



An Economic Review of the Western Cape

31 December 2020

Table of Contents

1. Introduction	3
2. Gross value added.....	3
3. Economic growth: demand.....	5
3.1 Consumption expenditure by households	6
3.2 Gross fixed capital formation.....	6
4. Employment.....	8
5. Trade.....	9
6. Conclusion	11
Reference.....	11

1. Introduction

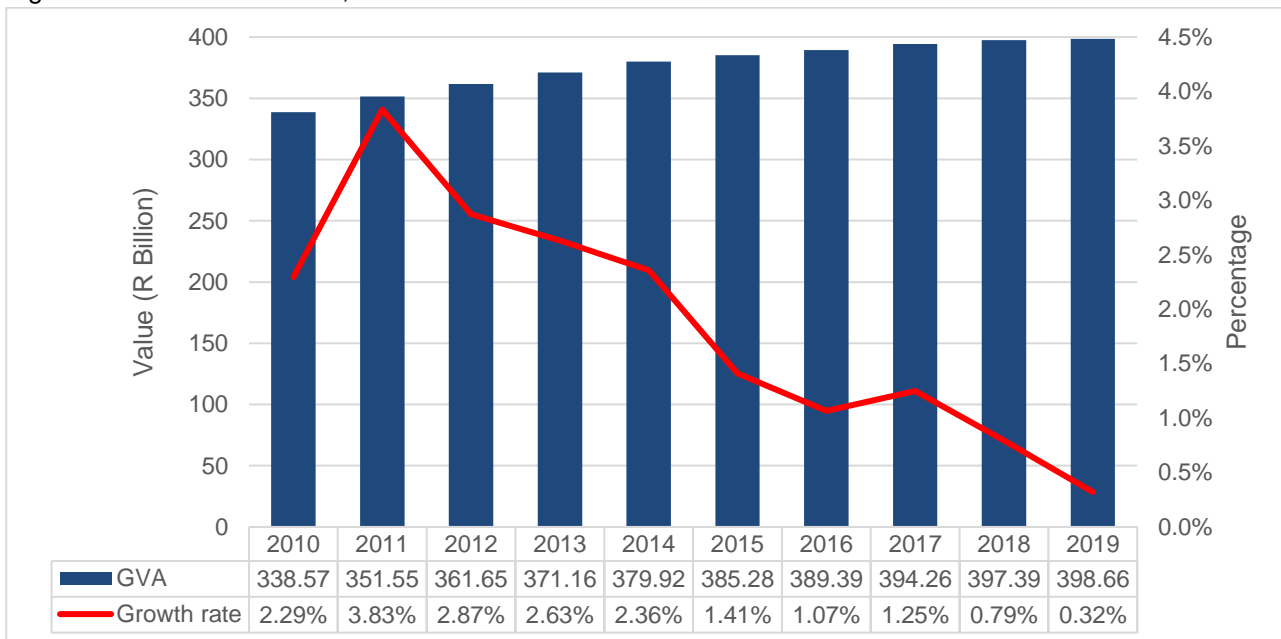
The coronavirus pandemic and the subsequent implementation of measures designed to reduce its spread have severely impacted the global economy from both demand and supply channels. Economies all over the world have recorded their worst growth since the 2008 global financial crisis as a result of the current pandemic and the “Great Lockdown”. Resilient growth will be key to the Western Cape in its effort to bring the economy back-on-track. The economy of the Western Cape is forecasted to grow at an average annual rate of 1% between 2020 and 2024 (Western Cape Government, 2020).

This document highlights the growth performance of the Western Cape well as other key economic indicators, such as employment and trade.

2. Gross value added

Since 2011, the Western Cape’s gross value added (GVA) at basic prices has grown at a decreasing rate. The year-on-year growth of the province’s GVA declined to 0.3% in 2019 after falling from approximately 1.3% in 2017 to 0.8% in 2018 as shown in Figure 1. Furthermore, the province’s total GVA was R398.66 billion in 2019.

