



# An Economic Overview of the Western Cape

21 February 2023

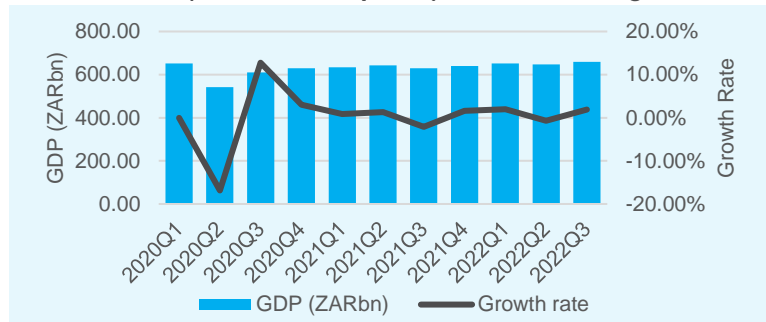
## Introduction

The global economy continues to be shaped by high inflation and weak economic growth underpinned by ongoing developments in the Ukraine. Global growth has been revised downward yet again, with the International Monetary Fund (IMF) forecasting that global growth will slow from 6% in 2021 to 3.2% (e) in 2022 and further to 2.9% (f) in 2023. Closer to home, the South African economy grew by 1.6% in the third quarter of 2022, and although the expansion was not broad-based, the level of real GDP surpassed the level it was pre the onset of the COVID-19 pandemic. Considering lower commodity prices, higher inflation and interest rates, and increased load-shedding, the South African Reserve Bank (SARB) projects that the South African economy will grow by 1.8% (e) in 2022, slowing to a muted 0.3% (f) in 2023 and 0.7% (f) in 2024. The Western Cape economy mirrored that of the country in 2022Q3, increasing by 1.9%, higher than the level it was before the pandemic, although this growth is likely to be offset by the same country-wide challenges in the fourth quarter. This report examines the Western Cape's key economic indicators. In particular, the report assesses the province's economic performance as well as employment statistics.

## Economic activity

The Western Cape economy expanded by 1.9% in 2020Q3, after contracting by 0.7% in previous quarter. The province's real gross domestic product (GDP) in the quarter was ZAR659.79 billion, exceeding pre-pandemic levels (i.e. ZAR651.56 billion in the fourth quarter of 2019). Noting that this was the highest value recorded in the period between 2015Q1 and 2022Q3.

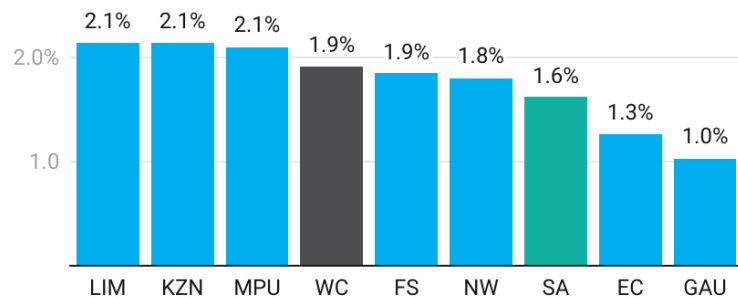
**Real GDP (constant 2015 prices)<sup>1</sup> and economic growth**



Source: Quantec (2023)

In the third quarter of 2022, South Africa and all of its nine provinces recorded positive economic growth rates. The Western Cape had the fourth highest growth rate of 1.9% among all nine provinces, higher than South Africa's 1.6%. Gauteng, on the other hand, had the lowest growth rate of 1.0%, followed by the Eastern Cape (1.3%) and North West (1.6%).

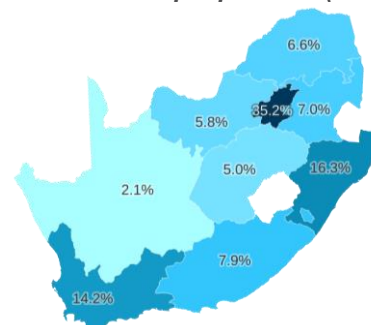
**GDP growth rate (2022Q3)**



Source: Quantec (2023)

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 third quarter of 2022. Gauteng (35.2%) and KwaZulu-Natal (16.3%) were the top two contributors to national output during this period.

