



## An economic analysis of the Western Cape

28 January 2022

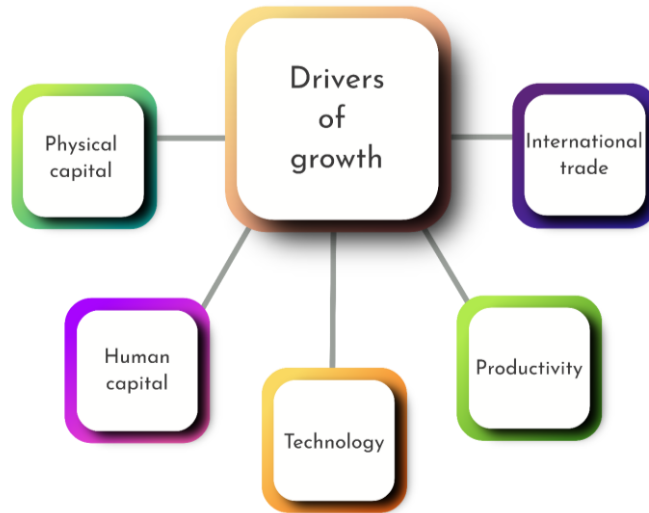
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## 1. Introduction

The economic performance of a country or region is crucial to the well-being of its citizenry. A high performing economy, in terms of economic and development, is able to provide its people with a better standard of living. Some of the factors that contribute to economic growth are the accumulation of capital stock, human capital, technological advancement, productivity and international trade. It is argued that macroeconomic policy settings and institutions also have a significant role to play in the growth of an economy.

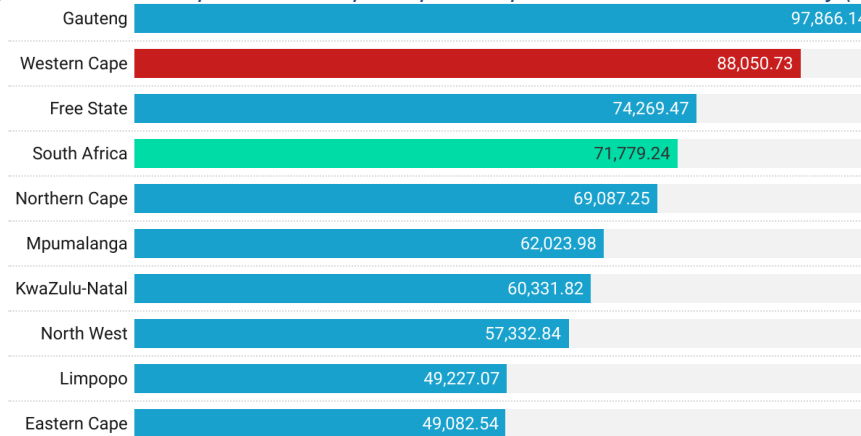
Figure 1: Factors that contribute to economic growth



## 2. An overview of the Western Cape economy

The Western Cape's per capita real gross domestic product (GDP) was estimated at R88 051 in 2020, which was the second highest per capita GDP compared to South Africa's other eight provinces. The province also had a higher per capita real GDP than the country as a whole as shown in Figure 2.

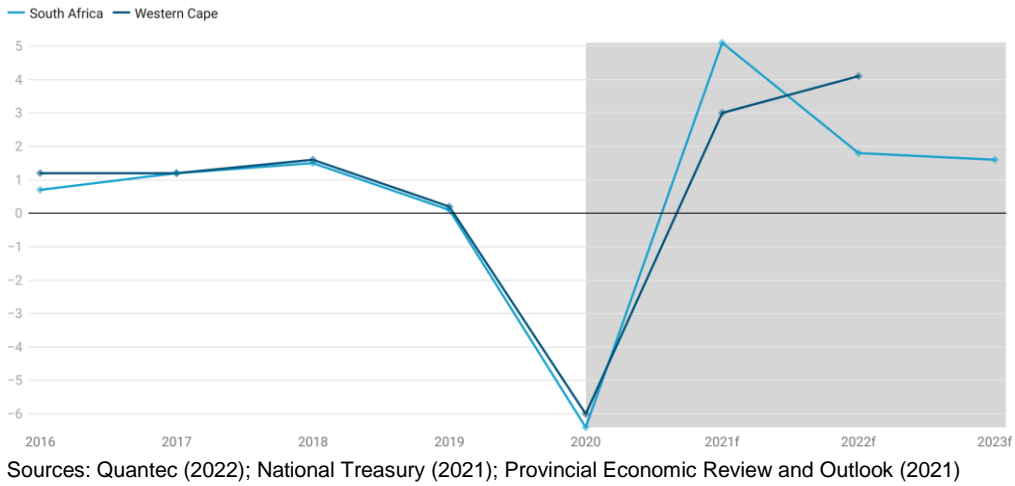
Figure 2: Western Cape's real GDP per capita compared to the rest of the country (2020)



Source: Quantec (2021)