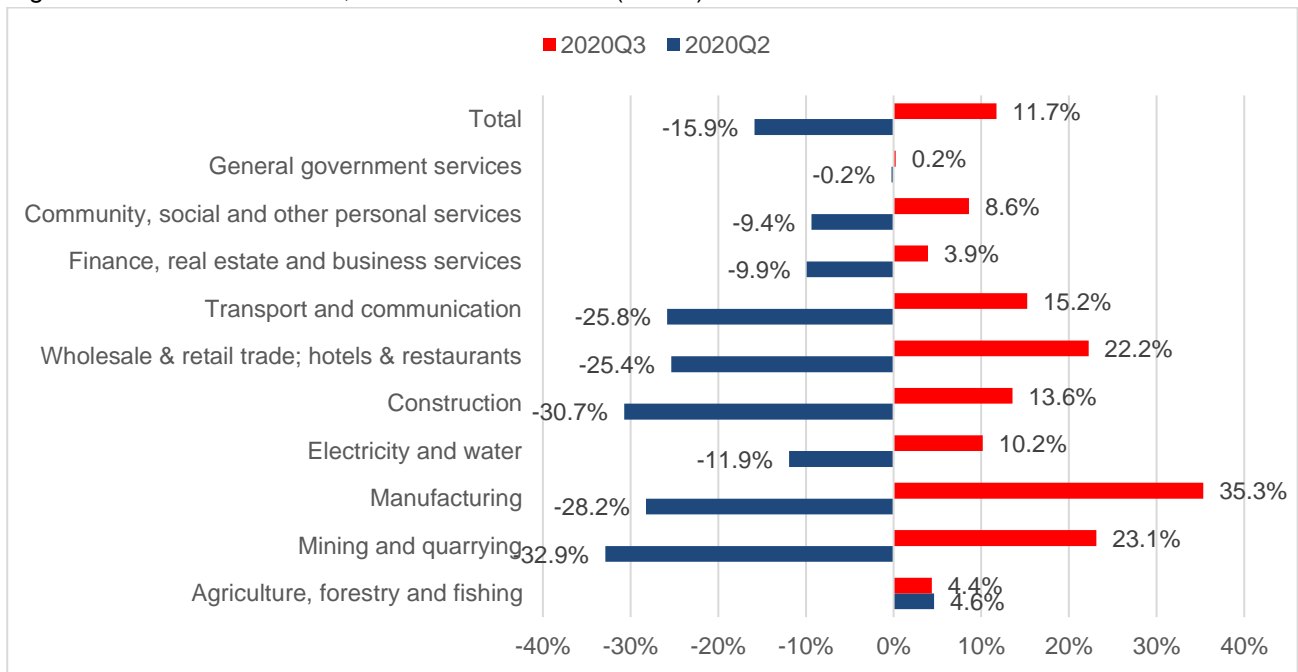
Figure 1: Gross value added, 2010-2019



Source: Quantec, 2021

As indicated in Figure 2, the Western Cape’s quarterly GVA (seasonally adjusted annualised) was approximately 12% in the third quarter of 2020 which represents an improvement from the -16% recorded in the previous quarter. With the exception of the agriculture sector, which recorded a positive growth rate of about 5% in the second quarter of 2020, growth was negative in all other sectors. However, there was positive growth across all industries in the third quarter of 2020, with the manufacturing industry (35%) recording the highest growth rate, followed by the mining and quarry industry (23%) and the trade, hotels and restaurants industry (22%).

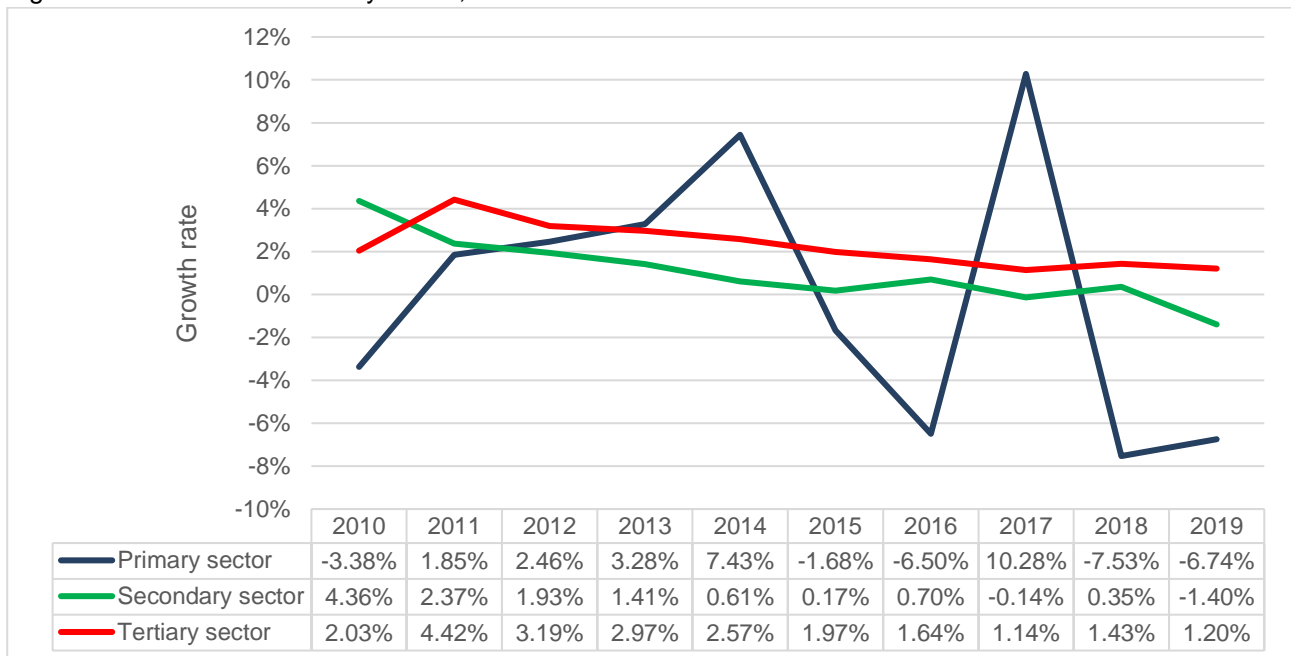
Figure 2: Gross value added, 2020Q2 and 2020Q3 (SAAR)



Source: Quantec, 2021

The growth rate of the tertiary sector, which dominates the Western Cape's economy, has been on a decline since 2011. Nevertheless, it was the only sector that recorded a positive growth in 2019. The growth rate of the primary and manufacturing sectors, which are both highly dependent on exports, were approximately -7% and -1% respectively. The primary sector, which the Western Cape economy is less reliant on in terms of GVA, is more susceptible to economic fluctuations than the other two sectors.

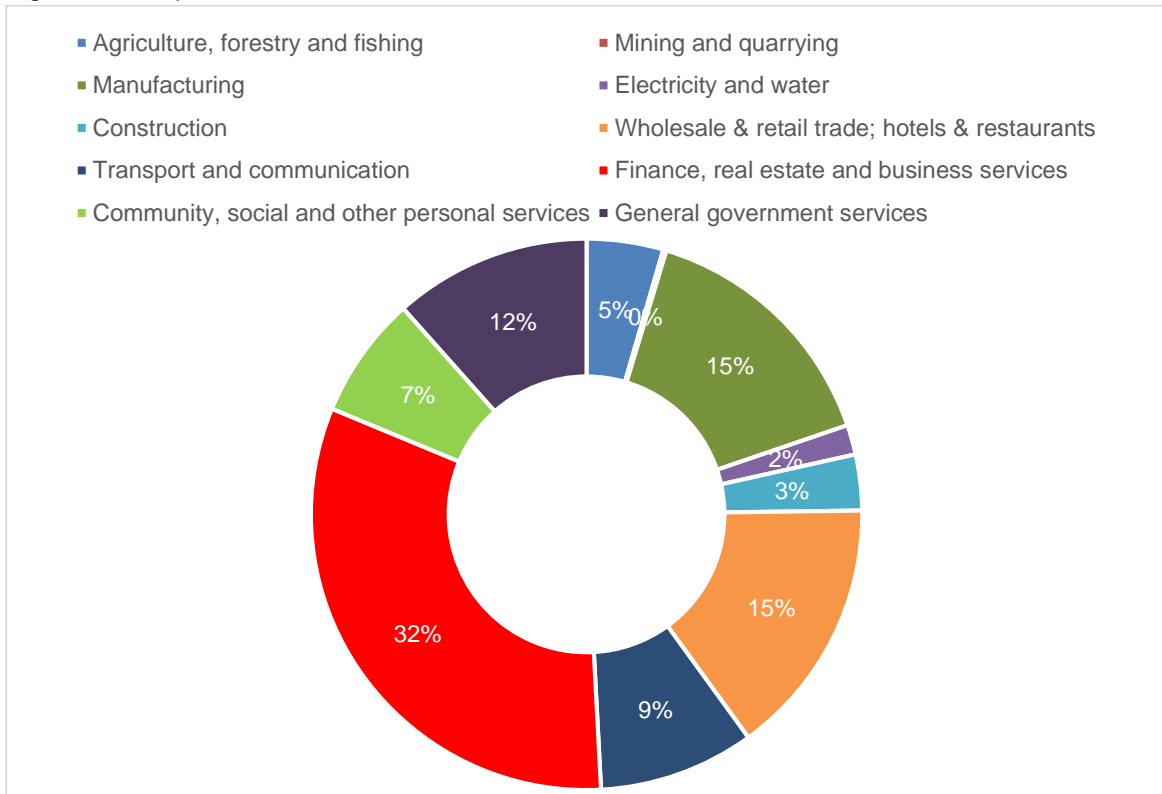
Figure 3: Gross value added by sector, 2010-2019



