

# THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2016

## Provincial Review 2016: Western Cape

The Western Cape's real economy is dominated by manufacturing and commercial agriculture. As a result, while it did not benefit directly from the commodity boom, it has not suffered as much as more mining-dependent provinces from the downturn since 2011. Its manufacturing has been highly diverse, with a focus on light industry.

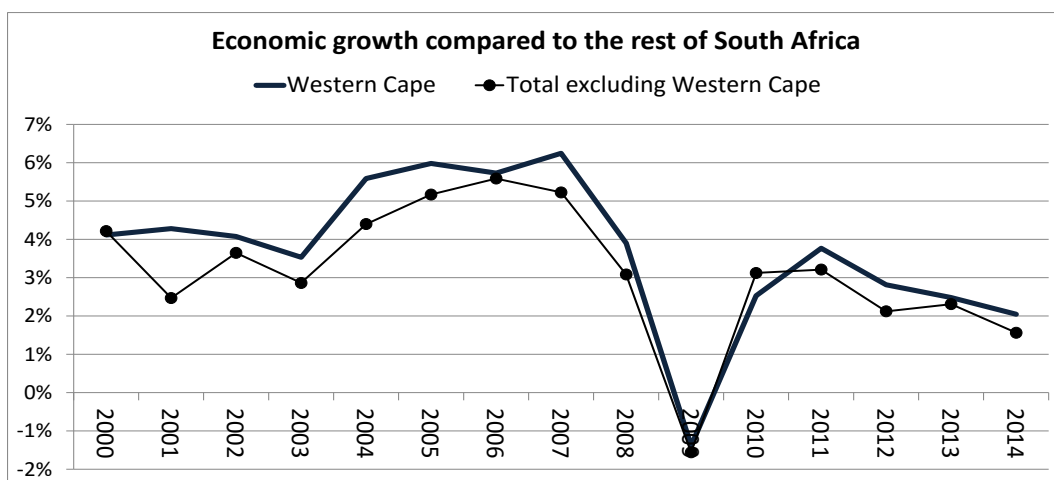
Historically, the Western Cape benefited from apartheid policies of investing more in non-African communities, since it is the only province with a minority African population and no homeland areas at all. As a result, since the transition to democracy it has had high employment levels by national standards. It also inherited far fewer backlogs of government services and infrastructure than other provinces. That said, the Western Cape has had to manage substantial in-migration. Only Gauteng has seen more rapid population growth.

### The real economy in the Western Cape

While the Western Cape, with 6,2 million residents, accounted for 11% of South Africa's population in 2014/2015, it contributed 14% of the GDP. In 2014 – the latest available data – the real economy (represented by agriculture, mining, manufacturing and construction) made up 22% of The Western Cape's output.

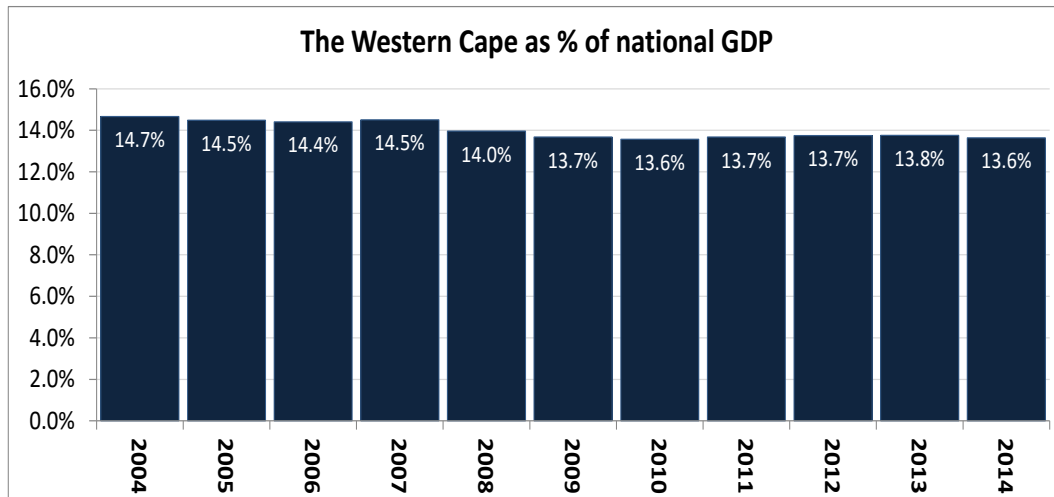
The largest real-economy sector was manufacturing, at 13% of the provincial economy, followed by construction at 5%, agriculture at 4%, and mining at under 0,5%. The Western Cape contributed 22% of national agriculture, 19% of construction and 15% of national manufacturing.