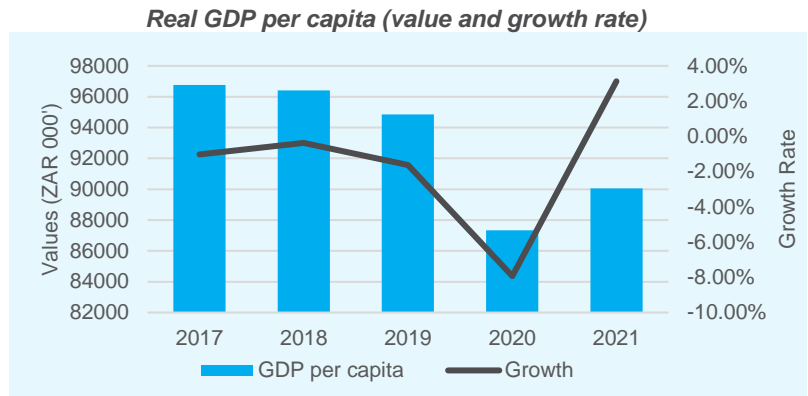
**Share of GDP per province (2022Q3)**



Source: Quantec (2023)

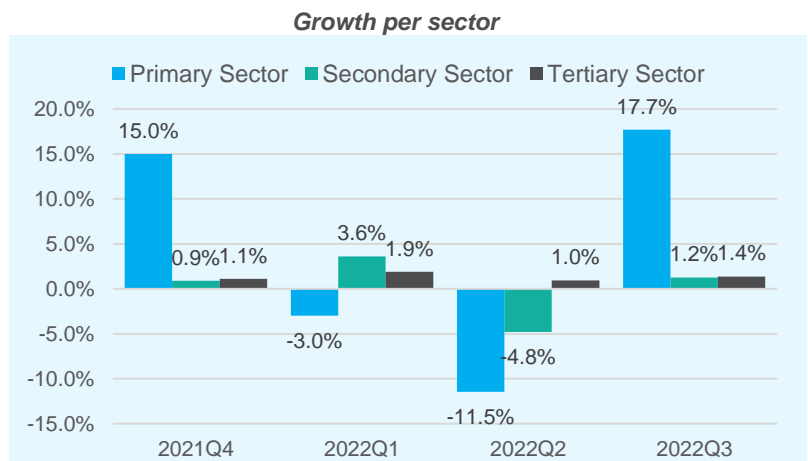
<sup>1</sup> Seasonally adjusted and annualised

Real GDP per capita in the Western Cape was ZAR90,064.95 in 2021, an increase of 3.12% compared to the ZAR87,336.22 recorded in 2020. The province had 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 reflective of net in-migration.



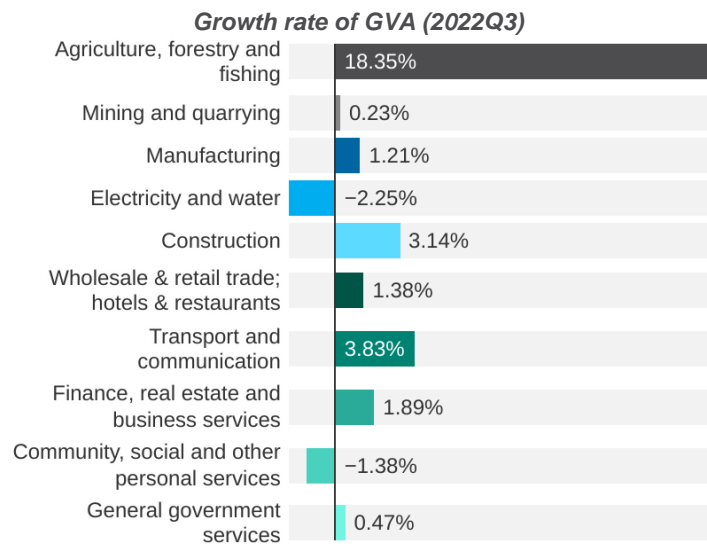
Source: Quantec (2023)

