



An Economic Overview of the Western Cape

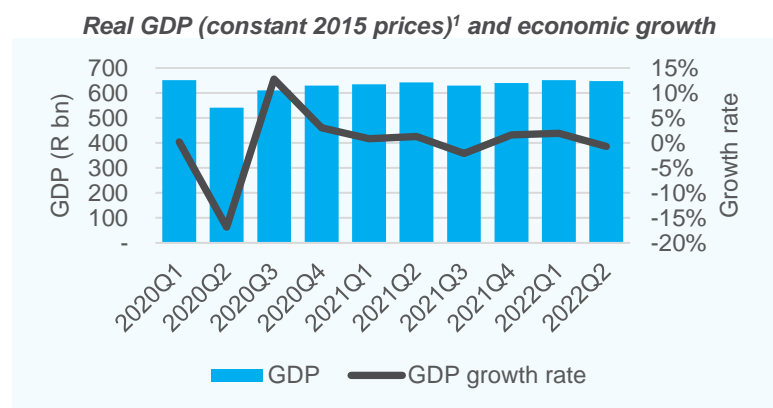
28 September 2022

Introduction

Prior to Russia's invasion of Ukraine, most economies were gradually bouncing back from the negative economic impact of the coronavirus pandemic. The ongoing Russia-Ukraine conflict, however, is having an adverse effect on a number of key economic inputs and metrics, including amongst factors commodity prices, inflation, and global supply chains. The high global inflation is triggering tighter financial conditions and reduced household purchasing power. Moreover, there are concerns about the risk of stagflation because of the slowdown in global economic growth coupled with higher-than-expected inflation. According to the IMF (2022), global growth is expected to decline from 6.1% in 2021 to 3.2% in 2022. A further decline in global growth (2.9%) is expected in 2023 due to the effect of disinflationary monetary policy. As an open economy, the Western Cape is vulnerable to external shocks. Nevertheless, the province's economy has shown to be relatively resilient. This report examines the Western Cape's key economic indicators. In particular, the report assesses the province's economic performance as well as employment and international trade statistics.

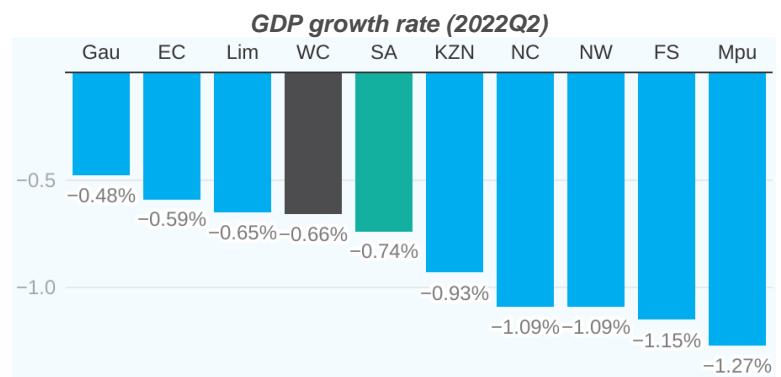
Economic activity

The Western Cape's real gross domestic product (GDP) in the second quarter of 2022 was R647.53 billion. The size of the province's economy in the period was lower than it was before the pandemic. Compared to the previous quarter, the province's GDP decreased by 0.66% in 2022Q2, which represents a deviation from the recovery path the economy has been on since the fourth quarter of 2021.



Source: Quantec (2022)

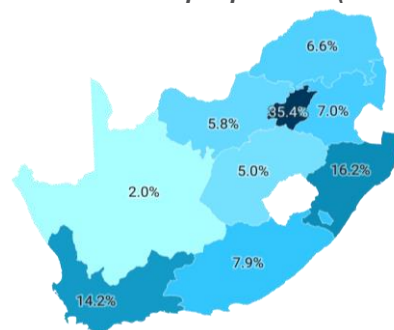
South Africa and all of its nine provinces recorded negative economic growth rates in the second quarter of 2022. Gauteng province had the lowest negative growth rate in this period, followed by the Eastern Cape, Limpopo, and the Western Cape. The Western Cape's GDP growth rate during the second quarter of 2022 was -0.66%, compared to the 1.96% recorded in 2022Q1.



