



An Economic Overview of the Western Cape, Quarter 1, 2023

August 2023

Introduction

The second half of 2023 presents an ease in global inflation and relatively stable growth forecasts. In its July 2023 World Economic Outlook, the International Monetary Fund (IMF) forecast global growth at 3.0% in 2023 (from 3.4% in 2022) and 3.0% in 2024. Global headline inflation is expected at 6.8% in 2023, notably lower than the 8.7% recorded in 2022, and set to ease further to 5.2%(f) for 2024. Domestically, the South African Reserve Bank's (SARB) forecasts growth at 0.4% in 2023 for South Africa (from 0.3% forecasted in May 2023), with the central bank noting that constraints in energy and logistics continue to limit the country's growth outlook, while stronger El Nino conditions pose a risk to the agricultural outlook. In the first quarter of 2023 (2023Q1), South Africa's real gross domestic product (GDP) expanded by 0.4%, from a contraction of -1.1% recorded in 2022Q4. The Western Cape (WC) economy registered a slightly lower growth rate of 0.31% q-o-q in 2023Q1, with notable declines in agricultural output and energy constraints contributing factors. The provincial economy contracted by -1.03% in 2022Q4. This report considers the Western Cape's key economic indicators, including the province's economic performance as well as employment statistics.

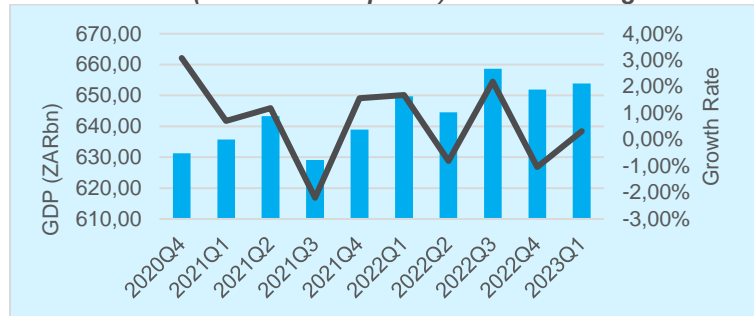
Economic activity

The Western Cape's real GDP expanded by 0.31% q-o-q in 2023Q1, after contracting by -1.03% q-o-q in the previous quarter. The province's real GDP in the quarter totalled ZAR653.93 billion, exceeding pre-pandemic levels (i.e., ZAR651.56 billion in the fourth quarter of 2019).

In the first quarter of 2023, the national economy and six of its nine provinces recorded positive economic growth rates. The Western Cape had the fourth highest growth rate of 0.3% among all nine provinces, slightly lower than South Africa's 0.4%. Gauteng, recorded the highest growth rate of 0.8%, followed by the Eastern Cape (0.6%) and North West (0.4%).

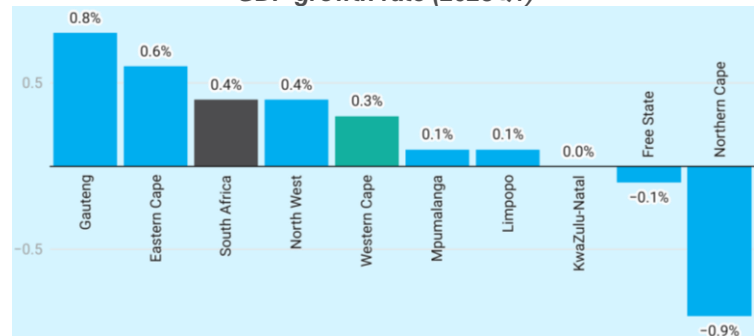
The Western Cape has the third largest economy among the nine provinces of South Africa. The province contributed approximately 14.2% to South Africa's GDP in the first quarter of 2023. Gauteng (35.4%) and KwaZulu-Natal (16.3%) were the top two contributors to national output during this period.

