3). In February 2017, the National Energy Regulator of South Africa (NERSA) granted Eskom the right to raise electricity tariffs by 2,2% in 2017/18 as part of MYPD3.

The figure below shows the actual electricity consumption in Cape Town for the period of July 2016 to June 2017 versus baseline electricity consumption (i.e. assuming electricity consumption growth of 3% year on year). The percentage difference between these two is reflected in the '% saving'. Cape Town's actual electricity consumption falls significantly below the baseline (29,9% less in the second quarter of 2017) suggesting that it has been consistently consuming less electricity as more energy-saving measures have been implemented. This is borne out by the fact that energy savings have gone up by 3,6 percentage points from the same time last year. The 2006/7 curve illustrates a projection of electricity consumption before load shedding. After the first set of load shedding in 2008, the City set a target to try and limit electricity consumption to that of its 2006/7 consumption in order to try and prevent further load shedding and to reduce the pressure on the electrical network. Figure 36 illustrates that electricity consumption in Cape Town in the 2016/2017 period of review, was less than its 2006/7 level.

Figure 36: Cape Town's electricity consumption (July 2016 to June 2017)



Source: City of Cape Town, Electricity Services Department, August 2017.

The total number of passenger arrivals to Cape Town International in the second quarter of 2017 increased by 10,3% year on year, with international arrivals increasing by 28,2%.

Cape Town's actual electricity consumption falls significantly below the baseline suggesting that it has been consistently consuming less electricity as more energy-saving measures have been implemented.



Tourism developments

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



Across the globe, destinations received 369 million international tourists (i.e. overnight visitors) between January and April 2017. This amounted to 21 million more tourists than in the same period of 2016.



INTERNATIONAL TOURISM DEVELOPMENTS

According to the United Nations World Tourism Organisation's (UNWTO's) *World Tourism Barometer* for June 2017, international tourist arrivals grew by 6% in January to April 2017 as compared to the same period in 2016. The UNWTO attributes this to global business confidence reaching its highest levels in the decade (UNWTO, 2017: 1). Across the globe, destinations received 369 million international tourists (i.e. overnight visitors) between January and April 2017. This amounted to 21 million more tourists than in the same period of 2016. Most countries which observed positive tourist arrival performance in 2016 maintained their strong performance at the start of 2017 while others, which performed less well in 2016, saw a turnaround. This included positive tourist arrival growth for the Middle East (10%), Africa (8%) and Europe (6%).

Europe observed a notable rebound (of 6% year on year) in international tourist arrivals, after arrivals declined due to heightened security concerns in 2016. The Southern Mediterranean European countries and Western Europe saw the largest upswings in tourist arrivals, growing at 9% and 4% year on year respectively, compared to 1% and 0% in 2016. Northern Europe also experienced positive growth of 9% year on year, while Central and Eastern Europe saw growth of 4% year on year (UNWTO, 2017: 1). Other strong performing international tourism destinations included North Africa and South Asia, which observed year-on-year arrivals growth rates of 18% and 14%, respectively. Oceania, Central America and South America all observed year-on-year growth rates in international arrivals of 7% in the first four months of 2017. Following close behind was Southeast Asia and Northeast Asia with year-on-year growth rates of 6% and 5% respectively (UNWTO, 2017: 5).

According to the UNWTO's Panel of Tourism Experts Confidence Index²⁶, expectations were the strongest they have been in 12 years, suggesting robust and positive sentiments around the tourism industry's performance in 2017. Of the experts surveyed, European experts revealed the most positive expectations based on the positive growth in international arrivals in the first four months of 2017. The experts anticipated the months of May to August 2017 would observe the most positive growth in international arrivals, corresponding to the peak tourism season for most parts of the world (UNWTO, 2017: 5).

SOUTH AFRICAN TOURISM DEVELOPMENTS – TOURIST ARRIVALS IN SOUTH AFRICA

South Africa is the premier tourist destination in sub-Saharan Africa and, indeed, Africa as a whole. As table 10 indicates, in May 2017, 767 059 foreign tourists visited the country. Tourist arrivals to South Africa increased by 0,7% year on year for the period January to May 2017 compared to January to May 2016. Arrivals from other parts of Africa (South Africa's largest tourist source market) decreased by 2,4% while arrivals from the overseas market increased by 10,6%. The growth in overseas tourist arrivals can be attributed to the strong performance in the country's leading overseas tourist source markets and continuous security concerns in many other parts of the world, making South Africa a more favourable tourist destination.

