



An Economic Review of the Western Cape

25 November 2021

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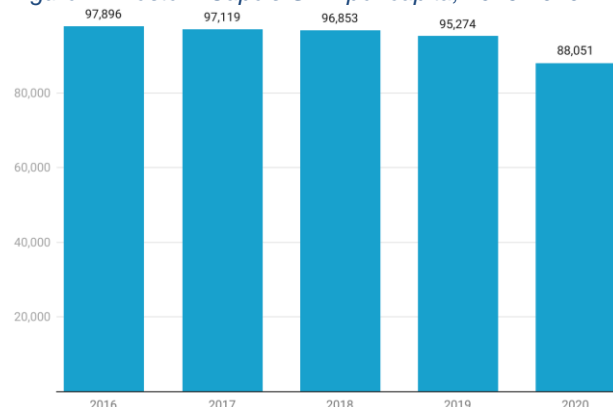
1. Introduction

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 3.0% and 4.1% in 2021 and 2022 respectively (Provincial Economic Review and Outlook, 2021). The province Human Development Index (HDI) was 0.765 in 2020, which is slightly higher than that of the country which stood at 0.702 in the same year. This document highlights the growth performance of the Western Cape well as other key economic indicators, such as employment and inflation.

2. Per capita gross domestic product

The Western Cape’s per capita real gross domestic product¹ (GDP), which is a measure of economic output per person, was estimated at R88 051 in 2020 as depicted in Figure 1. The province’s per capita GDP has been on a decline over the past 5 years, with an average growth rate of -2.23%.

Figure 1: Western Cape's GDP per capita, 2016-2020

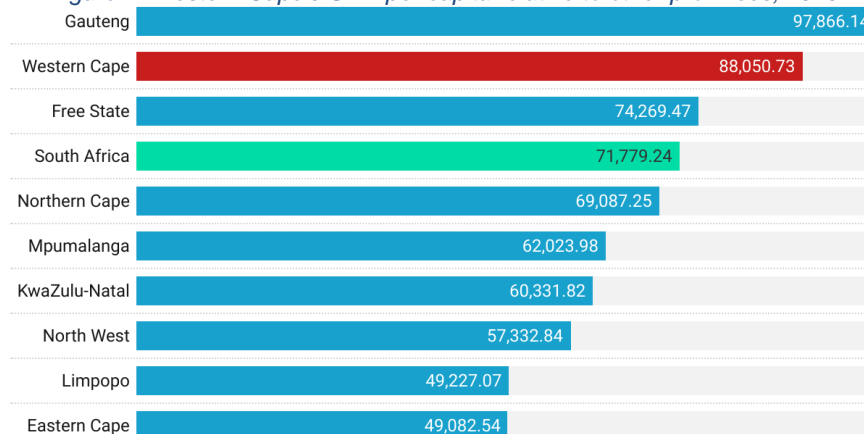


Source: Quantec (2021)

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In 2020, the Western Cape had a higher per capita real GDP than the country as a whole. As shown in Figure 2, the province’s had the second highest per capita GDP among the provinces in South Africa, behind Gauteng.

Figure 2: Western Cape's GDP per capita relative to other provinces, 2020

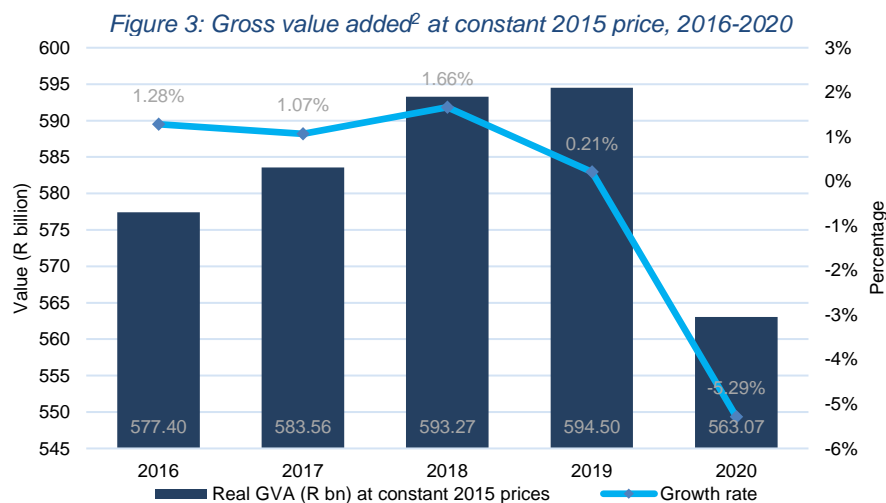


Source: Quantec (2021)