Source: Quantec, 2021

The finance, real estate and business service sector accounted for nearly one third of the Western Cape's GVA during the third quarter of 2020. This was followed by the trade and accommodation sector as well as the manufacturing sector, both contributing 15% to the province's GVA.

Figure 4: Composition of GVA, 2020Q3

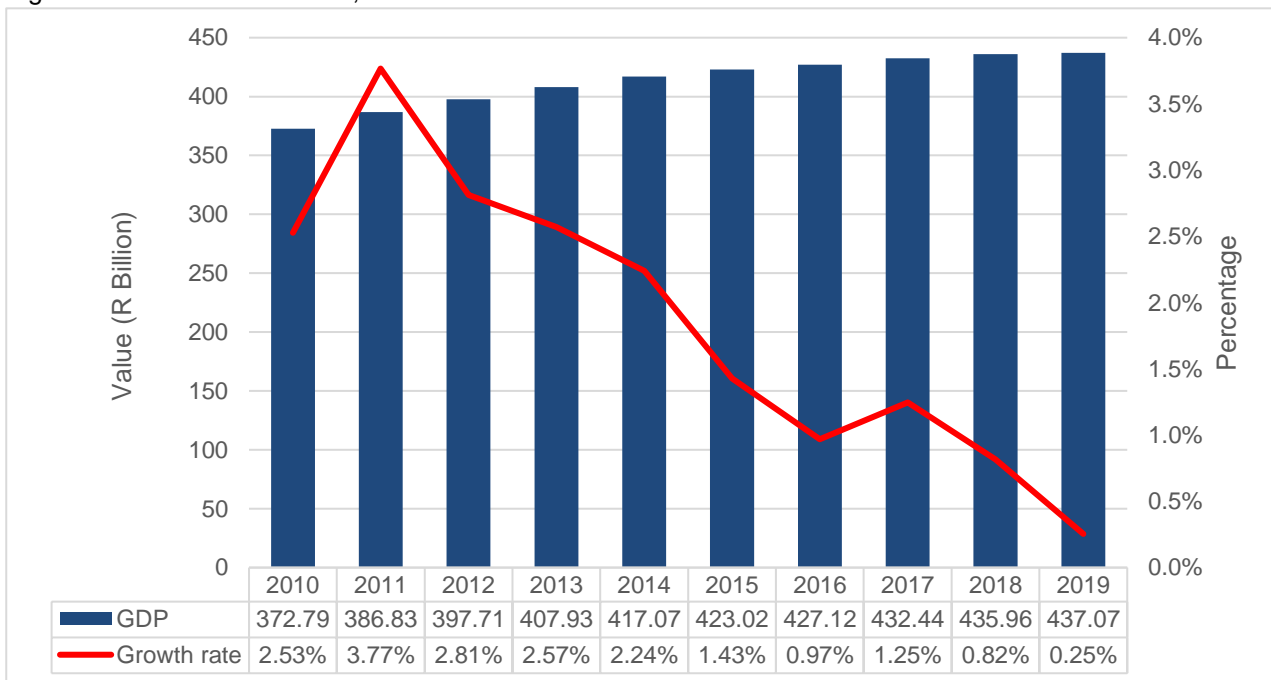


Source: Quantec, 2021

3. Economic growth: demand

This section looks at the Western Cape's economic performance from the demand side of the economy. The gross domestic product (GDP) of the Western Cape was R437.07 billion in 2019. The growth rate of GDP declined from 3.8% in 2011 to 0.97% in 2016. After increasing slightly to 1.25% in 2017, economic growth declined further in 2018 and 2019, an indication that the economy was on a downward trend before the coronavirus pandemic struck.