Source: Quantec (2022)

In terms of economic output, 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 gross value added (GVA) in the second quarter of 2022. Gauteng (35.4%) and KwaZulu-Natal (16.2%) were the top two contributors to national output during this period.

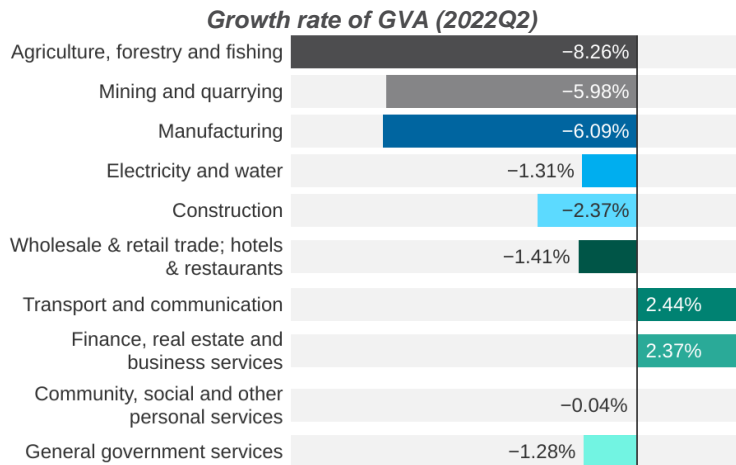
Share of GDP per province (2022Q2)



Source: Quantec (2022)

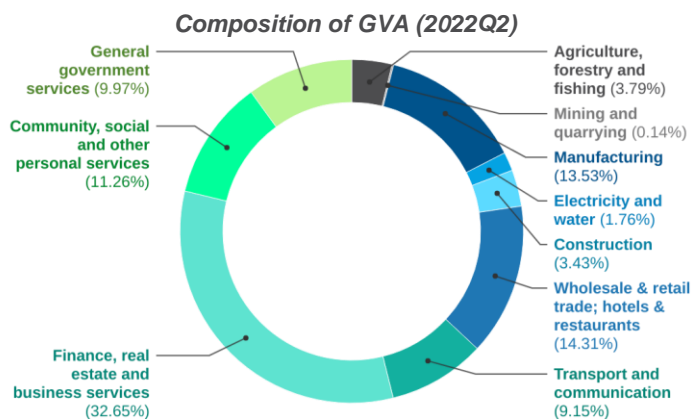
¹ Seasonally adjusted and annualised

All industries, except transport and communication (2.44%) and finance, real estate and business services (2.37%) recorded negative growth rates in the second quarter of 2022. Agriculture, forestry and fishing (-8.26%); manufacturing (-6.09%) and mining and quarrying (-5.98%) were the industries with the lowest growth rates. In terms of broad sectors, the tertiary sector recorded growth rate of 0.83%, whereas the growth rates for the secondary and the primary sectors were -4.99% and -8.18% respectively.



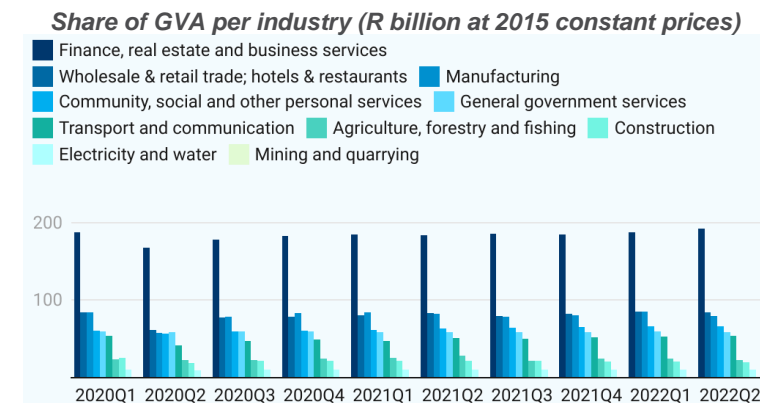
Source: Quantec (2022)