Real GDP¹ (constant 2015 prices) and economic growth



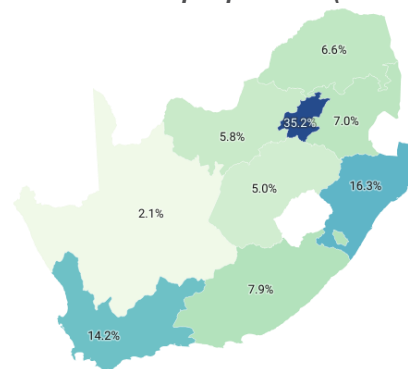
Source: Quantec (2023)

GDP growth rate (2023Q1)



Source: Quantec (2023)

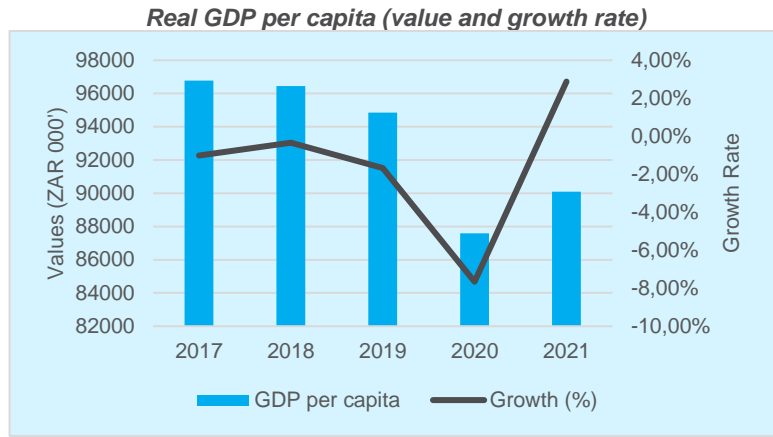
Share of GDP per province (2023Q1)



Source: Quantec (2023)

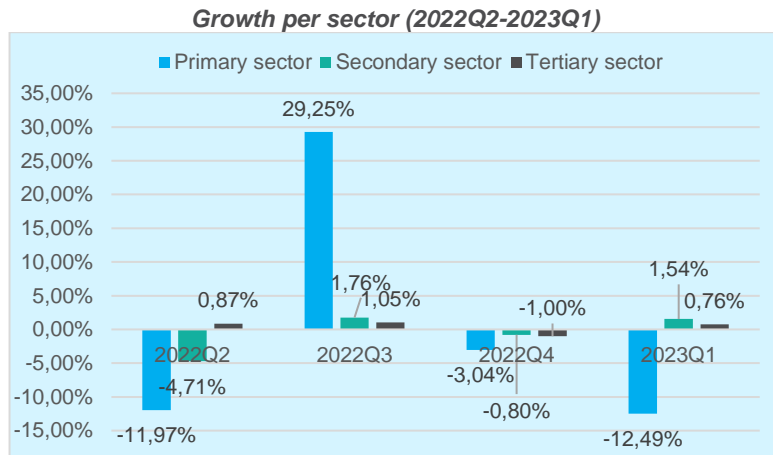
¹ Unless otherwise stated, growth rates are quarter-on-quarter, seasonally adjusted.

Real GDP per capita in the Western Cape was recorded at ZAR90,103 in 2021, an increase of 2.88% y-o-y compared to the ZAR87,582 recorded in 2020. The province has the 2nd largest real GDP per capita in South Africa. The province's per capita declined between 2017 and 2021, with an average growth rate of -1.56% per annum. Amongst other factors, this could be due to increases in population levels which increased by 1.87% between 2017 and 2021.