Figure 5: Growth rate of GDP, 2010-2019

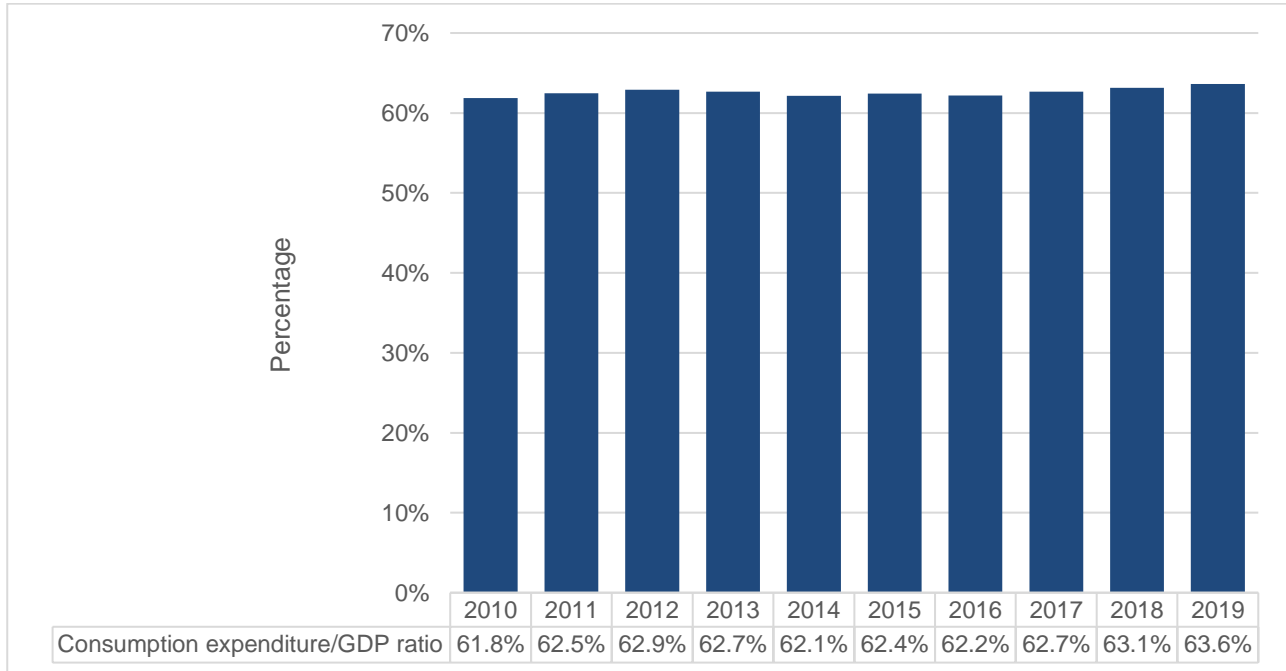


Source: Quantec, 2021

3.1 Consumption expenditure by households

Final consumption expenditure by households constitute the largest component of the Western Cape's gross domestic expenditure (GDE). On average, consumption spending makes up about 63% of GDP. This implies that any factor which causes consumer sentiment to move to depressed levels or hampers consumers' ability to spend can have a severe impact on the GDP of the province.

Figure 6: Ratio of consumption spending to gross domestic product

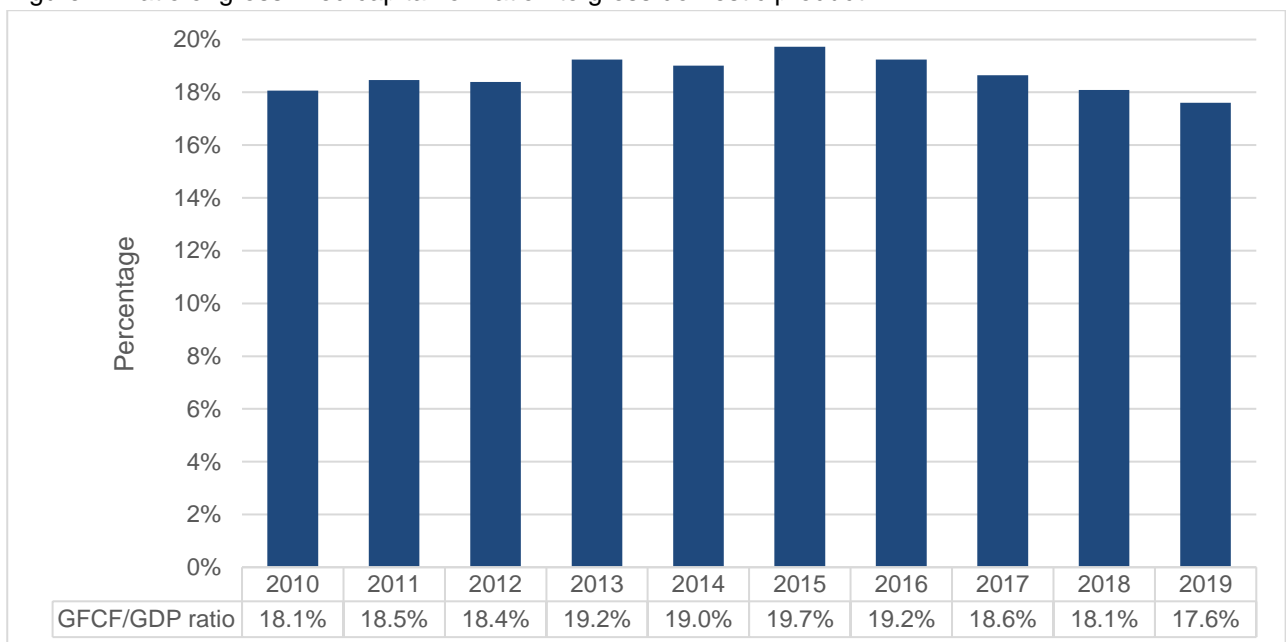


Source: Quantec, 2021

3.2 Gross fixed capital formation

The ratio of the Western Cape's gross fixed capital formation (GFCF) to GDP has historically been below 25%, which is the level generally deemed as the target ratio needed to ensure the required expansion of production capacity as well as to make provision for wear and tear of capital equipment (Quantec, 2020). The province's GFCF peaked at approximately 20% of GDP in 2015 but declined to 17.6% in 2019.