All the sectors of the provincial economy recovered in the third quarter of 2022. The primary sector saw the largest growth (17.7%) among the three sectors, recovering from a decline of 11.5% in the second quarter. The increase reflected growth in agricultural sector output of 18.4%. The tertiary and secondary sectors grew by 1.4% and 1.2% respectively. Transport and communications were the major contributors to tertiary sector growth.



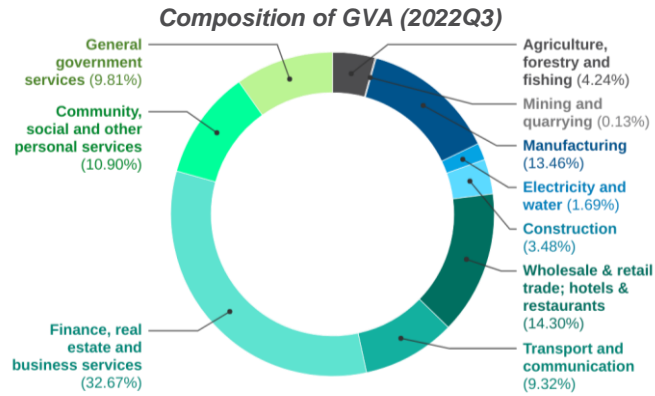
Source: Quantec (2023)

As noted above, the agriculture, forestry, and fishing; transport and communication; and construction made the largest contributions to provincial real output in the third quarter of 2022. Agriculture recovered strongly from the previous quarter's decline (8.26%), growing by 18.4% in the third quarter. The transport and communication sector's GVA increased by 3.8%, while that of construction increased by 3.1%. In contrast, the community, social and personal services (CPS) sector and the utilities sector declined by 1.4% and 2.3% respectively.



Source: Quantec (2023)

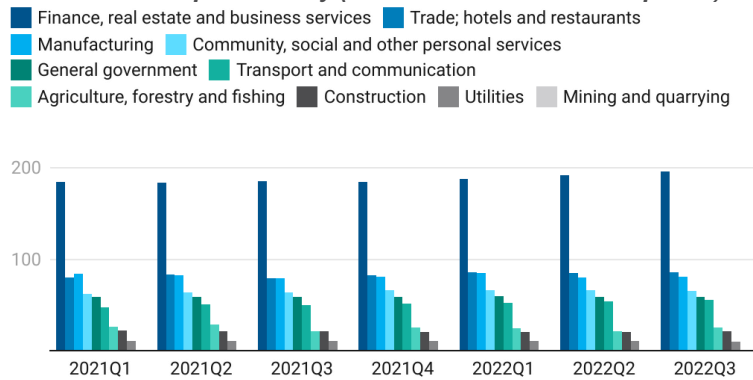
The tertiary sector dominates economic activity in the Western Cape, with a share of 76% of total economic activity in the third quarter of 2022. Finance, real estate and business services accounted for over one third of the province's GVA in the third quarter of 2022. This was followed by wholesale and retail trade, hotels and restaurants (14.3%) and manufacturing (13.5%).



Source: Quantec (2023)

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.

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



Source: Quantec (2022)

The City of Cape Town is the largest contributing district to GDP in the Western Cape, holding a share of over 70.0% of provincial GVA in 2021. The Cape Winelands (11.14%) and the Garden Route (Eden; 7.51%) 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 34.0% of the city's GVA in 2021. The same sector dominates the economies of Cape Winelands and Garden Route.