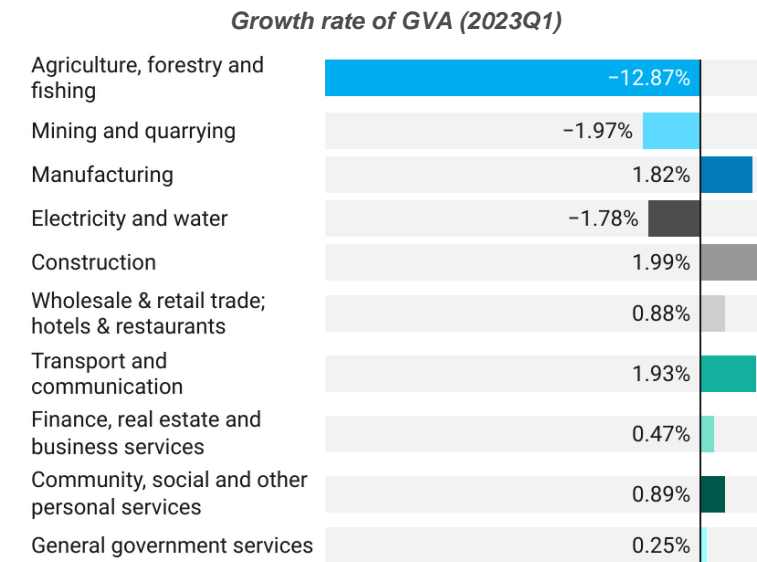
Source: Quantec (2023)

In 2023Q1, the primary sector declined by -12.49% q-o-q from -3.04% recorded in 2022Q4. The decrease is reflected in the contraction recorded in all primary sector industries in the quarter, in the agricultural industry in particular. In contrast, both the secondary and tertiary sectors recovered in 2023Q1. The secondary sector registered a growth of 1.54% q-o-q in the quarter, following a contraction of -0.80% recorded in 2022Q4. while the tertiary sector grew by 0.76%, from -1.00% recorded in 2022Q4.



Source: Quantec (2023)

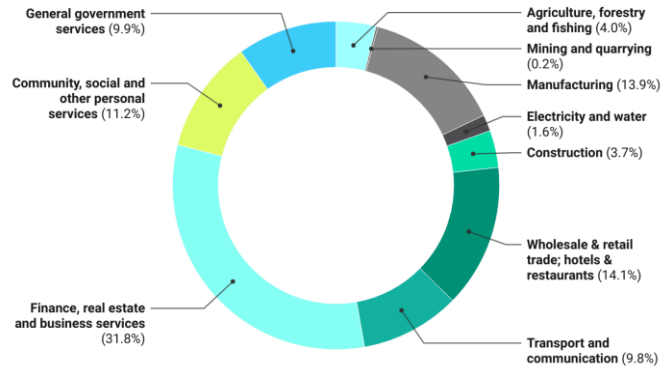
The construction; transport and communication; manufacturing; wholesale and retail trade and transport and communications; community and social services; finance and government were the sectors with positive contributions to provincial real output in the first quarter of 2023. In contrast, the agriculture, forestry and fishing sector declined by -12.87% q-o-q in the said quarter, following a decrease of -2.97% in 2022Q4. Mining and quarrying; and electricity and water sectors declined by -1.97% and -1.78% q-o-q, respectively in 2023Q1.



Source: Quantec (2023)

The tertiary sector dominates economic activity in the Western Cape, accounting for a 77% share of total economic activity in the first quarter of 2023. Specifically, finance, real estate and business services accounted for over one third of the province's GVA in the mentioned quarter. This was followed by wholesale and retail trade, hotels and restaurants (14.1%), and manufacturing (13.9%).

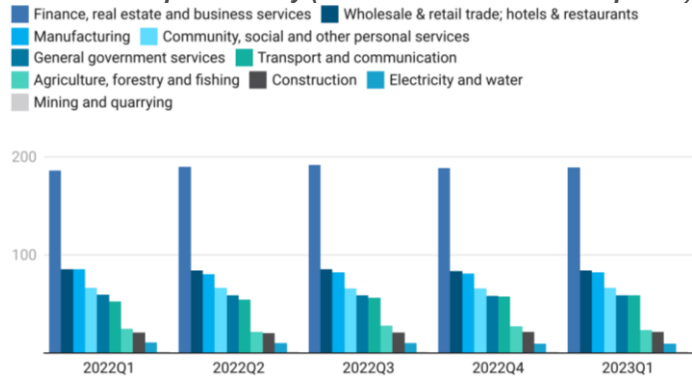
Composition of GVA (2023Q1)



Source: Quantec (2023)

In recent quarters, the top five industries, in terms of their contribution to GVA, have been finance, insurance, real estate and business services; wholesale and retail trade, hotels and restaurants; manufacturing; community, social and other personal services; and government services. Four of the top five industries are part of the services sector, emphasising the sector's economic importance to the province.

