Chapter 2: Economy

The economy is the point of departure for assessing the state of development in a city.

1. Introduction

An effective, well-performing local economy is central to improving the lives of the city's residents. The success of cities, especially those in developing countries such as South Africa, hinges on the economy's ability to distribute the benefits of economic growth to all its citizens. A city can only become a place of opportunity and inclusivity if the economy creates jobs and raises wage income, and if the returns from value-added production are reinvested in physical and social infrastructure. The performance of the economy also indirectly affects the relative safety and health of a city's people, as well as their ability to achieve full cultural expression. In many ways, therefore, the economy is the point of departure for assessing the state of development in a city.

This chapter examines the performance of Cape Town's economy as reflected in macroeconomic indicators such as gross domestic product (GDP) growth and labour market indicators, as well as indicators derived from administrative data. It also places Cape Town's economy in a broader context, acknowledging that it is inextricably linked to a regional and global economic system and is subject to many of the same headwinds and opportunities. As a fast-growing, emerging city, Cape Town is faced with both sublime opportunities and major challenges, which are unpacked in this chapter.

2. Global trends: Headwinds for emerging economies

In April 2016, the International Monetary Fund's (IMF) World Economic Outlook report predicted global growth of 3,2% for 2016, a downward revision from its forecast in January 2016. The expectation is that from 2017 onwards, global growth will strengthen (to 3,5%), led by emerging-market and developing economies. However, there is the risk of weaker growth scenarios, which may put economies under greater stress.[127] This risk could be a function of the notable decline in net capital flows to emerging-market economies since 2010. Using a sub-sample of emerging-market economies, the IMF report finds that weaker net capital inflows and larger outflows have resulted in an economic slowdown in these economies, as the gap of growth narrows relative to advanced economies. These growth trends are detailed in figure 2.1 and 2.2 (see next page). Should capital outflows continue to outstrip inflows in emerging-market economies, it could bring about a series of contagion effects, making economies that rely on external financing particularly vulnerable.[128]

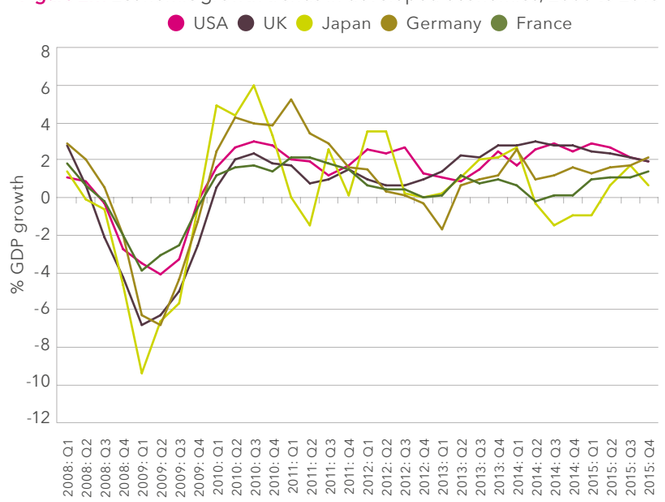
This observation is also mirrored in foreign direct investment (FDI) trends. In particular, South Africa observed a 31% decline in FDI from 2013 to 2014. FDI inflows were dominated by capital inflows towards the services sector (51%), the primary sector (31%) and manufacturing (18%). Much of the growth in FDI inflows in South Africa is a function of growth in the rest of Africa. Specifically, many companies are using South Africa as the "base from which to expand regionally", according to the World Investment Report 2015.[129]

Developed economies were badly affected by the economic recession from late 2008 to the end of 2009, posting negative year-on-year growth rates during that period. In contrast, both China and India maintained growth rates in excess of 5%. Following the recession, most economies experienced a pronounced upswing in 2010, coming off the lower base in the previous years.

While developing countries have experienced a mild cooling of growth since 2011, growth in developed countries was dramatically stunted by the Euro-area sovereign lending crisis. The combination of the impact of these two economic shocks (the recession and the Eurozone crisis) on developed countries profoundly shifted the economic centre of gravity towards the emerging-market economies of China and India in particular. From 2014 onwards, however, a general cooling in Chinese growth and the end of the United States' policy of quantitative easing[130] have placed considerable economic strain on some emerging economies. Economic growth in Brazil and Russia has plummeted since 2014, respectively as a result of a lack of "macroeconomic rigour"[131] in Brazil and international sanctions and lower global oil prices in Russia.[132] Euromonitor has described the Brazil, Russia, India and China (BRIC) consortium (with South Africa excluded for purposes of this analysis) as "losing their shine for investors".[133]

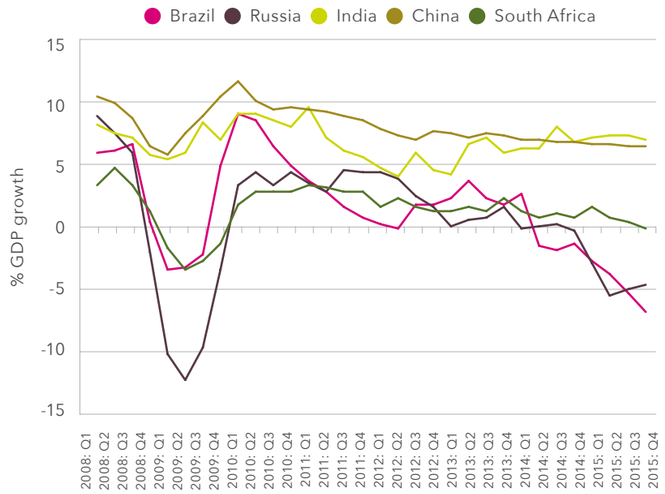
127 IMF, 2016: xv.
128 Ibid: 25.
129 UNCTAD, 2016: 36.
130 The monetary policy practice whereby the central bank unusually increases its monetary base, including asset purchases and lending programmes (Fawley & Neely, 2013: 52). In practice, in the wake of the global financial crisis and in response to interest rates nearly reaching zero (implying that short-term nominal interest rates could not be reduced any further to promote economic activity (Forbes, 2015), the Federal Reserve Bank of the United States expanded its balance sheet by purchasing government bonds and mortgage-backed securities to lower interest rates. The intention was to change the willingness of banks to lend, of firms to invest, or of individuals to consume or invest in housing (Fawley & Neely, 2013: 52).
131 Economist, 2016.
132 World Bank, 2016.
133 Euromonitor International, 2016.

Figure 2.1: Economic growth trends in developed economies, 2008 to 2015



Source: Trading Economics, 2016.

Figure 2.2: Economic growth trends in developing economies, 2008 to 2015



Source: Trading Economics, 2016.

As a result, Euromonitor predicted that the combined average FDI intensity (FDI as a proportion of GDP) in the BRIC countries would decline from 3,0% in 2008 to 1,5% in 2015.[134]

Despite the headwinds facing the global economy, the IMF forecasts global economic growth to continue improving beyond 2017, reaching approximately 4% by 2021, notably led by growth in emerging-market and developing economies. This does however hinge on a number of economic stabilisation factors, including:[135]

- a gradual normalisation of conditions in several economies currently under stress;
- a successful rebalancing of China's economy, with trend growth rates that – while lower than those of the past two decades – remain high;
- a pickup in activity in commodity exporters, albeit with growth rates more modest than in the past; and
- resilient growth in other emerging-market and developing economies.

Zooming in on South Africa, the IMF's report shows lowered economic growth forecasts for 2016 and 2017. The growth forecast has declined from 0,7% to 0,6% for 2016, and from 1,8% to 1,2% for 2017. Domestically, National Treasury has forecast growth of 0,9% relative to the Reserve Bank's forecast of 0,8% for 2016. A number of potential domestic risk factors, including the prospects of labour instability associated with wage negotiations in the mining and manufacturing sectors, could be driving this expected decline in growth. A rise in economic growth forecasts for China could help buffer some of the lower growth in the South African economy, as China is a major export market for the country. However, this would again rely on the rebalancing of the Chinese economy.

3. The power and responsibility of cities

Cities are increasingly seen as the engines of economic growth and job creation, utilising their economies of scale, greater ability to specialise, and enhanced attractiveness to investors to outperform their home countries. Of the largest 750 cities in the world, three quarters grew faster than their home countries over the period 2005-2012.[136] Altogether 70% of these cities also outperformed their home countries in terms of productivity. As an example of the potential disparity between a country's economic performance

134 Euromonitor International, 2016.
135 IMF, 2016: 18.
136 World Bank, 2015a: 12

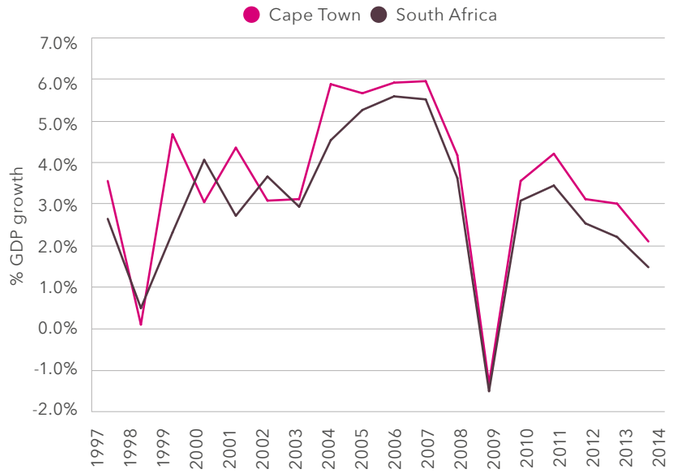
and that of one of its large cities, Euromonitor reports that consumer spending is expected to increase by 5% in Nigeria in 2016, but by 10% in Abuja, its capital city.[137] So, while Brazil's economy may be in a deep recession, Sao Paulo's growth could for example, remain resilient.

Since 2000, lower to middle-income countries have accounted for a disproportionately high number of the fastest-growing cities of the world. These cities in part gain their growth impetus from rapidly expanding populations as a result of relatively high birth rates and increasing rates of rural-urban migration. Particularly rural-urban migration can result in widening disparities between the home country and its major cities. As this chapter will show, Cape Town, like many emerging cities, is outperforming the national economy. However, the World Bank[138] warns that fast-growing emerging cities need to create jobs quickly in order to provide opportunities for their citizens, and to raise revenue for increasing service delivery demands. Prolonged periods of youth unemployment also undermine the economic and related gains from population growth.

4. Cape Town's economic growth performance

The degree to which economic growth in Cape Town is tied to South Africa's economic growth rate is clearly reflected in figure 2.3, which plots Cape Town and South Africa's annual GDP growth rates for the period 1997-2014. For the most part, Cape Town's growth performance tracks that of the country, especially in the last five years. However, while matching the direction of national growth trends, Cape Town has on average grown faster (2,3% compared to 1,8%). Cape Town's fastest economic growth came in the period 2004-2007, just prior to the global financial crisis. In that time, the average annual growth rate of Cape Town's economy was 5,9% compared to a national average annual growth rate of 5,2%. The greatest divergence from the national growth rate, however, came in the period 2011-2014, when Cape Town recorded an average annual growth rate of 3,1%, and South Africa recorded only 2,4%. This points to the greater resilience of the city's economy in the post-recession period and confirms the World Bank's finding that cities tend to grow significantly quicker than their home countries.

Figure 2.3: GDP annual growth rates for Cape Town and South Africa, 1997 to 2014



Source: City of Cape Town, 2016. Trade and Investment Department calculations, based on Global Insight ReX Regional data, 2016.

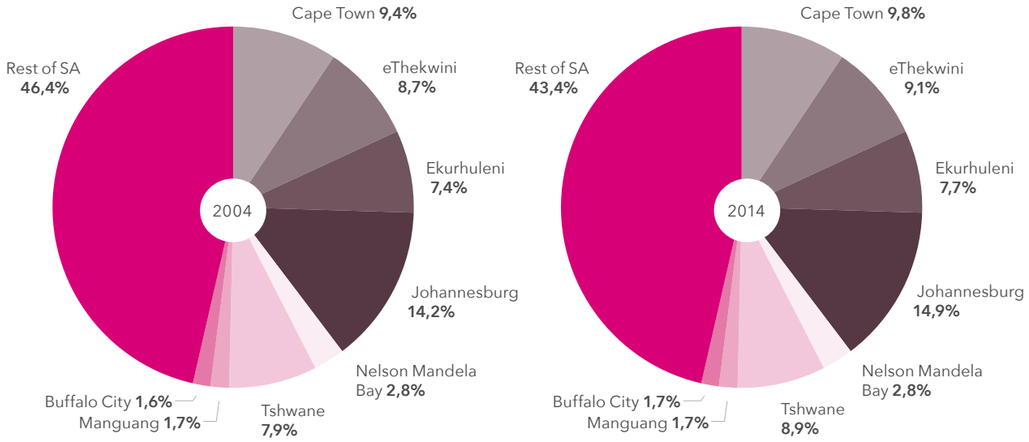
The total growth of Cape Town's economy between 2004 and 2014 was 40,5%, while South Africa's was 33,6%. Naturally, this has resulted in Cape Town contributing an increasing share to South Africa's GDP. Figure 2.4, which compares the GDP contributions of eight metros in South Africa, provides evidence that Cape Town's contribution to national GDP increased, albeit marginally, from 9,4% to 9,8% between 2004 and 2014, making it the second-highest contributor to national GDP after the City of Johannesburg. The City of Tshwane showed the largest growth in this period, having increased its share by a percentage point. This is in line with a broader trend in this period that saw metropolitan municipalities increase their share of national GDP from 53,6% to 56,6%. Metropolitan municipalities contributed even more strongly to growth, cumulatively accounting for 66% of South Africa's GDP growth, with Cape Town contributing 11%.