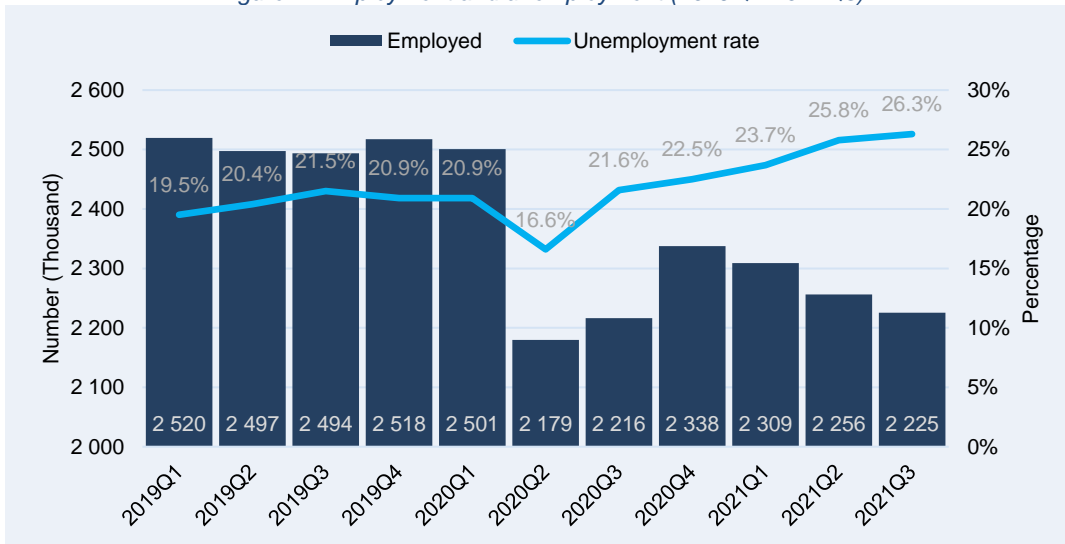
The Western Cape has the third largest economy among the nine provinces of South Africa. Following a decline in the level of economic activity in 2019 and 2020, the economy of the Western Cape is forecasted to grow at an average annual rate of 3.0% and 4.1% in 2021 and 2022 respectively (Provincial Economic Review and Outlook, 2021). While the province's initial economic recovery in 2021 is forecast to be slower than that of the entire country, its projected economic growth rate is relatively higher in 2022.

Figure 3: Economic growth rate (2016-2022f)



The coronavirus pandemic has had a severe impact on unemployment. As shown in Figure 4, the province’s official unemployment rate has risen steadily since the second quarter of 2020. The observed unemployment rate for the province was 26.3% in the third quarter of 2021. While this rate is considerably high, it is relatively lower than that of the country as a whole, which stood at 34.9% during the same period.

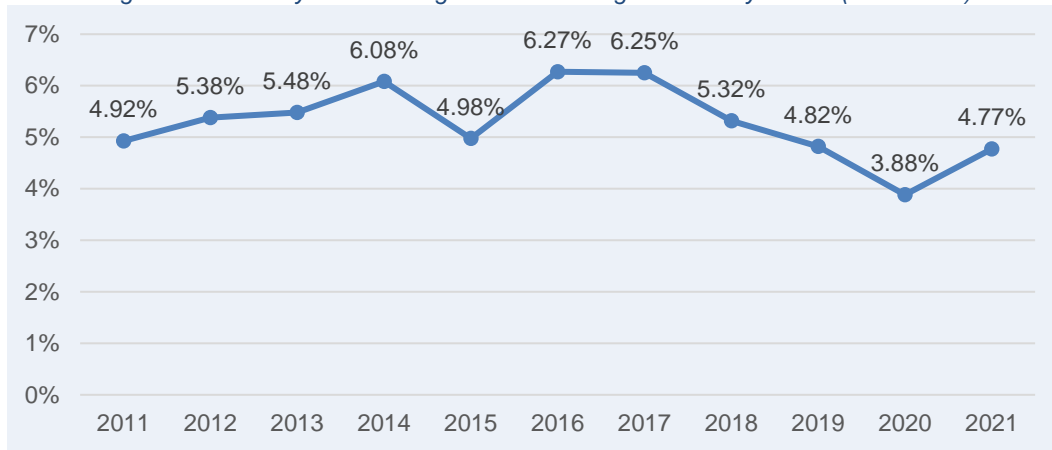
Figure 4: Employment and unemployment (2019Q1-2021Q3)



Source: Quantec (2022)

The province’s consumer price inflation averaged 4.77% in 2021 compared to 3.88% in the previous year. Annual consumer price inflation increased from 3.23% in February 2021 to 5.92% in December of the same year. Some of the drivers of the increase in the consumer price index (CPI) are food; housing and utilities; and transport. Moreover, the surge in oil prices and the resultant marked increase in fuel prices, in recent times, has contributed to the inflationary pressure on the economy.

Figure 5: Year-on-year % change in CPI : average of monthly values (2011-2021)

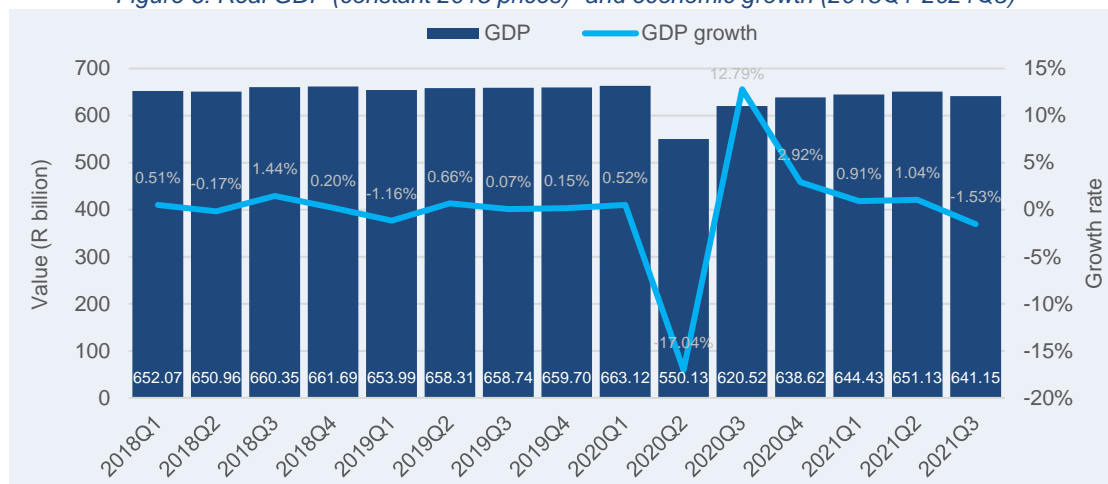


Source: Quantec (2022)

### 3. Output

The coronavirus pandemic is having a negative impact on the Western Cape economy. The province's real GDP was R641.15 billion in the third quarter of 2021. This quarter recorded a growth rate of -1.53%, following an increase of 1.04% in the previous quarter as shown in Figure 6.

