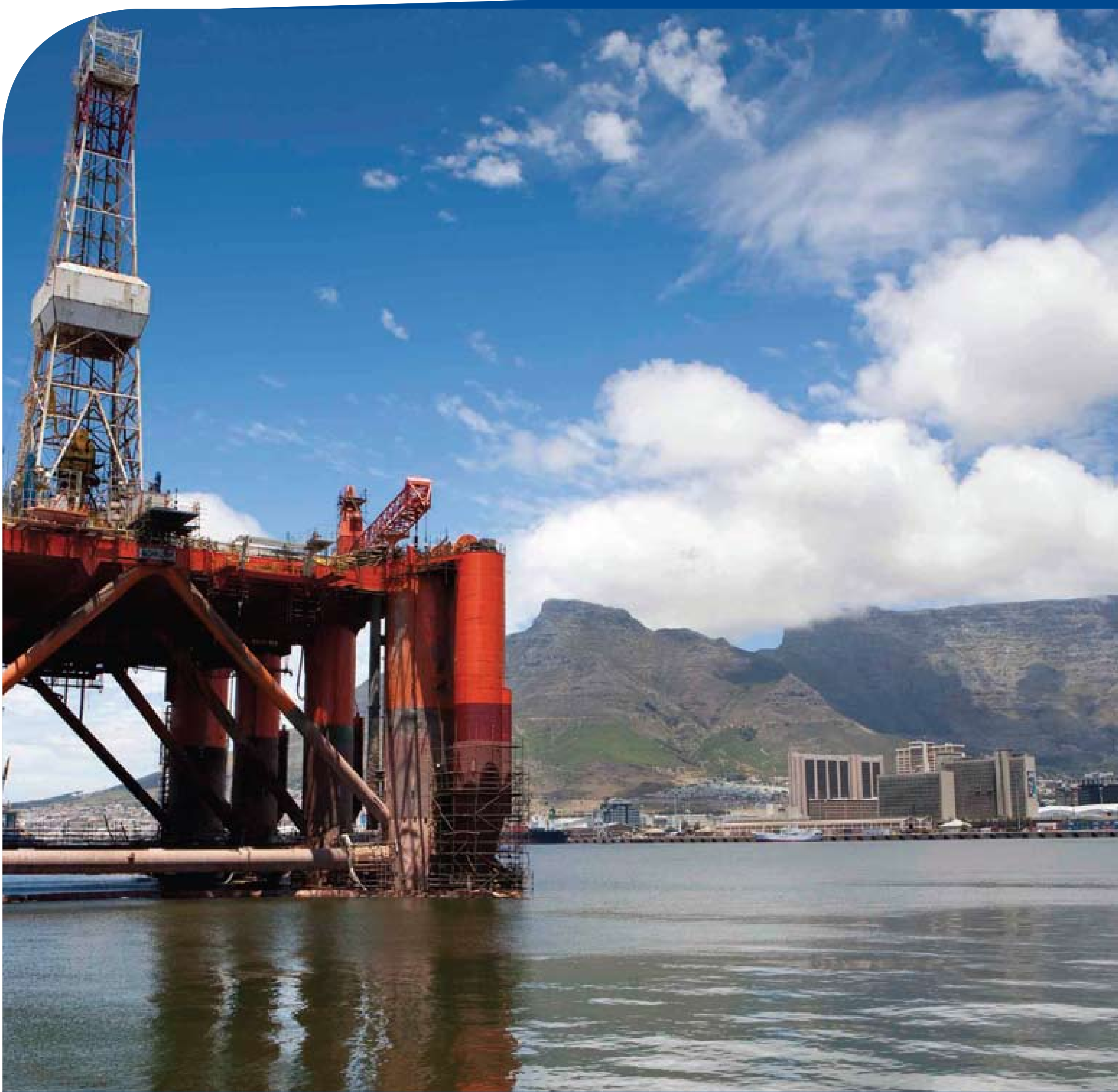
Western Cape Government
Economic Development and Tourism

BETTER TOGETHER.



Quarterly Economic Bulletin
Quarter 1 2016

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MINISTER'S FOREWORD

It is my pleasure to present the Western Cape Government's second Quarterly Economic Bulletin. In the short time since we have started publishing this report, it has offered useful insights into South Africa's most topical economic challenges.