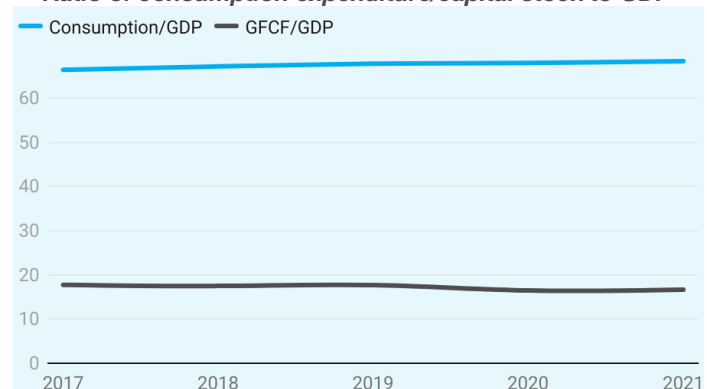
Sector contribution per district (2022Q3)

Industry	Cape Town	West Coast	Cape Winelands	Overberg	Eden	Central Karoo
Agriculture, forestry & fishing	1.67%	23.29%	9.63%	11.04%	5.61%	16.28%
Mining & quarrying	0.14%	0.69%	0.12%	0.06%	0.22%	0.03%
Manufacturing	14.11%	18.66%	14.17%	13.38%	13.35%	2.53%
Utilities	1.88%	1.24%	1.52%	1.65%	1.95%	3.88%
Construction	3.49%	3.14%	4.55%	5.07%	4.02%	3.18%
Trade, catering & accomm.	13.89%	13.14%	15.62%	16.24%	14.78%	11.06%
Transport & communication	9.26%	5.19%	7.20%	8.10%	8.14%	10.03%
Finance, real estate and business services	33.96%	15.19%	26.71%	26.82%	32.78%	14.04%
Government	10.38%	9.99%	9.56%	8.08%	8.96%	20.74%
Community, soc. & pers. services	11.21%	9.47%	10.92%	9.56%	10.19%	18.22%

Source: Quantec (2023)

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 17%.

Ratio of consumption expenditure/capital stock to GDP

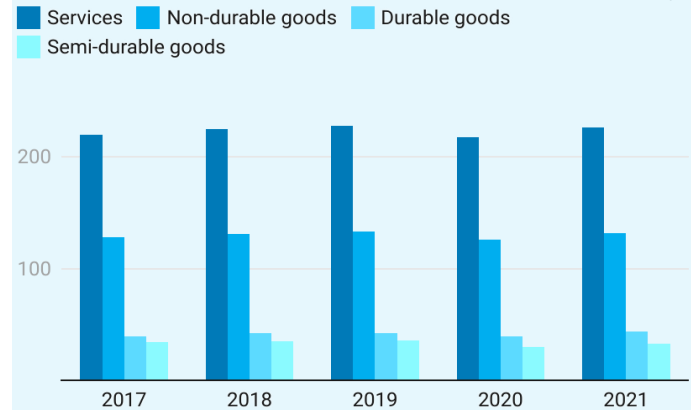


Source: Quantec (2023)



In 2021, services accounted for more than half of households' consumption spending in the Western Cape, with miscellaneous services; transport and communications; and rent 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 61%. Some 10.1% and 7.5% of household expenditure was on durable and semi-durable goods.

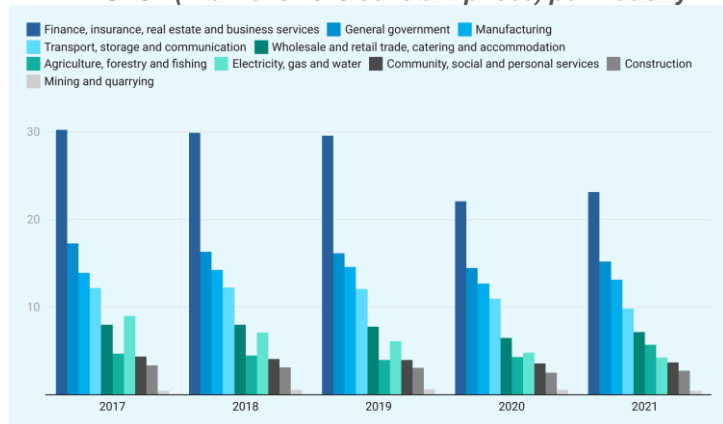
**Consumption expenditure (R millions 2015 constant prices) by type**



Source: Quantec (2023)

Real capital expenditure increased by 3.4% in 2021 after contracting for the past three 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%. Construction; wholesale and retail trade; finance; and general government were the industries with the largest share of real capital outlays.