Examining arrivals from the overseas market, Europe remains South Africa's biggest regional overseas tourist market. It accounted for 80 816 tourist arrivals in May 2017, having grown by 11,2% year on year between January to May 2016 and January to May 2017. Within the European region, the UK, Germany, France and the Netherlands were South Africa's largest tourist source markets. Of these, arrivals from France and Germany grew stronger (by 35,4% and 14,8% respectively) than arrivals from the UK (2,5%) and the Netherlands (13,6%). While these countries were the largest source markets in terms of absolute tourist arrivals, Spain (19,3%), Sweden (17,6%), Turkey (14,2%) and Norway (13,6%) also showed high growth rates.

26. The index is derived based on a survey of worldwide tourism experts who rate the anticipated performance of the economy for a four-month period of time (UNWTO, 2017).

Tourist arrivals to South Africa increased by 0,7% year on year for the period January to May 2017 compared to January to May 2016.



The US was the largest single overseas source market of tourists for South Africa in May 2017, with 34 965 tourist arrivals from that country at a year-on-year growth rate of 8,2%.

Tourist arrivals to South Africa from most emerging markets increased year on year in May 2017. Tourist arrivals from Russia, Brazil and India increased by 38,2%, 120,4% and 2,8% respectively year on year. In contrast, tourist arrivals from China experienced a decline of 13,3% year on year.

The US was the largest single overseas source market of tourists for South Africa in May 2017.

Table 10: International tourist arrivals in South Africa

Region	May 2017	May 2016	% change	% change January to May 2016 to January to May 2017
Europe	80 816	75 706	6,7%	11,2%
Russia	757	535	41,5%	38,2%
North America	39 821	35 872	11%	8,5%
Central and South America	7 698	4 445	73,2%	91,4%
Brazil	4 754	2 339	103,2%	120,4%
Australasia	9 814	9 319	5,3%	2,8%
Asia	30 349	31 635	-4,1%	-0,9%
China	6 532	8 256	-20,9%	-13,3%
India	14 628	14 237	2,7%	2,8%
Middle East	2 919	3 650	-20,2%	10,0%
Overseas total	171 417	160 627	6,7%	10,6%
Africa	594 597	598 997	-0,7%	-2,4%
Total	767 059	760 749	0,8%	0,7%

Source: South African Tourism, August 2017.

CAPE TOWN'S TOURISM DEVELOPMENTS

Tourist accommodation in Cape Town

Accommodation spending typically constitutes the largest portion of total visitor spend at a destination. Thus, it has the largest downstream impacts on employment within the industry. As such, accommodation demand statistics provide an insightful measure of the performance of the tourism industry within the city. The occupancy and revenue figures presented in table 11 (overleaf) were derived from a monthly survey of an average of 70 tourism accommodation establishments in the Cape Town metro area for the second quarter of 2017.

Occupancy rates at city accommodation establishments increased by an average of 1,3 percentage points in the second quarter of 2017 compared to the same period in 2016. The month of April recorded the highest occupancy rate (67,1%), but saw a year-on-year decrease of 2 percentage points. In contrast, the month of May recorded a year-on-year increase of 4,6 percentage points. On a year-on-year comparison, the average room rate and revenue per room increased in the second quarter of 2017 by R130 and R97 respectively. Overall, tourist accommodation in Cape Town, on average, performed well in the second quarter of 2017 compared to the corresponding period last year. All three accommodation performance indicators

On a year-on-year comparison, the average room rate and revenue per room increased in the second quarter of 2017 by R130 and R97 respectively.

for Cape Town reported positive average growth rates.

In terms of an occupancy breakdown by type of establishment, the highest occupancy rate in the second quarter of 2017 was achieved by backpackers (62%). All establishment types experienced an increase in the average occupancy rate compared to the second quarter of 2016.

Table 11: Income derived from tourist accommodation – Cape Town

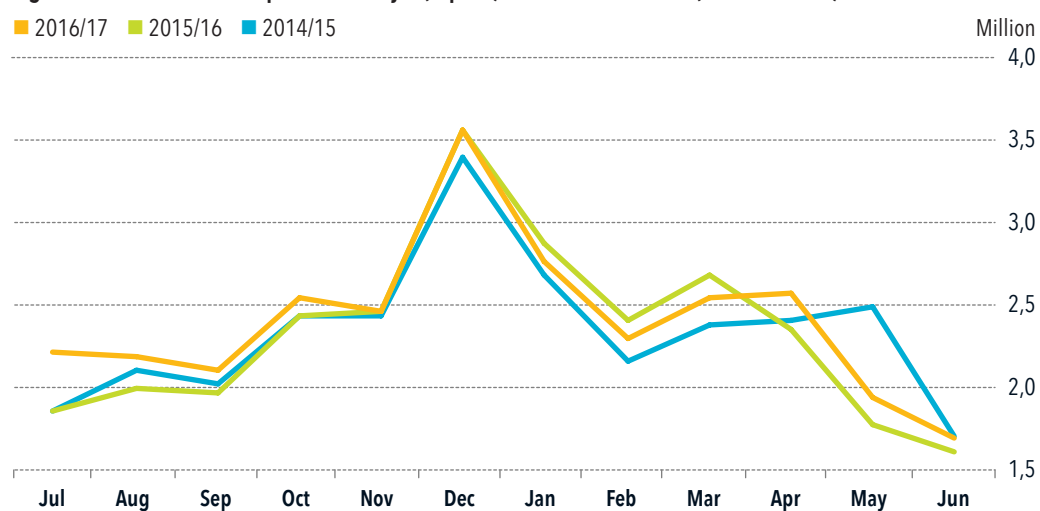
Indicator	April		May		June		Second-quarter average	
	2017	2016	2017	2016	2017	2016	2017	2016
Occupancy rate	67,1%	69,6%	63,3%	58,7%	47,2%	45,3%	59,2%	57,9%
Average room rate	R1,777	R1,501	R1,353	R1,306	R1,187	R1,120	R1,439	R1,309
Revenue per room	R1,192	R1,044	R856	R766	R560	R507	R869	R772