This edition focuses on our currency, and provides detailed outlooks for the national and provincial economies. Through in-depth research, the Economic Planning Unit is able to tell us what global and national trends mean for us here in the Western Cape.

We've just seen the latest employment figures from Statistics South Africa. In 2015, this province added the most jobs to the South African economy. Jobs in the Western Cape are growing twice as fast as the national rate.

This report is also an excellent platform to share with you the policy decisions we've made to achieve our number one goal, being growth and job creation. Our approach, through Project Khulisa, is to place special attention on those areas of our economy with a competitive edge, and which hold opportunity to grow. In this edition, we further discuss the Project Khulisa strategy, with a particular focus on our fastest-growing sector, tourism.

The Quarterly Economic Bulletin is a useful tool for businesses and residents. I look forward to your feedback and continued engagement around our economy.

Alan Winde
Minister of Economic Opportunities

HEAD OF DEPARTMENT'S FOREWORD

This edition of the Quarterly Economic Bulletin seeks to highlight comment on those key macro indicators which affect economic outcomes for the whole of the economy.

Notwithstanding all these headwinds, the Western Cape economy proved remarkably resilient. The province created 210 000 jobs or more than 30% of all national jobs during 2015, more than any other province even though the provincial economy only accounts for about 14% of the national economy. It is our belief that business is demonstrating confidence in the province as a location that is open for business because of our industry-led approach to economic development, demonstrated in no small part by the sterling work our red tape reduction unit is achieving. Early indications have shown that the unit is saving business millions of rands by improving the environment for firms by addressing unnecessary burdensome process imposed by government on firms. We will continue to respond to unnecessary red tape when approached by business and invite business to approach the Department red tape is experienced.

Regardless of the low growth forecasts for the country, it is incumbent on the Western Cape's economy to continue to grow both the job creation opportunities and the need for increased investment. It is therefore our keen hope that the bulletin will stimulate a deeper understanding of the macro trends shaping our economy and drive a concerted effort to promote a regional economy which makes it easier for investors to do business and contribute to the much needed job creating opportunities.

Solly Fourie
Head of Department
Department of Economic Development and Tourism

EDITOR'S NOTES

In the five-time Academy Award-winning musical *Mary Poppins*, Mr Banks, a senior executive at the local bank and father of Jane and Michael, on the insistence of Mary Poppins, takes his two children to work with him one day. On meeting Michael that day, Mr Dawes, the bank owner, aggressively insists that Michael must invest his tuppence with the bank. Mr Dawes takes Michael's tuppence for depositing. In response, Michael screams loudly, 'Give it back! Gimme back my money'. The bank's customers are alarmed by the altercation and misinterpret Michael's antics as a response to the bank not having sufficient funds to honour his deposits. The bank's clients start to withdraw their funds and soon a horde of account holders do the same and a run on the bank ensues. Mr Banks, innocent in the altercation, loses his job and is brought to ruin in the prime of his career.

While fictional, in the real world it is the erosion of confidence and trust that causes runs on banks, bank illiquidity and bank insolvencies. No modern bank can withstand a rapid withdrawal of funds by depositors. This is as true for countries as it is for banks. The Asian Tigers in the 1990s boasted the fastest growing economies with low debt rates and, according to the International Monetary Fund (IMF), solid economic fundamentals. A loss in trust and confidence caused a run on these economies, wiping off billions of dollars in Asian stock, bond and real estate markets. South East Asian currencies devalued by up to 65% and required subsequent bailouts from the IMF. Good fundamentals, it would appear, are not sufficient to sustain economic growth: perceptions, trust and confidence matter. Sometimes all that is required to erode confidence is for a ten year old to shout, 'Gimme Back My Money!'

I have to disclose the fact that I have spent most of my previous career in financial services because I hold the view that were it not for innovations in financial intermediation from fractional banking to collateralized debt obligations, economic growth would be severely curtailed. During a recent chat with a friend of mine, she complained that the financial services sector is one of the main constraints to the growth of small firms because the sector under-provides finance to micro and small business, which in turn restrains job creation and social mobility. The conversation reinforced my view of the importance of finance and financial intermediation to economic development and employment creation. I have come across many industrious micro businesses that have the potential to achieve breakout growth were it not for the lack of access to finance. Because the financial services industry finds it difficult to price loans to these subsistence businesses, small businesses find it nearly impossible to raise funds to grow. The Western Cape Government is doing some sterling work through its finance initiatives to pair funders with opportunities through its annual Finance Fairs, which are proving to be very successful