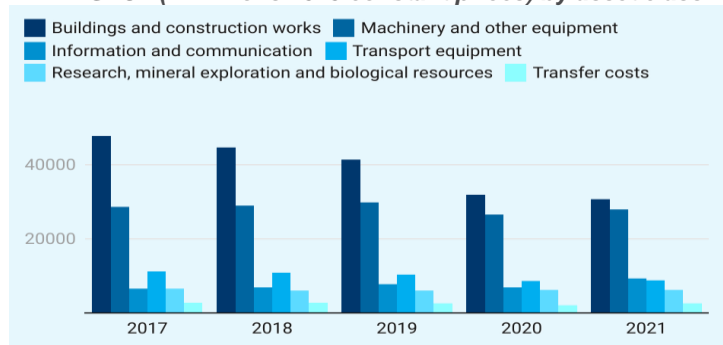
**GFCF (R billions 2015 constant prices) per industry**



Source: Quantec (2023)

In terms of type of asset, buildings and construction works, as well as machinery and other equipment constitute the largest component of real GFCF, with a share of 35.93% and 32.74% each in 2021. They were followed by information and communication (10.87%); and transport equipment (10.23%)

**GFCF (R millions 2015 constant prices) by asset class**



## Consumer prices

Annual consumer inflation moderated slightly in December 2022 to 6.90% from 7.14% in November. The main contributors to the 6.90% annual inflation rate were food and non-alcoholic beverages; housing and utilities and transport.

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



Source: Quantec (2023)

## Labour market

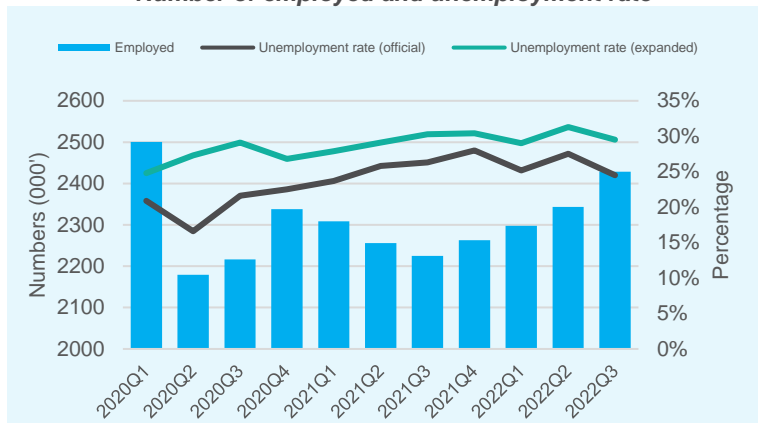
The Western Cape's official unemployment rate decreased by 3.04 percentage points to 24.5% in the third quarter of 2022 compared to the previous quarter. During this period, the expanded employment rate (which includes discouraged work-seekers and those who had other reasons for not searching for jobs during the reference period) also decreased to 29.5%. An estimated 90,901 more people were employed in the third quarter of 2022 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 third quarter of 2022, the province's official unemployment rate was 24.5%, while the expanded unemployment rate was 29.5%.

It is mostly the youth population that faces unemployment in South Africa. The unemployment rate is 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 67.1% and 40.2% in 2022 Q3 respectively. 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.