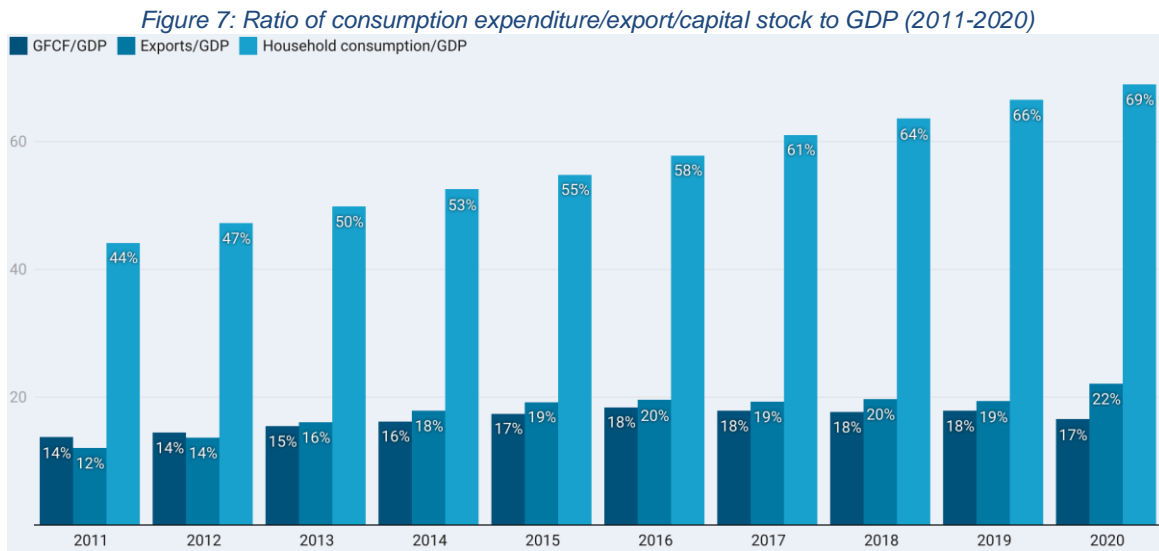
Figure 6: Real GDP (constant 2015 prices)<sup>1</sup> and economic growth (2018Q1-2021Q3)



Source: Quantec (2022)

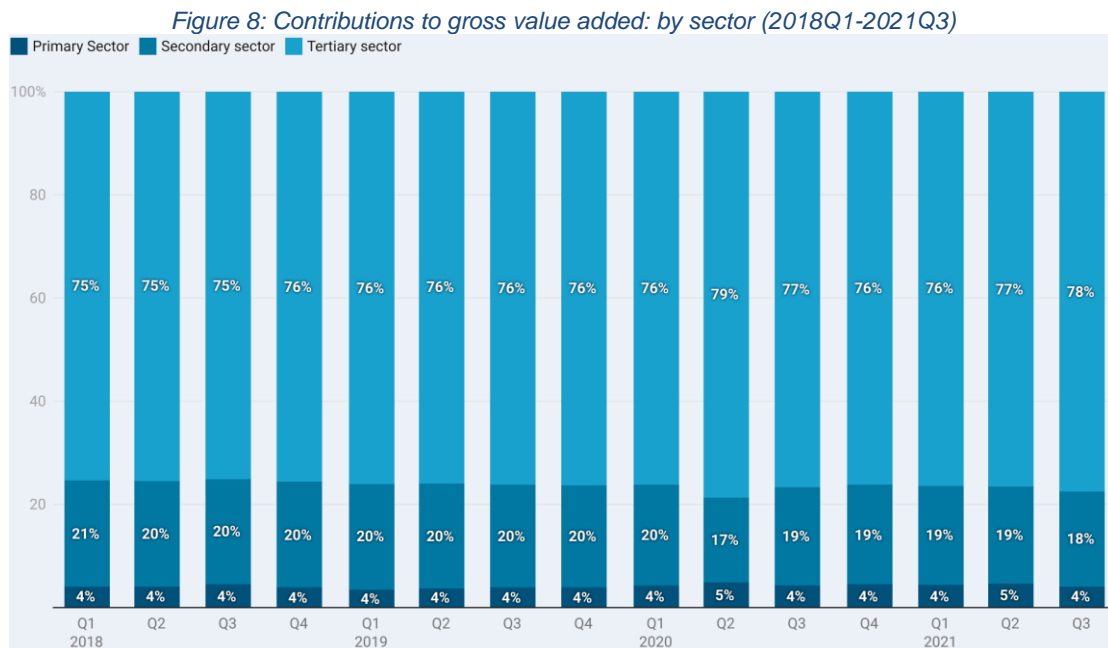
Final consumption expenditure by households constitute the largest component of the Western Cape's gross domestic expenditure (GDE). On average, consumption spending has accounted for approximately 57% of GDP over the past decade. This implies that any factor which causes consumer sentiment to move to depressed levels or hampers consumers' ability to spend, can have a severe impact on the province's GDP. The ratio of exports to GDP has averaged 18% over the past ten years. The proportion of exports to GDP rose steadily during the period under review, rising from 12% in 2011 to 22% in 2020. The ratio of 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 was approximately 17% in 2020.