It is not surprising that economic growth in cities has been faster than in the rest of South Africa since 2004, as an ongoing process of urbanisation has increased the number of people living in large cities. According to the 2011 Census, Cape Town in particular was one of the largest receivers of South African and international migrants: Close to 40% of the population growth in Cape Town between 2001 and 2011 comprised new arrivals from outside the Western Cape.[139] For this reason, it is necessary to ascertain whether economic growth in Cape Town simply reflects population growth in the city or represents increased productivity and value addition. The easiest way to do this is to control for the impact of population growth by analysing GDP per capita.

Cape Town's real GDP[140] per capita in 2014 was R76 420, compared to a national figure of R55 953 and an average of R75 188 among South

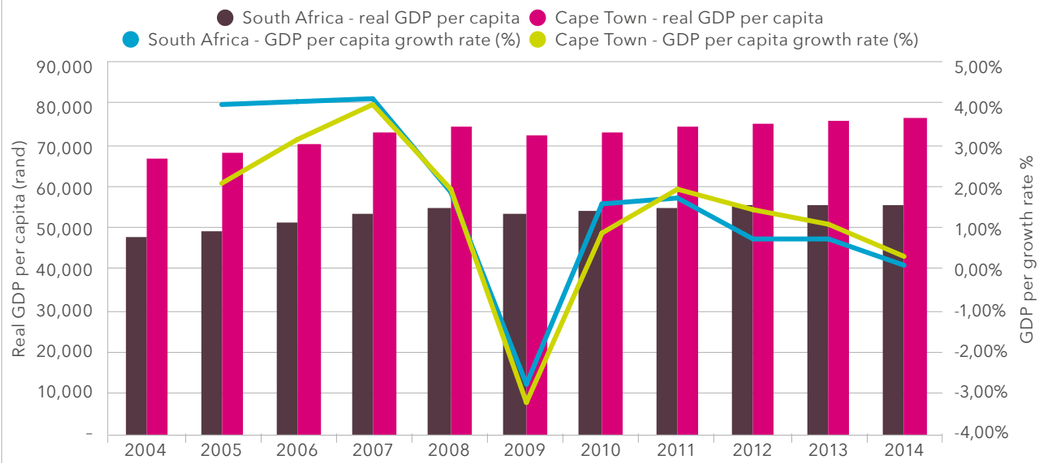
137 Euromonitor, 2016:28
138 World Bank, 2015a: 16
139 City of Cape Town, 2014.
140 Real gross domestic product is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices, and is often referred to as "constant-price". (Investopedia, undated)

Figure 2.4: Comparison of GDP contributions of Cape Town and other South African metros, 2004 and 2014



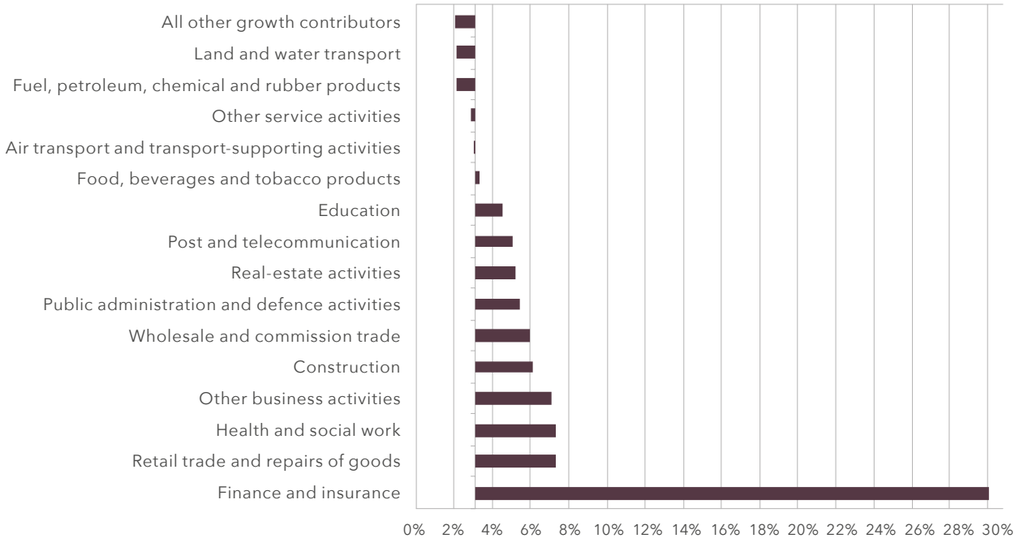
Source: City of Cape Town, 2016. Trade and Investment Department calculations, based on Global Insight ReX Regional data, 2016.

Figure 2.5: GDP per capita and GDP per-capita growth rates for Cape Town and South Africa, 2004 to 2014



Source: City of Cape Town, 2016. Trade and Investment Department calculations, based on Global Insight ReX Regional data, 2016.

Figure 2.6: Sectoral contributions to GVA growth in Cape Town, 2005 to 2014



Note: *The axis is pegged at the average GVA growth rate of the whole economy over the period in question (not at nought). Therefore, everything to the left of the axis is growing slower than average.*

Source: *City of Cape Town, 2016. Trade and Investment calculations, based on IHS Global Insight ReX Regional data, 2014.*

Africa's metropolitan municipalities (refer figure 2.5). This finding points to the greater productivity of Cape Town's economy and lends credibility to the assertion that cities are the growth engines of countries' economies and are essential to the "miracle of productivity", which has seen a rapid increase in the value of human production.[141] This can be attributed to the increased "scale and specialisation" that can be achieved in cities as a result of the densification and clustering of human settlements.[142]

Cape Town's positive growth in GDP per capita would indicate that economic growth over the period 2004 to 2014 was not only an outcome of population growth, but also of increased productivity due to scale and specialisation. However, Cape Town's GDP per-capita average annual growth rate of 1,3% between 2004 and 2014 was lower than the average for South Africa's metropolitan municipalities, which was 1,7%.

141 Centre for Development and Enterprise, 2014:18.
142 Ibid.

5. The sectoral drivers of Cape Town's economy

Cape Town is primarily a service-driven economy, with tertiary-sector industries contributing almost 80% to the city's total gross value added (GVA). Like most cities, the primary sector in Cape Town is very small, contributing less than 1% to the city's economic output. Tertiary-sector industries also contributed most to the economic growth of the city between 2005 and 2014. In particular, the finance and insurance industry contributed over 30% to the City's economic growth, with strong contributions also coming from retail, business services and wholesale trade (refer figure 2.6).

The fastest-growing sectors in Cape Town's economy are more capital-intensive than labour-intensive, and mostly demand workers who are highly skilled. Robust economic growth in sectors such as the finance and real-estate sectors will generally have lower employment multiplier impacts than those associated with the manufacturing or agricultural sectors. While this constitutes a challenge for the city's economy, there are nevertheless opportunities for specialisation in specific industries within the tertiary sector that offer relatively high employment multiplier effects. If employment growth is crucial for the sustainable economic growth of the city, the manufacturing sector should, for example, not be overlooked. The trend of "fast fashion", for instance, is revitalising the Cape Town clothing and textiles industry, while large-value investments in consumer electronic and renewable-energy manufacturing have also provided these sectors with fresh impetus.

5.1 Sectors attracting the most foreign direct investment

Figure 2.7 (see next page) indicates the total level of FDI received per sector between 2003 and 2014. In total, Cape Town received R59 billion worth of investments. The distribution of these investments confirms that Cape Town is indeed a services-driven economy, with the largest recipients of FDI being information and communications technology (ICT), real estate, tourism, transport and business services. From 2003 to 2014, ICT – the largest FDI-receiving sector – attracted R16 billion worth of FDI.

Cape Town's positive growth from 2004 to 2014 was an outcome of increased productivity due to scale and specialisation.

6. Cape Town's labour market[143]

GDP or GVA growth is one measure of economic performance, but is insufficient for understanding the broader impact of economic performance. GDP represents the volume of value-added production that takes place in an economy, but provides no indication of how the benefits of this production are distributed. The primary mechanism by which the benefits of economic production are distributed is through the creation of jobs.

Between the fourth quarter of 2008 and the fourth quarter of 2015, employment in Cape Town grew by 105 288 jobs to a total of 1 511 117 (refer figure 2.8, see next page). The average annual growth rate of employment during this period was 1,05%, while the corresponding GDP growth rate was 2,6%. This indicates a certain capital intensity of growth, as well as growth in labour productivity, necessitating fewer labour inputs to produce output units.

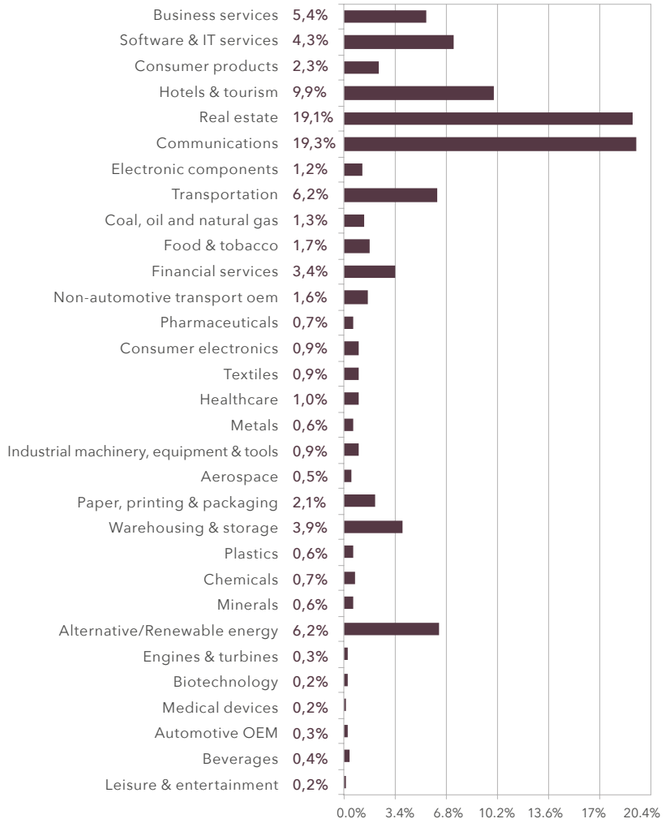
The strict unemployment rate in Cape Town increased from 19,2% to 22,1%[144] between 2008 and 2015. This increase in the unemployment rate must be seen in light of adverse global economic conditions, particularly in 2009, in which millions of jobs were lost across the globe, and total job losses in South Africa amounted to almost a million. The impact of the global recession on jobs in Cape Town was lagged, reaching its most severe extent in the third quarter of 2010. Since then, and despite typical business cycle swings, employment levels have largely displayed an upward trend. This led to a gradual decline in the unemployment rate from 24,9% in 2012 to 22,1% in 2015, which can largely be attributed to recent improvements in Cape Town's labour market.

South Africa's official or strict unemployment rate also increased moderately over the period 2008 to 2015 (from 22,5% to 25,4%). Typically,

143 While labour market indicators, as provided by Stats SA's Quarterly Labour Force Survey at a metro level, are among the most up-to-date economic indicators available, they do not date back very far. This is because the Labour Force Survey (as it was known at the time) did not report on metro-level statistics prior to 2005.

144 Annual average of the unemployment rate for the four quarters.

Figure 2.7: FDI distribution by industry in Cape Town, 2003 to 2015



Source: City of Cape Town, 2016. Trade and Investment Department calculations, based on Financial Times data, 2015.

Cape Town and South Africa's strict unemployment rates have been closely matched, but a significant gap has opened up between them since the end of 2014, which saw Cape Town's strict unemployment rate being over three percentage points lower on average in 2015 (refer figure 2.9, see next page).

The decline in the city's strict unemployment rate is all the more impressive as it comes against a backdrop of increased labour force participation[145] (having grown from 67,7% in the fourth quarter of 2014 to 68,9% in the fourth quarter of 2015). The labour force participation rate for South Africa increased to 58,5% in the fourth quarter of 2015 over 56,8% in the same quarter of 2014. Even though

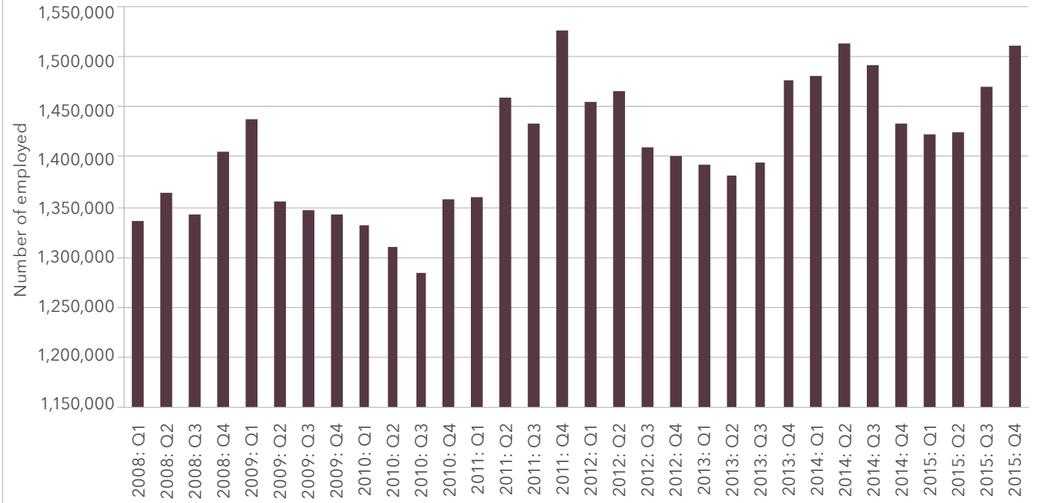
The unemployment rate in Cape Town decreased from 24,9% in 2012 to 22,1% in 2015.

labour force participation rates for both South Africa and Cape Town have increased, Cape Town's labour force participation rate is 10 percentage points higher than the national rate. The other large disparity between national and Cape Town labour market indicators is the difference in the broad[146] rates of unemployment. Cape Town's average broad unemployment rate for 2015 (23,4%) was more than 10 percentage points lower than South

145 The labour force participation rate is a measure of the proportion of a country's or city's working-age population that engages actively in the labour market, either by working or looking for work.