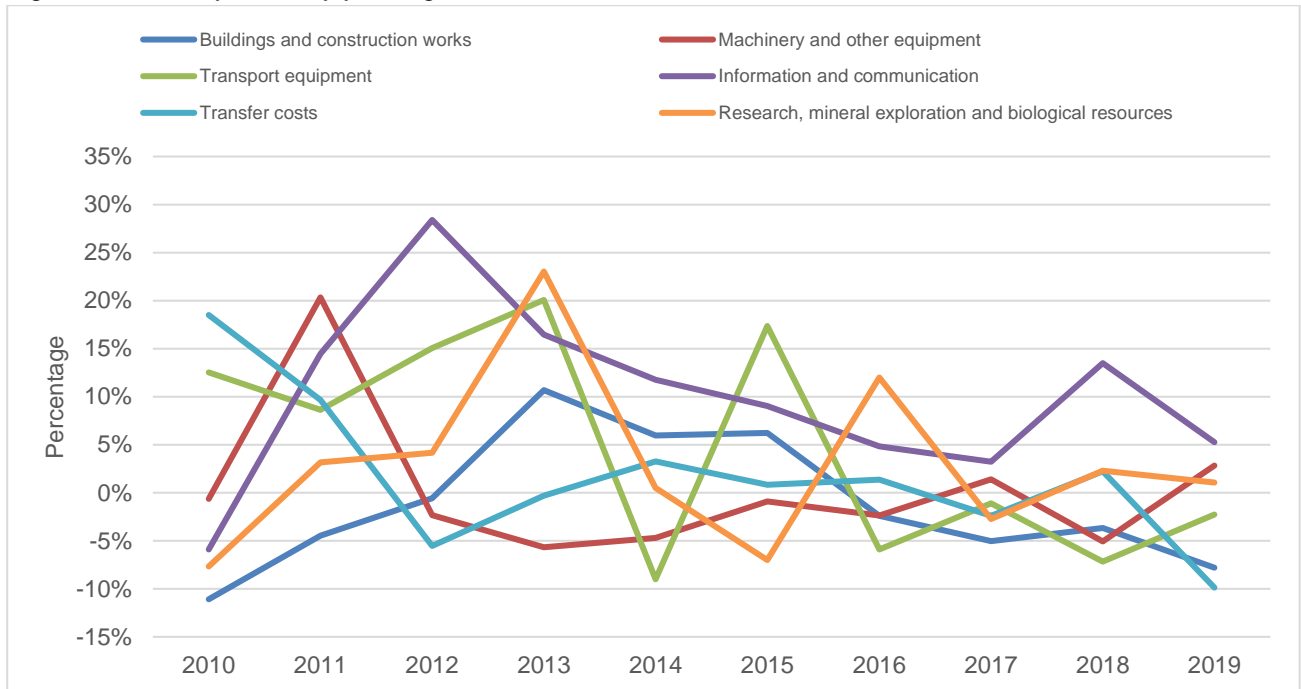
Figure 7: Ratio of gross fixed capital formation to gross domestic product



Source: Quantec, 2021

The growth rate of GFCF declined from 5.3% in 2015 to -2.4% in 2019. Moreover, GFCF on transport equipment; building and construction works; and transfer costs recorded growth rates of -2.3%, -7.8% and -9.9% respectively in 2019. Conversely, there were positive growth rates for the GFCF on machinery and other equipment (2.8%); information and communication (5.3%); and research, mineral exploration and biological resources (1.1%) in the same year.

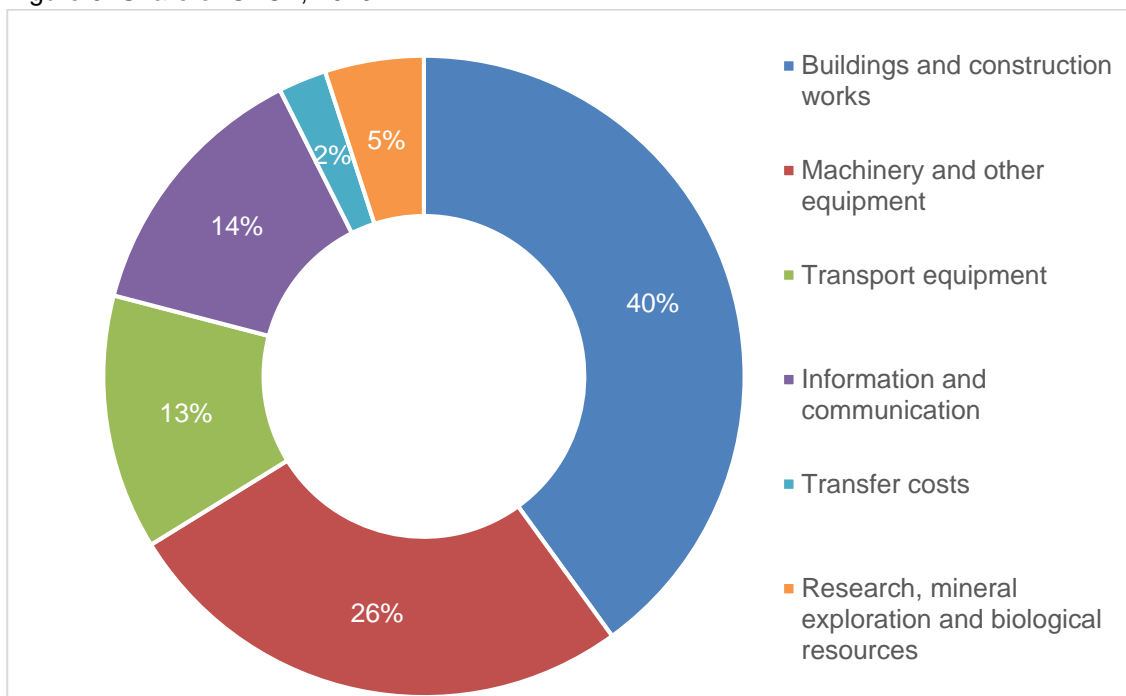
Figure 8: GFCF by asset - y/y change



Source: Quantec, 2021

Buildings and construction works accounted for two-fifths of GFCF in 2019, making it the largest component of GFCF in that year. Machinery and other equipment (26%) and information and communication (14%) respectively had the second and third largest share of GFCF in 2019.

