



# **An Economic Overview of the Western Cape, 2023**

## **Quarter 3**

**22 December 2023**

## Introduction

The global economy is marked by slow economic growth and declining inflation as countries continue to pursue restrictive monetary policy. The International Monetary Fund (IMF) forecasts global growth to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, and these are below historical levels. Currently in South Africa, load-shedding and logistical constraints continue to hinder economic activity, with near-term growth likely to remain restrained. The South African economy contracted by -0.25% q-o-q in the third quarter of 2023, after two consecutive quarters of growth. Five of the ten sectors declined, with agriculture, manufacturing, and construction suffering the most. On the other hand, employment in the quarter surpassed its pre-pandemic levels, with 399,000 more jobs created in the quarter compared to the previous one. The unemployment rate also dropped below 32% for the first time since 2020. In the Western Cape, economic output declined by -0.36% q-o-q in 2023 Q3, from a 0.42% increase in 2023 Q2. Four out of the ten sectors declined during the quarter. Similar to that seen at national level, the province recorded significant declines in the agriculture, construction and manufacturing sectors. This report examines the Western Cape's key economic indicators, including the province's economic performance as well as employment statistics.

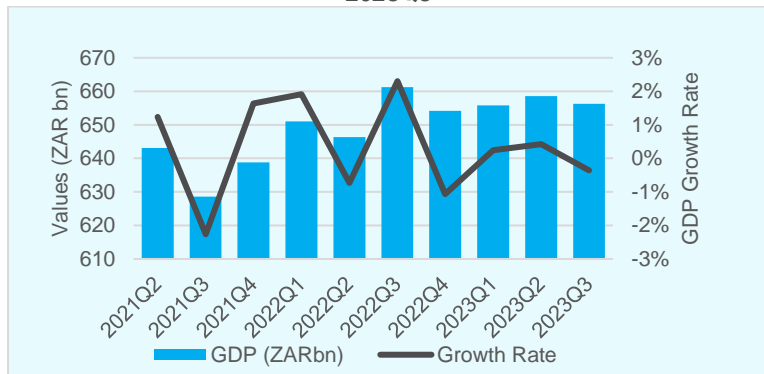
## Economic activity

The Western Cape's real gross domestic product (GDP) declined by -0.36% q-o-q in 2023 Q3, after expanding by 0.42% q-o-q in the previous quarter. The province's real GDP in the third quarter totalled ZAR656.27 billion, from ZAR658.62 billion in the second quarter. Several factors including a challenging global economic environment and nationwide economic constraints negatively affected the performance of the provincial economy.

The South African economy declined by -0.25% in the third quarter of 2023. Following suit, all nine provinces recorded negative economic growth rates in the quarter. Marginal declines were recorded for Gauteng, followed by the Eastern Cape, KwaZulu-Natal (KZN), Limpopo, and the Western Cape compared to the others.

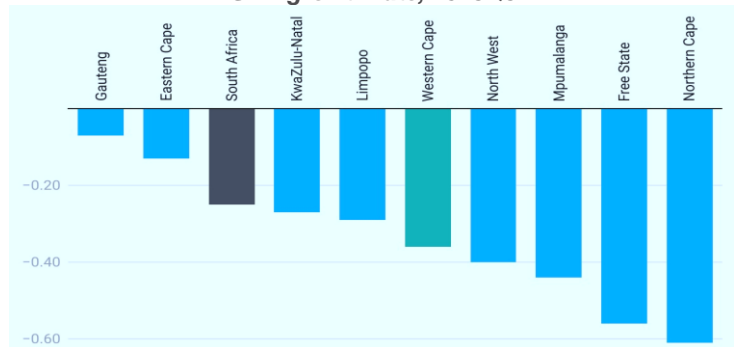
The Western Cape has the third largest economy among the nine provinces of South Africa. In the third quarter of 2023, the province contributed approximately 14.20% to South Africa's GDP. Gauteng (33.81%) and KZN (16.55%) were the top two contributors to national output during this period.