146 While the strict definition of unemployment includes only people who are actively seeking work, the broad definition also includes the non-searching unemployed (including discouraged work seekers).

Figure 2.8: Employment levels in Cape Town, 2008 to 2015



Source: City of Cape Town, 2016. Trade and Investment Department, based on Stats SA Quarterly Labour Force Survey data.

Figure 2.9: A comparison of the strict and broad rate of unemployment for Cape Town and South Africa, 2008 to 2015

Source: City of Cape Town, 2016. Trade and Investment Department, based on Stats SA Quarterly Labour Force Survey data.

Africa's (34,8%). This can be explained by the relatively small number of non-searching unemployed people (including discouraged work seekers) in Cape Town.

While comparing Cape Town's key labour market indicators to the national baseline is useful, it fails to account for the employment-creating dynamism of large cities. Cape Town's relatively strong labour market indicators compared to those of the country could simply reflect it being a large urban area, while national labour indicators would also take into account isolated rural areas where employment opportunities are relatively scarce.

For a more nuanced assessment of how Cape Town's labour market is performing, it is better to compare it to the country's other large metro areas. On this basis, Cape Town had the second-lowest strict unemployment rate following eThekwini (15,91%), and the lowest expanded (broad) unemployment rate for the fourth quarter of 2015 (refer table 2.1 on the next page).

6.1 A disproportionately low number of discouraged work seekers in Cape Town

For one of South Africa's major metropolitan regions, Cape Town accounts for a comparatively small percentage (0,41%) of the country's total number of discouraged work seekers. When expressed as a percentage of the total broadly unemployed, Cape Town has the second-lowest[147] proportion of discouraged work seekers (2,23%) of all the metros. In contrast, 33% of broadly unemployed people in eThekwini are classified as discouraged work seekers (see figure 2.10 on the following page).

To understand why Cape Town has so few discouraged work seekers, it is necessary to understand exactly what the term "discouraged work seeker" means. A discouraged work seeker "is a person who was not employed during the reference period, wanted to work, was available to work/start a business but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work".[148]

147 The figures for Port Elizabeth (PE, or Nelson Mandela Bay metro) must be interpreted with caution due to the small Quarterly Labour Force Survey sample size in that metro.

148 Stats SA, 2016.

Table 2.1: Metro comparison of strict (official) and expanded (broad) unemployment rates

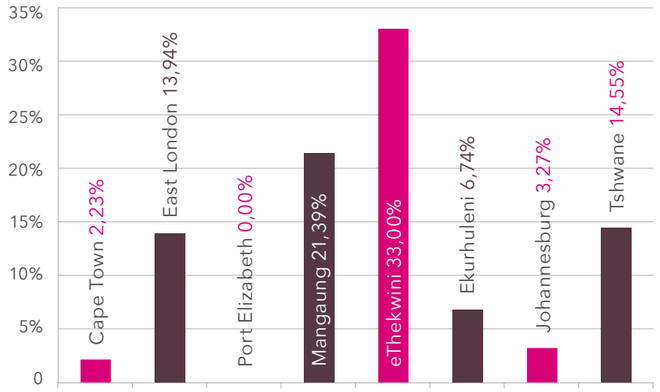
Metro	Official			Expanded		
	2015:Q4	2015:Q3	2014:Q4	2015:Q4	2015:Q3	2014:Q4
Cape Town	20,52	21,85	25,25	21,81	23,21	25,97
eThekwini	15,91	15,74	16,66	24,34	24,87	25,95
Ekurhuleni	30,80	30,33	31,56	33,02	32,71	35,38
Johannesburg	27,90	29,74	22,06	29,16	30,69	25,03
Nelson Mandela Bay	30,65	34,31	33,67	30,65	34,38	33,92
Tshwane	23,42	24,71	20,47	27,45	28,84	27,78

Source: City of Cape Town, 2016. Trade and Investment Department, based on Stats SA Quarterly Labour Force Survey data.

Based on this definition, there are a number of likely reasons for the lower rate of discouragement in Cape Town. These include the following:

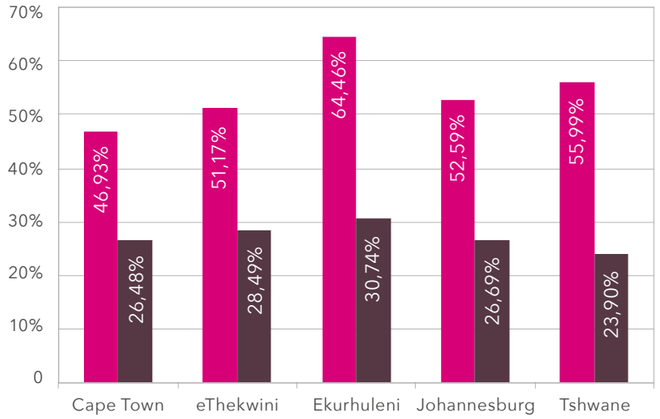
- *Metro areas such as Cape Town provide more job opportunities.* The greater probability of finding a job in a metro area compared to non-metro areas is likely to sustain a prolonged period of active job searching.
- *Job search costs are lower in Cape Town, particularly compared to non-metro areas.* The density of settlement in a metro area is conducive to more efficient and cost-effective job searching. In particular, Cape Town's public transport system may be more effective than in other areas of the country, thereby enabling more sustained active job searching.
- *Many unemployed job seekers in Cape Town are migrants from outside the Western Cape.*[149] Individuals who have relocated in search of jobs are likely to search more intensively and for longer than non-migrant job seekers.
- *Cape Town offers no viable substitutes for work.* Cape Town has fewer opportunities to engage in non-return, subsistence activities, such as collecting firewood, water, etc., which may typically serve as substitutes for work in rural areas.

Figure 2.10: Discouraged work seekers as a proportion of the broadly unemployed in South African metros, 2015: Q4



Source: City of Cape Town, 2016. Trade and Investment Department, based on Stats SA Quarterly Labour Force Survey using 2015: Q4 data.

Figure 2.11: Broad rate of unemployment and proportion of NEET (not in education, employment or training) among those aged 15 to 24 in 2015: Q4



Source: City of Cape Town, 2016. Trade and Investment Department, based on Stats SA Quarterly Labour Force Survey data.

6.2 Youth unemployment in Cape Town

South Africa has a relatively young population by global standards and has the opportunity to take advantage of what is known as a demographic dividend. A demographic dividend occurs when "a falling birth rate changes the age distribution, so that fewer investments are needed to meet the needs of the youngest age groups, and resources are released for investments in economic development and family welfare".[150] This reduces the level of dependency on the working-age population, allows for the reallocation of spending away from social spending targeted at children and toward higher education, and increases the country's labour supply. Theoretically, this should facilitate an increased level of output in the economy and a concomitant rise in living standards.

South Africa's demographic dividend window is still wide open as it is estimated that by 2069, two thirds (or 44 million) of the country's forecast population of 66 million will still be of working age.[151] Benefits do not flow automatically, however, and the World Bank identifies high unemployment rates and skills mismatches as key factors hindering South Africa from realising its demographic potential.

The key to realising the demographic dividend is ensuring that new entrants to the labour market are able to find work. In this respect, youth unemployment in cities, which attract the highest proportion of young labour market entrants, is particularly damaging. Figure 2.11 depicts the broad unemployment rates for individuals between the ages of 15 and 24 in South Africa's largest metros. The figures do not make good reading, and far exceed comparable figures for the rest of sub-Saharan Africa and Latin America. Cape Town has the lowest broad unemployment rate for its population between the ages of 15 and 24, but at 47%, it is still exceptionally high.

City research on youth unemployment in Cape Town reveals a substantially lower (strict) unemployment rate for those between the ages of 24 and 35 than for those between the ages of 15 and 24. Using South Africa's official definition of youth (those aged 15 to 34), youth unemployment was found to be more predominant among females (51,5% of unemployed youth), black Africans (56,4%) and those with incomplete secondary education (25,0%). However, persons with incomplete secondary education do seem to have a lower unemployment rate than those with a lower level of education attainment. The highest youth unemployment rate by level of education attainment in Cape Town is recorded for those individuals who have completed only primary education (34,5%). Interestingly, the lowest unemployment rates are those recorded at the two extremes, namely no schooling (16,5%) and a tertiary qualification (12,1%).[152]

Youth unemployment figures in isolation can however be misleading. In South Africa, where a large proportion of the labour force lives close to the poverty line, responses to Labour Force Survey questions may be different from those given in developed countries. For example, a school-going 17-year-old individual from a household at a very low income level may state that (s)he is willing and available to work should an opportunity arise, despite having to attend school. This individual will then be classified as unemployed, although (s)he is clearly meaningfully occupied in education. From a policy perspective, young individuals who are "unemployed" but in education should be seen differently from those who are neither employed, nor in education or training. The latter category comprises some of the most excluded and vulnerable members of society, and also most starkly reflects the inability of the economy to fully realise the opportunities offered by a demographic dividend.

To distinguish between unemployed individuals meaningfully engaged in acquiring further skills, and those who are not, the NEET (not in education, employment or training) is the most appropriate indicator to use. In Cape Town, the youth NEET rate is much lower than the broad youth unemployment rate (26,48% compared to 46,93%). The implication is that almost half of Cape Town's young unemployed population is engaged in education or training. The 26,48% of individuals who are not contributing to either the current or future output of the economy (by either working or acquiring skills to work) require a two-pronged intervention that addresses both demand (job availability) and supply-side issues (access to quality education, training and skills development). In this regard, the World Bank urges South

> Cape Town's public transport system may be more effective than in other areas of the country, thereby enabling more sustained active job searching.

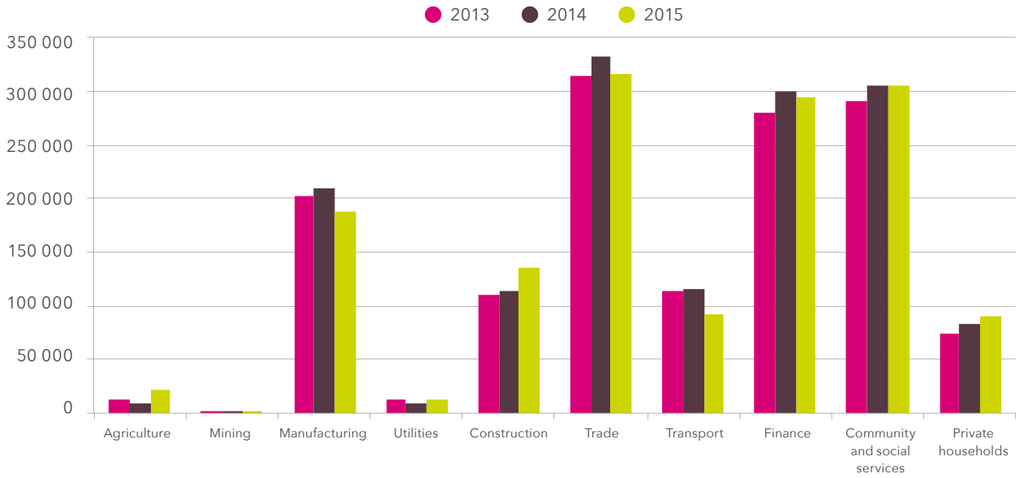
149 As indicated in preliminary research by the City, up to 40% of the population growth in Cape Town between 2001 and 2011 comprised new arrivals from outside the Western Cape. Most of these migrants can be expected to have been seeking work.

150 HSRC, 2007.

151 World Bank, 2015b

152 City of Cape Town, 2015b.

Figure 2.12: Sectoral employment levels in Cape Town, 2013 to 2015



Source: City of Cape Town, 2016. Trade and Investment Department calculations, based on Stats SA Quarterly Labour Force Survey data.

African cities such as Cape Town to "combine a more labour-intensive economic growth trajectory with improved educational outcomes and faster labour productivity growth".[153] The following section looks at the sectors that have created the most job opportunities in Cape Town since 2008.

6.3 Employment-creating sectors

Tertiary sectors have remained consistent in their contribution to creating employment opportunities. It is clear from figure 2.12 that Cape Town derives relatively little aggregate employment from the primary sector. The strongest contributing sectors in respect of employment growth in 2015 were construction, agriculture and private households, which grew employment by 22 859, 11 912 and 7 019 jobs respectively between 2014 and 2015. The aggregate employment gains in the agricultural sector in 2015, however, mask the recent job losses experienced in the sector toward the end of 2015, as low rainfall affected yields, which in turn led to retrenchments. Low confidence levels in the building sector and among consumers are also likely to undermine the ability of the construction and private household sectors to replicate their strong employment growth of 2015. While employment in the manufacturing sector has declined over the past three years, its growth remains essential to employment creation in the city's economy.

153 World Bank, 2015b.

7. Size and impact of the informal sector in Cape Town

Labour economists commonly refer to the informal economy as the "employer of last resort", as it absorbs the excess supply of labour that cannot always be absorbed by formal-sector employment. Thus, in a city such as Cape Town, or any major city in South Africa in which severe unemployment remains a persistent problem, the informal economy can be viewed as vital to efforts to reduce unemployment. Indeed, studies on the informal economy in South Africa have found strong correlations between unemployment and informal-economy participation.[154] This finding indicates that many South Africans utilise informal work as an alternative to unemployment.