How is this related to *Mary Poppins*, you might ask? Well, financial services intermediators find it difficult to extend loans to micro or subsistence businesses because the current risk measurement instruments are not good enough to accurately determine the credit worthiness of smaller businesses; the current tools do not offer credit managers adequate confidence in the credit worthiness of these businesses. Even though poor credit worthiness is not the same as the inability to determine credit worthiness, the outcomes are exactly the same- a credit lockout, which is sad. The Bangladeshi microloan bank, Grameen, demonstrated that when the industry gets it right, financial services can indeed facilitate growth and alleviate poverty amongst micro business at very fast rates.

Confidence influences every aspect of economic growth, from micro to macro economics. Over the past 20 years or so, as a country we did a sterling job in convincing South African firms to invest locally and for the international community to invest in South Africa. Twenty years of hard work in developing international trust is starting to unravel as evidenced by the fairly large outflows of foreign and local capital from bond and equity markets to offshore destinations. While some of the concerns have merit, South African economic fundamentals are not as dire as the mass media suggest. If we look a little deeper, it would appear as if South Africans and some international investors are misinterpreting Michael's tantrum as a reflection of South African economic fundamentals, which it is not.

This edition of the QEB illustrates that the Western Cape has done a sterling job in promoting confidence amongst business that operate in the province. Business confidence is a product of many local, national and international factors. Government's influence on business confidence is only that much, but while business confidence levels remains low, the gap between the national economy's business confidence and that of the Western Cape. is growing. It would appear that the Western Cape Government's approach to economic development by seeking to understand business is paying dividends.

Nezaam Joseph
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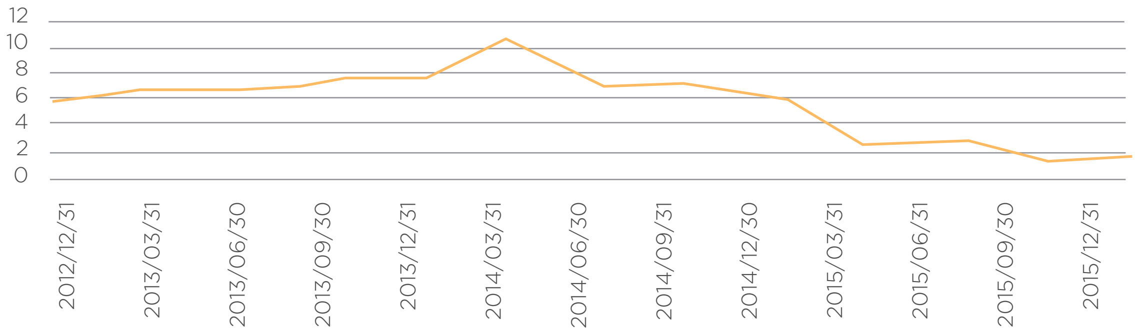
WORLD ECONOMIC PERFORMANCE AND OUTLOOK

Nezaam Joseph

Final household consumption makes up just over 60% of the South African economy. A stretched local consumer, facing higher interest rates, is unlikely to accelerate GDP. Final government consumption makes up a further 20% of GDP, and a financially constrained government about to implement a more fiscally austere budget is similarly unlikely to accelerate growth. Furthermore, local firms' profitability is severely constrained and annual gross operating surplus growth, (the growth in profit before items such as depreciation) is below 2%.