Source: Cape Town Tourism, August 2017.

Performance of Cape Town's top visitor attractions

For this section, visitor statistics for six major tourist attractions in Cape Town were reviewed. These include the city's most popular tourist attractions for which visitor information is available, and encompass a diverse set of sights and sounds. The six attractions are the world-famous Table Mountain (specifically the Table Mountain Aerial Cableway), Kirstenbosch National Botanical Garden, Boulders Beach, Cape of Good Hope, the V&A Waterfront and Robben Island. Figure 37 illustrates the cumulative number of visits by tourists to these attractions since July 2014. While all attractions are open to everyone – resident or non-resident, domestic, regional or international – they attract large proportions of tourists and are used in this section as a proxy for tourism demand in Cape Town.

Figure 37: Total visits to Cape Town's major (top six) tourist destinations (2014 to 2017)



Source: Derived from Wesgro data, August 2017.

Visits to Cape Town's top attractions were higher than they had been in the corresponding period in 2016, with a 4,64% year-on-year increase in the number of visitors.

From figure 37, it is clear that the frequency of visits to Cape Town's top attractions is subject to seasonality as higher tourist volumes are experienced in the summer period between November and March, followed by a decline during winter months and increasing slightly during the third quarter as weather conditions start improving. The second quarter of 2017 reported a quarter-on-quarter decrease of 18,69% in visitors to the top six attractions. When the impact of seasonality is removed by comparing the visitor statistics on an annual basis, the figure shows that visits to Cape Town's top attractions were higher than they had been in the corresponding period in 2016, with a 4,64% year-on-year increase in the number of visitors.

It is important to note that the visitor attraction data is strongly skewed to the V&A Waterfront. The V&A contributed approximately 85% of the total number of visits to the six attractions analysed in the second quarter of 2017. This includes a greater proportion of non-tourists than the other five attractions, and is possibly as much representative of resident retail trends as it is of tourism trends. When the V&A Waterfront figure is removed, the number of visits to the five attractions decreases to 904 904 in the second quarter of 2017, representing a year-on-year increase of 14,01% (table 12).

The continued strong performance of Cape Town's tourism market on a year-on-year basis in the second quarter of 2017 suggests the city was a favourable destination for visitors. Foreign tourism in the city has benefited from an increasing number of direct flight options, while domestic tourism has been bolstered by an increasing number of domestic travellers seeking local holiday destinations as they try to reduce travelling costs in economic conditions.

Most-visited tourist attractions

Table 12 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 Table Mountain Aerial Cableway recorded the second-highest number of visits (250 385) while Table Mountain Park: Cape of Good Hope had the third-highest number of visits (222 777) in the second quarter of 2017.

Table 12: Ranking of the most-visited tourist attractions in Cape Town*

Rank*	Quarter 2, 2017	Quarter 2, 2016	Year-on-year annual growth rate (%)
V&A Waterfront	5 307 210	5 142 779	3,2%
Table Mountain Aerial Cableway	250 385	218 129	14,8%
Table Mountain National Park: Cape of Good Hope	222 777	190 486	17,0%
Kirstenbosch National Botanical Garden	180 245	170 608	5,6%
Table Mountain National Park: Boulders Beach	174 317	139 454	25,0%
Robben Island	77 180	75 062	2,8%
Total	6 212 114	5 936 518	4,6%
Total (excluding V&A Waterfront)	904 904	793 739	14,0%