Census 2011 estimated that 122 013 people (or 9,44% of the total city workforce) were employed in the informal sector in Cape Town at the time. This was substantially up from the 2001 Census figure of 47 020 (5,01%), although this may include an element of measurement error in the 2001 figure. While Census figures provide an 80%+ sample of the population, they are not specifically geared toward measuring the labour market and are outdated. Rather, Stats SA recommends that the Quarterly Labour Force Survey (QLFS), which is representative at the metro level, be used to estimate employment figures. According to the QLFS, the average number of people employed in the informal sector between the first quarter of 2011 and the second quarter of 2014 was 145 315, equivalent to 10,09% of the city's workforce. A more recent yet volatile estimate (on account of the higher frequency of the data) is the QLFS estimate for the second quarter of 2015, which found 161 000 (11,3% of the workforce) employed in the sector. If the informal sector were to be viewed as a conventional economic sector, based on the more conservative estimate of 10,09% of the workforce, it would be the fifth-largest employing sector in the city, just below manufacturing (11,96%) and just above construction (9,52%). This confirms the sector's importance as an employer in the Cape Town economy.

154 South African LED Network, 2013.

Table 2.2: Employment and wage estimates for the informal sector in Cape Town

Data source	Total employment in informal sector	% of total employment in the informal sector	Mean monthly wage in the informal sector (rand)	Reduction in the poverty rate
Census 2001	47 020	5,01	-	-
Census 2011	122 013	9,44	1 601-3 200	-
QLFS 2011:1-2014:2	145 315	10,09	-	-
GHS 2013	185 984	11,84	3 432	4,5 percentage points
QLFS 2015: 2	161 000	11,30	-	-
SESE 2013	-	-	3 300	-

Source: City of Cape Town, 2015a.

The informal sector's socio-economic impact in Cape Town is even larger than its contribution to employment would imply, as the income received from informal work accrues disproportionately to households that live close to the poverty line. Mean wages in the 2013 General Household Survey (GHS) are estimated at R3 432 per month, while the 2013 Survey of Employers and the Self-Employed (SESE) estimated a combined mean value of informal-sector wages and profits of about R3 300 per month.

Using the GHS 2013 wage and household income figures, the impact of informal-sector income on otherwise impoverished households is measured. The relatively low wages of informal-sector workers, who tend to reside in poor households with a larger-than-average household size, result in a substantial decrease in the city's poverty rate. Without informal-sector income, the poverty rate (the proportion of individuals earning less than R682[155] per person per month) in the city would be 25,1%; once informal-sector income is factored in, however, the poverty rate is reduced to 20,6%. This 4,5 percentage point reduction in Cape Town's poverty rate is equivalent to pulling 186 000 people out of poverty (refer to table 2.2). This would suggest that although the aggregate economic contribution from this sector to GDP may be relatively small, the aggregate improvement in welfare and impact on the lives of the poor is large.

155 This poverty line was obtained by using the poverty line of R524 per person per month in 2005 prices, which was obtained from the National Planning Commission's website, and adjusting it for inflation using the Western Cape CPI, which was obtained from Stats SA's website.

8. Leveraging strategic infrastructural assets

Attracting renewed investment to the manufacturing industry, and indeed to the economy as a whole, requires a holistic, facilitative approach. One crucial component of this approach is the development and maintenance of world-class infrastructure. Manufacturing businesses base their location decisions in part on the ease with which they can get their products to the market. This includes an efficient rail system, well-maintained and high-capacity highways, fast broadband connectivity, an effective seaport and a well-connected airport. The state of these assets and South Africa's infrastructure more broadly has been a key focus of the NDP and has also resulted in the identification of 18 strategic infrastructure projects aimed at harnessing economic growth through infrastructure development.[156] The City's Economic Growth Strategy also notes the relationship between infrastructure and economic growth, recognising that "the City's approach to future infrastructure development will be a critical component of its objective of achieving an Opportunity City".[157]

Over the past 20 years, the City has been actively involved in securing and developing its economic assets. Since 1994, key economic assets such as the Cape Town International Convention Centre (CTICC), Cape Town Film Studio and an extensive broadband network have been developed in collaboration with strategic partners. These economic assets have underpinned growth in some of the city's key sectors and have enhanced the city's ability to attract investment. The CTICC,[158] as one example, has made a cumulative contribution of R28,8 billion to South Africa's GDP and R25,6 billion to the Western Cape's gross geographic product (GGP) since it opened in 2003. In the 2014/15 financial year, the operations of the CTICC contributed R3,4 billion to national GDP and R3,1 billion to Western Cape GGP. In addition, the number of direct jobs increased to 3 568 in 2014/15 from 3 376 in the previous year. To increase its capacity to host conferences and events, the CTICC has undertaken an expansion project that will see its capacity nearly doubling with the completion of the east section in 2017. This expansion is set to create several job opportunities and will add approximately R20 billion to the CTICC's existing national GDP contribution.

Further strengthening Cape Town's appeal as a destination for business events is the recent development of a new conference centre at Century City. The Century City Conference Centre (CCCC) has the capacity to comfortably host up to 1 900 delegates across 20 different venues. Adjacent to the CCCC, a newly developed hotel[159] offers 125 rooms, which increases the number of rooms in the area to 600 and improves the CCCC's value proposition to business tourists.

Cape Town is also established as a price-competitive film-making

156 National Planning Commission, 2012.
157 City of Cape Town, 2013.

158 CTICC, 2015.
159 Century City Conference Centre and Hotel, 2016. Also see press release at http://ccconferencecentre.co.za/press-release/new-conference-centre-set-to-add-to-citys-business-travel-appeal/.

destination. Cape Town ranks fourth out of 16 global cities for both filming quality and cost. This is primarily due to the low cost of production, as South Africa's exchange rate makes it cheaper to film here than in Europe or the United States.[160] Moreover, Cape Town Film Studios is the first film-industry public-private partnership in South Africa that is supported by the local, provincial and national tiers of government. At a total capital cost of R306 million, it is the biggest investment in long-term film infrastructure in South Africa.[161]

While these strategic assets are important for the development of the tourism and film industries respectively, transport infrastructure remains critical to the functioning of the economy in general, and the economy in Cape Town and its region in particular. The following two sections examine the performance of the Port of Cape Town and Cape Town International Airport over the past few years.

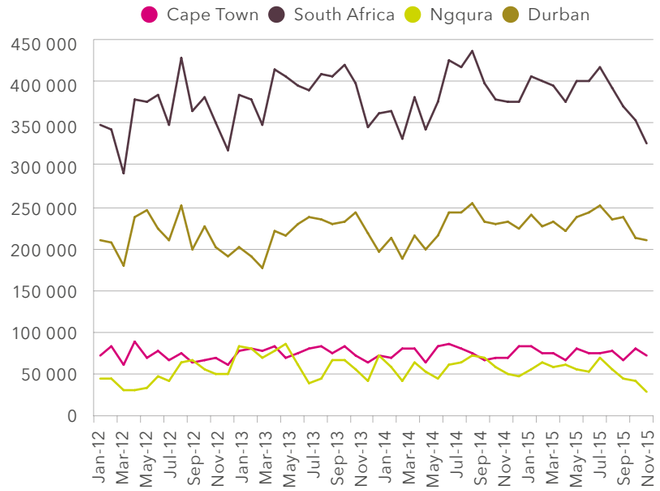
8.1 The Port of Cape Town

The capacity of seaports to handle increasing container traffic is a crucial factor in creating a competitive location for manufacturing-sector investments. While raw commodities are typically exported as bulk or break-bulk cargo, value-added manufactured products are exported in containers. As such, manufacturing-sector investors will be drawn to locations that are situated close to efficient, cost-effective container-handling ports. This is particularly relevant in the context of the rising consumer demand for products. It is estimated that the capacity of ports will have to increase by more than 2½ times from the current level to handle projected future container-handling volumes.[162] This will necessitate $200 billion worth of investment in capacity expansion at ports by 2025, 85% of which will be in emerging markets.

The Port of Durban is South Africa's main container-handling port, and contributed more than half (62,8%) of the total containers handled in South African ports in the fourth quarter of 2015. Although the Port of Cape Town is the second-busiest container-handling port in the country, it handles far fewer containers than Durban, and accounted for only 21% of all containers handled in South African ports in the fourth quarter of 2015. The Port of Ngqura (located between Port Elizabeth and East London) has shown to be a strong competitor, as it managed to catch up with Cape Town, especially in the period November 2012 to May 2013. Since then, however, the Port of Ngqura has lost momentum and showed a declining trend at the end of September 2015 (refer figure 2.13). The number of containers handled by the Port of Ngqura over the past year decreased by 9,75%, while the Port of Cape Town showed a moderate increase of 1,87%. As a large, relatively new and purpose-built port, Ngqura may overtake the Port of Cape Town with regard to container handling in the near future due to capacity constraints in the former. This may in turn lead to a shifting of manufacturing industries to the Port Elizabeth area.

The nearby Port of Saldanha has recently been designated as an industrial development zone (IDZ), which has been converted into a special economic zone with a specific focus on the oil and gas industry. While most of the heavy engineering associated with the maintenance and repair of rigs will take place in Saldanha, a number of oil and gas companies have located their administrative offices in Cape Town itself. A second IDZ focused on the development of green technology is also being established in Atlantis. Although the manufacturing activity expected to take place as a result of this will initially be targeted at the domestic market, it is well located for future export activities through the Port of Saldanha. Transnet National Ports Authority has also allotted R7 billion[163] to the upgrade of most of South Africa's ports. For Cape Town, in conjunction with the Port of Durban, R353 million has been invested for boat-building infrastructure.

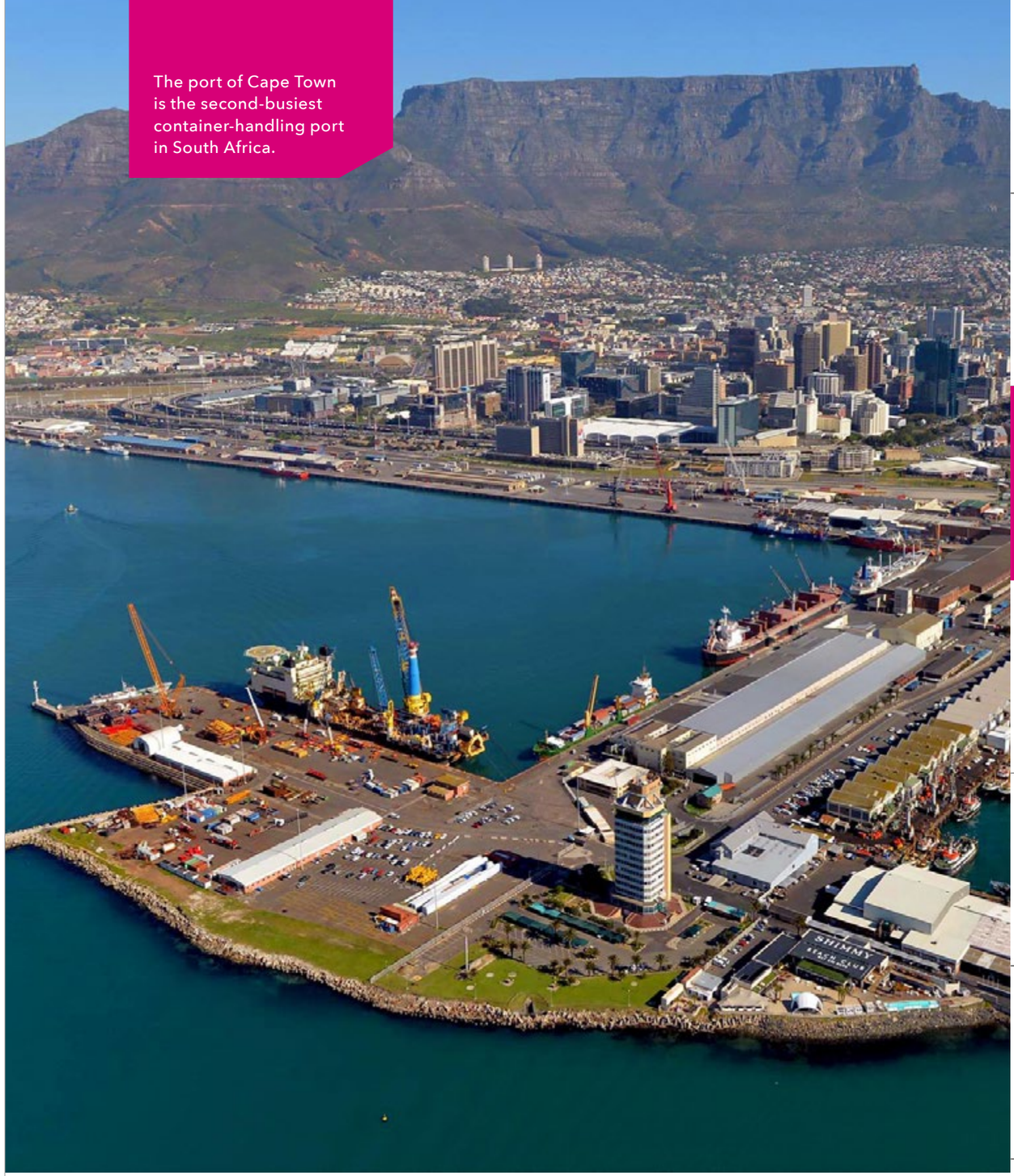
Figure 2.13: Total containers handled (20 ft.-equivalent units) in South Africa and the ports of Ngqura, Durban and Cape Town, 2012 to 2015



Source: *Transnet National Ports Authority, 2016.*

Cape Town ranks fourth out of 16 global cities for both filming quality and cost.

160 City of Cape Town, 2015a.
161 City of Cape Town, 2015a.
162 McKinsey Global Institute, 2012: 8.
163 http://www.southafrica.info/business/trade/ports-investment-090316.htm#.Vxck6_l96Uk.



The port of Cape Town is the second-busiest container-handling port in South Africa.