FIGURE 1: GROSS OPERATING SURPLUS

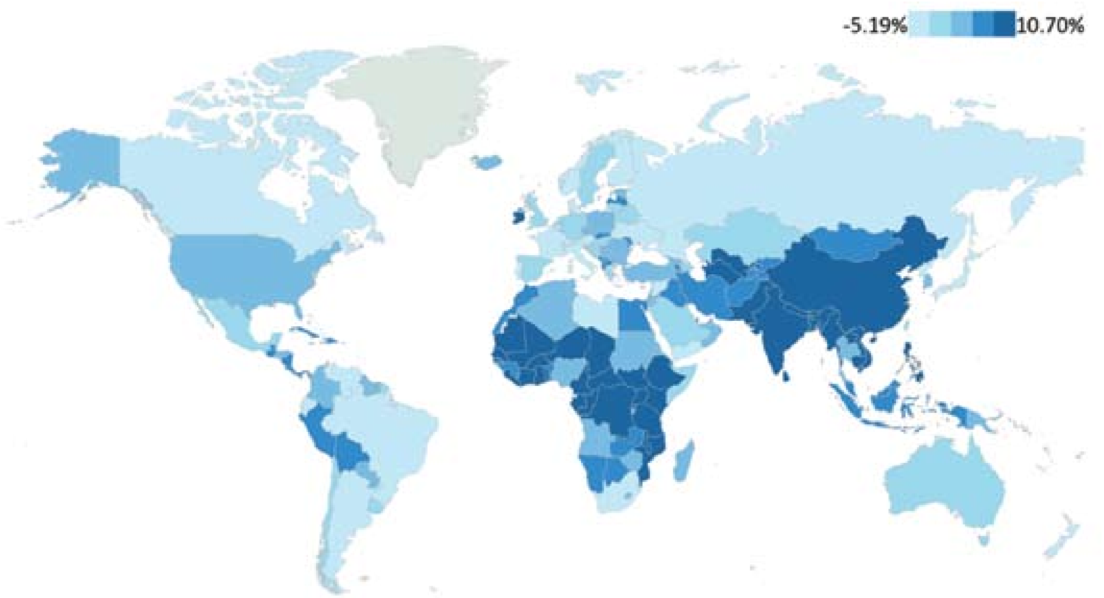


Source: Statistics Sa

It is for these reasons that exports, which, in invoice terms, account for 26% and 21.5% of the national and provincial economies respectively, are seen as an area to support growth. Headwinds faced by many of our key trading partners continue to restrain export growth. However, the recent devaluation of the currency by 50% since August 2014 will provide support to South African exports as locally produced goods become more competitive internationally.

South Africa and the Western Cape's strategy for economic growth and jobs is very much dependent on growth in our trading partners. Of the 20 major economies (G20), it is only India and China that are growing faster than 3%. Looking at the figure below we may conclude our export marketsneed to focus on Africa, India and China since they are growing at very healthy rates; furthermore, economic fundamentals such as demographics, debt levels and the nature of constraints to growth presents further room for longer term growth in this regions.

FIGURE 2: WORLD GROWTH RATES



Source: IHS

While these geographies present export opportunities, they all also present many nuanced hurdles to increasing exports. Many of the faster growing African economies, for example, (CAR $2.5bn, Mauritania $7bn, Namibia $13bn, Chad $14, Zambia $21bn) are smaller than that of the City of Cape Town, and they all have their own Challenges in terms of country-specific rules and regulations.

AFRICA

The 48 sub-Saharan African economies grew at an average of 5% in 2014, which represents significant opportunities fo SA exporters (with the expectation that the continent would maintain similar and even more rapid economic growth in the future. For these reasons South African and Western Cape policy makers identified Africa as a priority export market). However, Africa has mainly been supported by three macro factors: high commodity prices, loosening global monetary stances and improved local business environments. Two of the three conditions have been all but disappeared.

Commodity Prices

African growth is intrinsically linked to commodity performances. Africa's eight largest oil exporters account for just about half of the region's growth. Oil revenue accounts for up to 70% of total government revenue amongst the large oil exporters and supports much of the infrastructural growth, which is critical to improving productivity, competitiveness and general growth in the region.

While declining oil revenues will impact GDP, oil producing governments do not appear to be curtailing government expendituremuch, in fact government budgets are still very much expansionary. Recent high oil prices led to lower debt levels, which allowing governments to borrow, to smooth out the dramatic fall in oil pricesHowever,but that cannot persist for much longer without a commensurate recovery in oil prices. It does appear that much of the expansionary budgets are earmarked for much-needed infrastructure spend – electricity generation and transmission, roads and ports - which bodes well for future prospects in these countries.

Notwithstanding the counter-cyclical stance of African oil producers, the direct impact of depressed oil prices has slowed economic growth from a robust 7% to 3,5%. If oil does not recover soon, fiscal adjustments will be needed, which in turn will restrain economic growth. Growing deficits and declining oil revenues will exert downward pressure on African currencies and, if borrowings are denominated in foreign currencies, the increased debt repayments costs will add additional fiscal drag. Concouctantly, currency devaluations will absorb the impact of declining USD revenues.