Figure 9: Share of GFCF, 2019



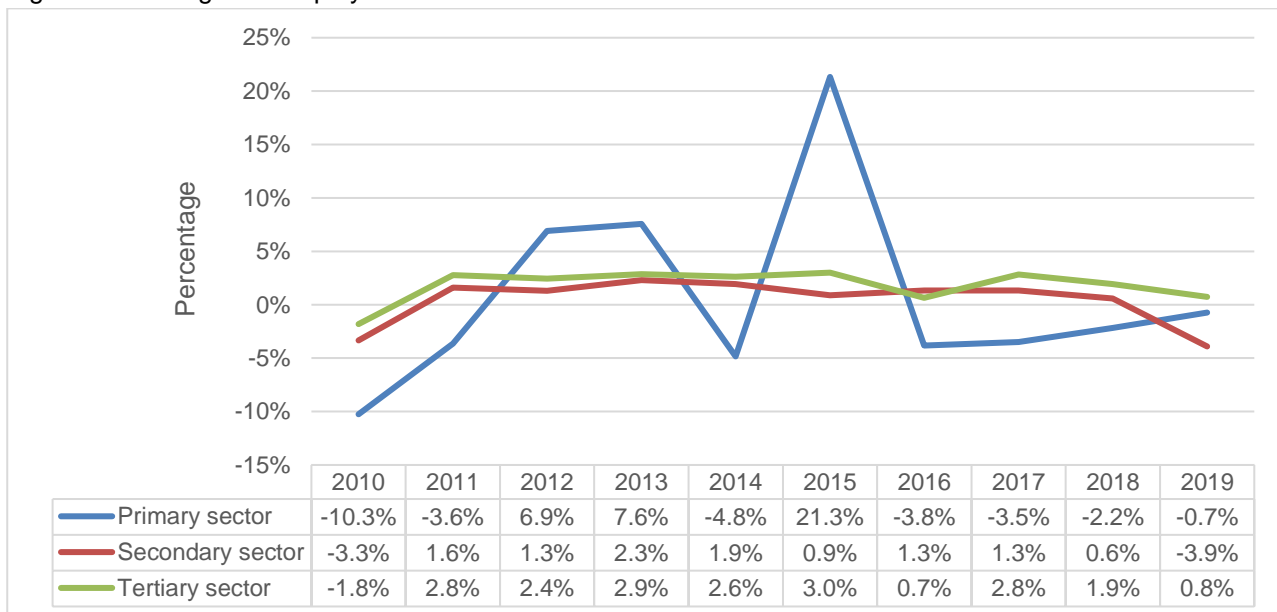
Source: Quantec, 2021

4. Employment

Job creation continues to be a key concern for policymakers given the high rate of unemployment in the country as a whole. The unemployment rate in the province was 21.6% during the third quarter of 2020. The expanded unemployment rate, which takes into account discouraged job seekers, was 29.1% during the same period.

Employment within the tertiary sector is relatively more stable compared to the other two sectors. This was the only sector that recorded a positive change in employment in 2019. The primary sector (-0.7%) and the secondary sector (-3.9%) both observed a fall in employment from 2018 to 2019. However, the decline in employment within the primary sector was relatively small compared to the previous year.

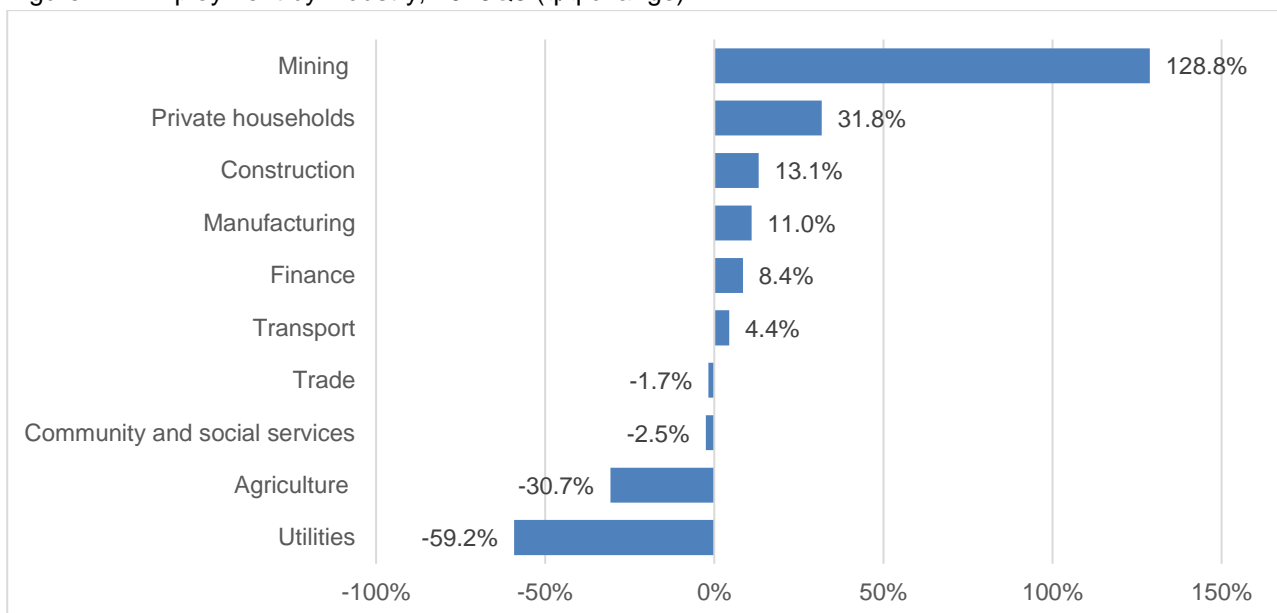
Figure 10: Changes in employment



Source: Quantec, 2021

As Figure 11 shows, 6 out of 10 industries recorded an increase in the number of employed persons during the third quarter of 2020 compared to the previous quarter. The industries that experienced negative growth in employment were utilities (-59.2%); agriculture (-30.7%); community and social services (-2.5%); and trade (-1.7%).

Figure 11: Employment by industry, 2020Q3 (q/q change)