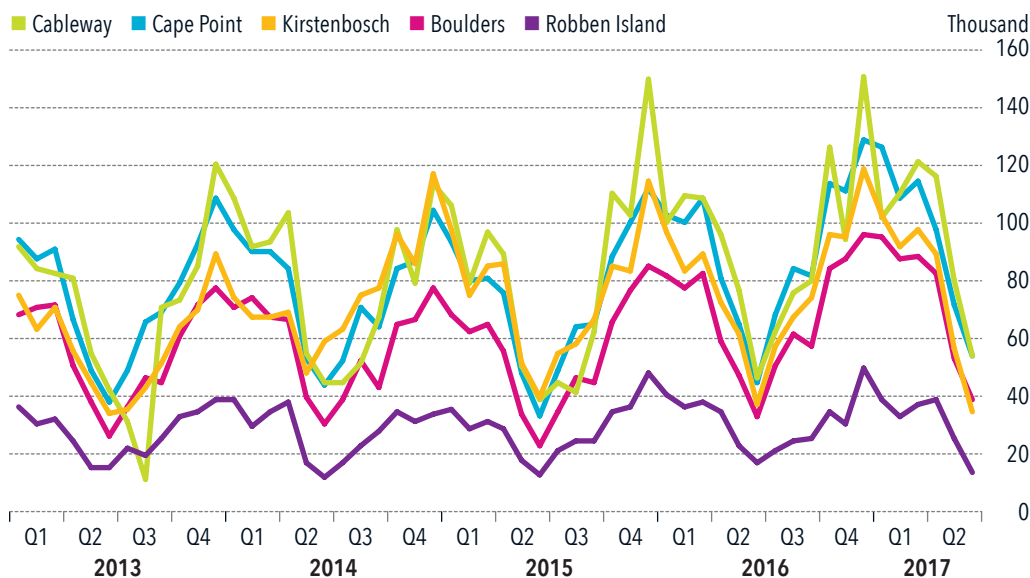
* Most-visited tourist destination in green; second-most-visited tourist destination in blue.

Source: Derived from Wesgro and Cape Town Tourism data, August 2017.

On a year-on-year basis all five attractions recorded an increase in the number of visits, with Boulders Beach observing the largest increase (25%) with visit numbers increasing by 34 863. The Table Mountain: Cape of Good Hope and Table Mountain Aerial Cableway also observed notable year-on-year increases of 17% and 14,8% respectively.

As figure 38 shows, all attractions are subject to strong seasonality, with peak visitor activity occurring in the summer period from November to March. The lowest tourist visitor numbers are seen during the period May to July, which are Cape Town's winter months. Overall, in the second quarter of 2017 Cape Town's visitor attraction statistics demonstrated good performance compared to the same period last year.

Figure 38: Total tourist visits to the top five tourist destinations of Cape Town (excluding the V&A Waterfront)



Source: Wesgro and Cape Town Tourism data, August 2017.



Additional indicators

In addition to macroeconomic indicators, which provide overall estimates of economic activity, administrative data capture specific consumer trends and provide strong indications of the performance of a local economy. Building plan developments, commercial property developments and passenger vehicle sales are three such sources of data. Building plans submitted and completed, as well as commercial property trends, 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

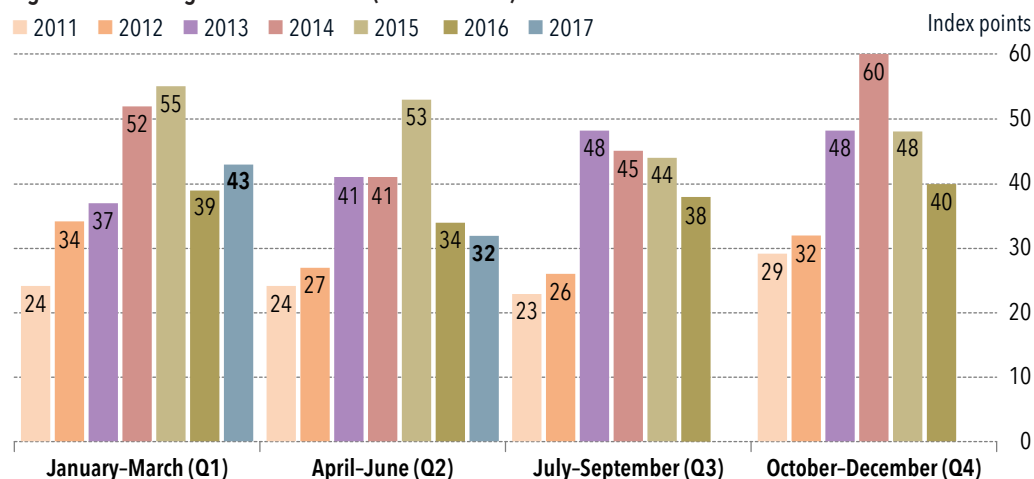
This section focuses on building developments recorded by the City of Cape Town for the second quarter of 2017. Building development statistics are key inputs in deriving the GDP for South Africa, and offer important insights into the levels of confidence in the national economy. From the City's perspective, building plan submissions and building plans completed are key indicators of the level of economic development occurring within the city.