Overall, growth in the Western Cape has generally been slightly above that of the rest of the country. That said, it also saw slowing growth from 2011.



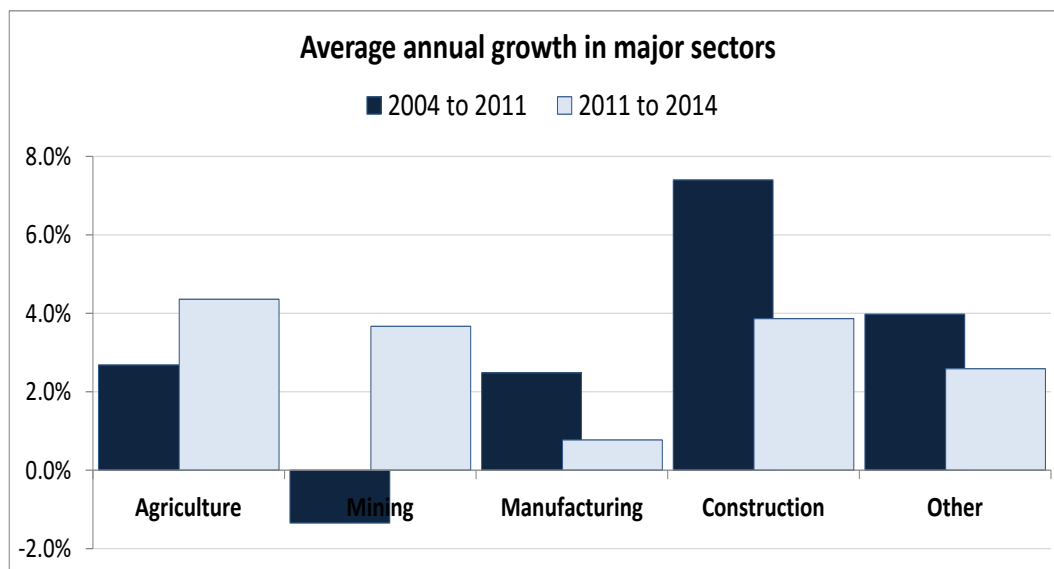
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

Despite its relatively rapid growth in volume terms, the share of the Western Cape in current rand has declined fairly steadily as a percentage of the national GDP over the past decade. This presumably resulted because the provincial economy does not have significant mining. As a result, it did not benefit from the unusually rapid increase in metals prices from 2003 to 2011.



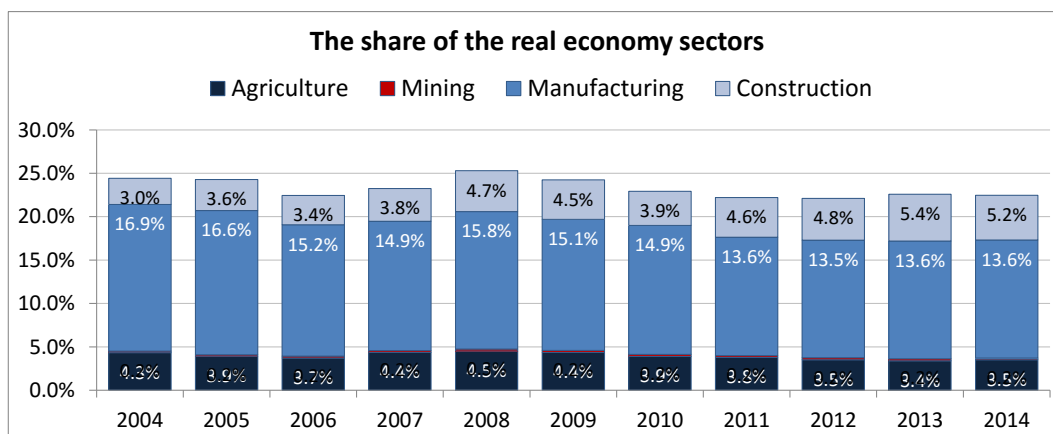
Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

Construction was the fastest growing industry in the Western Cape for most of the past decade. In contrast, manufacturing showed relatively slow growth across the period. In the three years from 2011 to 2014, average annual growth in the province's manufacturing sector as a whole dropped to 0,8% a year.



Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

These growth trends meant that manufacturing constituted a shrinking share of Gauteng's total economy. Its contribution to the Western Cape's economy declined from 17% in 2004 to 14% a decade later.



Source: StatsSA, GDP Annual and Regional Tables 2016. Excel spreadsheet downloaded in June 2016.