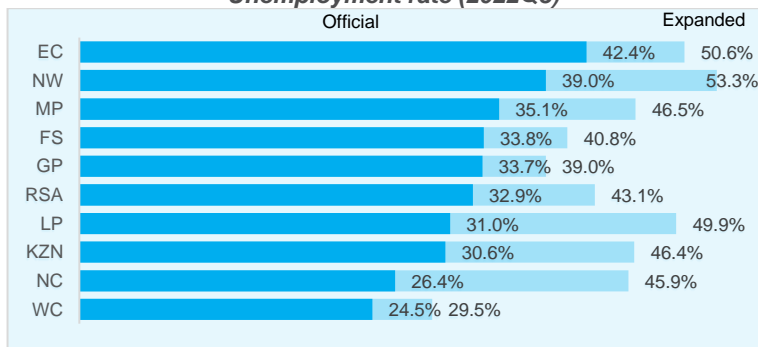
The labour force participation rate, which is the proportion of the working age population that is either employed or unemployed, decreased by 0.6 percentage points from 66.0% in 2022Q2 to 65.4% in 2022Q3. The proportion of the working age population that was employed (absorption rate) was 49.4%, higher by 1.6 percentage points compared to the previous quarter.

**Number of employed and unemployment rate**



Source: Quantec, (2023)

**Unemployment rate (2022Q3)**



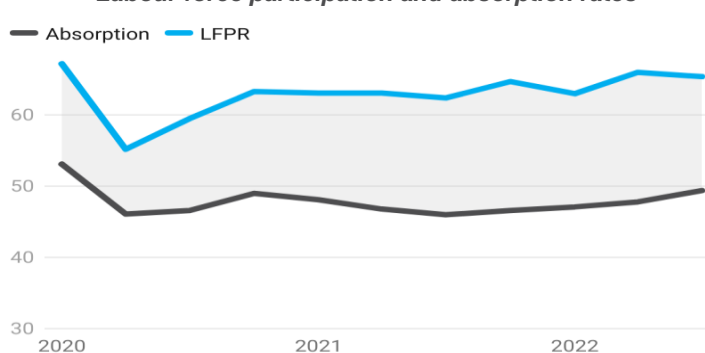
Source: Quantec (2023)

**Unemployment rate among different age groups**

	2021Q4	2022Q1	2022Q2	2022Q3
Age 15-19	46.2%	53.8%	69.9%	67.1%
Age 20-24	55.6%	44.6%	45.1%	40.2%
Age 25-29	32.8%	29.9%	34.5%	33.1%
Age 30-34	28.6%	23.7%	27.2%	28.3%
Age 35-39	28.4%	25.9%	25.2%	22.9%
Age 40-44	22.1%	20.2%	23.6%	19.3%
Age 45-49	25.8%	21.0%	23.7%	14.7%
Age 50-54	16.4%	17.4%	16.1%	16.3%
Age 55-59	6.7%	13.4%	15.2%	11.8%
Age 60-64	2.9%	5.1%	4.1%	6.4%

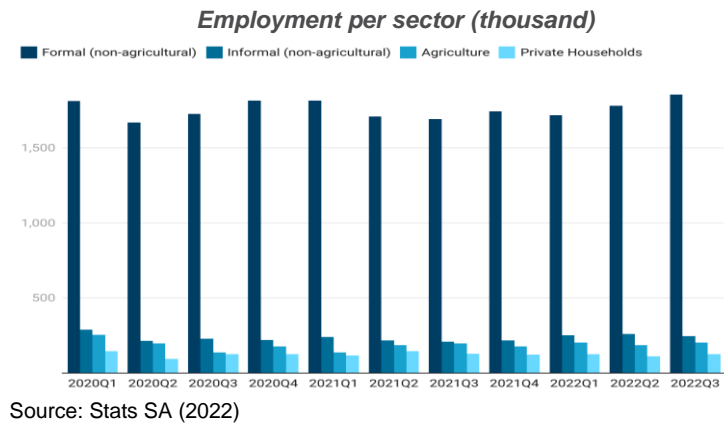
Source: Quantec (2023)