**Real GDP<sup>1</sup> (constant 2015 prices) and economic growth, 2021Q-2023Q3**



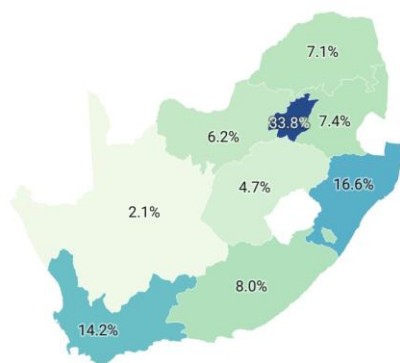
Source: Quantec (2023)

**GDP growth rate, 2023Q3**



Source: Quantec (2023)

**Share of GDP per province, 2023Q3**

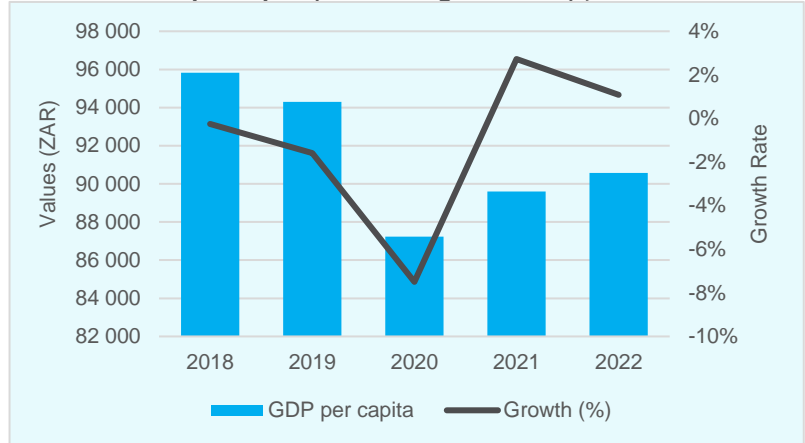


Source: Quantec (2023)

<sup>1</sup> Unless otherwise stated, growth rates are quarter-on-quarter, seasonally adjusted.

Real GDP per capita in the Western Cape increased by 1.08% y-o-y in 2022, reaching a value of ZAR90,571.44 from ZAR89,605.73 in 2021. The province has the second largest real GDP per capita in South Africa (higher than the country's value of ZAR75,899.00). On average, the province's GDP per capita declined between 2018 and 2022, with an annual average growth rate of -1.11%. Among other factors, the decline could be as a result of increases in population levels in the province.

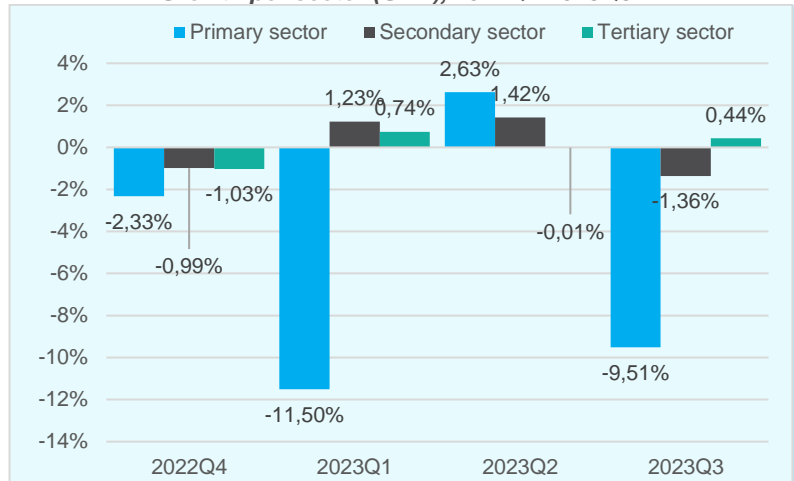
**Real GDP per capita (value and growth rate)<sup>2</sup>, 2018-2022**