<sup>1</sup> Seasonally adjusted and annualised



Source: Quantec (2022)

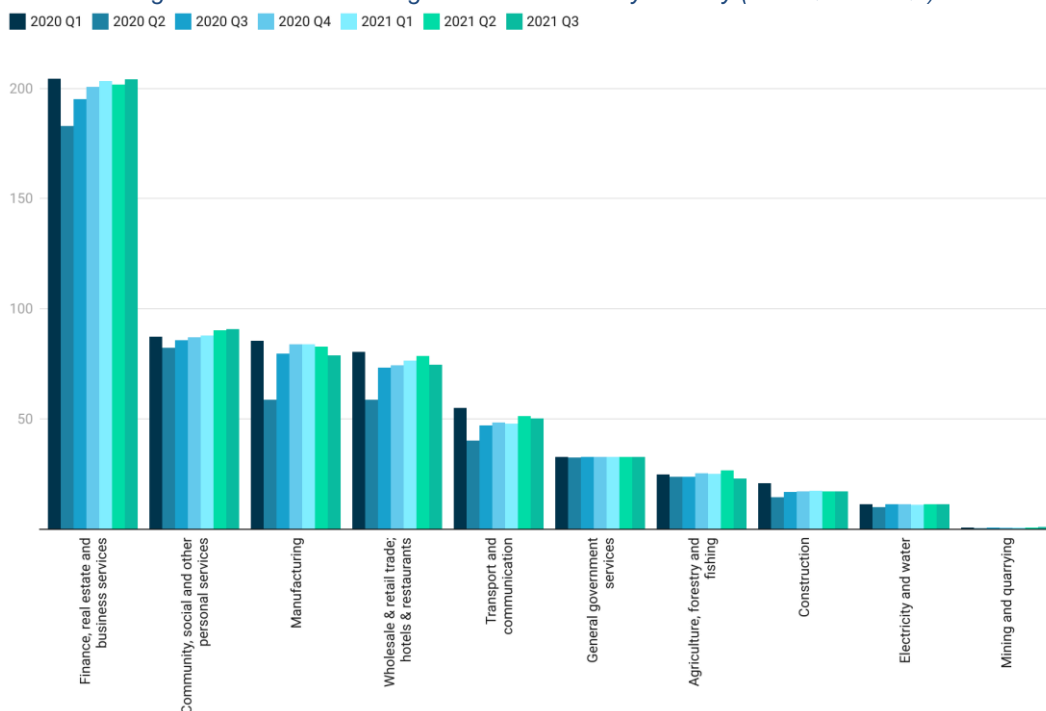
The Western Cape's tertiary sector accounts for a significant share of economic activity, averaging 76% between the first quarter of 2018 and the third quarter of 2021. The dominance of the tertiary sector is a sign of economic development. In the third quarter of 2021, the tertiary sector accounted for 78% of gross value added (GVA), whereas, the secondary and primary sectors constituted 18% and 4% respectively. During the observed period, the primary sector recorded the highest average growth rate of 0.42%, followed by the tertiary sector (0.23%).



Source: Quantec (2022)

The top five industries, in terms of the share of GVA over the past couple of quarters, are finance, insurance, real estate and business services; community, social and other personal services; manufacturing; wholesale, and retail trade, catering and accommodation; and transport, storage and communication. Four of the top five industries performing industries are part of the services sector, emphasising the economic importance of the sector to the province.

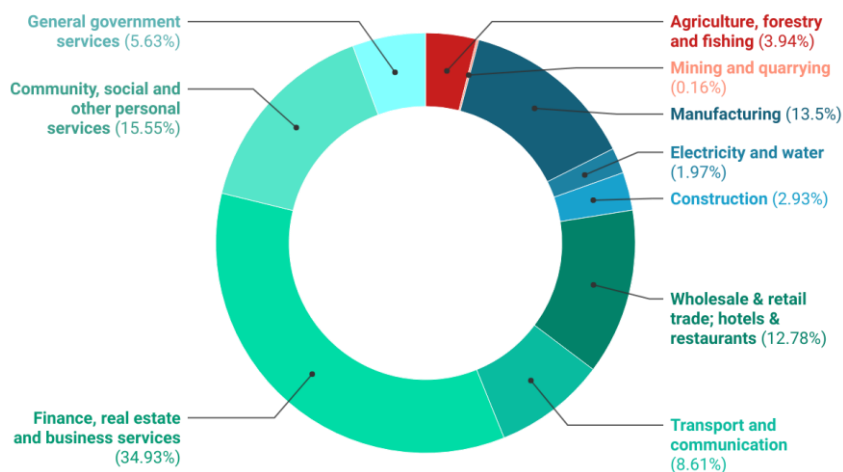
Figure 9: Contributions to gross value added: by industry (2020Q1-2021Q3)



Source: Quantec (2022)

The finance, real estate and business services accounted for over one third of the Western Cape’s GVA during the third quarter of 2021 as shown in Figure 10. This was followed by community, social and other personal services (15.5%); and manufacturing (13.5%).