The tertiary sector accounts for a significant share of economic activity in the Western Cape, averaging 76% between the first quarter of 2020 and the second quarter of 2022. Finance, real estate and business services accounted for over one third of the province's GVA in the second quarter of 2022. This was followed by trade, hotels and restaurants (14.3%) and manufacturing (13.5%).



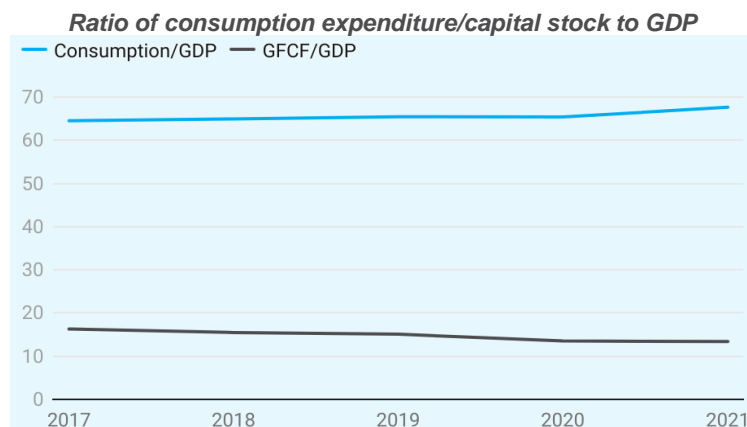
Source: Quantec (2022)

Over the past couple of 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.



Source: Quantec (2022)

On average, consumption spending makes up over 65% 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. The ratio of the province's gross fixed capital formation (GFCF) to GDP has historically been below 20%. In 2021, consumption spending accounted for about 68% of GDP, while GFCF constituted 13%.



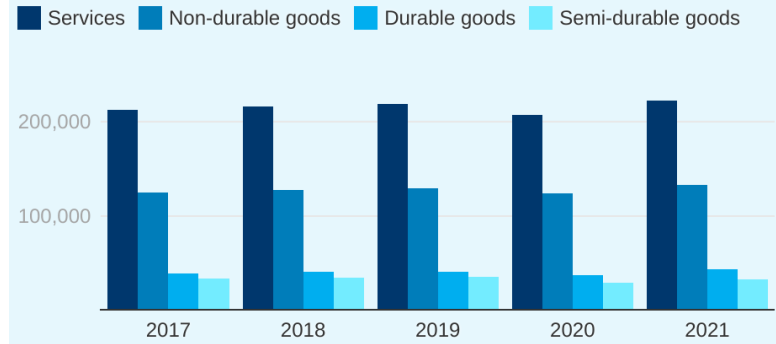
Source: Quantec (2022)

Services account for more than half of households' consumption spending in the Western Cape, with miscellaneous services; rent; and transport and communication services being the top three services that households spend their money on. Furthermore, about 31% of consumption expenditure by households is on non-durable goods, with food, beverages and tobacco accounting for over 60%.

In 2021, real capital expenditure increased by 3.4% after contracting for the past three years. All industries, except transport, storage and communication; utilities; and mining and quarrying, recorded positive growth rates in real capital outlays in 2021, with agricultural, forestry and fishing (32.5%) experiencing the highest growth. Moreover, finance, insurance, real estate and business services; general government; and manufacturing were the industries with the largest share of real capital outlays.