Construction industry overview

The economic growth chapter showed that output in the national construction industry contracted by 0,5% quarter on quarter in the second quarter of 2017. In contrast, on a year-on-year basis the sector contracted by 0,03% in the second quarter of 2017 as compared to its year-on-year growth of 0,11% in the first quarter of 2017. The Western Cape's construction industry contracted by 0,5% quarter on quarter in the second quarter of 2017, and by 0,02% on a year-on-year basis, putting it on par with the national trend.

The Western Cape's construction industry contracted by 0,5% quarter on quarter in the second quarter of 2017, and by 0,02% on a year-on-year basis.

Figure 39: Building Confidence Index (2011 to 2017)



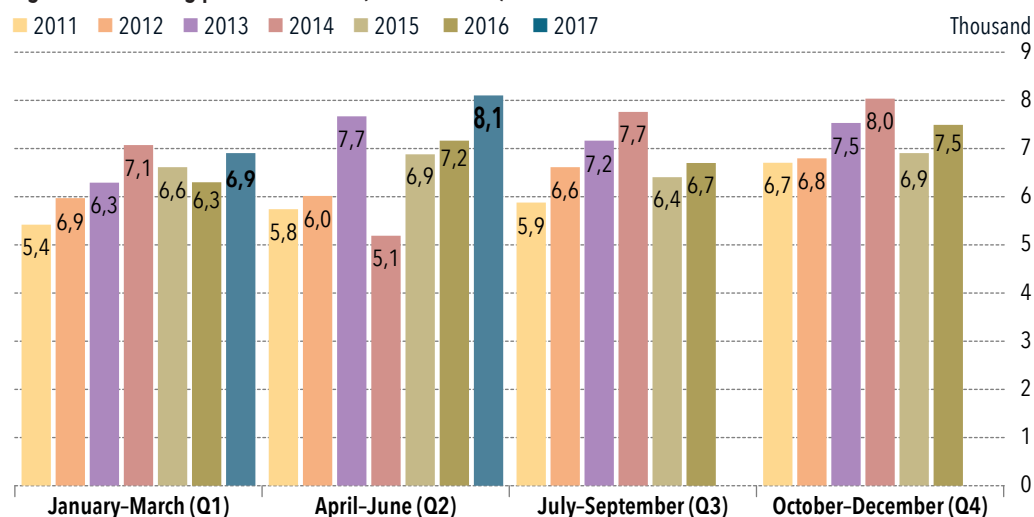
Source: FNB/BER, 2017.

The First National Bank (FNB)/BER (2017) composite Building Confidence Index captures the percentage of architects, quantity surveyors, and contractors and manufacturers of building material, who are satisfied with or wary of the prevailing business conditions (figure 39). The index fell from 43 points in the first quarter of 2017 to 32 points in the second quarter of 2017. Confidence declined by 2 index points on a year-on-year basis.

Building plan applications in Cape Town

Building plans submitted to the City of Cape Town in the second quarter of 2017 increased by 17,7% from the previous quarter. Figure 40 provides an annual comparison of the number of building plans submitted in each of the quarters

Figure 40: Building plans submitted (2011 to 2017)



Source: Transport Development Authority: Business Support Department – City of Cape Town, August 2017.

Building plans submitted to the City of Cape Town in the second quarter of 2017 increased by 17,7% from the previous quarter.

over the past six years, thereby accounting for seasonal trends in the building and construction industry. Building plans submitted to the City of Cape Town in the second quarter of 2017 increased by 12,7% compared to the corresponding period in 2016.

Building plans completed

While the number of building plans submitted is 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. A better indicator of actual growth in the industry is the number of building plans completed. These represent actual construction activity as opposed to building plans submitted, which represents the anticipated level of construction activity in the future. While building plan approvals must have a turnaround time of 30 to 60 days after submission, the completion of building work can take up to five years after approval. The completion of building plans reflects the current economic climate within a region. By measuring the actual work undertaken to complete a building plan, actual economic activity – including employment and remuneration as well as spending on materials – is captured.

Table 13: Building plans completed in the second quarter of 2017

Measure	Cape Town		South Africa ²⁷	
	Number/value	Year-on-year change	Number/value	Year-on-year change
Building plans completed	5 637	3,9%	N/A	N/A
Value of building plans completed	R3 601 million	-3,8%	R17 592 million	5,6%

Source: Transport Development Authority: Business Support Department – City of Cape Town, August 2017; Statistics South Africa, 2017.