Share of GVA per industry (R billion at 2015 constant prices)



Source: Quantec (2023)

The City of Cape Town is the largest contributing district to GDP in the Western Cape, account for 72.5% of provincial GVA in 2022. The Cape Winelands (11.2%), and the Garden Route (Eden) (7.5%) were the second and third largest contributors. Within the City of Cape Town, the finance, insurance, real estate, and business services sector dominates output. This sector held a majority share of 32.8% of the city's GVA in 2022. The same sector dominates the economies of Cape Winelands and the Garden Route.

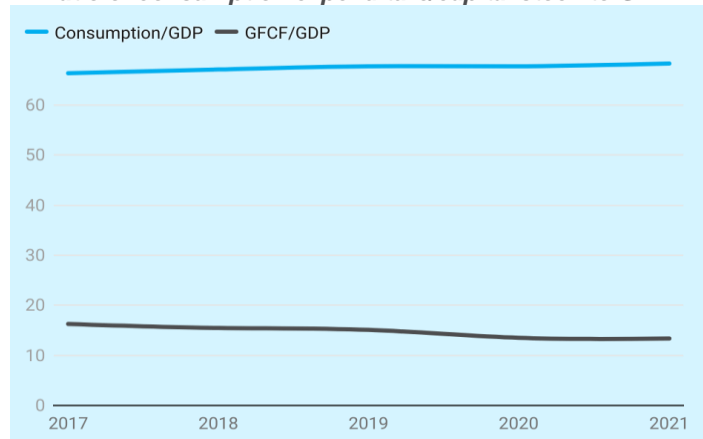
Sector contribution per district (2022)

	City of Cape Town	West Coast	Cape Winelands	Overberg	Eden	Central Karoo
Agriculture, forestry and fishing	1.53%	22.27%	9.32%	10.71%	5.34%	15.47%
Mining and quarrying	0.14%	0.67%	0.11%	0.06%	0.21%	0.03%
Manufacturing	13.20%	17.82%	13.52%	12.46%	12.53%	2.35%
Electricity, gas and water	1.70%	1.16%	1.38%	1.50%	1.77%	3.43%
Construction	3.21%	2.88%	4.07%	4.68%	3.69%	2.82%
Wholesale and retail trade, catering and accommodation	13.38%	12.95%	15.10%	15.77%	14.50%	11.31%
Transport, storage and communication	9.42%	5.97%	7.68%	8.76%	8.47%	11.26%
Finance, insurance, real estate and business services	32.83%	14.69%	25.29%	25.51%	31.30%	12.80%
General government	5.64%	5.44%	5.14%	4.40%	4.86%	10.84%
Community, social and personal services	18.94%	16.16%	18.39%	16.16%	17.33%	29.70%

Source: Quantec (2023)

On average, consumption spending accounts for over 65% of Western Cape GDP. This implies that any factor which depresses consumer sentiment or hampers consumers' ability to spend can severely impact the province's GDP. The ratio of the province's gross fixed capital formation (GFCF) to GDP has historically been below 20%. In 2021, consumption spending accounted for approximately 68% of GDP, while GFCF constituted 13%.

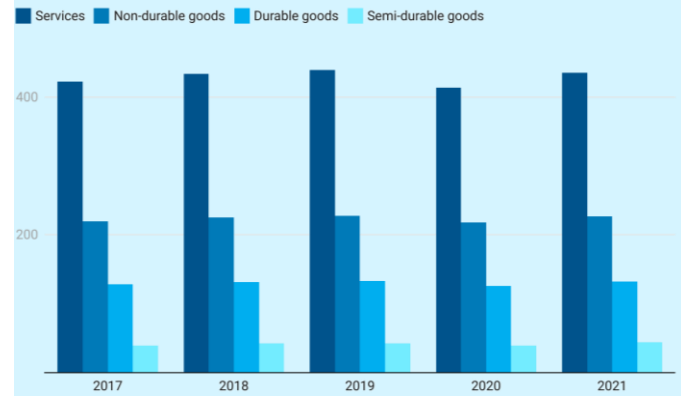
Ratio of consumption expenditure/capital stock to GDP