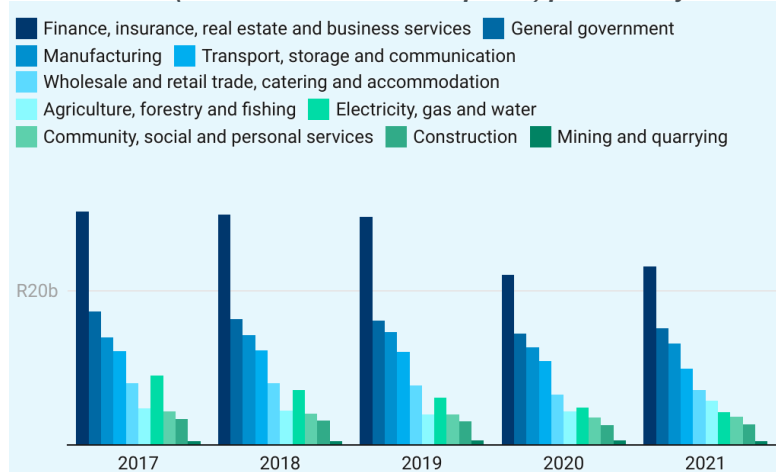
In terms of type of asset, buildings and construction works as well as machinery and other equipment constitute the largest component of real GFCF, with an average share of 41.5% and 30.4% respectively over the past five years. In 2021, real capital investment increased in most asset classes, except for building and construction works and research, mineral exploration and biological resources.

Consumption expenditure (R millions 2015 constant prices) by type



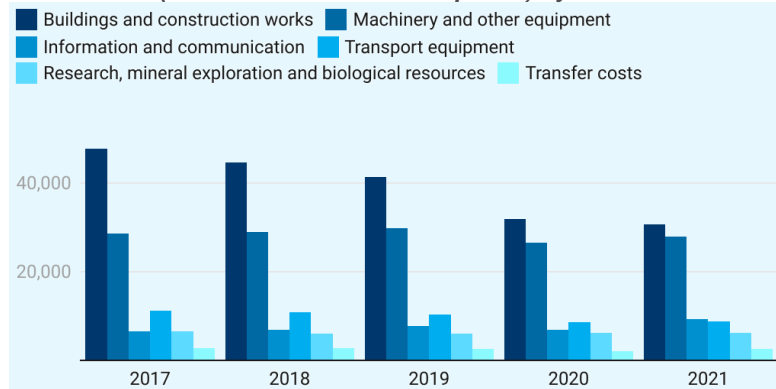
Source: Quantec (2022)

GFCF (R billions 2015 constant prices) per industry



Source: Quantec (2022)

GFCF (R millions 2015 constant prices) by asset class



Source: Quantec (2022)

Consumer prices

Annual consumer inflation in the Western Cape increased from 7.11% in June 2022 to 7.65% in July 2022, the highest it has been since April 2009. Transport (with an increase of 26.8% year-on-year) and food and non-alcoholic beverages (with an increase of 9.1 year-on-year) were the main contributors to the increase in the consumer price index.

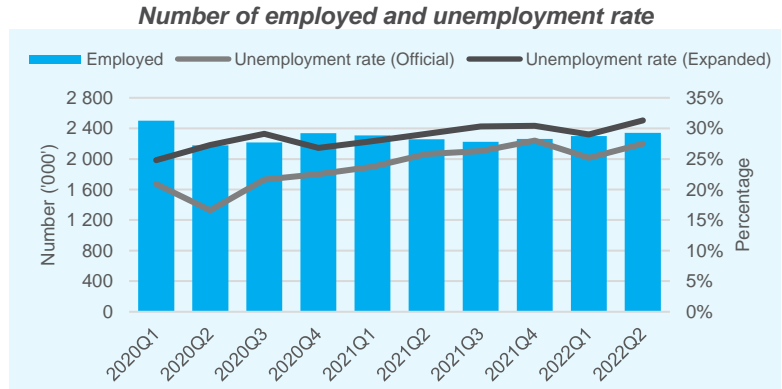
Consumer price index (year on year % change)