¹ Constant 2015 prices

3. Gross value added

The year-on-year growth of the Western Cape's GVA declined to -5.3% in 2020 after falling from approximately 1.7% in 2018 to 0.2% in 2019 as shown in Figure 3. Furthermore, the province's total GVA was R563.07 billion in 2020.

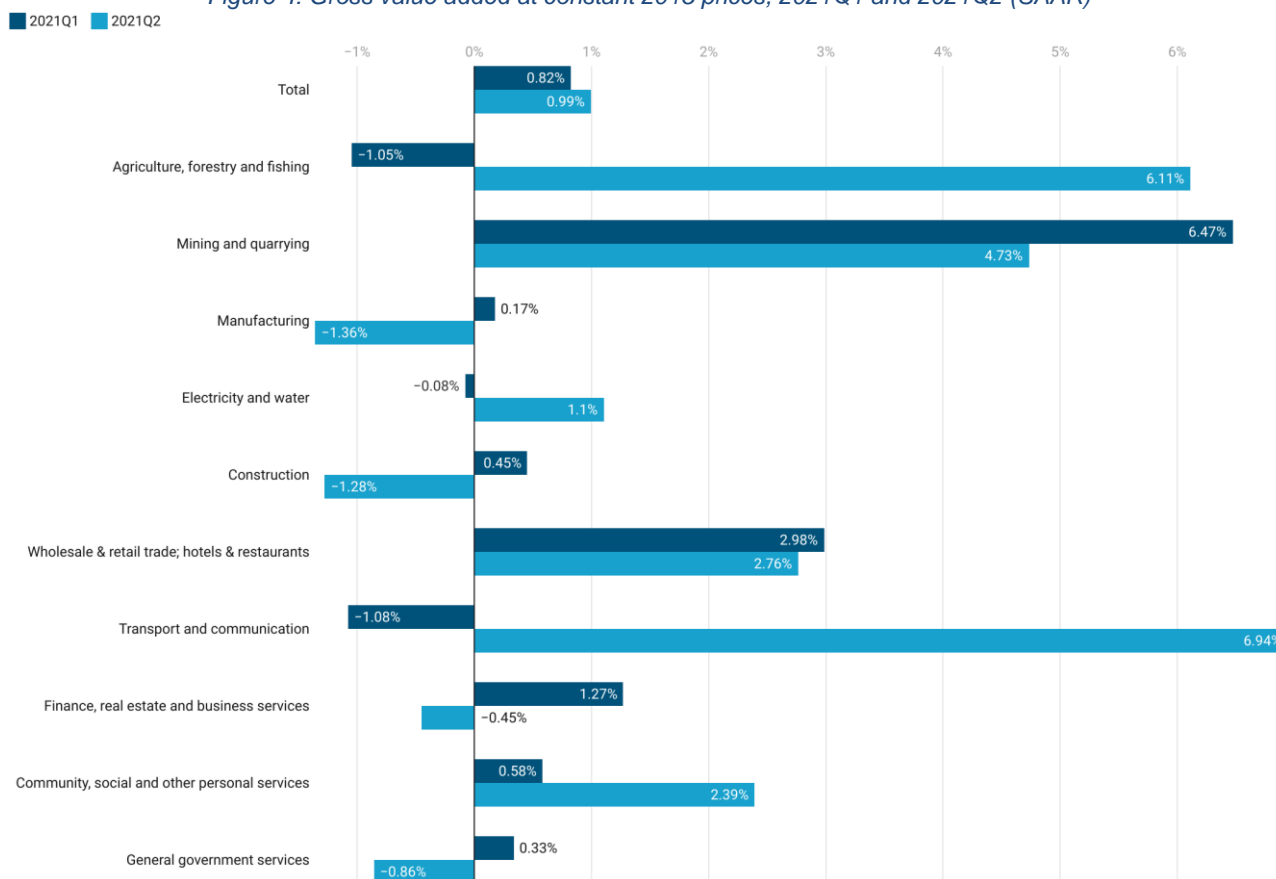


Source: Quantec (2021)