Table 13 reviews the number of completed building plans in Cape Town in the second quarter of 2017. It suggests that Cape Town experienced an upward trend (3,9% increase year on year) in the number of completed building plans in the second quarter of 2017.

The table also compares the value of building plans completed in Cape Town and South Africa in the second quarter of 2017. In Cape Town these completions amounted to R3,6 billion, which accounted for 21% of the total value (R17,6 billion) of building plans completed in South Africa's larger municipalities. Cape Town recorded a year-on-year decrease of 3,8% in the rand value of building plans completed during the second quarter. In contrast, South Africa recorded a year-on-year increase of 5,6%. The decline in the rand value of building plans completed in Cape Town was driven by year-on-year decreases in residential (-9,6%) and non-residential (-9,5%) building plan completions, however, additions and alterations and minor works increased by 12,7% and 19,3% respectively year-on-year.

COMMERCIAL PROPERTY DEVELOPMENTS

Cape Town's services industry represents the largest sector of the economy, as measured by GVA. Within this broad sector, the finance sector is also the fastest growing sector of the city's economy and comprised 29% of the city's GVA in 2016 (IHS Markit, 2017). Considering the importance of the services sector to the city's economy, an understanding of the factors that underpin its performance provides useful insights into Cape Town's economic performance as a whole. In addition to being the largest sector of the economy, the services industry is also the largest consumer of office space and the uptake thereof is an indication of business confidence in an economy (Rode, 2015). In light of this, this section provides an overview of commercial property trends in Cape Town as a means of understanding trends in business confidence in the city's economy. Commercial property is here understood to encompass two categories of property development, namely office or banking space and shopping or retail space.

Performance of Cape Town's office and banking property market

The performance of the commercial property market can be tracked in a number of ways. An indicative trend analysis is provided in figure 41 (overleaf) by review of observed variation in the quarterly office vacancy rate, the total floor area of completed office buildings added to the office property stock, the total floor area of completed office building alterations and the quarter-on-quarter percentage change in provincial GVA for the finance and business services sector. The service sector is the largest in Cape Town and as such this indicator is a useful measure of economic activity.

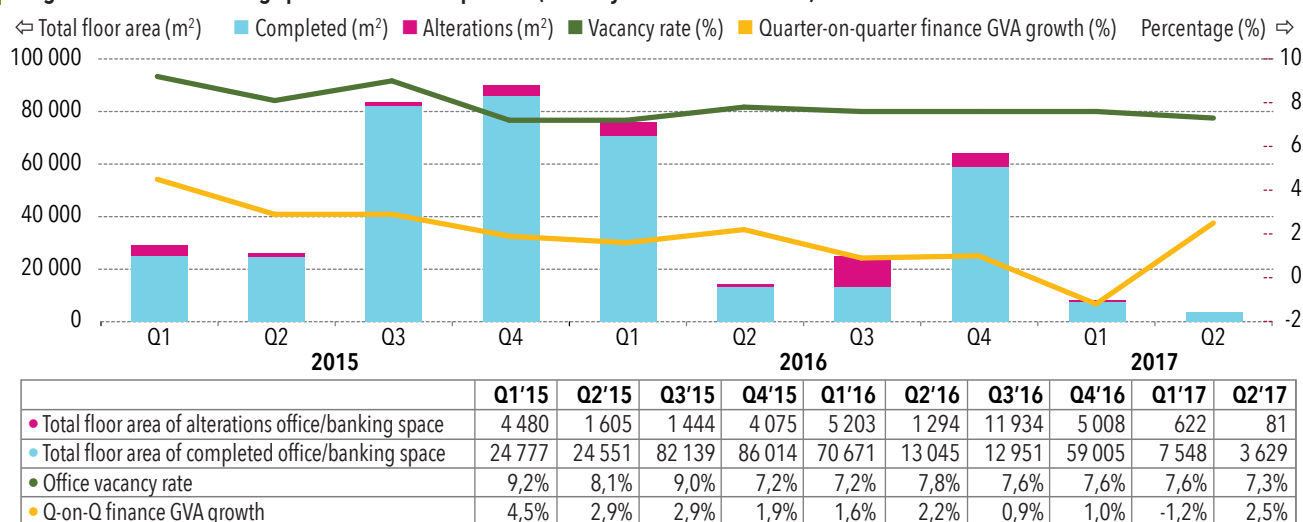
In the second quarter of 2017, construction of 3 629 m² of new office or banking space was reported to have been completed and 81 m² of office or banking space alterations were completed. This represents a decrease in completions when compared to the first quarter of 2017 in which construction of 7 548 m² of new office or banking space was completed and 622 m² of office or banking space alterations were made. While there was a quarter-on-quarter decline in new completions and alterations, the Jones Lang LaSalle (JLL) Cape Town Office Market Report notes that the office market has improved since first quarter of 2017.