Source: Quantec (2022)

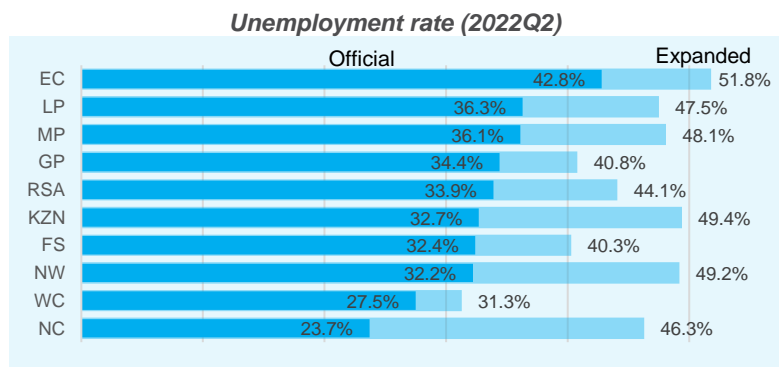
Labour market

The Western Cape's official² unemployment rate increased by 2.3 percentage points to 27.5% in the second quarter of 2022 compared to the previous quarter. 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) was 31.3%. About 46 000 more people were employed in the second quarter of 2022 relative to the previous quarter.



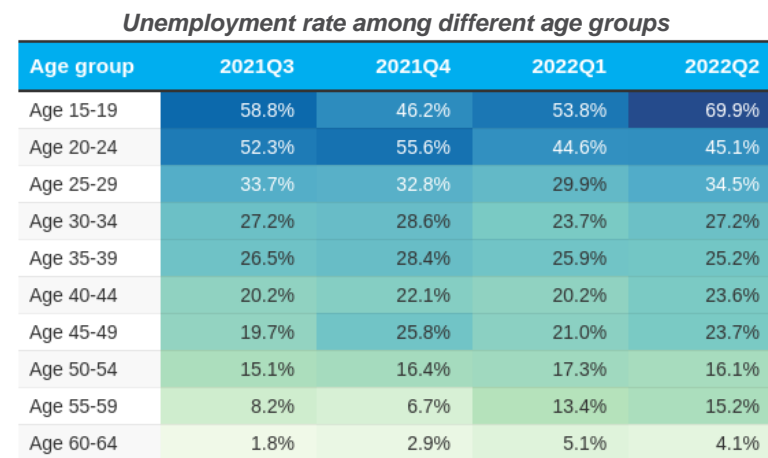
Source: Stats SA (2022)

Unemployment continues to be one of the key socio-economic problems affecting South Africa. Although the Western Cape's unemployment rate is considerably high, it is relatively lower than that of the country, which was 33.9% in 2022Q2. The Western Cape has the second lowest official unemployment rate and the lowest expanded unemployment rate in the country.



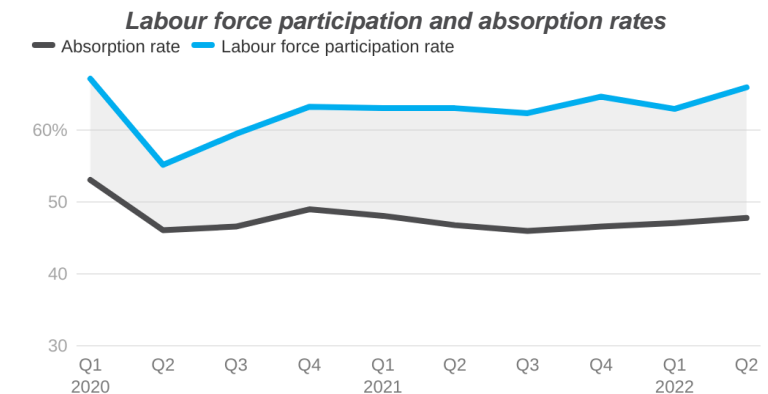
Source: Stats SA (2022)