As indicated in Figure 4, the growth rate of the Western Cape's quarterly GVA (seasonally adjusted annualised) was 0.99% in the second quarter of 2021, which represents a slight improvement from the 0.82% recorded in the previous quarter. With the exception of the agriculture and transport and communication, which recorded negative growth rates of -1.05% and -1.08% respectively in the first quarter of 2021, growth was positive in all other sectors. However, agriculture (6.11%) and transport and communications (6.94%) had the highest growth rates in the second quarter of 2021. The industries that recorded negative growth rates during this period were manufacturing (-1.35%); construction (-1.28%); general government services (-0.86%); and finance, real estate and business services (-0.45%).

² Seasonally adjusted and annualised

Figure 4: Gross value added at constant 2015 prices, 2021Q1 and 2021Q2 (SAAR)

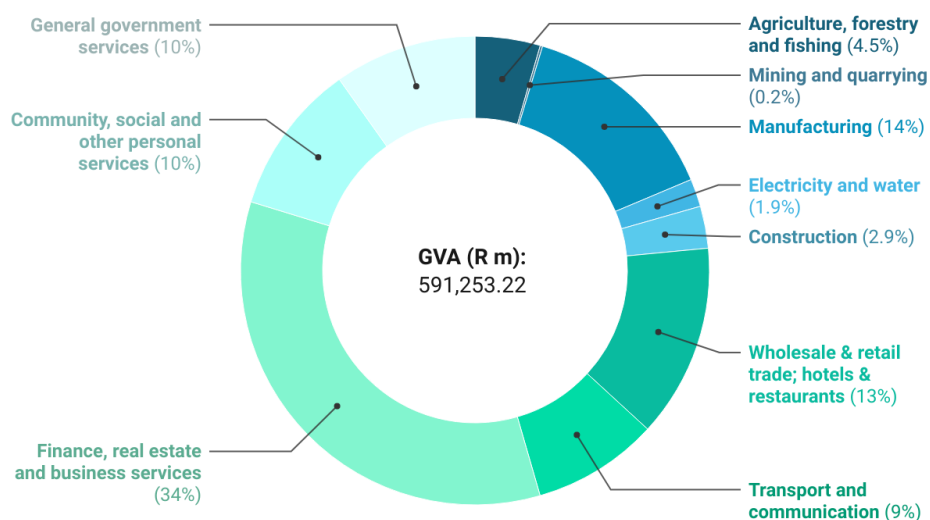


Source: Quantec (2021)

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The finance, real estate and business services accounted for over one third of the Western Cape's GVA during the second quarter of 2021 as shown in Figure 5. This was followed by the manufacturing sector (14%); and trade and accommodation sector (13%).