Source: Quantec (2023)

The decline in the province's GDP in the third quarter reflects decreases in the gross value added (GVA) of the primary sector (-9.51%) and secondary sector (-1.36%). The decline in agricultural and mining output contributed to the weak performance of the primary sector. While decreases in the GVA of the manufacturing and construction industries led to the contraction in the secondary sector. Tertiary sector output improved marginally by 0.44% in the quarter, with only marginal increases recorded in most services sub-sectors.

**Growth per sector (GVA), 2022Q4-2023Q3**



Source: Quantec (2023)

Four of the five services-industries grew in the third quarter, albeit marginally. These were community, social and other personal services (0.78%), followed by transport and communication (0.67%), finance, real estate and business services (0.56%), and general government (0.07%). The electricity and water industry also increased by 0.16%. The largest contraction in output was recorded for agriculture, forestry and fishing. The output for this industry declined by -9.80% in quarter three, following an improvement of 2.71% in 2023 Q2. It was followed by construction (-2.72%), manufacturing (-1.20%), and mining (-0.82%).

**Growth rate of GVA, 2023Q3**



Source: Quantec (2023)

The tertiary sector dominates economic activity in the Western Cape, accounting for a 76% share of total GVA in the third quarter of 2023. Specifically, finance, real estate, and business services accounted for over one-third of the province's GVA in the

<sup>2</sup> Annual GDP calculations are based on Stats SA's new and revised experimental provincial GDP data

of 2023. Population statistics are from the 2022 Mid-Year Population Estimates.

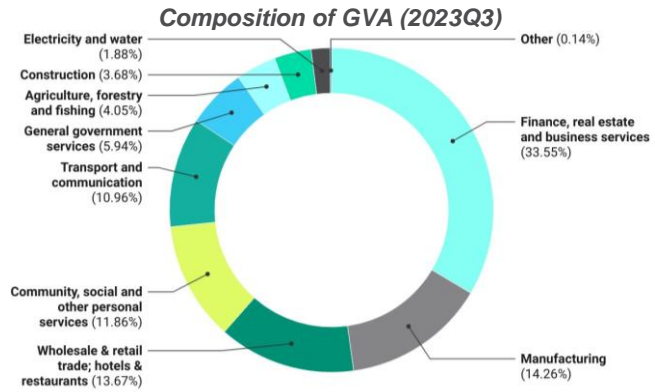


mentioned quarter. Manufacturing (14.26%) has the second largest share of output, followed by wholesale and retail trade, hotels and restaurants (13.67%).

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

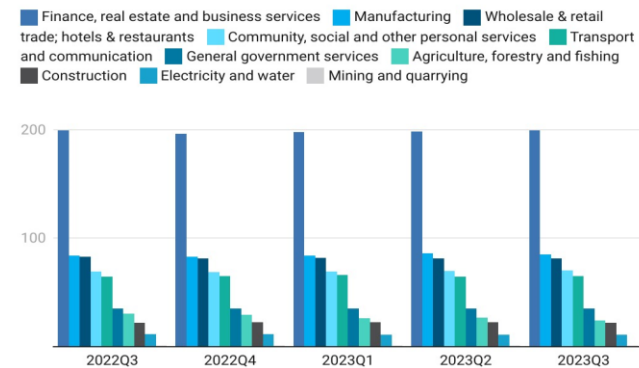
Cape Town accounts for the largest share of the Western Cape's economics output. The city's share of provincial GVA in 2022 was 73%. The Cape Winelands (11%) and the Garden Route (8%) were the second and third largest contributors, respectively. Within the City of Cape Town, the finance, insurance, real estate, and business services sector dominates output. This sector held a majority share of 34.14% of the city's GVA in 2022. The same sector dominates the economies of the Cape Winelands, Garden Route and Overberg.