The unemployment situation in South Africa is mostly structural, with the youth being the most affected group. The unemployment rate is particularly very high for those between the ages of 15 and 24. During the second quarter of 2022, youth aged 15-19 years and 20-24 years recorded the highest unemployment rates of 69.9% and 45.1% respectively. Lack of work experience, growing population, inadequate career guidance in schools and skills mismatch are some of the reasons for this phenomenon.



Source: Quantec (2022)

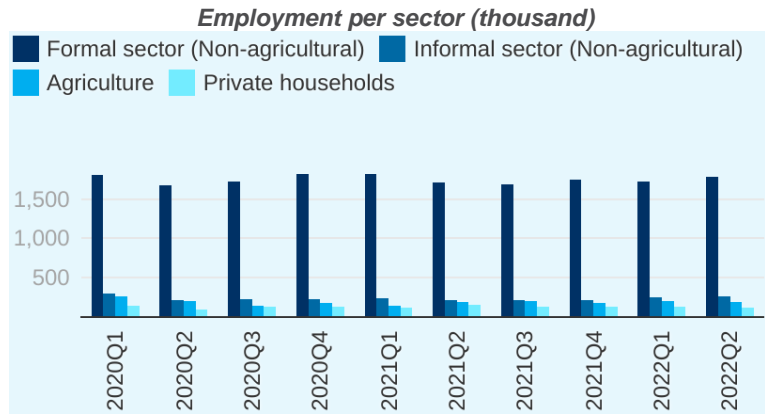
The labour force participation rate, which is the proportion of the working age population that is either employed or unemployed, increased by 3 percentage points from 63% in 2022Q1 to 66% in 2022Q2. Female labour force participation rate increased from 56% to 60% between these two quarters. Moreover, the proportion of the working age population that was employed (absorption rate) in 2022Q2 was 47.8%.



Source: Stats SA (2022)

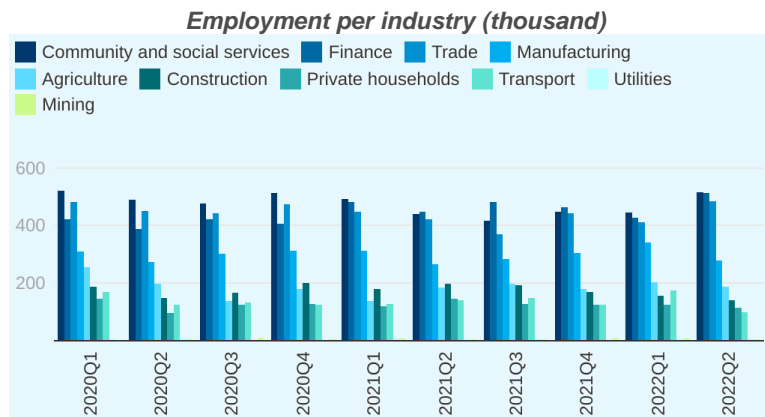
² Searched for jobs and available to work

During the second quarter of 2022, the formal sector accounted for 76% of employment, followed by the informal sector (11%); agricultural sector (8%), and private households (4.8%). Formal sector employment increased by 3.8%, while employment in the informal sector increased by 3.6% during this period. On the other hand, employment in agriculture and private households declined by 8% and 9.8% respectively.