Figure 5: Composition of gross value added at constant 2015 prices, 2021Q2

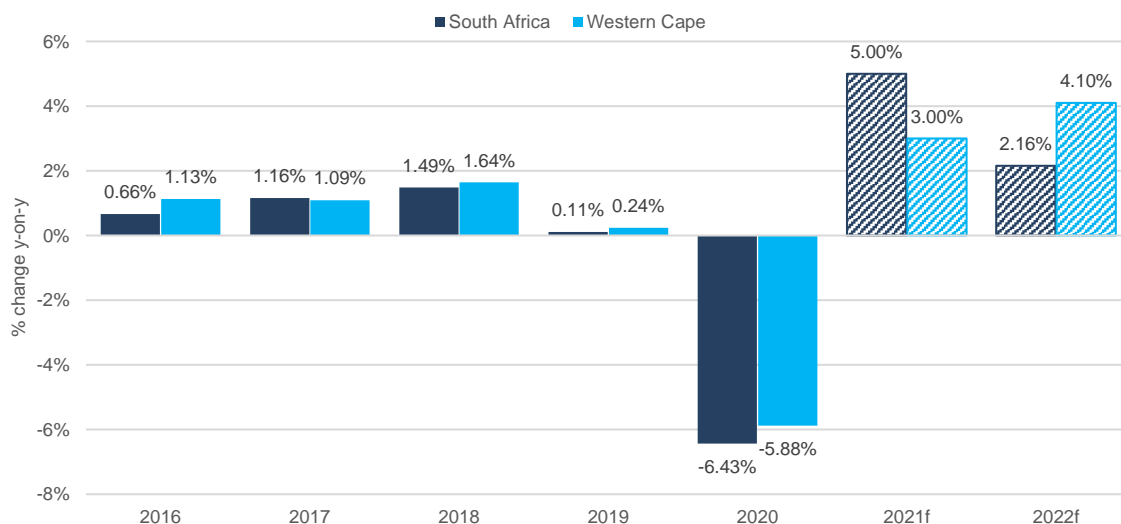


Source: Quantec (2021)

4. Economic growth

This section looks at the Western Cape's economic performance from the demand side of the economy. The growth rate of GDP declined from 0.24% in 2019 to -5.88% in 2020, which is likely due to the impact of the coronavirus pandemic and the lockdown measures implemented to contain its spread. The economy is, however, expected to rebound in the in 2021 and 2022, with GDP growth forecasted at 3.0% and 4.1% respectively.

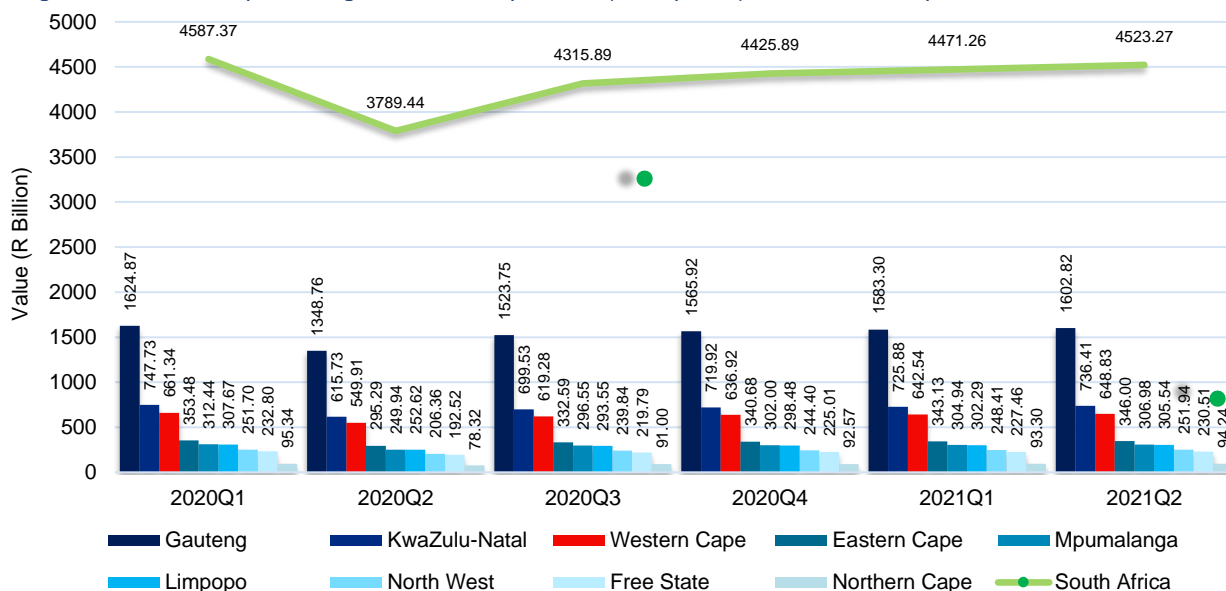
Figure 6: Economic growth rate, 2016-2022f



Sources: IMF World Economic Outlook (2021); Provincial Economic Review and Outlook (2021); Quantec (2021)

As shown in Figure 7, the gross domestic product (GDP) of the Western Cape was R648.83 billion in the second quarter of 2021, which is an increase of 0.98% compared to the previous quarter. Relative to the other 8 provinces, the Western Cape has the 3rd largest economy in the country.