Source: Quantec (2023)

In 2021, services accounted for more than half of households' consumption spending in the Western Cape, with miscellaneous services; rent and transport and communications being the top three services that households spent their money on. Non-durable goods accounted for 30.4% of household expenditure, with the food, beverages and tobacco accounting for 63.3%. Some 10.1% and 7.5% of household expenditure was spent on durable and semi-durable goods respectively.

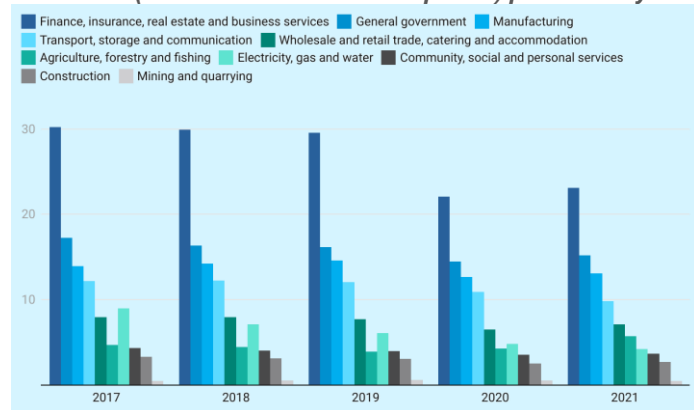
Consumption expenditure (R billions 2015 constant prices) by type



Source: Quantec (2023)

Real capital expenditure increased by 3.4% in 2021 after contracting for the three previous years. All industries, except transport, storage and communication; and utilities; and mining and quarrying, recorded positive growth rates in real capital outlays in 2021. Agricultural, forestry and fishing experienced the highest growth, of 32.5%. Finance; general government; manufacturing and transport were the industries with the largest share of real capital outlays.

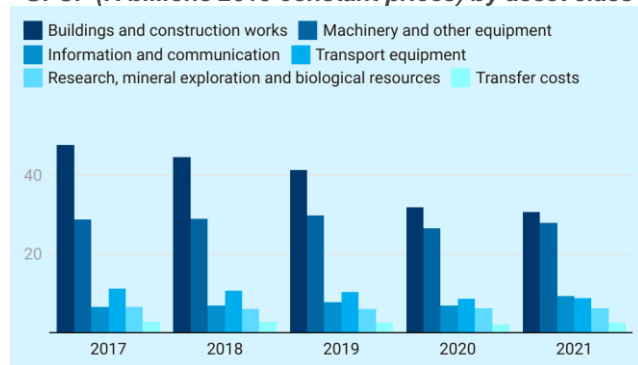
GFCF (R billions 2015 constant prices) per industry



Source: Quantec (2023)

In terms of asset class, buildings and construction works, as well as machinery and other equipment constituted the largest component of real GFCF, with a share of 35.9% and 32.7% respectively in 2021. These were followed by information and communication (10.9%); and transport equipment (10.2%)

GFCF (R billions 2015 constant prices) by asset class

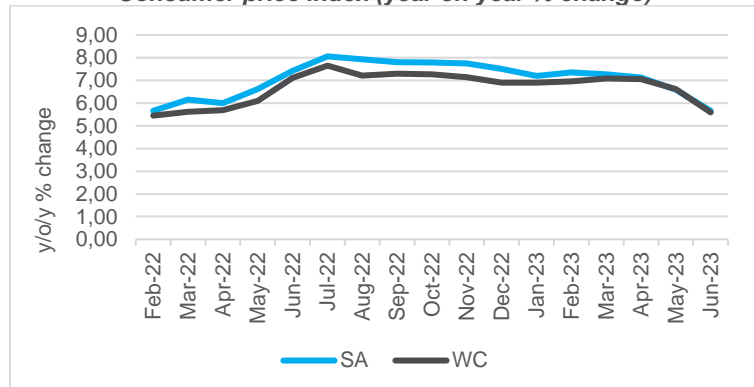


Source: Quantec (2023)