Cape Town experienced an upward trend (3,9% increase year on year) in the number of completed building plans in the second quarter of 2017.

In the second quarter of 2017, construction of 3 629 m² of new office or banking space was reported to have been completed and 81 m² of office or banking space alterations were completed.

27. This indicator covers all building plans passed by larger municipalities, including Cape Town.

Figure 41: Office/banking space sector developments (January 2015 to June 2017)



Source: Transport Development Authority: Business Support Department, City of Cape Town, August 2017; Jones Lang LaSelle (JLL), June 2017 and Quantec, August 2017.

Cape Town's office vacancy rate in the second quarter of 2017 decreased by 0,3 percentage points to a rate of 7,3%.

As figure 41 shows, Cape Town's office vacancy rate in the second quarter of 2017 decreased by 0,3 percentage points to a rate of 7,3%, with the Cape Town Central Business District vacancy rate still contributing the highest vacancies at 11,3% (JLL, 2017). The finance and business services sector reported an increase in GVA growth of 3,69 percentage points to 2,5%. According to the South African Property Owners Association (SAPOA) (2017), a sustained improvement in the office vacancy rate (i.e. return to the natural vacancy rate), depends on the strength of key economic drivers such as economic growth and business confidence.

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

Top commercial developments

In the second quarter of 2017, there were 10 new commercial buildings completed in Cape Town, increasing by three buildings from the previous quarter, with a total rand value of R57,2 million and a combined total floor area of 9 029 m² (table 14). Office or banking space developments accounted for seven of the top commercial developments in Cape Town, by rand value, in the second quarter of 2017, and buildings and shopping space accounted for the remainder.

Table 14: Top commercial property developments – Cape Town

No.	Area	Property segment	Building description	Rand value	Total floor area (m²)
1	Kuilsriver	Shopping space	Shop	R21 888 020	3 262
2	Milnerton	Shopping space	Shop	R15 514 700	1 880
3	Cape Flats	Office/bank space	Warehouse	R6 308 180	1 574
4	Durbanville	Office/bank space	Offices	R4 800 800	680
5	Tygerberg	Shopping space	Shop	R2 257 500	258
6	Tygerberg	Office/bank space	Offices	R1 973 560	443
7	Cape Flats	Office/bank space	Offices	R1 748 640	456
8	Cape Flats	Office/bank space	Offices	R1 454 080	284
9	Cape Flats	Office/bank space	Offices	R790 592	104
10	Bellville	Office/bank space	Offices	R475 200	88

Source: Transport Development Authority: Business Support Department, City of Cape Town, August 2017.

Future developments

According to JLL's Cape Town Office Market Outlook report for the second quarter of 2017, vacancy rates have declined while rental rates remained stable, thus suggesting a promising environment for tenants (JLL, 2017). Two major office developments are set to be complete in 2018, namely the Sable Square development in Century City, which accounts for

Office or banking space developments accounted for seven of the top commercial developments in Cape Town, by rand value, in the second quarter of 2017.

16 000m² and the 117 on Strand development in the CBD, which accounts for 5 500m².

Despite the technical recession and the credit ratings downgrade experienced at the beginning of 2017, Cape Town's property demand remained strong in the second quarter. However, with the increase in new developments, the property market may become saturated causing vacancies to increase in the forthcoming quarters (JLL, 2017).

NEW VEHICLE SALES

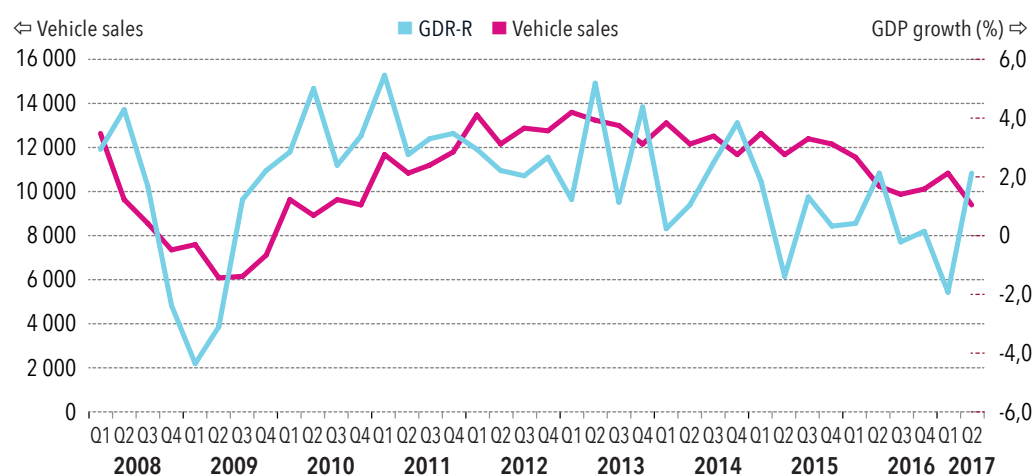
This section tracks new vehicle sales in the Western Cape on a quarterly basis. Typically, vehicle sales especially passenger vehicle sales – are considered to mirror trends in the business cycle and are often regarded as a leading indicator for GDP growth. New vehicle sales are sensitive to changes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