Figure 7: Western Cape's real gross domestic product³ (2015 prices) relative to other provinces, 2020Q1-2021Q2



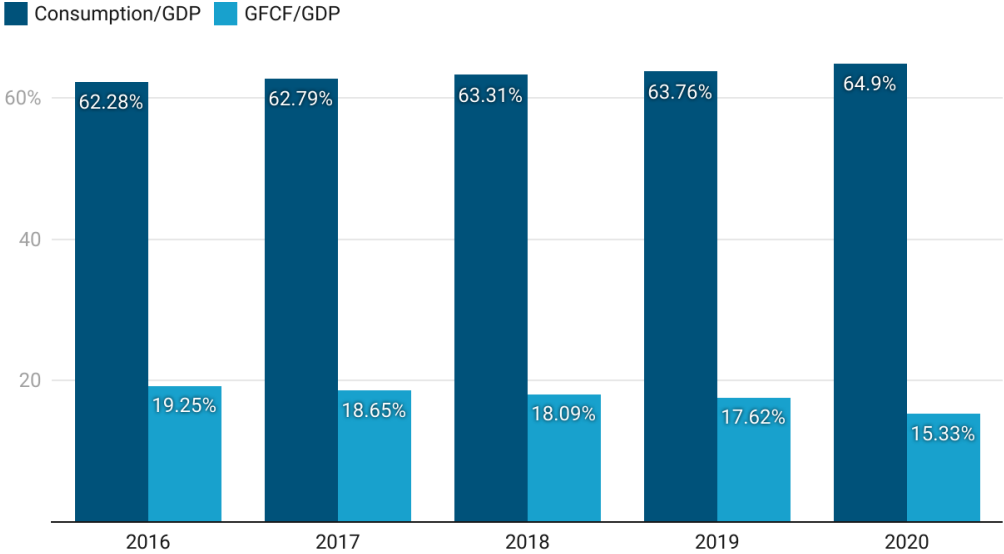
Source: Quantec (2021)

Final consumption expenditure by households constitutes 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. 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

³ Seasonally adjusted and annualised

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). During the period under review, the province's GFCF peaked at approximately 19.3% of GDP in 2016 but declined to 15.3% in 2020.

Figure 8: Ratio of consumption expenditure/Capital formation to GDP (2010 prices), 2016-2020

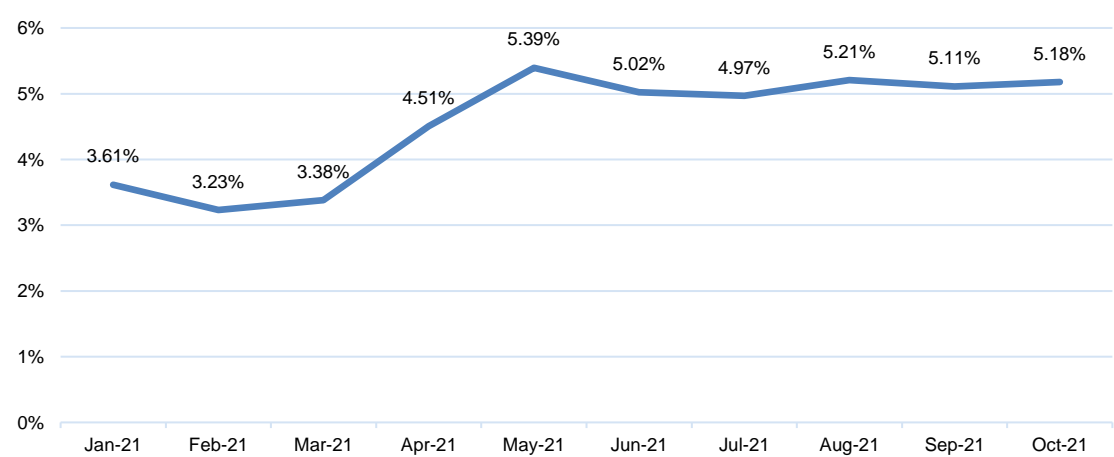


Source: Quantec (2021)

5. Inflation

The Western Cape's inflation averaged 4.6% between January and October 2021. Annual consumer price inflation increased from 5.11% in September 2021 to 5.18% October 2021 as shown in Figure 9. Food; transport; miscellaneous goods and services; and housing and utilities were the main drivers of the increase in consumer price index in October 2021.