Fiscal and monetary accommodation

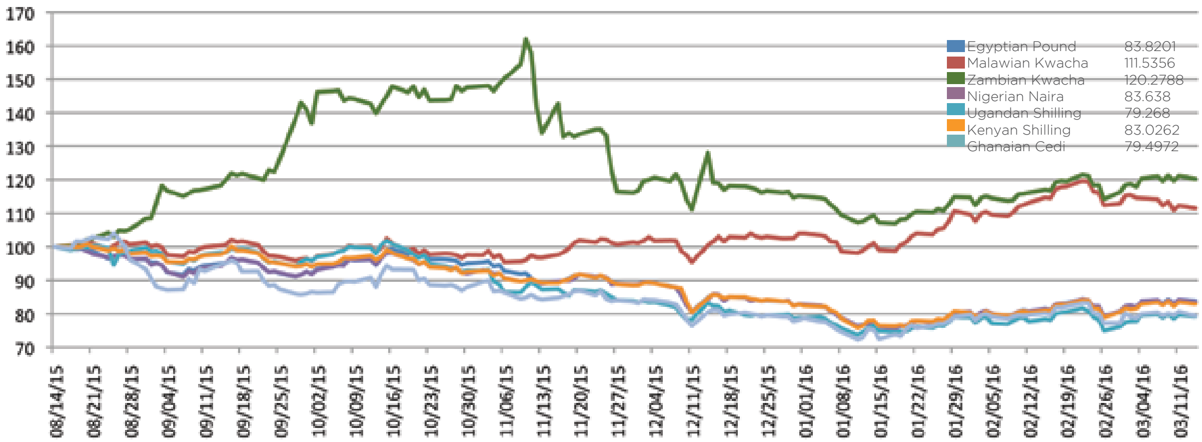
Nearly all sub-Saharan economies are fiscally worse off than they were at the start of the 2008 financial crisis. During this recent period of very low international borrowing rates, many of Africa's low income countries accessed cheap debt markets to fund much needed infrastructure. Gross service costs of the external debt is in excess of 10% of GDP in many of these countries. Local borrowing has increased significantly, which in turn has crowded out private borrowing. Lower growth and higher debt costs could further slow African growth.

Average inflation across the region has risen to just under 7% and is expected to rise to 7.5% in 2016. While global food inflation has been flat and even negative in some instances, El Nino has driven up food inflation across sub-Saharan Africa. Maize prices for example has increased by about 80% over the past year and will likely encourage inflation growth. More central banks across sub-Saharan Africa are starting to increase interest rates, thus increasing the cost of investment.

Currency pressures and South African exports

Deteriorating fiscal and trade balances are exerting downward pressures on some African currencies. On advice from the World Bank and the International Monetary Fund, some of these economies may allow local currency devaluations to smooth the effect of lower commodity prices, which may sterilise South African export competitiveness into Africa. However, as illustrated by figure 3, the South African rand depreciated significantly against many of the major African economies, supporting SA export competitiveness. As a consequence of rand weakness, South African goods are now more than 25% cheaper in Uganda, Kenya and Ghana.

FIGURE 3: INTERNATIONAL INFLUENCES ON CURRENCY DEPRECIATIONS



Source: INET

Trade between individual African countries and South Africa is low. African exports within the continent are low too, accounting for a little over 10% of the continent's total exports. Location competitiveness is somewhat sterilised due to the high logistic costs within the continent. Transport costs are twice that of the global average. Some firms, for example, reported that it is cheaper moving goods to the Far East than to move goods from Cape Town to Zambia.