**Labour force participation and absorption rates**

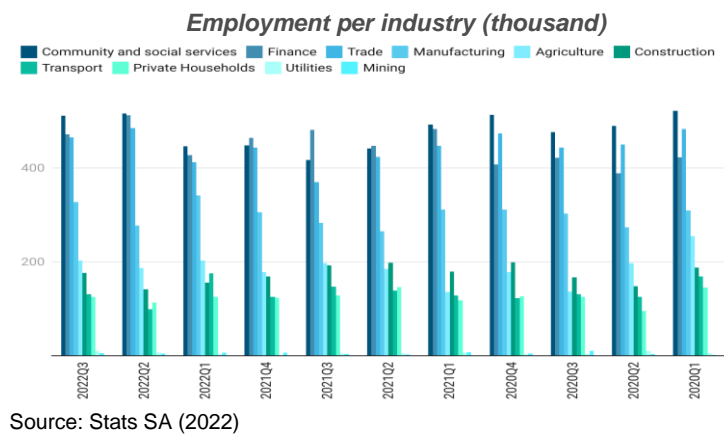


Source: Stats SA (2022)

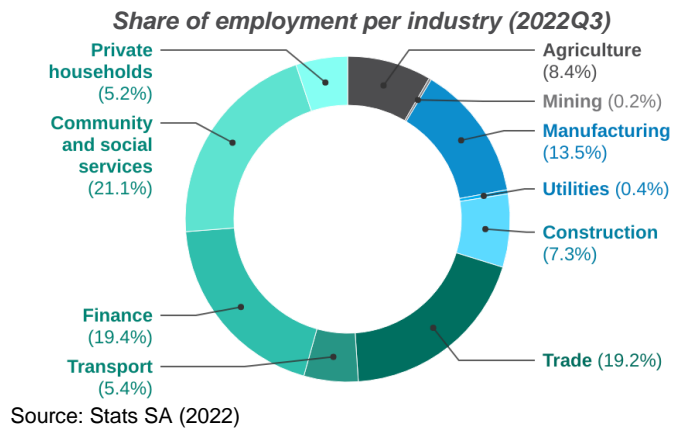
In the third quarter of 2022, the formal sector accounted for 76.4% of employment, followed by the informal sector (10.1%); agricultural sector (8.3%), and private households (5.2%). Formal sector employment increased by 4.12%, while employment in agriculture and private households increased by 8.4% and 10.8% respectively. Informal sector employment decreased by 6.24% during this period.



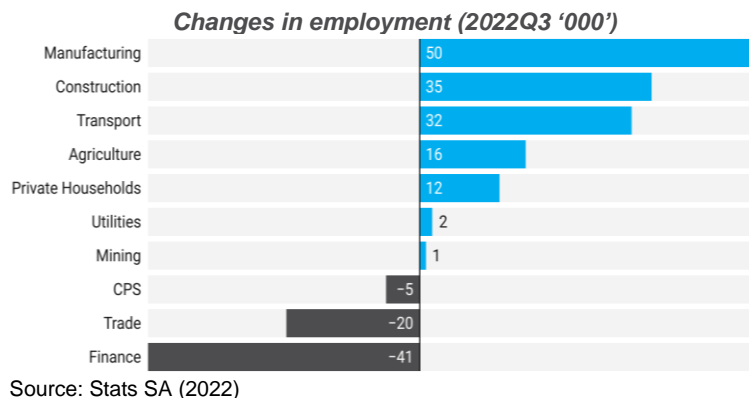
The tertiary sector accounts for over 70% of employment in the Western Cape, whereas the primary sector accounts for less than 10%, on average. For the period under review, community, and social services; finance; trade; manufacturing; and agriculture were the top five contributors to employment in the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



The community and social services sector (21.1%); finance (19.4%); and trade (19.2%) made the highest contribution to employment in the third quarter of 2022. 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 (8.4%) and construction (7.3%).



Out of the 10 industries, seven recorded positive growth (q/q) in employment during the third quarter of 2022. The biggest additions to employment in the quarter were recorded for manufacturing (50, 000 jobs); construction (35, 000 jobs); and transport (32, 000 jobs). Job losses were recorded for CPS (5, 000), trade (20, 000), and finance (41, 000).



## 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; trade, hotels and restaurants; manufacturing; and community, social and other personal services.

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