On average, consumption spending accounts for just below 60% of the Western Cape's 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 2022, consumption spending accounted for approximately 59% of GDP, while GFCF constituted 14%.



Source: Quantec (2023)

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



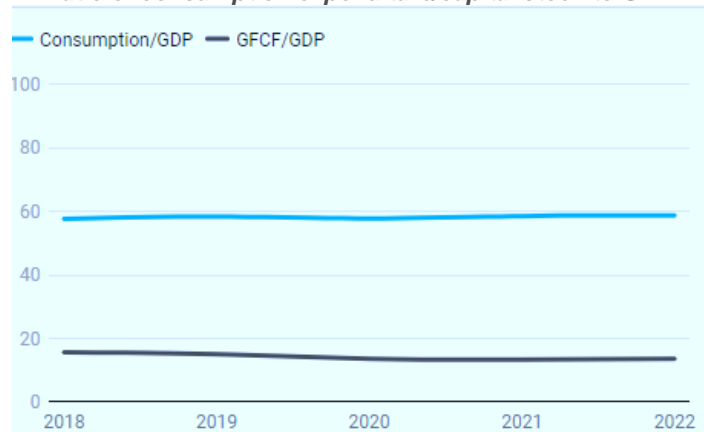
Source: Quantec (2023)

**Sector contribution per district (2022)**

	West Coast	Cape Winelands	Overberg	Eden	Central Karoo	City of Cape Town
Agriculture, forestry and fishing	22.86%	9.68%	11.07%	5.55%	16.28%	1.61%
Mining and quarrying	0.71%	0.12%	0.06%	0.22%	0.03%	0.14%
Manufacturing	18.34%	14.07%	12.90%	13.01%	2.45%	13.73%
Electricity, gas and water	1.19%	1.43%	1.55%	1.83%	3.57%	1.78%
Construction	2.97%	4.25%	4.85%	3.83%	2.95%	3.34%
Wholesale and retail trade, catering and accommodation	13.31%	15.70%	16.33%	15.04%	11.78%	13.93%
Transport, storage and communication	6.16%	8.02%	9.12%	8.81%	11.80%	9.79%
Finance, insurance, real estate and business services	15.14%	26.39%	26.52%	32.55%	13.41%	34.14%
General government	9.72%	9.30%	7.94%	8.77%	19.69%	10.18%
Community, social and personal services	9.60%	11.04%	9.66%	10.37%	18.03%	11.36%

Source: Quantec (2023)

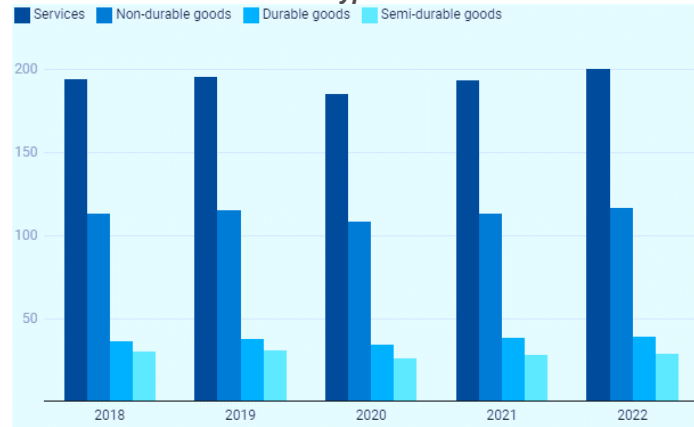
**Ratio of consumption expenditure/capital stock to GDP**



Source: Quantec (2023)

Services accounted for more than half of households' consumption spending in the Western Cape in 2022, with miscellaneous services; rent: and transport and communications being the top three services that households spent their money on. Non-durable goods accounted for 30.39% of household expenditure, with food, beverages, and tobacco accounting for 64.26%. Some 10.10% and 7.46% of household expenditure were spent on durable and semi-durable goods.