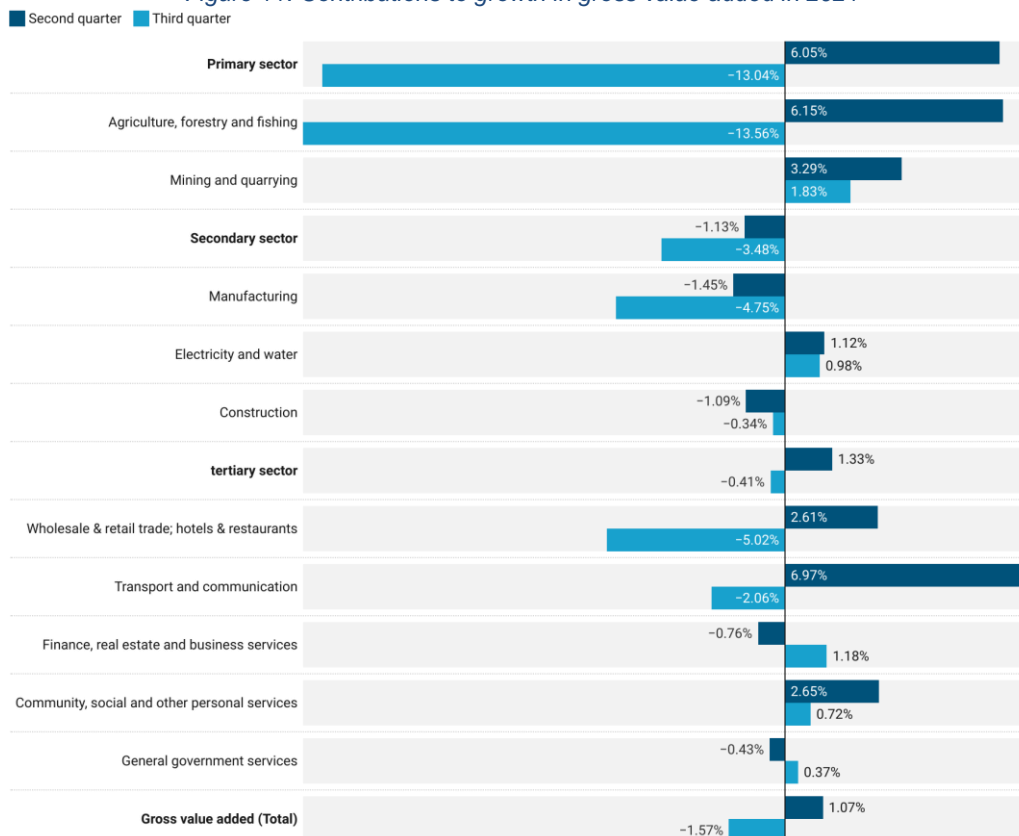
Figure 10: Composition of GVA at constant 2015 prices (2021 Q3)



Source: Quantec (2022)

As indicated in Figure 11, the growth rate of GVA (seasonally adjusted and annualised) declined from 1.07% in the second quarter of 2021 to -1.57% in the third quarter. Negative growth was observed in all three sectors during the third quarter of 2021, with the primary sector recording the highest decline. In terms of industry, agriculture, forestry and fishing witnessed the highest decline, followed by trade, hotels and restaurants. The industries that recorded positive growth rates during this period were mining and quarrying (1.83%); finance, real estate and business services (1.18%); utilities (0.98%); community, social and other personal services (0.72%); and general government (0.37%)

Figure 11: Contributions to growth in gross value added in 2021



Source: Quantec (2022)

#### 4. Exports

Exports of goods and services help to accumulate foreign reserves as well as drive other local economic activity. The Western Cape's volume of exports has generally increased over the past decade, reaching R136.70 billion in 2020. Moreover, a 7.39% growth was observed for exports in 2020, after a 1.44% decline in the previous year.

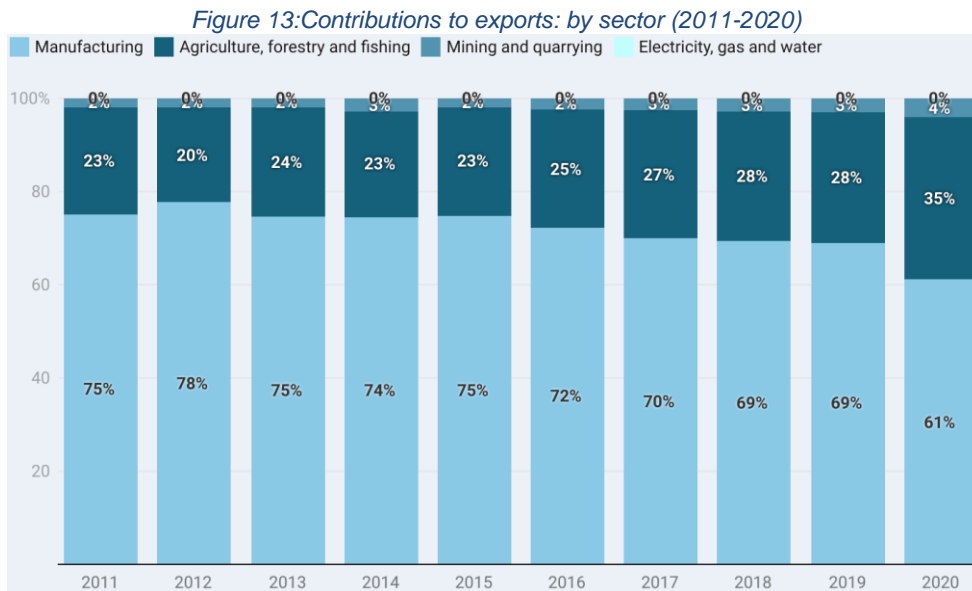
Figure 12: Exports: value and growth rate (2011-2020)



Source: Quantec (2022)