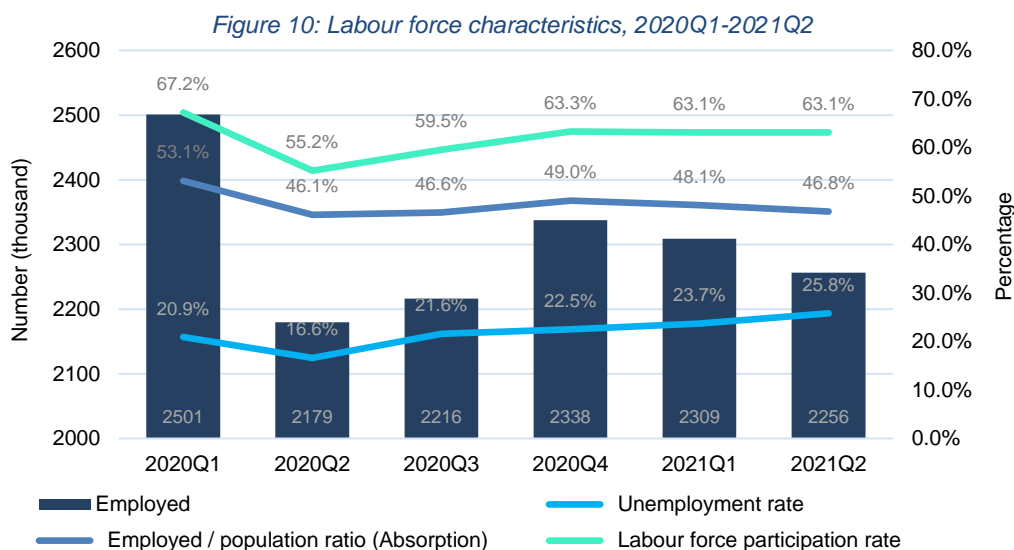
Figure 9: Consumer price index (year on year % change), Jan-Oct 2021



Source: Quantec (2021)

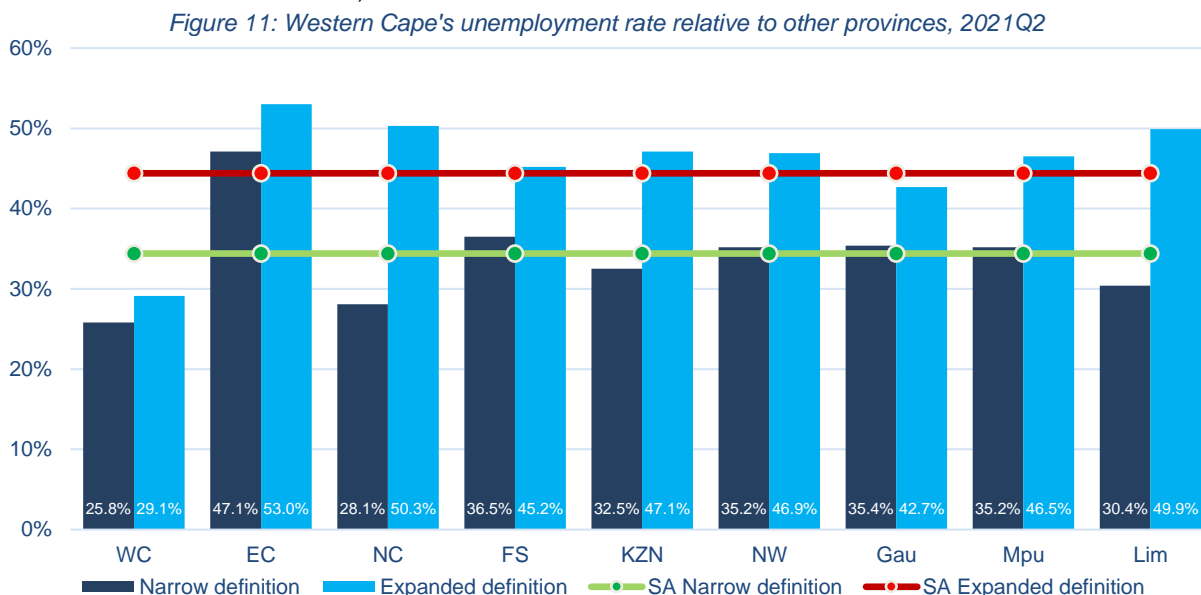
6. Labour force

Job creation continues to be a key concern for policymakers given the high rate of unemployment in the country as a whole. The official unemployment rate in the province was 25.8% during the second quarter of 2021 as can be seen in Figure 10. Over the same period, the absorption rate and labour force participation rate were 46.8% and 63.1% respectively. 53 000 less people were employed in the second quarter of 2021 relative to the previous quarter. The expanded unemployment rate, which takes into account discouraged job seekers, was 29.1% in the second quarter of 2021.