Table 2.3: Ranking of international flight routes by total passenger movements

Rank	Type	Operator	Route
1.	International	Emirates	Dubai
2.	International	British Airways PLC	London (Heathrow)
3.	International	KLM	Amsterdam
4.	International	Qatar Airways	Doha
5.	Regional	Air Namibia (Pty) Ltd	Windhoek
6.	International	Lufthansa German Airlines	Munich
7.	International	Turkish Airlines	Istanbul

Source: *ACSA, 2016.*

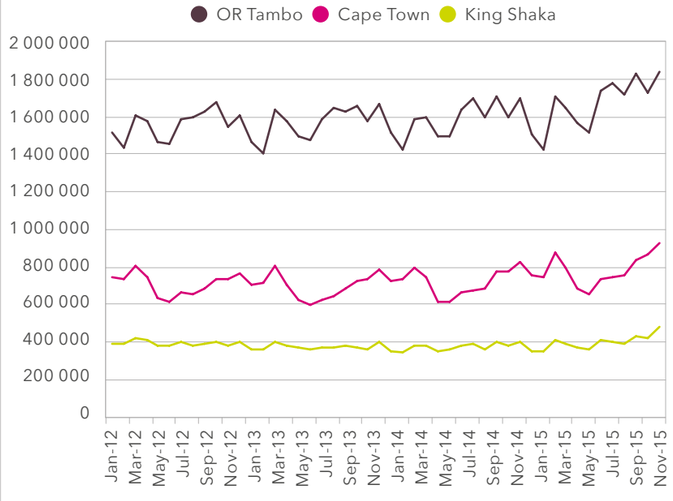
8.2 Cape Town International Airport

In a globalised economy, connectivity with the rest of the world is paramount for investors in all types of industries. In this regard, international airports are increasingly important strategic assets for cities. The number of international connections from a region's airport is a critical competitiveness factor for a region and is seen as one of the traits of a globally fluent city.[164]

Cape Town International Airport, voted the best airport in Africa in 2015,[165] is South Africa's second-busiest airport and recorded 2,63 million total passenger movements in the fourth quarter of 2015, compared to 5,38 million passenger movements at OR Tambo (Johannesburg) and 1,33 million at King Shaka International (Durban) during the same period (see figure 2.14).

The disparity between OR Tambo and Cape Town international airports is a result of the Airports Company South Africa (ACSA) strategy of using OR Tambo as the international hub airport for South Africa. Consequently, international arrivals to Cape Town International constituted only 18,1% of the airport's total passenger arrivals in 2015. In contrast, in the same period, OR Tambo's international arrivals constituted 45,1% of its total passenger arrivals. Over the past two years, the number of direct international flights from and to Cape Town has increased with Airlink, Lufthansa, Ethiopian Airlines, Fly Blue Crane and Kenya Airways now also adding value to Cape Town's tourism sector and, equally important, the city's other key sectors as well. Table 2.3 ranks the international flights landing at Cape Town International according to the number of passengers transported.

Figure 2.14: Total passengers at South Africa's major international airports, 2012 to 2015



Source: *Airports Company South Africa (ACSA) passenger movement statistics, 2016.*

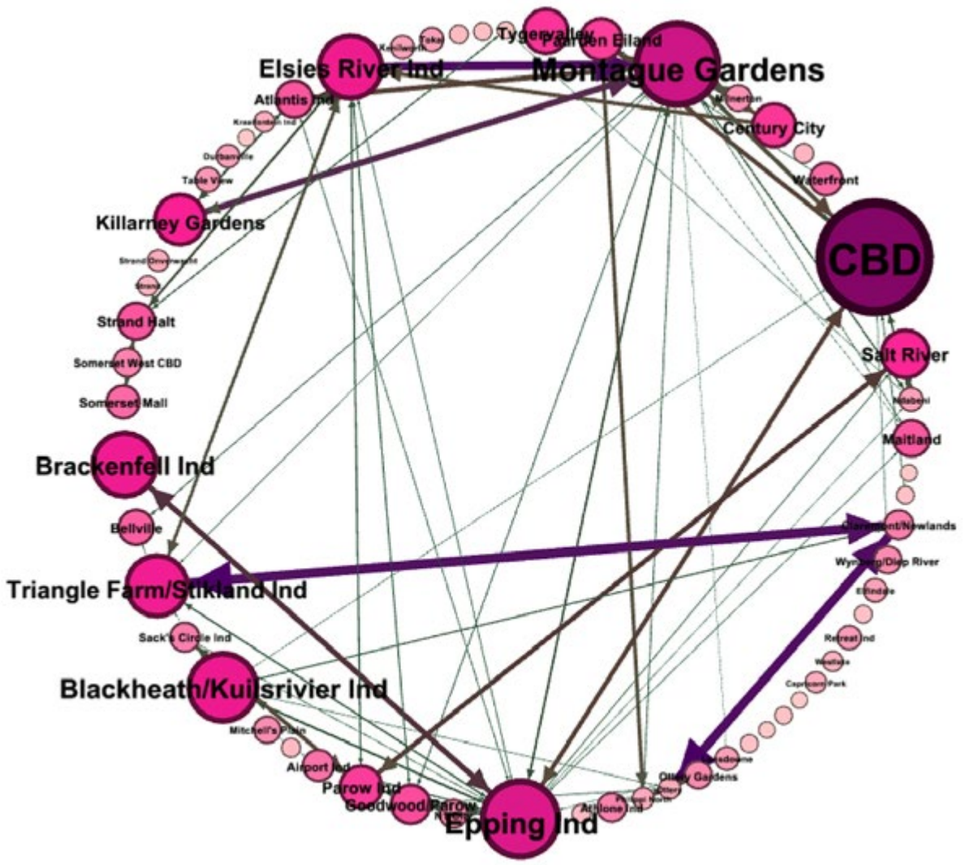
On average, the Emirates flight from Dubai lands and departs Cape Town International 122 times per month. Combined with the size of the aircraft, this means that the Dubai route accounts for most international passenger movements in and out of Cape Town International. While Air Namibia records only one fewer aircraft movement per month (121), its much smaller aircraft size means that it contributes significantly fewer passenger movements than routes serviced by bigger aircraft (such as the British Airways A380 on the London route). Despite Dubai and Doha accounting for the highest and fourth-highest number of passenger movements at Cape Town International respectively, the Middle East is a relatively small source tourist market for Cape Town. This has to do with the shortage of direct flights from destinations, as well as the use of Middle Eastern airports as indirect flight hubs to Africa, especially by European tourists.

Although many initiatives are being implemented to enhance Cape Town's ability to increase traveller numbers, the need for more direct international connection points to Cape Town International remains crucial if the city is to become one of the leading emerging-economy urban destinations. In particular Cape Town's two labour-intensive comparative advantages, namely tourism and business process outsourcing (BPO), require excellent international connectivity. Other sectors important in the economy of Cape Town's rural hinterland, such as agriculture, also require well-functioning air links, particularly with regard to time-sensitive export products.

164 Clark & Moonen, 2014:33.

165 http://www.timeslive.co.za/local/2016/03/17/Cape-Town-International-rated-as-Africa%E2%80%99s-top-airport.

Figure 2.15: Freight movement between business nodes in Cape Town



Source: *City of Cape Town, 2015e.*

In addition to vigorous efforts to attract more direct flights, ACSA has also proposed to realign the runway at Cape Town International to make room for larger aircraft that will accommodate greater passenger numbers. This proposal, which includes extending the runway length by 300 metres, would allow between 10 and 14 additional aircraft to land and take off each hour, as well as enable larger aircraft to land at the airport.[166]

9. Spatial characteristics of Cape Town's economy

As with any large urban region, Cape Town's space economy may be understood as a network of inter-connected and inter-dependent productive centres or 'business nodes', where the vast majority of the city's firms are clustered (see figure 2.15 showing freight movements between nodes). Each of these nodes represents an 'ecosystem' in which businesses are established and, over time, flourish or fail. The performance of these ecosystems has a direct impact on the livelihoods of each member of the 1,87 million-strong workforce and their dependants. Indirectly, the attractiveness of these nodes to businesses is capitalised into revenue for the City in the form of rates and tariffs, which in turn provide the necessary resources for the City to roll out infrastructure and provide services, in particular to poor households.

It is therefore critical for the City to closely monitor and understand the unique assets, constraints and resultant performance of these business nodes over time. This enables the City to initiate more informed interventions with a greater prospect of success, whether the objective is to retain existing businesses or attract new investment.

In this brief overview of the city's space economy, the focus is mostly on the performance and location potential of the 50 largest business nodes between 2005 and 2020, as these are home to the vast majority of the city's firms and workers, as is evident from the map in figure 2.16. This map confirms that whereas commercial nodes are geographically smaller than industrial areas, they are significantly more labour-intensive, making more efficient use of valuable urban space. For example, while industrial job density reaches up to 135 industrial workers per hectare in places such as Retreat Industrial, commercial nodes can reach densities of over 1 000 workers per hectare

166 SRK Consulting, 2014

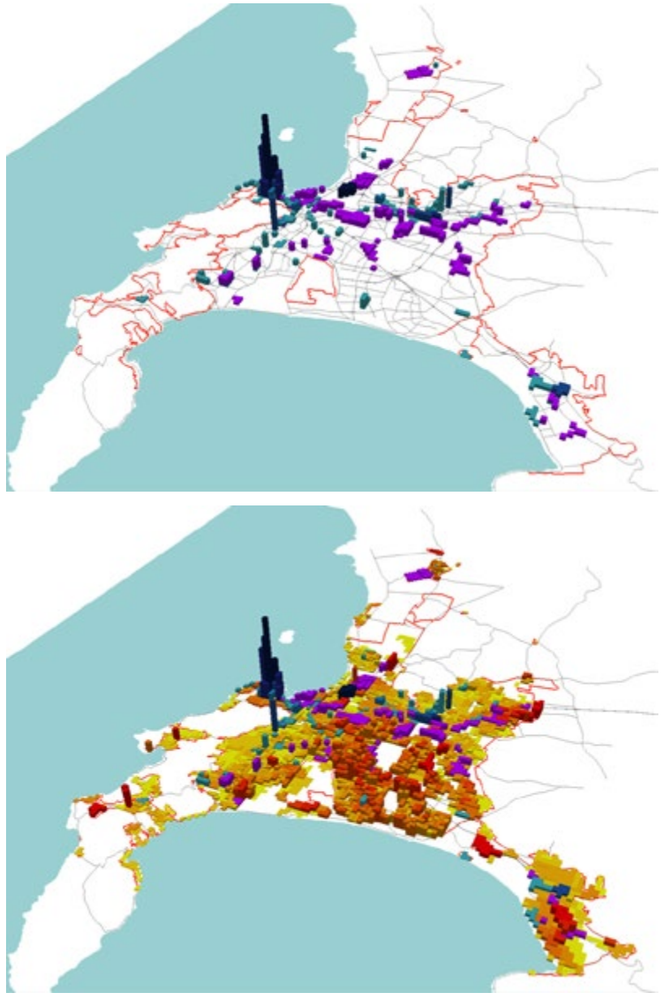
in the Cape Town central business district (CBD). However, higher-order services are very sensitive to locational characteristics and prioritise amenity, accessibility and safety over cheap land. Industrial activity, on the other hand, traditionally takes up a lot of space, and therefore seeks cheap land and good infrastructure instead of amenity. These locational requirements of the different business sectors constrain the City's efforts to drive job creation in unsafe and poorly located parts of the region.

The overall space economy not only depends on its constituent elements, but is also sensitive to macro-economic dynamics, as figure 2.17 shows. The data below confirm that commercial and industrial building activity in Cape Town has contracted by half since the economic downturn of 2007/8. What is interesting, however, is that Cape Town is increasingly punching above its weight in terms of attracting new commercial development despite sluggish local and national economic conditions. This may reflect a national trend towards the spatial consolidation of higher-order services in a limited number of nodes, such as Cape Town CBD, Sandton City in Johannesburg and Umhlanga in eThekweni.

When looking at a broad spectrum of market performance data from 2005 to 2015, it is evident that, notwithstanding its interconnected nature, not all nodes in Cape Town performed at a commensurate pace. Indeed, the city's overall economic growth was largely due to a small number of star performers, with the CBD, Century City, Tygervalley, Blackheath, Claremont and Brackenfell being the leading nodes. Philippi East and Athlone Industrial are notable underperformers (see figures 2.18 and 2.19, next page).

However, as highlighted earlier, different economic sectors have different locational requirements. When looking specifically at the underlying locational drivers of industrial performance, a different pattern emerges (see figure 2.20). There remains significant potential for industrial development along the eastern periphery of the city, in closer proximity to concentrations of the urban poor in Delft and Khayelitsha.