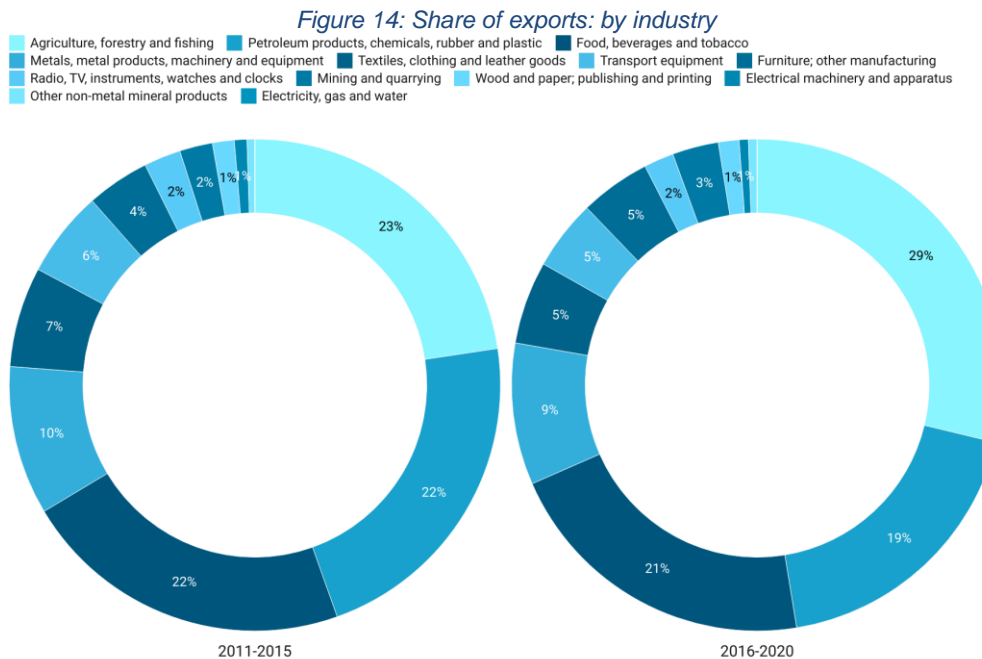
Manufacturing constitutes the largest component of the Western Cape's exports, followed by agriculture, forestry and quarrying. It is worth noting that whereas manufacturing's share of exports declined from 75% in 2011 to 61% in 2020, that of the agricultural sector has risen steadily over the past ten years (from 23% in 2011 to 35% in 2020).





Source: Quantec (2022)

When further broken down into sub-categories, the top five industries, as measured by share of exports during the 2016-2020 period, were agriculture, forestry and fishing; food, beverages and tobacco; petroleum products, chemicals, rubber and plastic; metals, metal products, machinery and equipment; and textiles, clothing and leather goods.

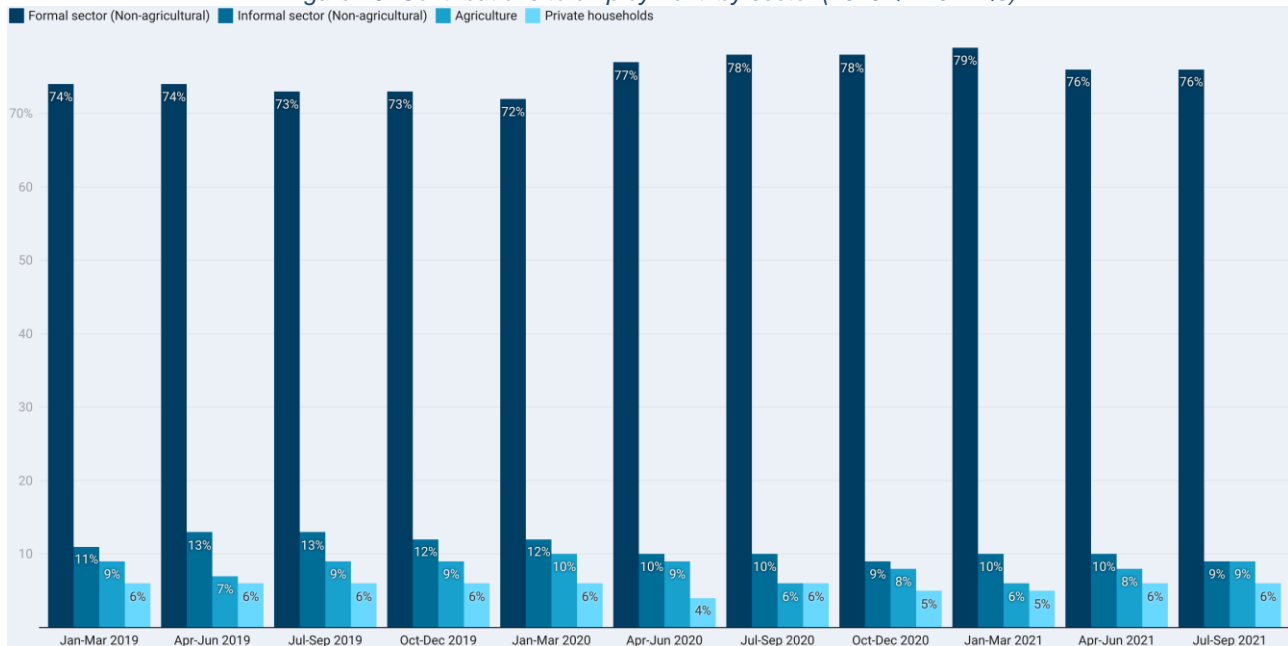


Source: Stats SA (2022)

## 5. Employment

The formal sector accounts for over 70% of employment in the Western Cape. During the third quarter of 2021, the formal sector accounted for 76% of employment, followed by the informal sector (9%); agricultural sector (9%), and private households (6%).