Consumer prices

Annual headline inflation in the province eased to 5.6% in June 2023, from 6.6% in May. For the first time since April 2022 the rate was below the upper limit of the SARB monetary policy inflation target range. The main contributors to the 5.6% annual inflation rate were food and non-alcoholic beverages, alcoholic beverages and miscellaneous goods and services.

Consumer price index (year on year % change)



Source: Quantec (2023)

Labour market

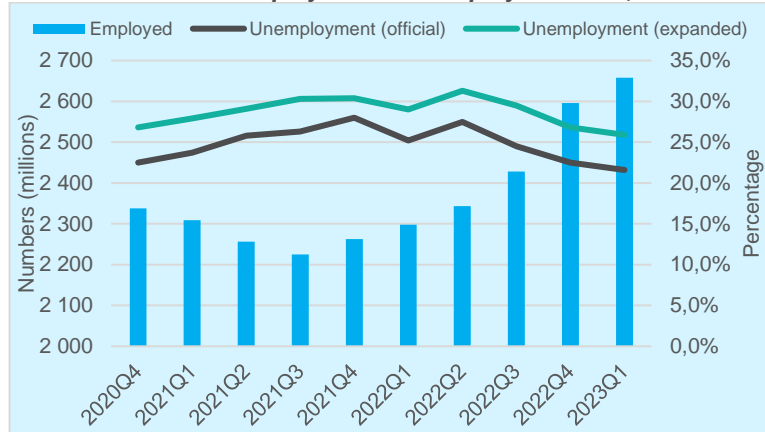
The Western Cape's official unemployment rate decreased by 0.9 percentage points to 21.6% in the first quarter of 2023 compared to the previous quarter. The national rate was recorded at 32.9% in 2023Q1. During this period, the expanded employment rate (which includes discouraged work-seekers and those who had other reasons for not searching for jobs during the reference period) also decreased to 25.9% (42.2% for South Africa). An estimated 62, 00 more people were employed in the first quarter of 2023 relative to the previous quarter.

The Western Cape has the lowest official unemployment rate and the lowest expanded unemployment rate in the country. In the first quarter of 2023, the province's official unemployment rate was 21.6%, while the expanded unemployment rate was 25.9%.

It is mostly the youth population that faces unemployment in South Africa with the unemployment rate particularly high for those between the ages of 15 and 24. In the Western Cape, youth aged 15-19 years and 20-24 years recorded the highest unemployment rates of 63% and 39% respectively in 2023 Q1. The higher unemployment rate among those aged 15-19 years is unsurprising, as that is the age of people who are still at school and not in active seeking of employment.

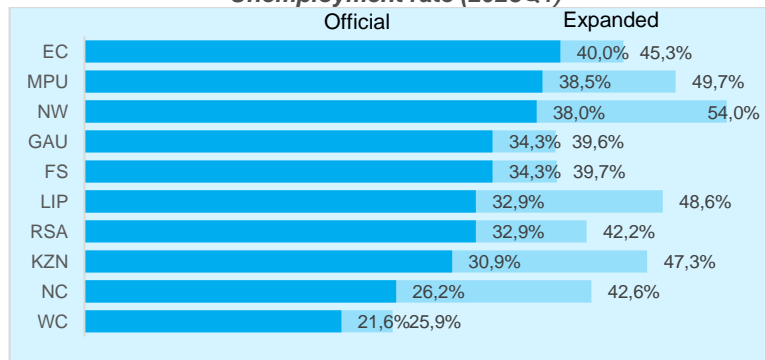
The labour force participation rate, which is the proportion of the working age population that is either employed or unemployed, increased by 0.5 percentage points from 67.8% in 2022Q4 to 68.3% in 2023Q1. The proportion of the working age population that was employed (absorption rate) was 53.6%, higher by 1.0 percentage points compared to the previous quarter.