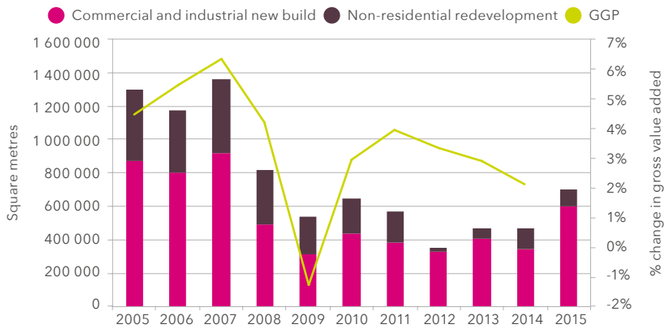
Figure 2.16: Employment densities in Cape Town, 2015



Source: *City of Cape Town, 2015d.*

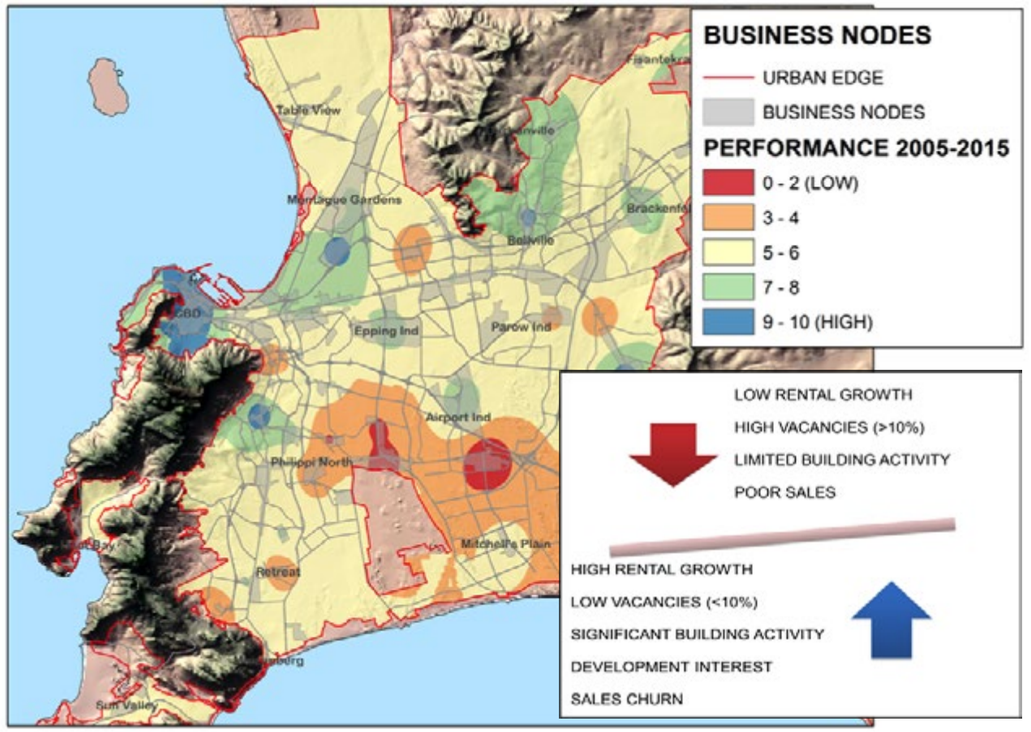
Note: *The map above indicates the density of commercial (including office and retail) nodes per transport zone across the city in blue, and industrial employment density in purple.*

Figure 2.17: Building activity and gross value added in Cape Town, 2005 to 2015



Source: *City of Cape Town, 2015c.*

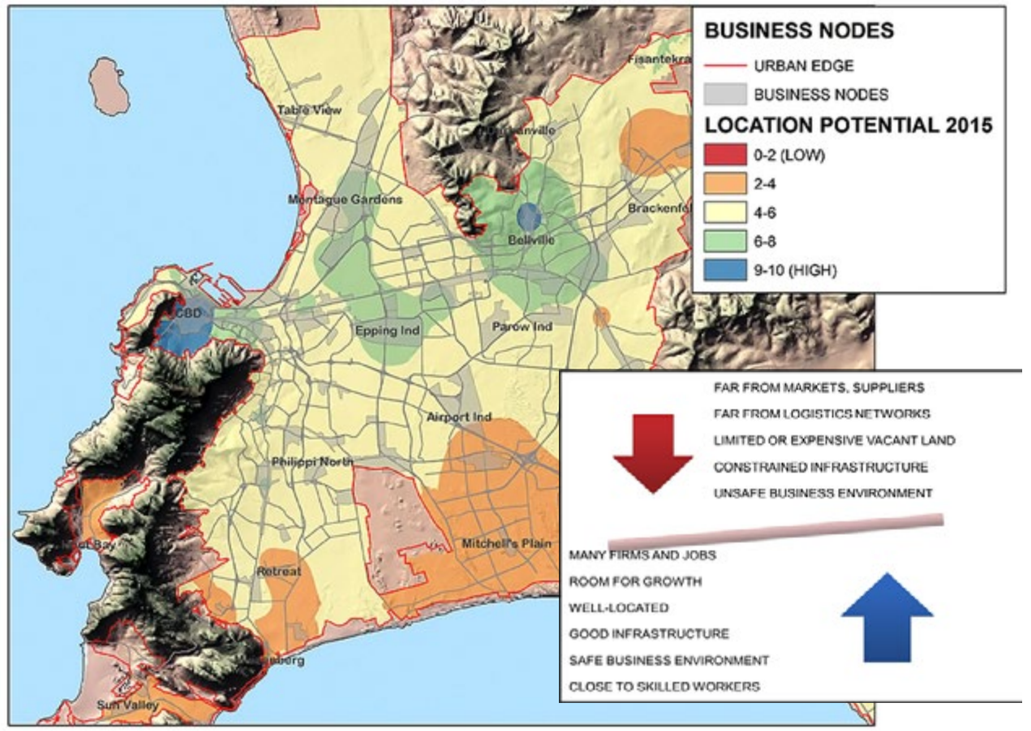
Figure 2.18: Business nodal performance in Cape Town, 2005 to 2015



Source: *City of Cape Town, 2016. ECAMP data platform.*

Note: *For more information on data-capture methodology, please see Rabe, McGaffin & Crankshaw, 2015.*

Figure 2.19: Location potential of businesses in Cape Town, 2015



Source: *City of Cape Town, 2016. ECAMP data platform.*

Figure 2.21 shows the relative size and proportional growth in the non-residential building stock for the city's top 20 nodes between 2005 and 2015. Although the Cape Town CBD maintains its pre-eminent position as the regional economy's market place, commercial building stock increased by only 4% in ten years compared to a phenomenal 245% increase in Century City and 80% in Tygervalley. Alongside Salt River, these four nodes have received the bulk of commercial investment over the past decade. As previously stated, industrial investment is highly cost-sensitive, seeking cheap land and good infrastructure before amenity. For this reason, the highest growth rate has been in peripheral areas such as Blackheath Industrial, Brackenfell and Killarney Gardens. Similar to the higher-order services, however, there are troubling signs that instead of bringing about an overall growth in industrial activity, these rapidly growing industrial estates may firstly lead to the sectoral displacement of job-rich manufacturing activities with job-poor logistical activities, and secondly, a spatial reconfiguration and even consolidation of industrial activity in general. This suggests that firms may be vacating large premises in unsafe, traditional industrial areas such as Elsies Rivier and Philippi in favour of secure, smaller premises in security estates such as Rivergate and Atlas Park in Killarney Gardens, Brackengate in Brackenfell, and Saxenburg in Blackheath.

In light of these dynamics, there are two emerging policy directions with direct implications for the space economy. These are, firstly, a shift in emphasis from outward, dispersive growth towards inward, agglomeration growth. Secondly, there is a shift from private to public transport to counteract the adverse effect of concentration and congestion on transport costs, which in turn threatens to aggravate income segregation.

9.1 Inward growth

There is a growing realisation in South Africa and the rest of the world that inner cities contain the genetic material for long-term resilience, growth potential and competitive advantage due to concentrated investment in infrastructure, coupled with rich and diverse agglomerations of firms and workers. On the other hand, should Cape Town maintain its historical propensity towards outward growth, the resultant inefficiencies, inequities and impact on its vulnerable food and natural systems would almost certainly and irreversibly compromise the economic, social and fiscal integrity of the overall urban system.

Indeed, it is not an overstatement to say that the fate and fortune of the regional economy will in coming years be bound to its ability to grow inward, i.e. within the inner city. This realisation is increasingly reflected in the City's strategic policies, from densification to growth management. Two powerful drivers of inner-city revitalisation and regeneration, namely brownfield redevelopment and residential apartment blocks (flats), are mapped and reflected in figure 2.22.

Unsurprisingly, the CBD provides the necessary conditions for regeneration, with 15% of its non-residential building stock being redeveloped or developed into apartments over the ten-year period 2005 to 2015. Similar trends are evident in mature, space-constrained nodes such as Claremont, Wynberg, Tygervalley and Century City. The challenge for the development community and metropolitan governments is to extend these positive trends to new neighbourhoods, such as along the length of Voortrekker Road and Athlone CBD.

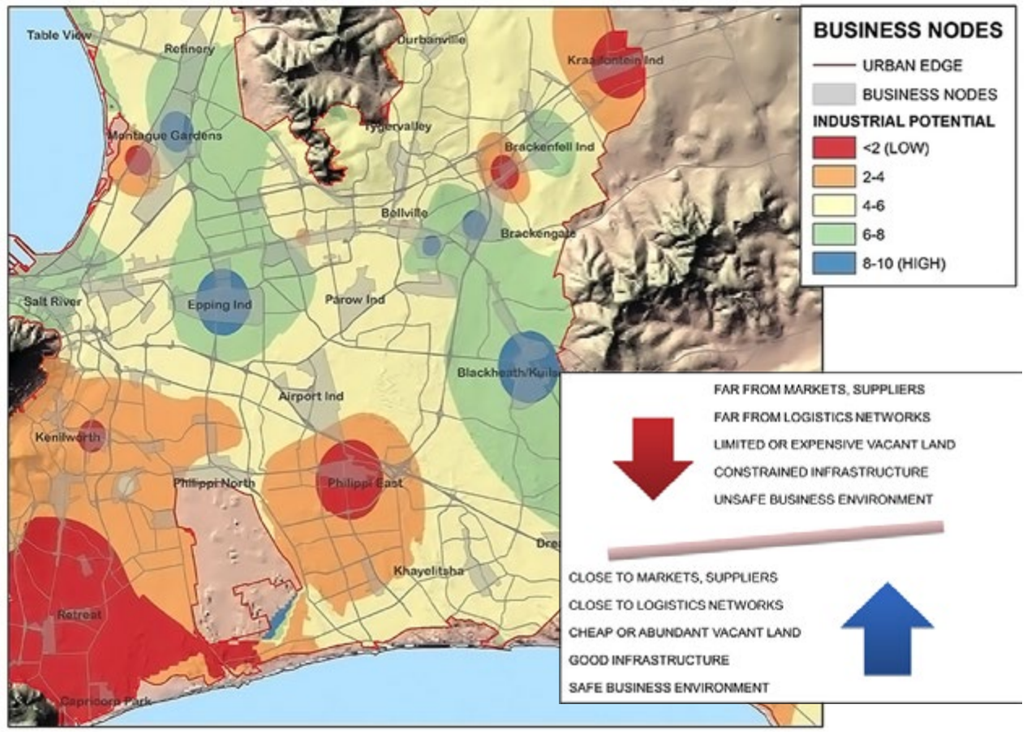
> Cape Town is the most congested city in South Africa, with local motorists spending an extra 40 minutes a day behind the wheel because of traffic congestion.

9.2 Land value gradients and congestion

Cape Town is the most congested city in South Africa,[167] with local motorists spending an extra 40 minutes a day behind the wheel because of traffic congestion. Not only does congestion cost motorists around R20 billion in direct fuel costs, but the cost of transport also creates a 'price cliff' where households and firms compete to be located close to employment. Therefore, developers build housing and office complexes at densities and for markets that reflect those land values.

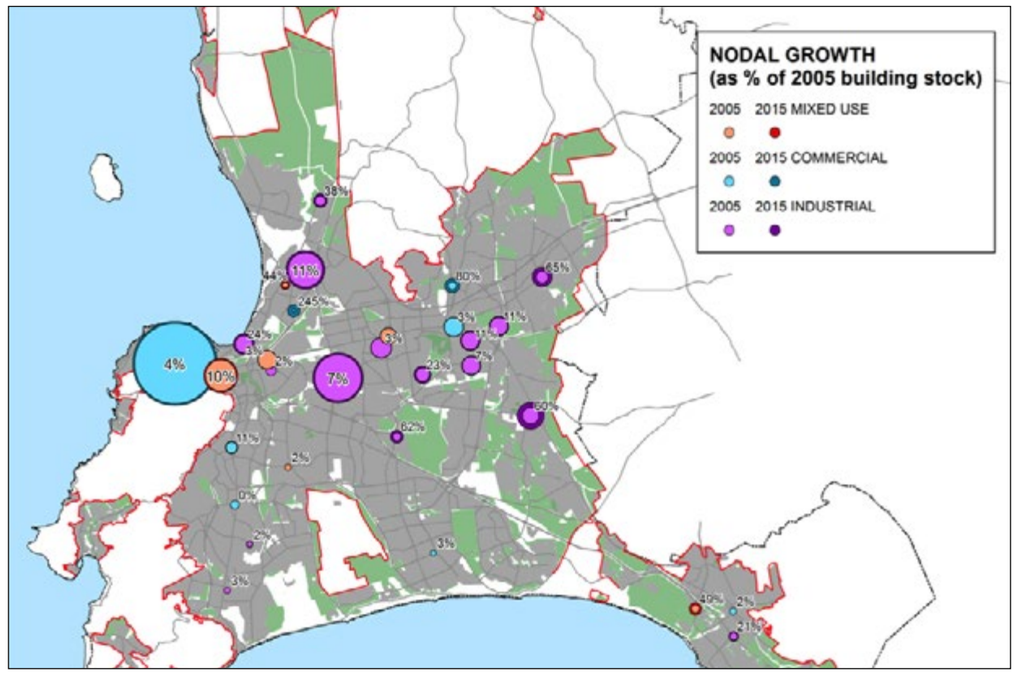
167 TomTom Traffic Index, 2016.