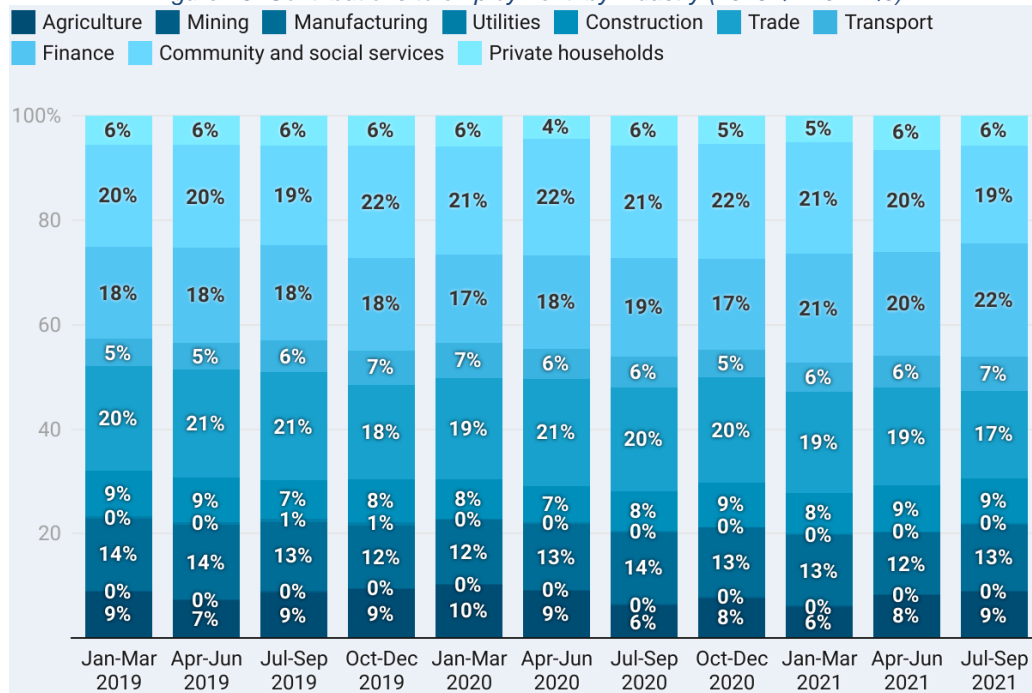
Figure 15: Contributions to employment: by sector (2019Q1-2021Q3)



Source: Stats SA (2022)

As shown in Figure 17, the top three job-creating industries for the Western Cape between the first quarter of 2019 and the third quarter of 2021 were finance; community and social services; and trade. Furthermore, mining; utilities; and finance observed the highest percentage changes in employment in quarter three of 2021 relative to the quarter before.

Figure 16: Contributions to employment: by industry (2019Q1-2021Q3)



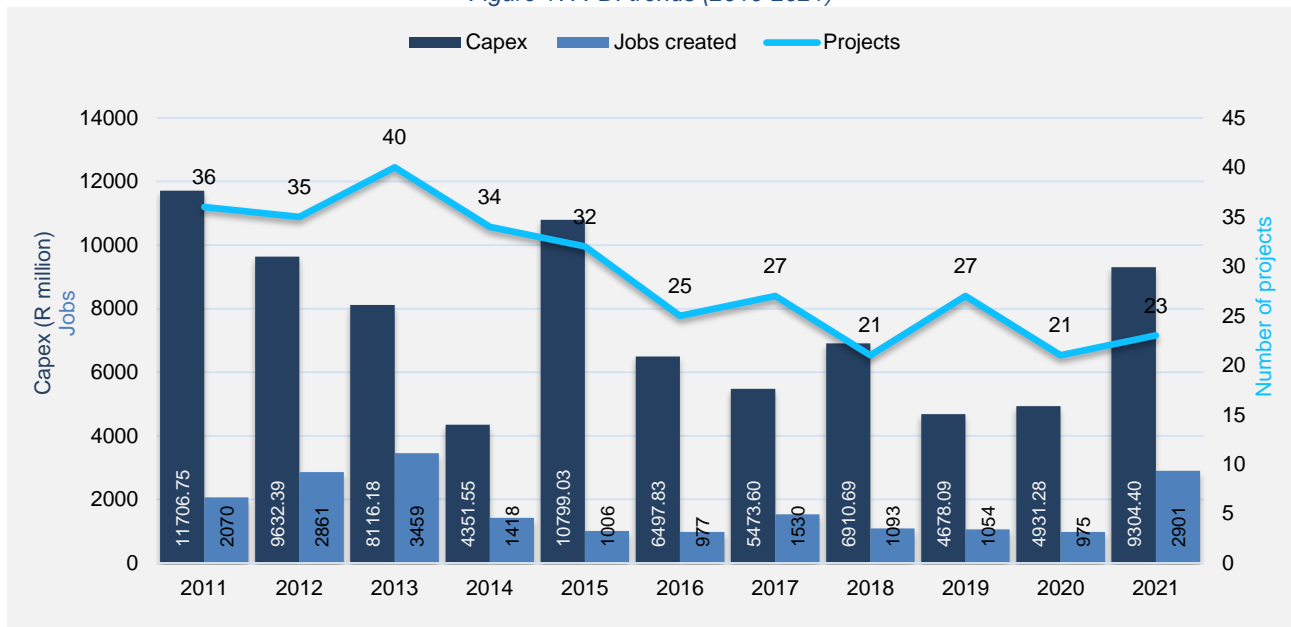
Source: Stats SA (2022)

## 6. Foreign Direct Investment

Inward foreign direct investment (FDI) is important to the growth and development of an economy. A country or region can benefit from inward FDI through the creation of decent jobs, increased productivity, and expansion in research and development. FDI can also contribute to increased productivity for firms, employment creation and poverty alleviation. Furthermore, Greenfield FDI can contribute to the development of the local economy through enhanced competition, the introduction of advanced technology and management practices, increased demand for local products, and exports growth (UNCTAD 2013 and World Bank 2020).