Number of employed and unemployment rate, WC



Source: Stats SA, (2023)

Unemployment rate (2023Q1)



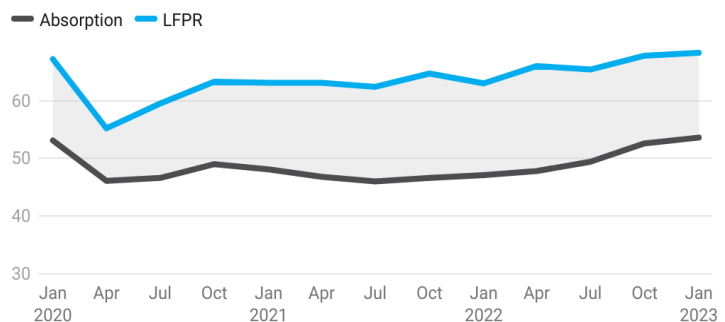
Source: Stats SA (2023)

Unemployment rate among different age groups, WC

Age Group	2022Q2	2022Q3	2022Q4	2023Q1
Age 15-19	70%	67%	67%	63%
Age 20-24	45%	40%	42%	39%
Age 25-29	35%	33%	31%	33%
Age 30-34	27%	28%	25%	25%
Age 35-39	25%	23%	22%	21%
Age 40-44	24%	19%	17%	15%
Age 45-49	24%	15%	13%	11%
Age 50-54	16%	16%	10%	9%
Age 55-59	15%	12%	8%	6%
Age 60-64	4%	6%	1%	1%

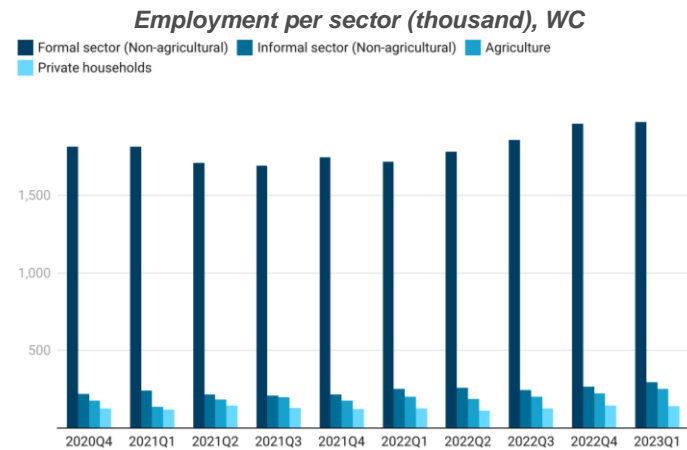
Source: Quantec (2023)

Labour force participation and absorption rates



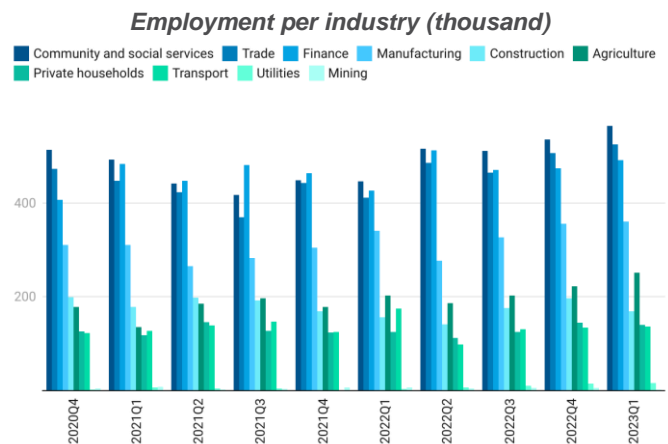
Source: Stats SA (2023)

In the first quarter of 2023, the formal sector accounted for 74.2% of employment, followed by the informal sector (11.1%); agricultural sector (9.4%), and private households (5.3%). Formal sector employment increased by 0.44%, while employment in informal and agriculture sectors increased by 12.6% and 10.8% respectively. Private households' employment decreased by 3.7% during this period.