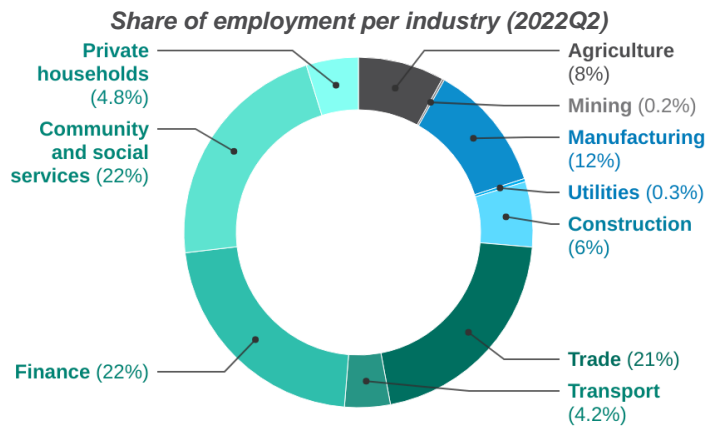
Source: Stats SA (2022)

The tertiary sector accounts for over 70% of employment in the Western Cape, whereas the primary sector accounts for less than 10%, on average. For the period under review, community and social services; finance; trade; 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.



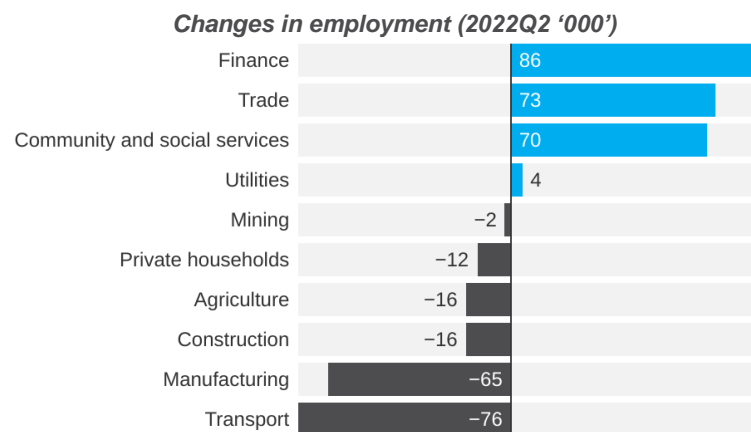
Source: Stats SA (2022)

Within the tertiary (services) sector, community and social services (22%); finance (22%); and trade (21%) made the highest contribution to employment in the second quarter of 2022. With a share of 12%, the manufacturing industry was also an important contributor to employment in the Western Cape during this period. Furthermore, the agricultural and construction industries contributed 8% and 6%, respectively, to employment.



Source: Stats SA (2022)

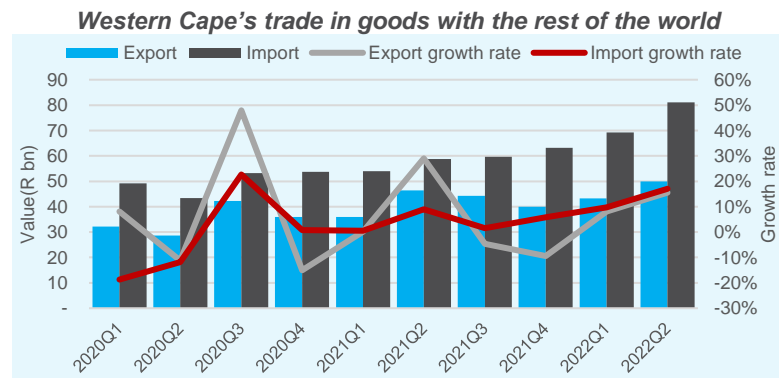
Four out of ten industries in the province recorded positive growth (q/q) in employment during the second quarter of 2022. Finance (86 000 jobs); trade (73 000 jobs); and community and social services (70 000 jobs) were the main contributors to the increase in employment in 2022Q2. On the other hand, transport (43.4%); manufacturing (18.9%); construction (10%); and agriculture (8%) recorded the highest decline in employment during this period.