Figure 2.20: Industrial location potential in Cape Town, 2015



Source: *City of Cape Town, 2016. ECAMP data platform.*

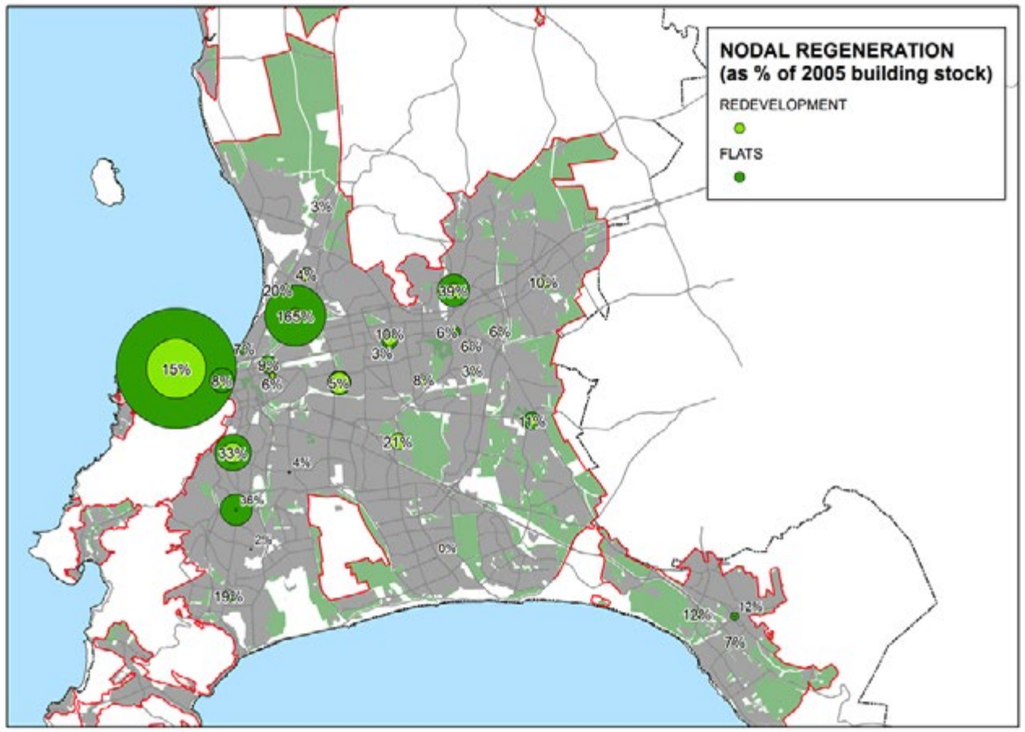
Figure 2.21: Nodal growth in Cape Town: Mixed-use, commercial and industrial, 2005 to 2015



Source: *City of Cape Town, 2016. ECAMP data platform.*

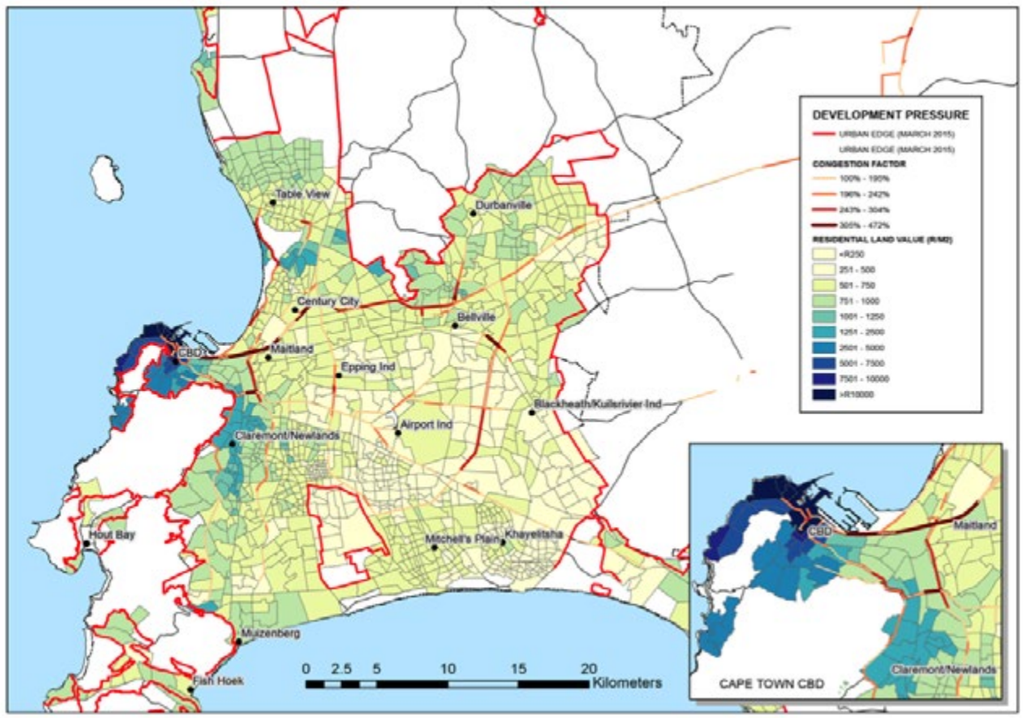
Note: *Circles indicate both size of building stock (size of circle) and proportional growth over ten years of buildings stock (% figure in circle)*

Figure 2.22: Nodal regeneration – redevelopment and flats in Cape Town, 2005 to 2015



Source: Combination of various City administrative sources, including valuation roll and building plan data.

Figure 2.23: Urban land values and congestion in Cape Town



Source: City of Cape Town 2012; 2015e.

Spatial consolidation of higher-order firms, coupled with rising traffic congestion, is resulting in steepening land value gradients from the city centre to the urban periphery, as is shown in figure 2.23.

While by no means unique to Cape Town, steep land value gradients have a powerful effect on neighbourhood sorting and are known to aggravate income segregation in affluent areas and intensify hyper-segregation in poor areas due to selective out-migration. By reducing the cost of transport through the improvement of public transport into the CBD and other congested nodes in the city, the extreme land value gradient will moderate and result in a positive spill-over into adjacent neighbourhoods. Therefore, the City's bold efforts to reduce the cost of transport for Cape Town's working population by prioritising public over private transport have never been more urgent.

There is some promising evidence that the property market is responding positively to the city's strategic shift towards transit-oriented development (TOD), with a significant market-driven push towards medium-density to high-density residential intensification along corridors accessible by public transport, stretching from the CBD towards Claremont and Wynberg. Similarly, the City is facilitating the development of social housing from Salt River along Voortrekker Road as part of its Voortrekker Road corridor project.

9.3 What to expect up until 2020

Figure 2.24 shows where the City expects residential and employment growth to occur up until 2020, based on building plan submissions and land use applications. Despite tentative positive signs, the city-building process (as signified by the building development pipeline) is a slow-moving dynamic with significant inertia. There is continued development pressure on the city's outskirts, most specifically along the so-called West Coast growth corridor. However, this is fortunately being counterbalanced by large residential infill developments.

Clearly, developments in the years up until 2020 will be based on investment and planning decisions taken in the previous approximately five years. Similarly, the strategic decisions made today will only manifest in the built environment in five years or more from now.

10. Economic outlook for Cape Town: Key emerging trends

10.1 Short-term outlook

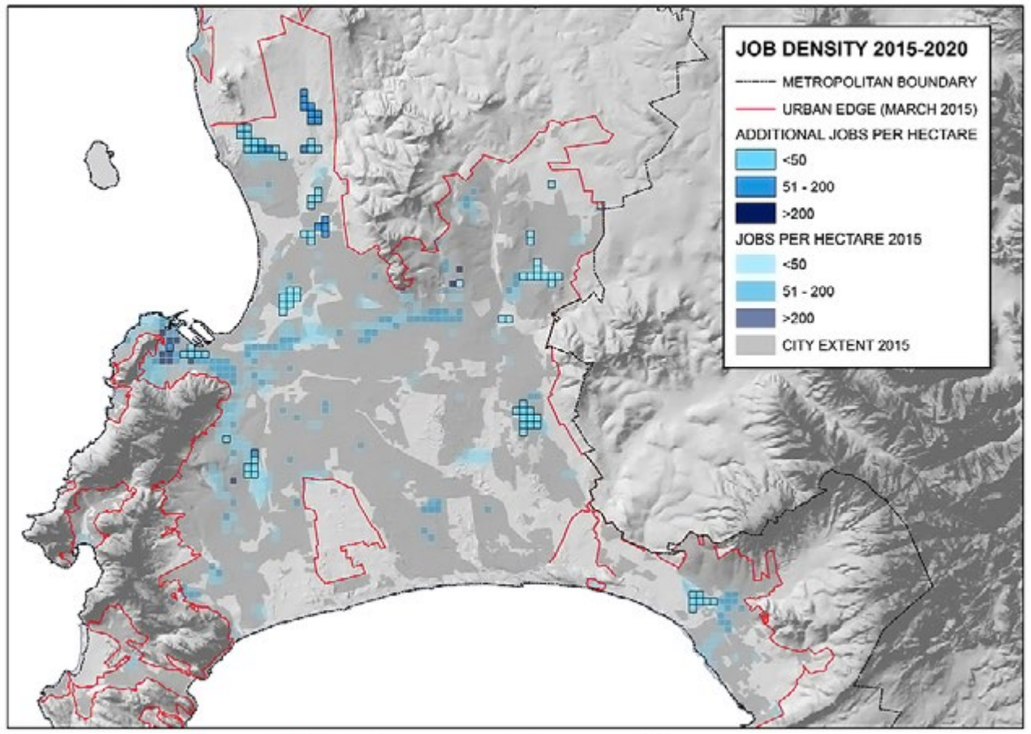
In the short term, a number of factors make it unlikely that the South African economy will soon emerge from its current slump. At a global level, planned tightening of fiscal policy in the United States is likely to have a negative impact on investment levels in emerging economies, while the projected slowdown of the Chinese economy will continue to reduce the level of demand for commodity exports, disproportionately affecting commodity-rich countries such as South Africa. On the domestic front, a severe and prolonged drought, rising inflation and low levels of business and consumer confidence are likely to continue to weigh heavily on economic growth. Considering the aforementioned downside risks to growth, the Bureau of Economic Research (BER) believes that the original growth rate forecast of 0,8% for South Africa for 2016 may be an overestimation of economic performance.[168] Negative quarter-on-quarter growth rates at some stage during the year are certainly possible.

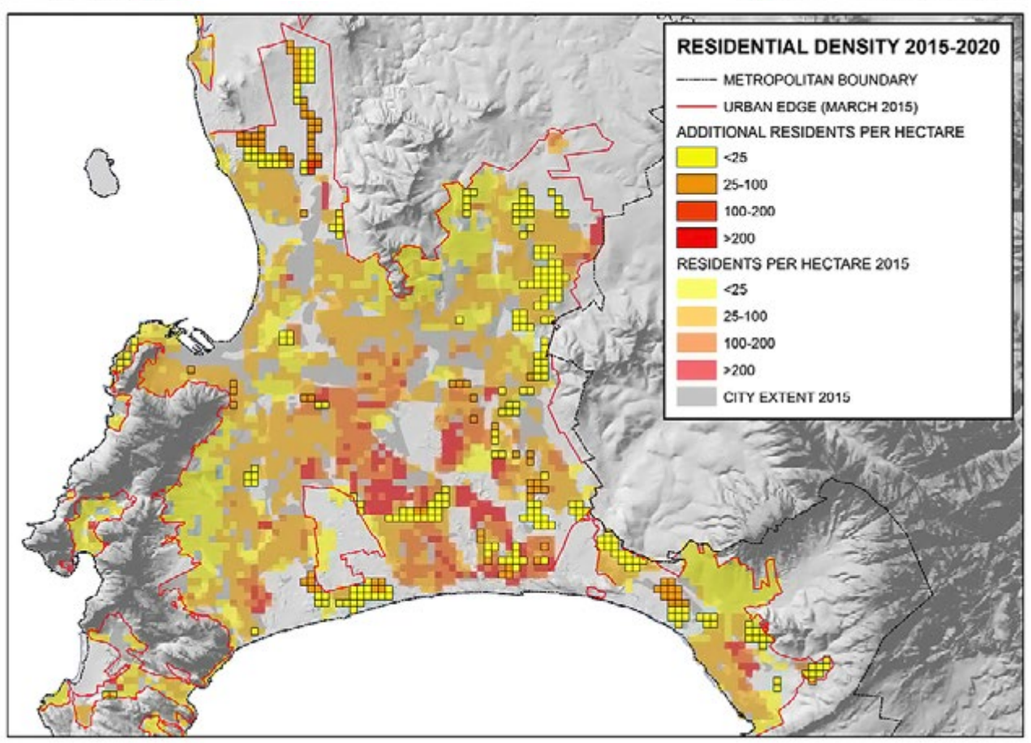
As noted earlier in this chapter, Cape Town – as a fast-growing emerging-economy city – has the opportunity to harness its ever-increasing working-age population, superior productivity derived from economies of scale, and enhanced attractiveness to investors, to rise above the general malaise of the South African economy. This is not guaranteed, however, and a critical factor in placing Cape Town on a higher-growth path will be attracting private-sector investment (both greenfield FDI and existing business expansion) in job-creating sectors.

Over the past year, Cape Town has managed to grow employment strongly enough to accommodate new labour market entrants, and to reduce the unemployment rate among the existing pool of unemployed. However, the city's ability to sustain improvements in the labour market will come under strain as it battles to prevent the spread of national issues to its best-

168 BER, 2016

Figure 2.24: Expected changes to density, 2015 to 2020





Source: *City of Cape Town, 2015d.*

performing sectors. The finance and construction sectors, which were the big job creators in the fourth quarter of 2015, will particularly struggle to overcome weak levels of consumer confidence, high inflation and a rising interest rate in 2016 and may even shed some jobs.

Cape Town's best approach to facing these headwinds is to remain flexible and see the opportunities inherent in some of the challenges. In this regard, Cape Town's manufacturing exporters should be encouraged to take advantage of the current weakness of the rand to expand their export share. In addition, exported services such as offshore BPO and tourism present a significant opportunity, as they do not depend on domestic consumers, but can leverage Cape Town's locational competitiveness factors to attract international consumers. Tourism in particular, having recently shed unnecessary regulatory burdens, has the potential to really drive growth in 2016/17. The best opportunities for employment growth in the short term certainly appear to lie in tourism and BPO.