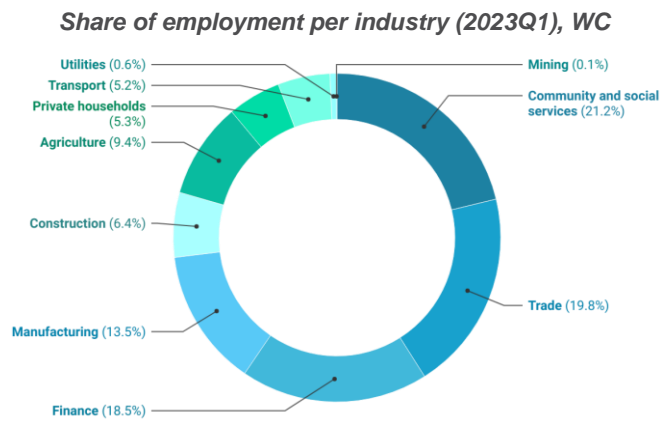
Source: Stats SA (2023)

The tertiary sector accounts for over 70% of employment in the Western Cape, whereas the primary sector accounts for 10%, on average. For the period under review, community, and social services; trade; finance; manufacturing and agriculture were the top five contributors to employment in the province. The industries that employ the least number of persons in the province are utilities and mining.



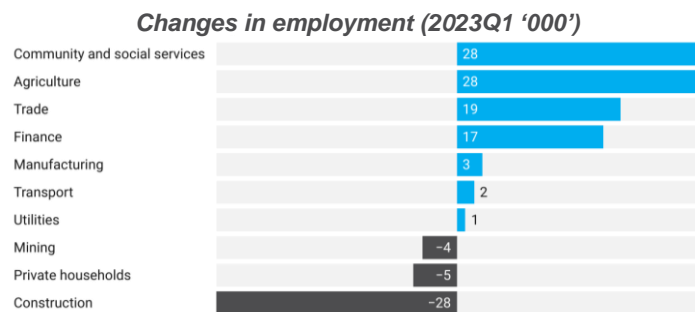
Source: Stats SA (2022)

The community and social services sector (21.2%); trade (19.8%); and finance (18.5%); made the highest contribution to employment in the Western Cape in the first quarter of 2023. The manufacturing industry had a share of 13.5%, making it the fourth biggest contributing sector to employment in the Western Cape during this period. Other key contributors to employment in the same quarter were, agriculture (9.4%), and construction (6.3%).



Source: Stats SA (2022)

Out of the 10 industries, seven recorded positive growth (q/q) in employment during the first quarter of 2023. The biggest additions to employment in the quarter were recorded for community and social services (28, 000 jobs); agriculture (28, 000 jobs); trade (19, 000 jobs), and finance (17, 000). Job losses were recorded for construction (28, 000), private households, (5, 000) and mining (4, 000).



Source: Stats SA (2022)

Conclusion

The Western Cape has the third largest contribution to South Africa's GDP. The services sector is the largest sector in the provincial economy, accounting for more than 70% of the province's GVA and employment. The top contributors to the province's economic activity are finance, insurance, real estate and business services, wholesale and retail trade, hotels and restaurants and manufacturing.

In 2023Q1, the Western Cape economy recovered from the 2022Q4 slump (-1.03%) to grow by 0.31%. Declines in output were recorded for the agriculture, mining, electricity and water sectors. These reflected the nationwide challenges of energy and logistical constraints. All other sectors recorded positive growth, with the construction sector growing by 2.0%. Inflation in the province eased to 5.6% in June 2023, from 6.6% in May. The previous, lowest rate recorded was in February 2022. The unemployment rate for the province decreased to 21.6% in the quarter (from 22.5% in 2022Q4), while the expanded rate stood at 25.9%. The provincial unemployment rate was lower than the national rate of 32.9% during the same quarter. The biggest additions to employment in the quarter were recorded for community and social services (28, 000 jobs); agriculture (28, 000 jobs); trade (19, 000 jobs), and finance (17, 000).

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