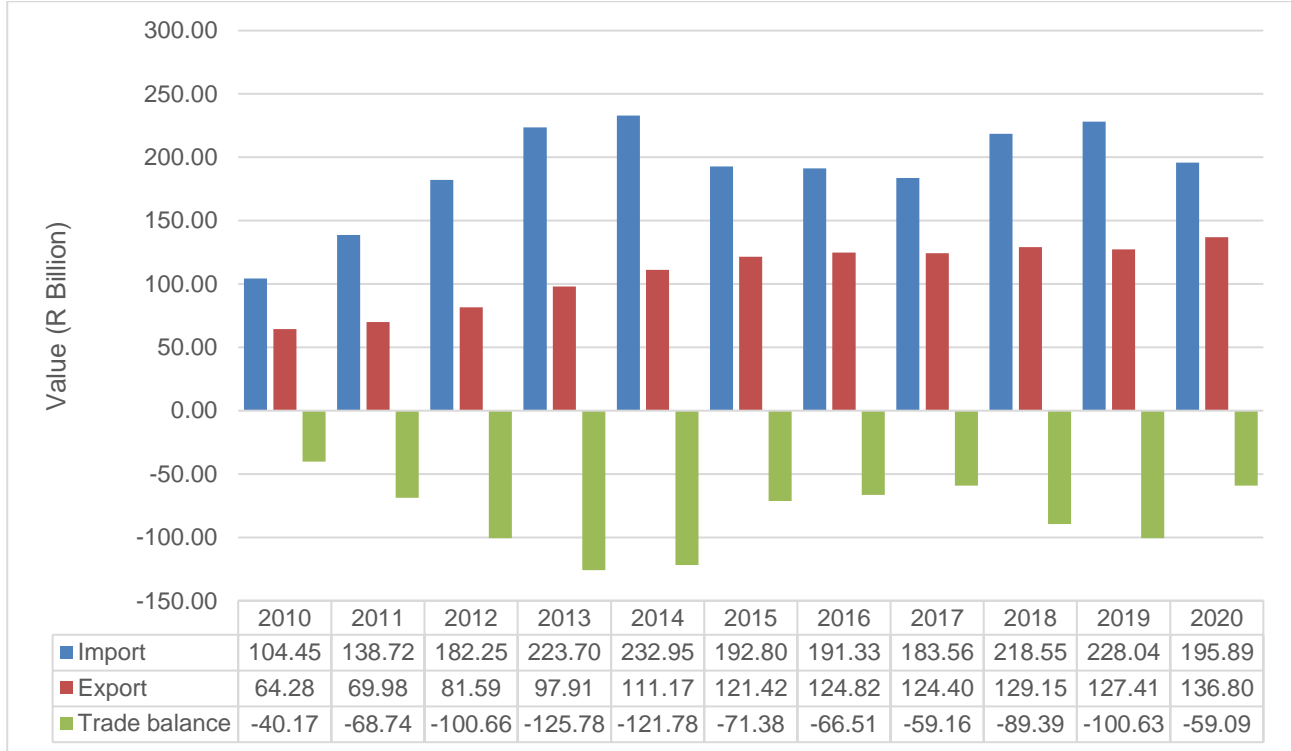


Stats SA, 2021

5. Trade

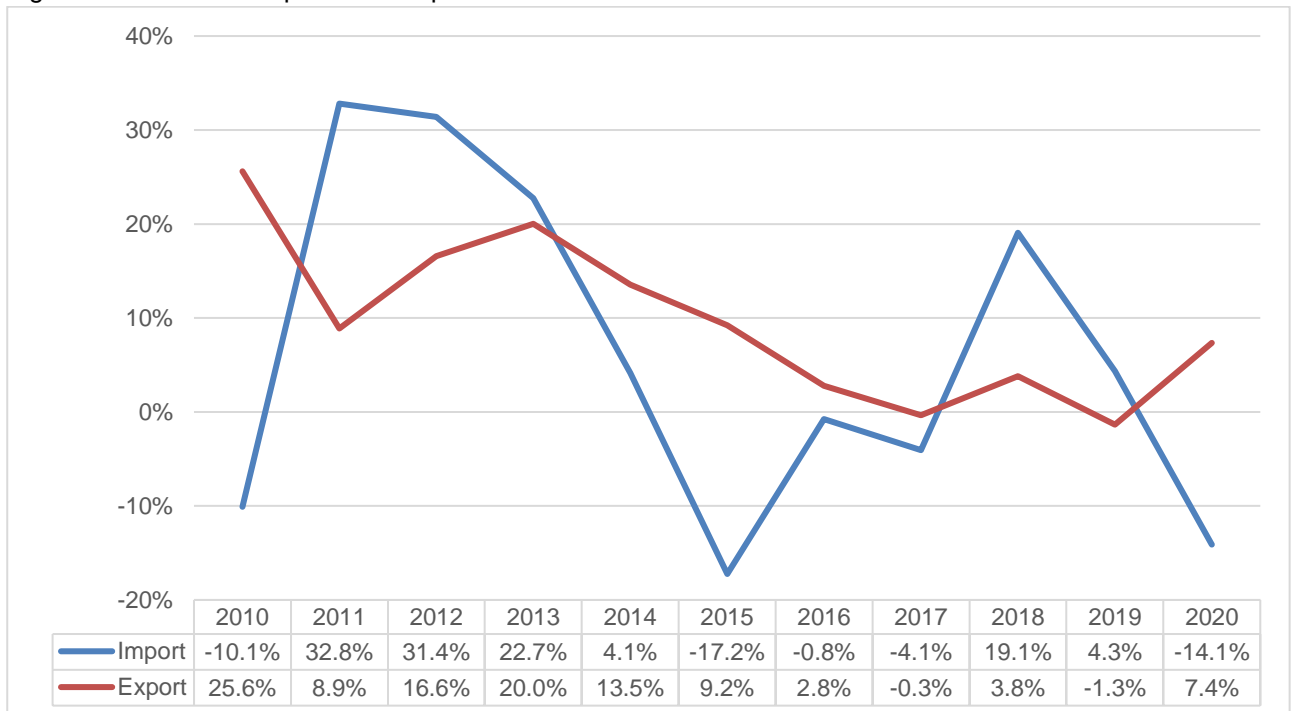
Whereas exports increased to R136.80 billion in 2020 from R127.41 billion in the previous year, imports declined from R228.04 billion to R195.89 billion over the same period. This resulted in a 41.3% reduction in the trade deficit from R100.63 billion in 2019 to R59.09 billion in 2020. As shown in Figure 2, the growth in exports was 7.4% while imports declined by -14% in 2020.