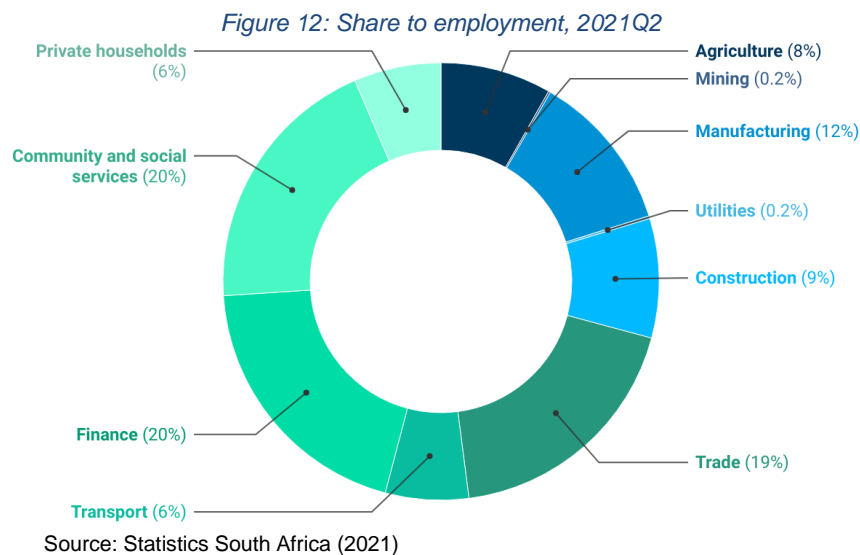
Source: Statistics South Africa (2021)

As shown in Figure 11, the Western Cape has the lowest employment rate among the nine provinces of South Africa. Moreover, the province's unemployment rate of 25.8% in the second quarter of 2021 was much lower than that of the nation as a whole, which was 34.4%.

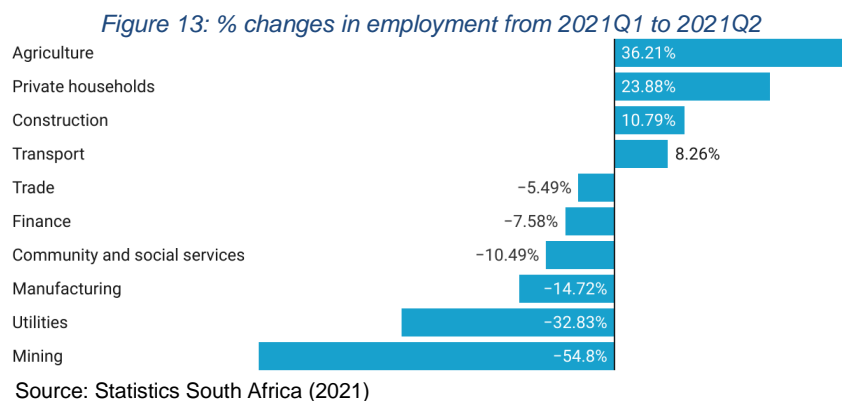


Source: Statistics South Africa (2021)

The tertiary sector accounts for over 70% of employment in the Western Cape. Within the services sector, community and social services (20%); finance (20%); and trade (19%) made the highest contribution to employment in the second quarter of 2021. With a share of 12%, the manufacturing industry was also an important contributor to employment during the same period.