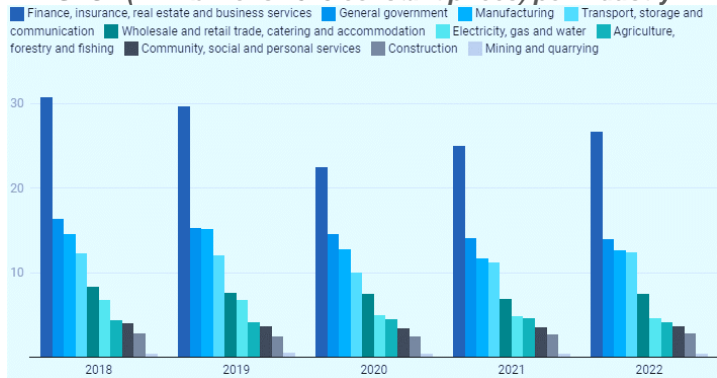
**Consumption expenditure (ZAR billions 2015 constant prices) by type**



Source: Quantec (2023)

Real GFCF increased by 4.63% y-o-y in 2022. All industries, except general government; electricity, gas and water; and agricultural, forestry and fishing, recorded positive growth rates in real capital outlays in 2022. Mining and quarrying experienced the highest growth, at 11.99%. Finance; general government; manufacturing; and transport were the industries with the largest share of real GFCF.

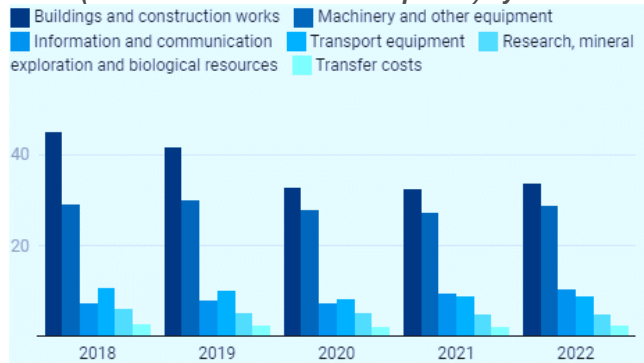
**GFCF (ZAR billions 2015 constant prices) per industry**



Source: Quantec (2023)

In terms of asset class, buildings and construction works as well as machinery and other equipment constituted the two largest components of real GFCF, with a share of 37.83% and 32.23%, respectively, in 2022. These were followed by information and communication (11.61%) and transport equipment (9.94%).

**GFCF (ZAR billions 2015 constant prices) by asset class**

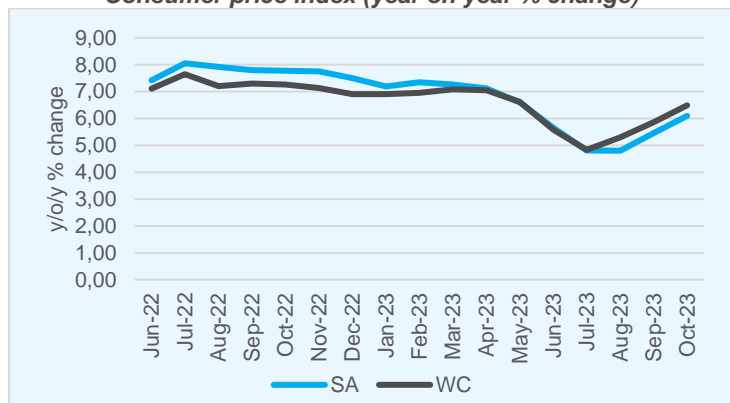


Source: Quantec (2023)

## Consumer prices

Annual headline inflation in the province increased for a third consecutive month in October 2023 (6.5%), from 5.9% in September and 5.3% in August. This is above the upper limit of the South African Reserve Bank's inflation target range. The main contributors to the 6.5% annual inflation rate were food and non-alcoholic beverages, transport and housing, and utilities.