While, naturally, some of the growth in the economy will come from the expansion of existing business, the attraction of FDI will be critical. To this end, the City continues to target investment promotion and attraction as a key priority. The revision of the City's investment incentive policy will see incentives for job-creating investment offered in more areas in the city. These incentives may act as a 'sweetener', tipping undecided companies toward investing in Cape Town. Yet, they should in no way be seen as a substitute for creating and maintaining, through effective service delivery, an environment that is inherently attractive to businesses. Cape Town's ability to stand out as a world-class destination in which to do business on the African continent will determine how it weathers the current economic storm.

10.2 Beyond the short term – key trends that will affect industries in Cape Town

While Cape Town's short-term outlook, tied as it is to the national economy, is relatively bleak, its long-term outlook is an open canvass and hinges on the city's ability to adapt to the global megatrends, which are changing the way in which economies produce and distribute wealth.

Rising levels of urbanisation and economies of scale mean that emerging cities will increasingly become the foci of economic growth and job creation. In Cape Town, this is further compounded by intra-city migration in the city's favour. At the upper end of the income spectrum, recent property market data from First National Bank (FNB) reveal that the Western Cape had "by far the strongest net inward migration rate of repeat home buyers from other provinces" (with migration accounting for 12,2% of all repeat home buyers in the Western Cape).[169] This would suggest that Cape Town, being the largest property market in the province by far, is experiencing an increasingly strong influx of skills – a trend that will lend impetus to the city's economy in the medium to long term.

Although Cape Town is, in the words of FNB's chief property economist, "winning the war for skills", the largest proportion of new entrants to the city are young semi-skilled to unskilled individuals. As indicated earlier in this chapter, Cape Town, along with the rest of the country, has entered its demographic dividend window – a period in which an increasing working-age population can be expected to drive increased output. Taking advantage of this window of opportunity over the next 50 years requires enhanced levels of job creation. This can in part be achieved through labour supply interventions aimed at enhancing the skills level of the labour force. However, equally important is to ensure growth in the demand for labour by bolstering the competitiveness of some of the city's key industries.

Some of the industries in which Cape Town currently enjoys comparative advantages will remain growth drivers in the next 20 to 30 years, but some will need to be replaced by industries that exploit growing technological or socio-demographic trends. These industries are affected by a number of cross-cutting global trends, some of which are identified below:

- *The rise of India as a global powerhouse*. A combination of substantial population growth, economies of scale, a strong entrepreneurial drive and world-class information technology (IT) expertise have caused India's economic growth rate to overtake China's, which trend is expected to continue in the long term.
- *Growth of the African middle class*. Africa is forecast to have the world's largest workforce in 2040 and will add 500 million consumers to the global economy in the next 25 years.[170]
- *Increased digital disruption*. The rise of internet connectivity and the internet of things, as well as growth in three-dimensional printing and robotics, will lead to what many describe as the fourth industrial revolution and will necessitate fundamental changes in business practices.
- *Increasing influence of cities*. Cities around the world will become increasingly involved in attracting business, generating trade and facilitating international relations.
- *Raised consumer awareness*. The ability to access information at any time will make consumers increasingly price-sensitive as well as selective in their shopping preferences.[171]

Cape Town industries' response to these broad trends will determine whether the city can indeed take advantage of its demographic window of opportunity in the next 30 to 50 years. The impact of these and other trends on some of Cape Town's key industries is unpacked below:

Business services:

While a significant component of the business services industry in the city depends on existing businesses in other sectors, whether financial, construction or manufacturing, the BPO component largely serves an external market. BPO has been the leading creator of jobs in the city over the past few years. This has predominantly been driven by voice-related services, i.e. call centres. This segment of the industry has a clear, if still somewhat distant, ceiling. Unless the BPO industry in Cape Town can

169 FNB, 2016:2

170 Future Agenda, 2016.

171 Economic Intelligence Unit, 2016: 16.

diversify its offering, it will not be as prominent in ten years' time. However, there is a major opportunity for South Africa to diversify from voice to web, in line with global technological developments, which is being aggressively pursued by some of the large international players operating in Cape Town.[172]

Renewable energy:

Recent government initiatives, such as the Renewable Energy Independent Power Producer Procurement Programme (REI4P), have stimulated the South African renewable-energy industry through incentivising private power producers. Increasingly, however, renewable energy will not need incentives, as costs, driven by improved technology, continue to decline. The cost of solar energy in particular is expected to decrease to a fraction of the cost of fossil fuels in the next decade.[173] This will be further aided by the increasing affordability of energy storage options. Cape Town is already undertaking a number of initiatives to capitalise on this opportunity, prominent among which is the green-technology special economic zone (SEZ) in Atlantis.

Electronics:[174]

The electronics industry is highly dynamic, constantly evolving as new technologies such as three-dimensional printing, virtual reality and the internet of things disrupt the way we do things. The catalyst for a number of these trends is the smartphone, which analysts predict is set to reach 100% penetration in developed countries, with developing countries not far behind.[175] South African spending on consumer electronics is expected to grow at 7,3% a year to $10,6 billion in 2018, mainly driven by smartphone sales, followed by personal computers and mobile handsets. Currently, the domestic market is overwhelmingly supplied by imported products, and there is a large opportunity for locally produced products to penetrate the market. This opportunity also extends beyond South Africa to the rest of sub-Saharan Africa. African markets currently account for 51% of Cape Town's electronic exports, and there is certainly opportunity to further grow exports in the region.

Clothing and textiles:

Having suffered for the past two decades under the spectre of cheap Chinese imports, the clothing and textiles sector in Cape Town is beginning to shrug off its lethargy. The gentrification of China renders it less price-competitive, although other low-cost producers, including Bangladesh and Vietnam, will certainly take its place. What is driving the mini-revival in the clothing and textile industry in the city is not the weakening of competitors, but instead the shifting demand structure of the industry. Fast fashion [176] is the key trend here, with speed to market becoming a critical factor. Cape Town's mix of retail head offices and large-scale manufacturers means that the city's clothing producers can offer a value proposition unmatched by producers in distant countries.

> The sustained growth of the global population will naturally lead to a growing demand for food.

Enhanced production techniques being implemented in Cape Town factories are also leading to increased efficiencies, which target turnaround time as much as cost. Sustained growth in the industry over the long term will however require that South African producers utilise their locational advantage to tap into neighbouring markets.

Agro-processing:

The sustained growth of the global population will naturally lead to a growing demand for food. As with the electronics sector, the rise of the African middle class will increasingly lead to enhanced demand for a wider range of agricultural products to support a more diverse palate. The exceptional growth of wine exports to Angola already points to some of the opportunities that Cape Town's agribusinesses should explore. In addition to a population effect, agribusinesses also need to be aware of the fact that consumers are increasingly well informed. Greater access to information is driving demand for healthier food and back-to-basics production.[177] This will have profound implications for the way in which the agro-processing sector in the city operates and positions itself.

172 City of Cape Town, 2015a.
173 Lacuna Radar, 2016: 6.
174 City of Cape Town, 2015a, except where stated otherwise.
175 Lacuna Radar, 2016: 33.
176 A contemporary term used by fashion retailers for designs rapidly moving from the catwalk in order to capture current fashion trends. See http://www.investopedia.com/terms/f/fast-fashion.asp
177 Lacuna Radar, 2016: 28.

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CASE STUDY

City of Cape Town Urban Development Indicator Framework

Overview

The purpose of the City's Urban Development Indicator Framework (currently an internal City administrative resource) is to support and facilitate the collection, maintenance, monitoring, analysis and reporting of indicators pertaining to Cape Town's development profile by various City directorates and departments.

Typically, a core set of indicators is used to monitor and communicate data on the status and progress of an entity – in this case, Cape Town. As the focus is on the city and its residents, urban development indicators are aimed at the medium-term to longer-term outcomes and effects of various development actors' actions on Cape Town and its residents.

Through monitoring and tracking this core indicator set for Cape Town, the City's urban analysts and decision-makers in a range of institutional contexts can shape their development strategies for the city or parts thereof.

How does the framework contribute to an improved understanding of urban development in Cape Town?

Such a core set of urban development indicators draw on intersecting bodies of knowledge (such as human development, urban development, sustainable development, social development and economic development). The key indicators allow measurement of status (for a time period, usually annually) and change (using trends analysis) against stipulated baselines for a specific set of development challenges in Cape Town.

What value can it add – or has it added – to the City's operations?

The focus on urban development indicators allows for awareness of and coordination around different indicator work currently under way in the City, in which most directorates and departments are actively engaged – and builds a better understanding of how the different indicators and related processes fit together and align.

Urban development indicators linked to a results/outcomes-based approach are distinguished from the City's organisational performance indicators, which are required by legislation, form part of the organisational performance management system and are reflected in corporate and directorate service delivery and budget implementation plans. Performance indicators are usually focused on short-term input and output, with minimum outcome indicators.

Methodology

This project was initiated by the DI&GIS Department to guide the conceptualisation, development and implementation of urban development outcome and impact indicators for Cape Town.

Within the City, the project is based on engagement and collaboration with indicator custodians in various directorates and departments in order to agree on the relevant outcome or impact indicators to track for Cape Town, given its development profile; feasible objectives, given the available data, as well as possible future indicators to include, along with the systems and data needed to track them.

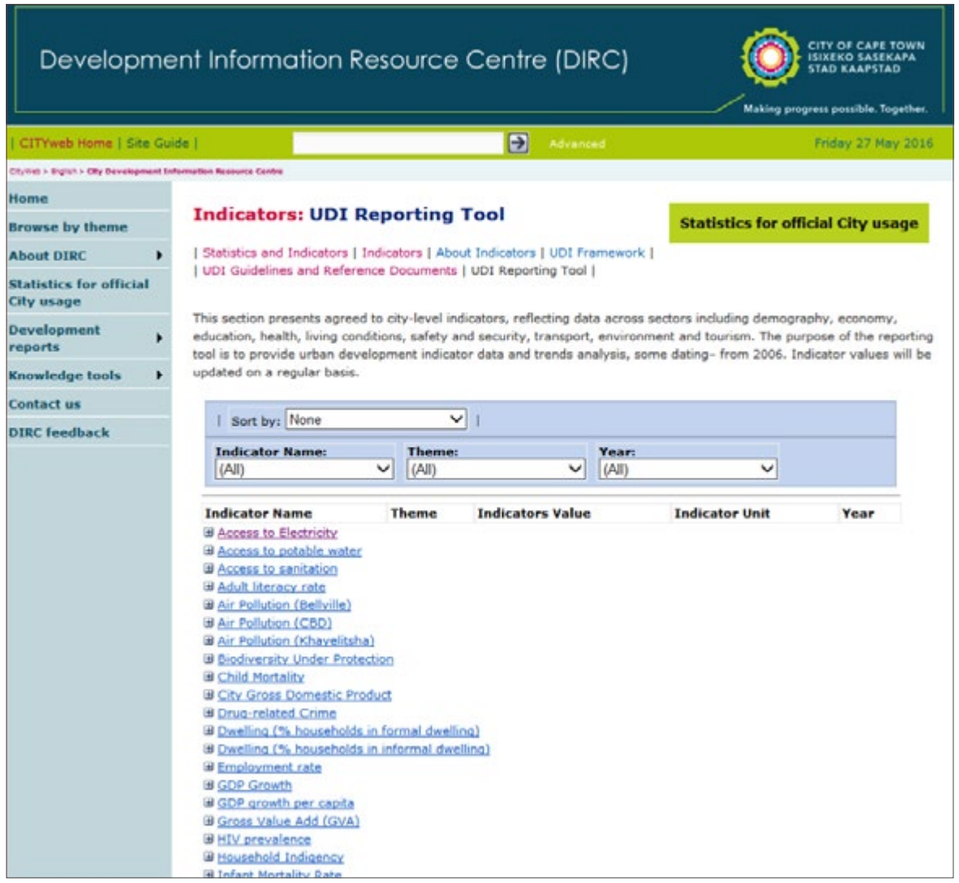
Through such engagement with indicator custodians, who constitute a working group, a core set of indicators was agreed for tracking and reporting within and by the City. The indicators were primarily selected because they were considered to be 'core' indicators and would not duplicate current indicator reporting.

The next phase of implementation is to review and prioritise new indicators to add, based on agreed selection criteria, such as whether the addition would address an indicator reporting gap, indicator data availability, etc. The next set of urban development indicator engagements may also include proposals for new data collection systems in order to collect urban development indicator data not currently available.

Value-adding impact

The improved understanding of the difference between organisational performance indicators and urban development indicators helped shape the Integrated Development Plan Office's approach to undertaking a high-level impact analysis of the current IDP term-of-office (ToO) plan.

Lessons drawn from the preparation of the Urban Development Indicator Framework and the engagement on medium-term to longer-term indicators in the City have manifested in the City's Built Environment indicator



process (as part of the Built Environment Performance Plan), the 2015/16 implementation of the IDP ToO (2012-2015) impact analysis, and the City's participation in an international pilot of the draft SDG 11 indicators. The engagements have also helped generate deeper awareness of urban development indicators, the range of technical aspects relating to indicators and, importantly, the need for a longer-term focus on outcome and impact indicators for the City. Through these engagements, DI&GIS is developing specialised knowledge and excellence in the field of urban development indicators.

DI&GIS team members also shared lessons and insights from the City's urban development indicator experience on international platforms and through scholarly articles. The former included a workshop in Gothenburg in June 2015 where international scholars reviewed the findings of the draft SDG 11 indicators pilot implemented in Cape Town and four other cities in Kenya, India, Sweden and the United Kingdom. Articles appeared in the journal *Environment and Urbanization*.

Way forward

With the support of the Information Services and Technology Directorate, DI&GIS is currently reconceptualising the existing urban development indicator reporting tool in order to develop a dynamic reporting tool with analytical capabilities, which will be available internally for City colleagues, and eventually to external users.