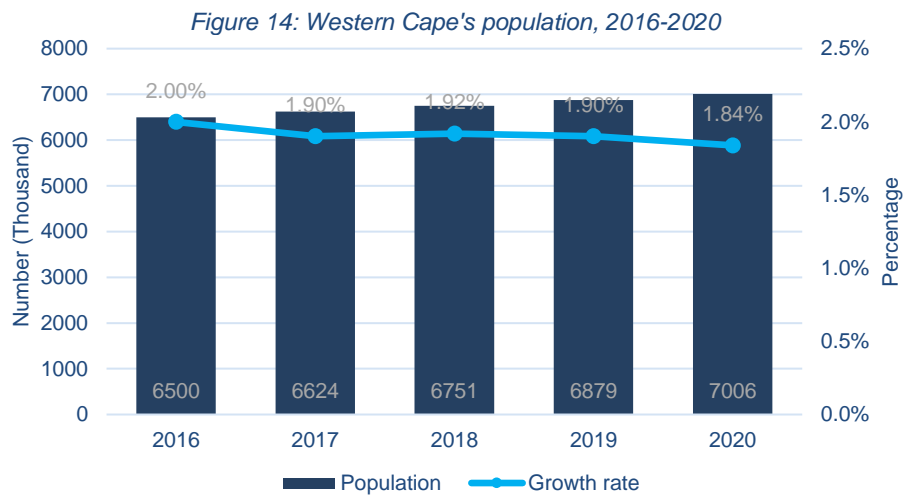


As Figure 13 depicts, 4 out of 10 industries recorded an increase in the number of employed persons during the second quarter of 2021 compared to the previous quarter. These industries were agriculture (36.2%; private households (23.9%); construction (10.8%); and transport (8.3%). The industries that experienced negative growth in employment were mining (-54.8%); utilities (-32.8%); manufacturing (-14.7%); community and social services (-10.5%); finance (-7.6%); and trade (-5.5%).



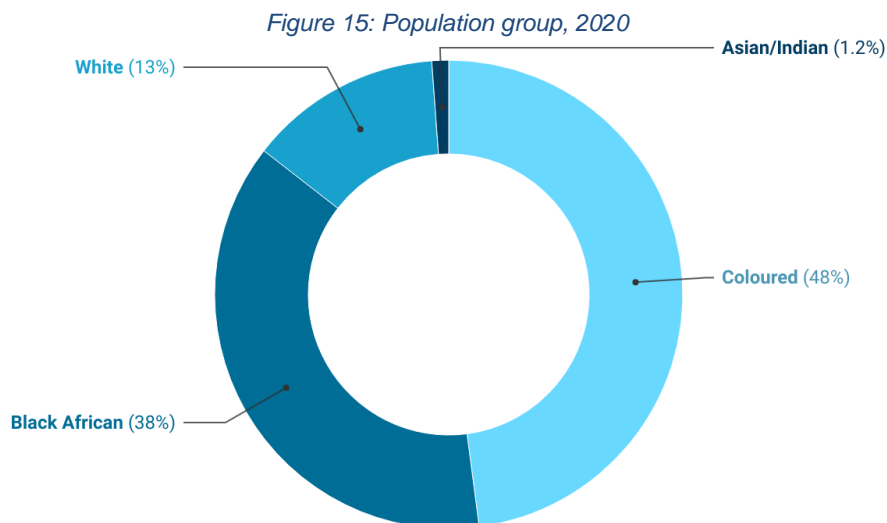
7. Population

The Western Cape's population growth rate averaged 1.9% over the past 5 years. The province's population was estimated at approximately 7 million in 2020, an increase of 1.84% from the previous year as shown in Figure 14.



Source: Quantec (2021)

The Western Cape's population is dominated by the Coloured race. In 2020, the Coloured population group accounted for 48% of the total population of the province. Black African (38%) and White (13%) respectively constituted the second and third population group as shown in Figure 15.



Source: Quantec (2021)

8. Conclusion

The economic impact of the coronavirus pandemic is being felt across all sectors of the economy. The Western Cape's GVA and GDP growth rates were -5.29% and -5.88% respectively in 2020. The major contributors to economic activity, during the second quarter of 2021, were finance, real estate and business services; manufacturing; wholesale and retail trade, hotels and restaurants. However, positive growth is forecasted in 2021 and 2022. The Western Cape recorded the lowest employment rate among the nine provinces in the second quarter of 2021. Moreover, the services sector as a whole accounted for about 71% of employment during this period.

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