**Consumer price index (year on year % change)**



Source: Quantec (2023)

## Labour market

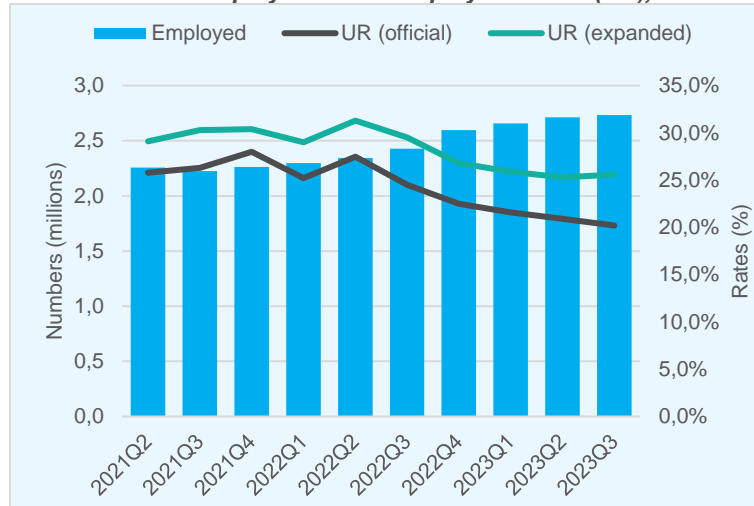
The Western Cape's official unemployment rate decreased by 0.7% to 20.2% (the lowest since 2020Q2) in the third quarter of 2023 compared to the previous quarter. The national unemployment rate was 31.9% in 2023Q3. During this period, the province's expanded employment rate (which includes discouraged work-seekers and those who had other reasons for not searching for jobs during the reference period) also decreased to 25.6% (41.2% for South Africa). An estimated 22,000 more people were employed in the third quarter of 2023 relative to the previous quarter.

Both the official unemployment rate and expanded unemployment rate are relatively lower in the Western Cape compared to the rest of the country. In the third quarter of 2023, the province's official unemployment rate was 20.2%, while the expanded unemployment rate was 25.6%.

The unemployment rate is 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 43.68% and 36.98%, respectively, in 2023 Q2. However, these have declined in the quarter as compared to previous quarters. The rate for youth aged between 15 and 19 years declined by 19.6 percentage points, while the rate for those aged between 20 and 24 years decreased by 5.9 percentage points.

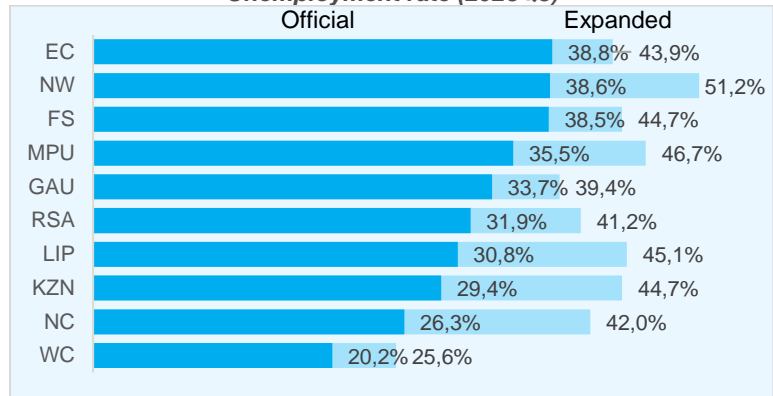
The labour force participation rate, which is the proportion of the working-age population that is either employed or unemployed, decreased slightly from 68.80% in 2022 Q2 to 68.60% in 2023 Q3. The proportion of the working-age population that was employed (absorption rate) was 54.70%, higher by 0.2 percentage points compared to the previous quarter.