In South Africa, new vehicle sales are tracked and analysed by the National Association of Automobile Manufacturers of South Africa (NAAMSA). The total vehicle sales in the Western Cape decreased from 16 333 vehicles sold in the first quarter of 2017 to 14 625 in the second quarter of 2017. Year-on-year results, which offer a more precise reflection of vehicle sales performance over time, saw a decrease of 1 230 from the 15 855 total vehicle sales in the corresponding period in 2016 in the Western Cape. Passenger vehicle sales, which are the private consumer segment of the market, decreased from 10 846 in the first quarter of 2017 to 9 415 in the second quarter of 2017 in the Western Cape. Year-on-year results saw a decrease of 836 vehicles (-8,16%) from the 10 251 passenger vehicles sold in the corresponding period in 2016. Nationally there was a 5,05% decrease in the number of passenger vehicles sold in the second quarter of 2017 compared to the corresponding period in 2016.

The year-on-year decrease in passenger vehicle sales in the Western Cape during the second quarter is seemingly in line with the prevailing macroeconomic conditions in the country. NAAMSA mentioned that the performance of domestic new vehicle sales corresponded with the overall performance of the economy and that the political tensions as well as the subdued economic growth prospects continue to negatively impact business and consumer confidence (*Wheels24*, 2017).

Figure 42 plots the total passenger vehicle sales per quarter alongside the quarter-on-quarter GDP-R for the Western Cape. The SARB includes new passenger vehicle sales as one of the variables in its leading indicator for GDP growth, with the assumption that new passenger vehicle sales and GDP growth are positively correlated and that passenger vehicle sales 'lead' GDP growth. This assumption is not unique to the Reserve Bank as passenger vehicle sales have been used as a leading variable in a number of leading indicator models.

Figure 42: Passenger vehicle sales vs GDP-R for the Western Cape (Quarter 1, 2008 to Quarter 2, 2017)



Source: NAAMSA, Stats SA, September 2017.

It is not immediately clear from figure 42 which indicator leads which, although it would appear that vehicle sales are far less erratic than GDP and respond to long-term trends not short-term movements. This said, the actual nature of this relationship can only be fully appreciated when one isolates the impact that passenger vehicle sales have on GDP through the use of regression analysis.

The total vehicle sales in the Western Cape decreased from 16 333 vehicles sold in the first quarter of 2017 to 14 625 in the second quarter of 2017.

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LIST OF ABBREVIATIONS

AI:	avian influenza	INR:	Indian rupee
ACSA:	Airports Company South Africa	IMF:	International Monetary Fund
CAPEX:	capital expenditure	MPC:	Monetary Policy Committee
CBD:	central business district	MYPD3:	Third Multi-Year Price Determination
CCT:	City of Cape Town	NAAMSA:	National Association of Automobile Manufacturers of South Africa
City:	City of Cape Town	NERSA:	National Energy Regulator of South Africa
CTFPO:	Cape Town Film Permit Office	OPEC:	Organization of the Petroleum Exporting Countries
CTFS:	Cape Town Film Studios	PPI:	producer price index
BER:	Bureau for Economic Research	QLFS:	Quarterly Labour Force Survey
BRICS:	Brazil, Russia, India, China and South Africa	ReX:	Regional Explorer
CPI:	consumer price index	SA:	South Africa
DTI:	Department of Trade and Industry	SACU:	Southern Africa Customs Union
EU:	European Union	SADC:	Southern African Development Community
EUR:	euro	SAPOA:	South African Property Owners Association
FDI:	foreign direct investment	SARB:	South African Reserve Bank
FNB:	First National Bank	SASA:	South Africa Sugar Association
FTE:	full-time equivalent	TNPA:	Transnet National Ports Authority
GBP:	British pound	UK:	United Kingdom
GDP:	gross domestic product	UNWTO:	United Nations World Tourism Organisation
GDP-R:	regional gross domestic product	US:	United States
GGP:	gross geographic product	USD:	US dollar
GVA:	gross value added	V&A:	Victoria and Alfred
HDI:	Human Development Index	WEO:	World Economic Outlook
ICT:	Information Communications Technology	WTO:	World Trade Organization
IESA:	Interactive Entertainment South Africa	ZAR:	South African rand



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