Source: Stats SA (2022)

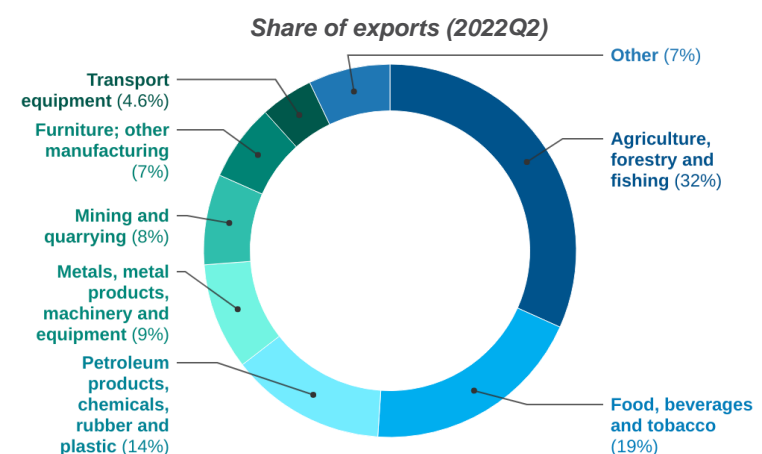
International trade

Exports help to accumulate foreign reserves as well as drive other local economic activity. The rand value of the Western Cape's exports increased by 8% and 16% in 2022Q1 and 2022Q2 respectively, following a decline in the last two quarters of the previous year. The rand value of imports has been increasing since the third quarter of 2020. The province's imports were 17% higher in second quarter of 2022.



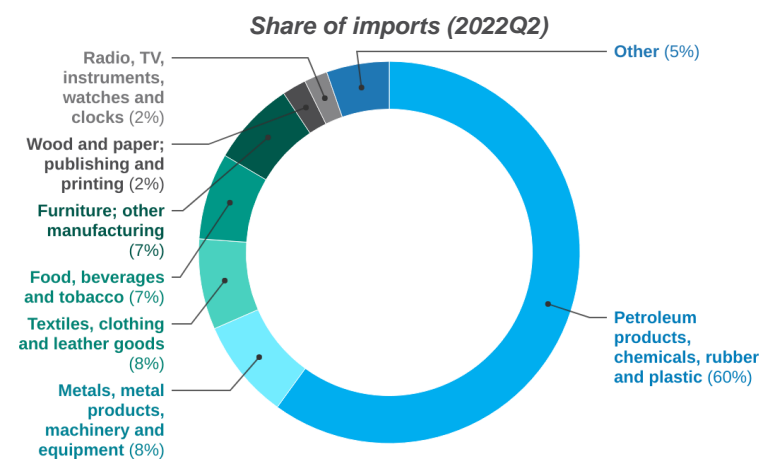
Source: Quantec (2022)

Manufacturing constitutes the largest component of the Western Cape's exports. During the second quarter of 2022, the manufacturing industry accounted for 60% of the province's exports. When further broken down into sub-categories, the top three industries, as measured by share of exports in 2022Q2, were agriculture, forestry and fishing (32%); food, beverages and tobacco (19%); and petroleum products, chemicals, rubber and plastic (14%).



Source: Quantec (2022)

The Western Cape is a net importer of goods. The rand value of imports was about 24% higher than the rand value of exports in 2022Q2. Petroleum products, chemicals, rubber and plastics accounted for 60% of the province's total imports during this period. As a proportion of total imports, this product category has been increasing significantly since the first quarter of 2021. Metals, metal products, machinery and equipment (8.5%) and textiles, clothing and leather goods (7.7%) completed the list of the top three imported products in 2022Q2.



Source: Quantec (2022)

Conclusion

The Western Cape has the third largest provincial economy in South Africa in terms of contribution to national GVA. Accounting for over 70% of the province's GVA and employment, the services sector plays a significant role in economic growth and employment creation. The top contributors to the province's economic activity are finance, insurance, real estate and business services; trade, hotels and restaurants; manufacturing; and community, social and other personal services.

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