**Number of employed and unemployment rate (UR), WC**



Source: Stats SA, (2023)

**Unemployment rate (2023Q3)**



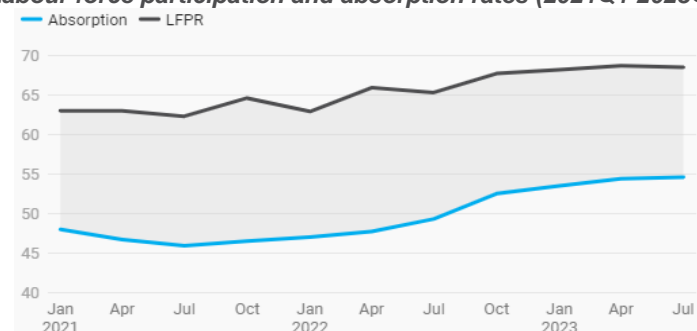
Source: Stats SA (2023)

**Official unemployment rate among different age groups, WC**

	2022Q4	2023Q1	2023Q2	2023Q3
Age 15-19	67.03%	63.13%	63.13%	43.68%
Age 20-24	42.21%	39.26%	42.90%	36.98%
Age 25-29	31.41%	33.16%	29.30%	25.70%
Age 30-34	25.00%	25.26%	20.67%	20.98%
Age 35-39	22.17%	20.77%	19.03%	21.75%
Age 40-44	17.07%	14.53%	16.43%	19.00%
Age 45-49	12.97%	10.75%	11.55%	10.60%
Age 50-54	10.31%	9.13%	10.03%	11.45%
Age 55-59	7.56%	6.46%	6.41%	7.27%
Age 60-64	0.98%	0.90%	2.53%	0.75%

Source: Quantec (2023)

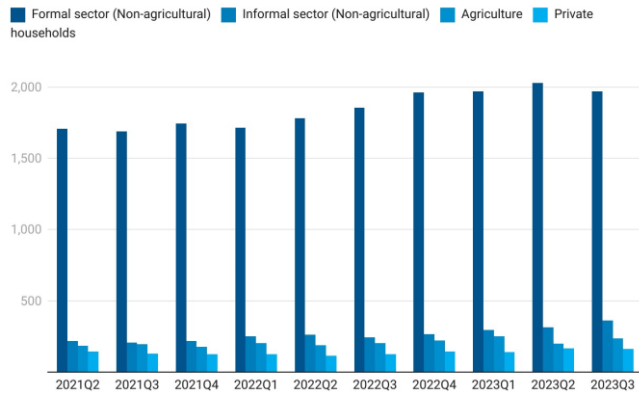
**Labour force participation and absorption rates (2021Q1-2023Q3)**



Source: Stats SA (2023)

In 2023 Q3, the formal sector accounted for 72.12% of employment, followed by the informal sector (13.20%), agricultural sector (8.71%) and private households (5.97%). Formal sector employment decreased by 2.86%, while employment in the informal and agriculture sectors increased by 14.07% and 18.84%, respectively. Private households' employment decreased by 1.06% during this period.

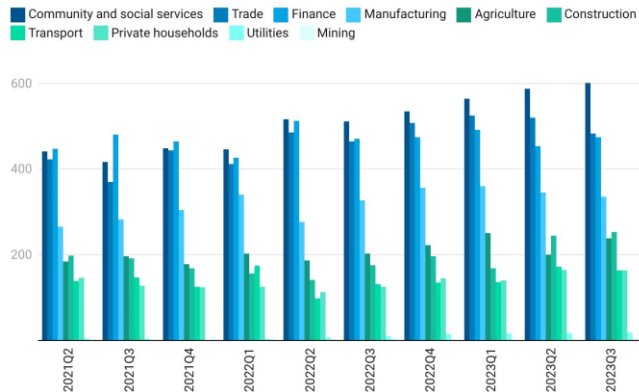
**Employment per sector (thousand), WC**



Source: Stats SA (2023)

The tertiary sector accounted for 69% of employment in the Western Cape in 2023 Q3, whereas the primary sector accounted for 9%. For the period under review, community and social services; trade; finance; manufacturing; and construction were the top five contributors to employment in the province. The industries that employ the least number of people in the province are utilities and mining.