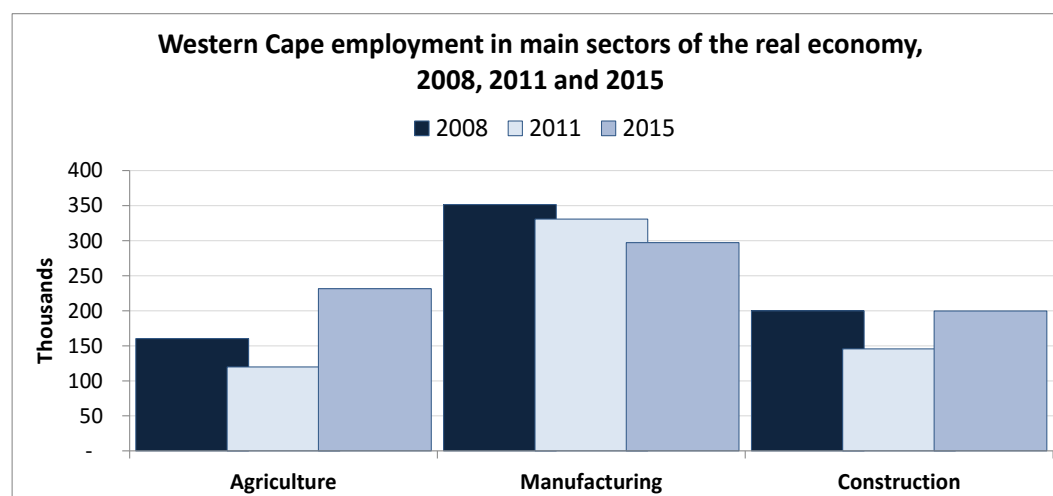
The employment data shed further light on the structure of the economy in the Western Cape.

In 2015 (using the average for year of the Quarterly Labour Force Survey - QLFS), the province accounted for 15% of total employment in South Africa. Some 737 500 people were employed in the real economy sectors, which contributed 32% of total provincial employment.

Of employed people in the real economy in The Western Cape in 2015:

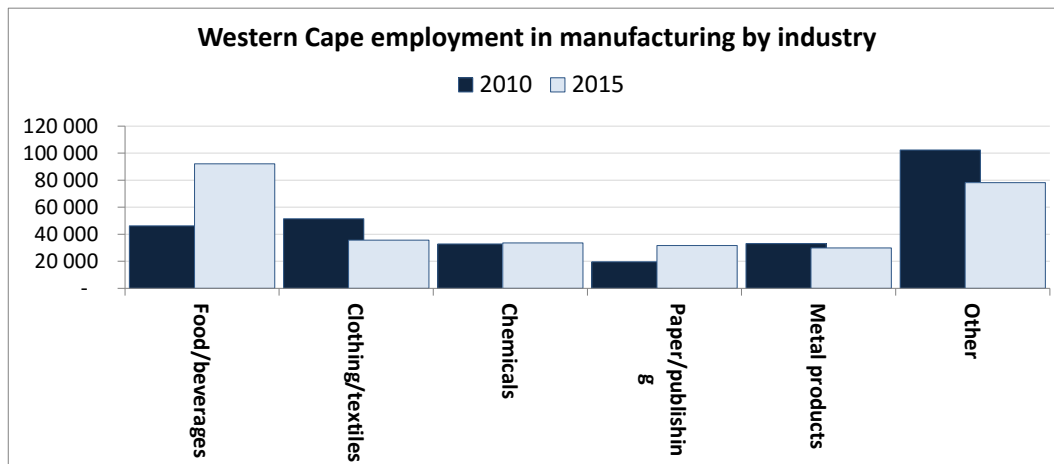
- 297 000 were in manufacturing.
- 232 000 were in agriculture
- 200 000 were in construction
- 3500 were in mining (in 2014)

The following chart shows the change in employment by major sector in the real economy in 2008, 2011 and 2015, using the average of quarterly figures for each year. It indicates a significant increase in employment in the Western Cape's agriculture, which may however result from a change in the master sample for the Quarterly Labour Force Survey in 2015. In contrast, manufacturing in the Western Cape has seen a significant decline in employment.



Source: Except for mining, Statistics South Africa, QLFS Trends 2008-2016. Excel spreadsheet. Average of four quarters for the year. For mining, Department of Mineral Resources. B1 Statistical Tables. Excel spreadsheet.

The Western Cape accounted for 17% of South African manufacturing employment. The top five manufacturing industries in the province for employment, were food and beverages; clothing, textiles and footwear; chemicals and plastic; paper and publishing; and basic iron plus metal products. It accounted for some 24% of employment in food and beverages, its largest manufacturing industry, which had grown rapidly over the past five years.



Source: For 2010, Statistics South Africa, Labour Market Dynamics 2010. Electronic database. For 2015, average of four quarters, Statistics South Africa, QLFS for relevant quarters. Electronic database.