The Western Cape is one of South Africa's most attractive destinations for inward FDI, second only to Gauteng. The province recorded a total of 321 FDI projects between 2011 and 2021. These projects represented a capital expenditure of R82.10 billion and lead to the creation of 19 344 jobs. In general, the number of inward FDI projects attracted to the province has declined overall since 2013.

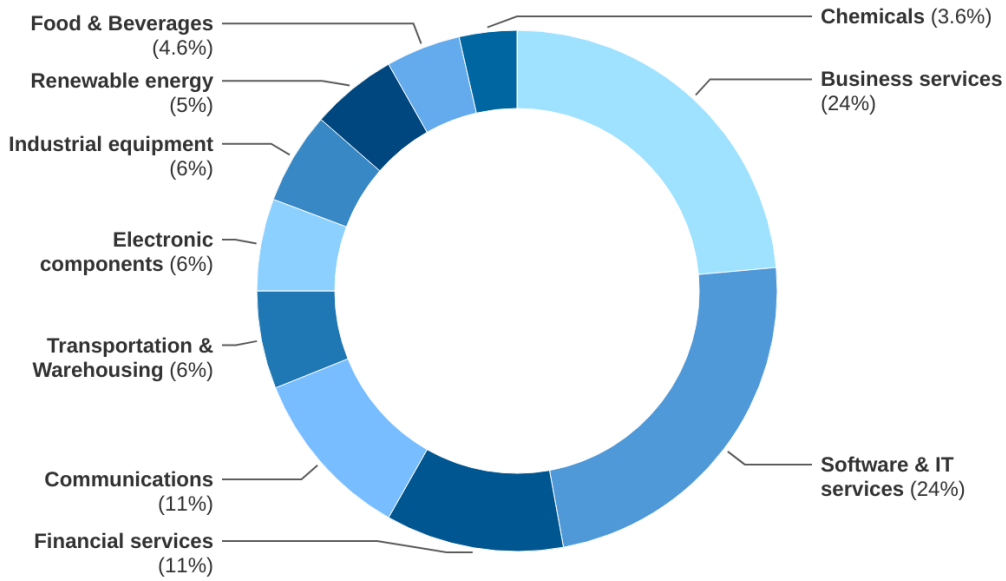
Figure 17: FDI trends (2010-2021)



Source: FDI Intelligence (2022)

The province attracts a sizeable number of FDI projects within the business services sector as well as the software and IT services sector as shown in Figure 19. These two sectors together accounted for over two fifths of inward FDI projects between 2010 and 2021.

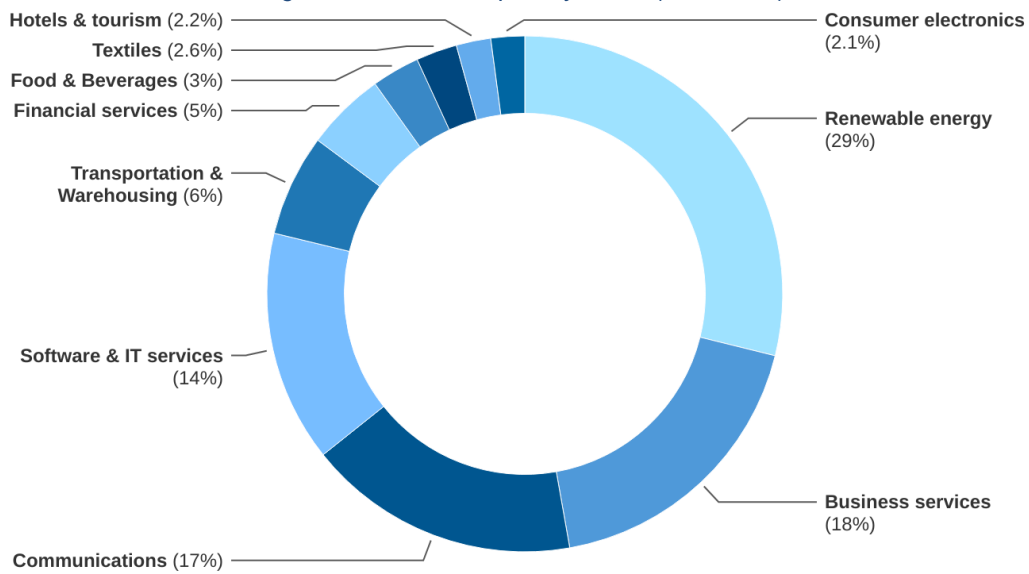
Figure 18: Share of FDI projects: by sector (2010-2021)



Source: FDI Intelligence (2022)

Furthermore, the three highest ranked sectors, in terms of capex, during the 2010-2021 period were renewable energy (29%); business services (18%); and communications (17%).

Figure 19: Share of capex: by sector (2010-2021)



Source: FDI Intelligence (2022)

## 7. Conclusion

The Western Cape is the second highest ranked economy in South Africa in terms of per capita real GDP. The services sector as a whole plays a significant role in economic growth and employment creation. The major contributors to the province's economic activity are finance, real estate and business services; community, social and other personal services; manufacturing; trade, hotels and restaurants; and transport, storage and communication. Moreover, the manufacturing sector is crucial to exports, accounting for about 61% of total exports in 2020, while the share of agriculture has been increasing in recent years. In relation to the creation of jobs, the Western Cape's top performing industries from 2019 to the third quarter of 2021 were finance; community and social services; and trade. Moreover, business services as well as software and IT services constitute the top two industries that attract FDI into the province. The ability of these industries to attract FDI and their growth prospect make them important to the province's economy.

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