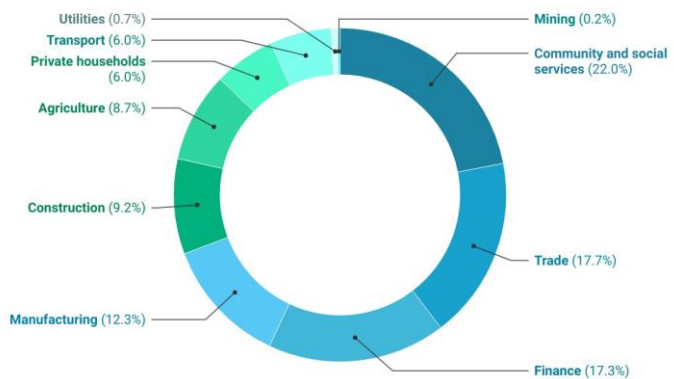
**Employment per industry (thousand)**



Source: Stats SA (2022)

The community and social services sector (21.97%), trade (17.68%) and finance (17.33%) made the highest contribution to employment in the Western Cape in the third quarter of 2023. The manufacturing industry had a share of 12.29%, making it the fourth largest contributor to employment in the Western Cape during this period. Other key contributors to employment in the same quarter were, construction (9.24%) and agriculture (8.71%).

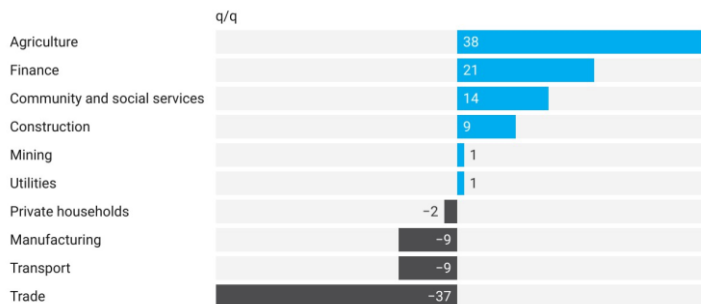
**Share of employment per industry (2023Q3), WC**



Source: Stats SA (2022)

Out of the ten industries, six recorded positive growth (q/q) in employment during the third quarter of 2023. The biggest additions to employment in the quarter were recorded for agriculture (38,000 jobs), finance (21,000 jobs), community and social services (14,000 jobs), construction (9,000), mining, and utilities (1,000 each). Job losses were recorded for trade (37,000), transport and manufacturing (9,000 each), and private households (2,000).

**Changes in employment (2023Q3 '000')**



Source: Stats SA (2022)

## Conclusion

The Western Cape has the third largest provincial economy in South Africa in terms of contribution to the national GDP. By sectors, the services sector is the largest in the province, 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 the third quarter of 2023, the Western Cape economy contracted by 0.36%, reflecting the nationwide energy and logistical challenges. Significant declines in the output of agriculture, manufacturing, construction and mining industries contributed to the contraction in total GDP. Service-based industries, on the other hand, recorded marginal increases in the quarter. Inflation in the province increased to 6.5% in October 2023, up from 5.9% in September.

The unemployment rate for the province decreased to 20.2% in the third quarter (from 20.9% in 2022 Q2), while the expanded unemployment rate stood at 25.6%. The Western Cape unemployment rate (both official and expanded) was lower than the national rate during the same period. The biggest additions to employment in the quarter were recorded for agriculture (38,000 jobs), finance (21,000 jobs), community and social services (14,000 jobs).

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