## Employment and unemployment

The Western Cape has relatively high levels of employment with 54% of the working-age population employed in 2015, compared to a national average of over 40%. The international norm is around 60%. Working-age people with employment had risen from 53% in 2010, when employment hit a low following the 2008/2009 global financial crisis.

In the Western Cape, 63% of total employment was in the non-agricultural formal sector, compared to the national average of 69%. In 2014, the median formal wage was R4 000 and the median wage for domestic, informal and agricultural workers was R2 000. The median formal wage nationally was also R4 000, but it was only R1 500 for other employees.

Comparatively high employment levels help explain the relatively strong migration into the Western Cape. Its population grew 57% from 1996 to 2015, compared to a national average of 35%. Of the provinces, only Gauteng saw faster population growth.

## The Western Cape and the national spatial economy

Apartheid geography has a significant impact on economic structures, and especially on access to economic opportunities for ordinary South Africans.

The Western Cape has:

- No former “homeland” areas within its borders. That compares to 31% for the country as a whole.
- One metro area and three secondary cities, out of a total of 30 municipalities. Metros and secondary cities house 75% of the province’s population. That compared to 40% of the national population living in metro areas and secondary cities.

- A very large share of non-Africans in the total population, at 66% compared to 20% nationally. The Western Cape was the only province that historically had a majority of non-African residents.

These factors help explain the province's economic structure and its high employment levels. Under apartheid, African areas and especially the former “homeland” regions typically excluded natural resources, and for decades were largely deprived of infrastructure and government services.

Some indicators of the implications for the Western Cape are:

- The 2015 General Household Survey found that the median household income was R5 840 a month, compared to R3 260 nationally.
- Municipal expenditure per person in the Western Cape came to R8 100 in 2015/2016, compared to R5 900 nationally. The metros and secondary cities spent R8 400 per person compared to R7 200 per person in the other municipalities in the province. The metros and secondary cities, with 75% of the population, raised 80% of all municipal rates and tariffs in the province. They also received 69% of current and 77% of capital transfers and subsidies, mostly from the national government.
- The high share of non-African residents historically meant that province inherited high levels of municipal investment. According to the 2015 General Household Survey, 90% of households in the Western Cape had running water in their houses or yards, compared to 89% in 1996. Similarly, 90% had electricity, up from 85% in 1996. Nationally, 73% of households had running water and 85% electricity. But in the rest of the country, only between half and two thirds of the population had enjoyed these amenities before 1994.
- In 2015, matric degrees were held by 31% of the province's working-age population aged over 20. For the country as a whole, the figure was 29%. The share of adults in the Western Cape with matric had climbed from 18% in 1996. Some 16% of the Western Cape’s adult population had a degree, compared to 13% nationally.

## **Economic policy initiatives**

The main national industrial policy and development initiatives that affected the Western Cape included the following.

- In terms of Department of Trade and Industry (the dti) support, from 2013/2014 to 2014/2015, a total of 210 projects were approved under the Manufacturing Competitiveness Enhancement Programme (MCEP) in the Western Cape, for a total value of R845 million. A further 90 projects were approved under the Manufacturing Investment Programme (MIP), with a value of R310 million. Western Cape projects included in the Industrial Policy Action Plan (IPAP) range from the development of a leading film studio to the provision of equipment for the National Infrastructure Plan to aquaculture and clothing and textiles programmes.
- The Western Cape had an Industrial Development Zone at Saldanha Bay, designated in 2014, that focused on serving the oil and gas industry along the coastline. It proposed a Special Economic Zone at Atlantis that would focus on renewable energy.

- The Industrial Development Corporation invested 17.6% of its total spending in The Western Cape.

In 2015/2016, the provincial budget set aside R4,4 billion, or 11,4% of the total, for investment in buildings and public works. As a group, the provinces budgeted R35 billion, or 8% of their total expenditure, for these purposes. In addition, transfers to households for housing came to R1,9 billion, or 4,9% of The Western Cape's 2015/2016 budget. The provinces as a whole expected to provide R18 billion in housing subsidies, or 5% of their spending.

The Western Cape budget totalled R39 billion in 2015/2016. Per person, the province spent R6 200, compared to an average for all the provincial budgets of R7 000. In constant 2015 rand (deflated by CPA), the budget had increased by 2,9% from 2014/2015. From 2011/2012, it rose 13,5%.

Some 95% of The Western Cape's budget went for education and health. That compared to 90% for provincial budgets as a whole.

The economic departments in the provincial government in 2015 were Economic Development and Tourism, and Agriculture. In 2015/2016, their combined budgets came to R1,3 billion, or about 3% of the provincial budget. The provinces as a group spent an average of 5% of their budgets on these functions.