Figure 12: Exports, imports and trade balance



Source: Quantec, 2021

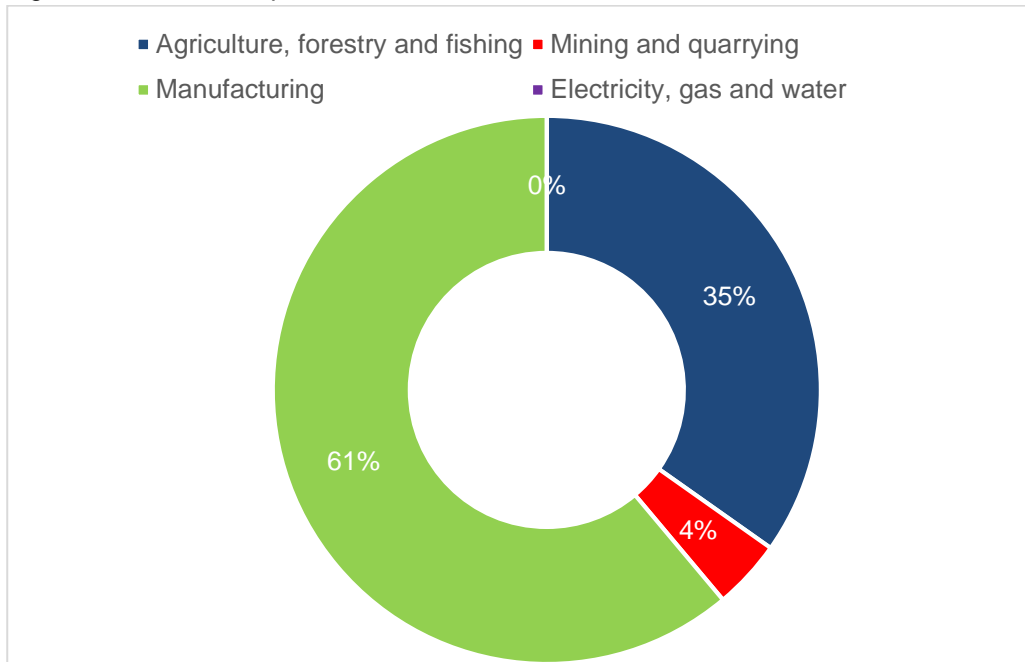
Figure 13: Growth in exports and imports



Source: Quantec, 2021

Manufacturing and agricultural exports are the two main components of the Western Cape's total exports. These two industries together accounted for 96% of total exports in 2020, with manufacturing exports having the largest share of 61%.

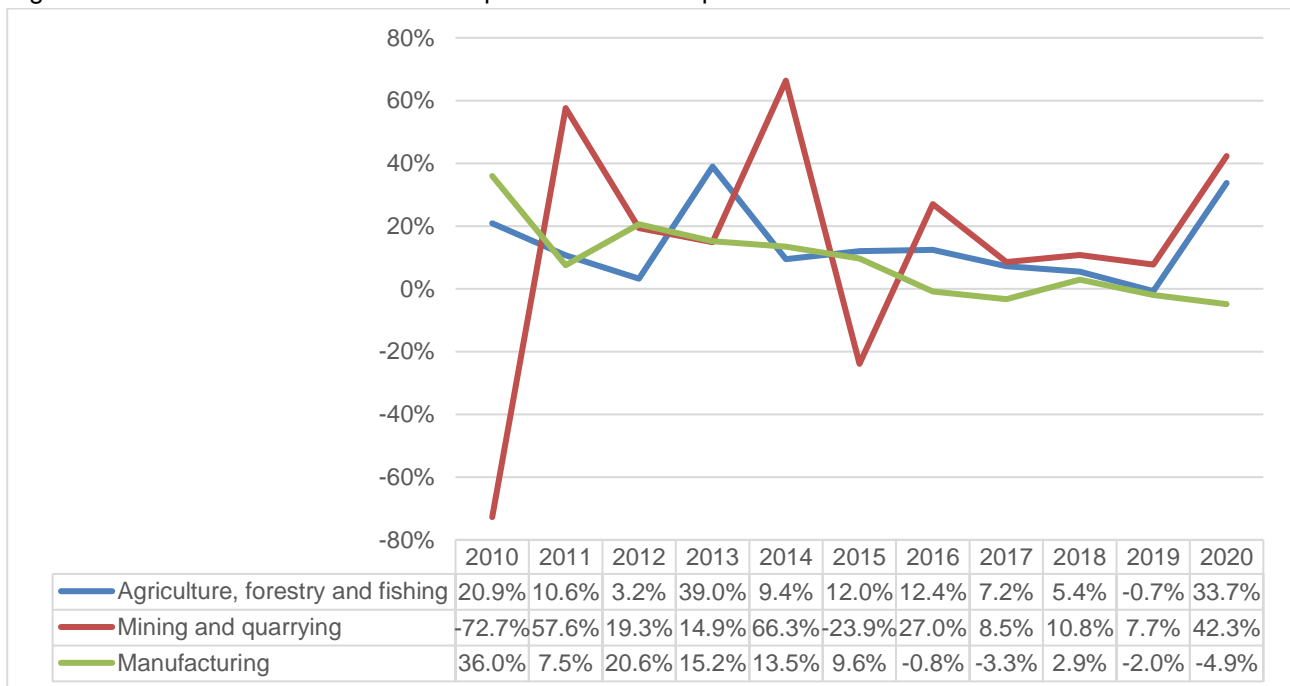
Figure 14: Share of exports, 2020



Source: Quantec, 2021

The value of manufacturing exports contracted by -4.9% in 2020. This was mainly due to the decline in the exports of metals, metal products, machinery and equipment; petroleum products, chemicals, rubber and plastic; transport equipment; and other non-metal mineral products. On the other hand, agricultural exports and the exports of mining and quarrying product increased by 33.7% and 42.3% respectively in 2020.

Figure 15: Growth rates of the main components of total exports



Source: Quantec, 2021

6. Conclusion

The economic impact of the coronavirus pandemic is being felt across all sectors of the economy. The Western Cape's GVA and GDP were 0.32% and 0.25% respectively in 2019. In terms of changes in employment across the three major sectors, only the tertiary sector recorded positive growth. Industries such as agriculture; utilities; community and social services; and trade all had negative growth in employment during the third quarter of 2020. Moreover, the unemployment rate stood at 21.6% in the third quarter of 2020.

Reference

Quantec. (2020). Quarterly economic review. Pretoria: Quantec

Western Cape Government. (2020). Provincial economic review and outlook. Cape Town: Western Cape Government

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