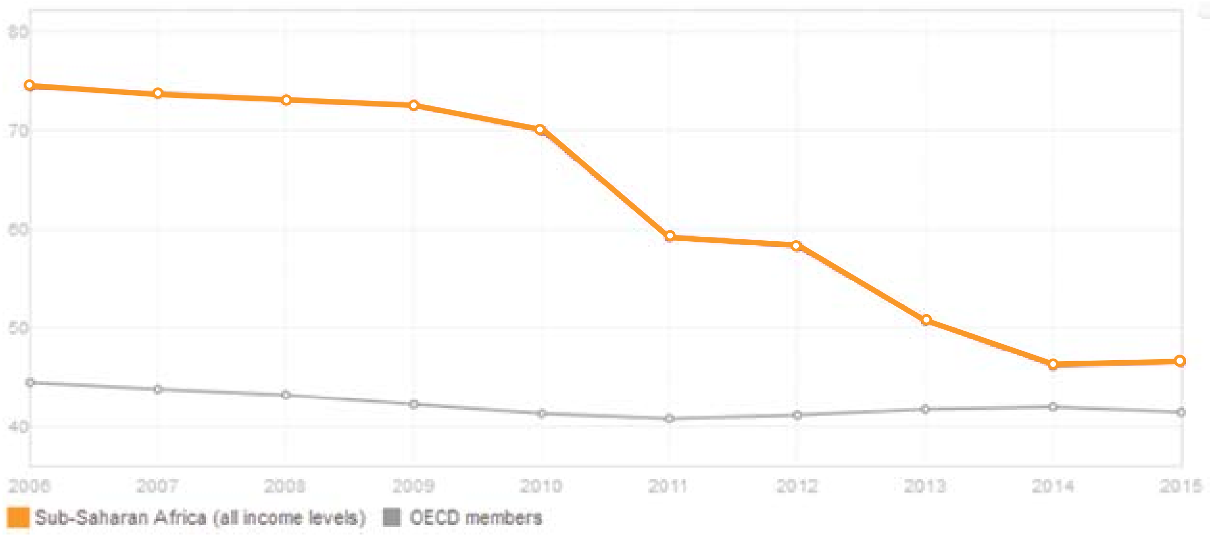
Intra-Africa trade tariffs are significantly higher than African trade with the rest of the world. The United Nations Conference on Trade and Development reported that the average intra-African trade tariff rate is 8.7%, compared to 2.5% between Africa and the rest of the world. Africa's 54 countries participate in four economic blocs. Each trade bloc intends to increase trade from the free movementgoods and movement of people to co-operation agreements.
The main problem with much of African trade agreements is that they are often too broad and not deep enough to address low levels of trade. Bi-lateral trade agreements between African countries belonging to different trade blocs are often cumbersome due to the exclusionary nature imposed by the different trade blocs on member countries. Red tape within trade blocs is another expensive hurdle for African firms interested in African trade. A few years ago Shoprite spent more than R60m on a consultancy to deal with SADC red tape.

Last year the Common Market for Eastern and Southern Africa (COMESA), East Africa Community (EAC) and South African Development Community (SADC) announced intention to establish the Tripartite Free Trade Area (TFTA), which will see the three trade blocs become one - a Cape to Cairo free trade zone. If the intentions of the uber trade bloc are realised, it will bode well for trade amongst the 26 member nations, of which South Africa is a participant. The conclusion of the TFTA agreement in Egypt last year still has to be approved by each individual country's parliament. In the short-term, it is likely that some countries, such as South Africa with its relatively sophisticated manufacturing capacity, will benefit more than or at the cost of other African countries. It is possible that the parliaments in countries that are likely to be disadvantaged by trade may either not approve the agreements or water them down to a point where trade may not improve much.

Business Environment

The 2014 World Bank Report on Doing Business showed significant improvements in the business environment across Africa, particularly across sub-Saharan Africa. Seventy four percent of the region's economies showed improvements in the regulatory environment for entrepreneurs; in fact, four of the top 10 global improvers were found in sub-Saharan Africa. The reforms bode well for South African exporters into the continent too. One example cited by the report was that Senegal nearly halved the regulatory procedural time it took to import goods into that country - from 27 days to 14 days.

FIGURE 4: TOTAL TAX RATE AS A % OF COMMERCIAL PROFITS



Source: World Bank

Other critical developments required to stimulate economic development are also underway. The structure and poor sophistication of the tax institutions of many African economies make consumption and income tax difficult to collect. Because corporate tax collection is easier to implement, the rate of commercial taxes as a percentage of commercial profits were unusually high. Over the last decade it has declined rather aggressively from 75% to just over 45%, which is more in line with world averages. The decline in tax rates may see more business formalisation. Financial services and financial intermediation are also improving across the continent and we are seeing improved financial intermediation competition, which is leading to improvements in the costs thereof.

While these regulations will do much to improve trade, international firms still find the rule and application of law difficult to navigate. [Two years ago a large South African financial services firm disclosed to us that their assets were unfairly expropriated]. Furthermore, the manner in which recent fines were imposed upon MTN because the firm transgressed Nigerian telecommunications law appears to have been handled in a very non-standardised way. Where the interactions ought to have been between the relevant authorities and MTN, the matter is currently with the president for him to apply his mind.

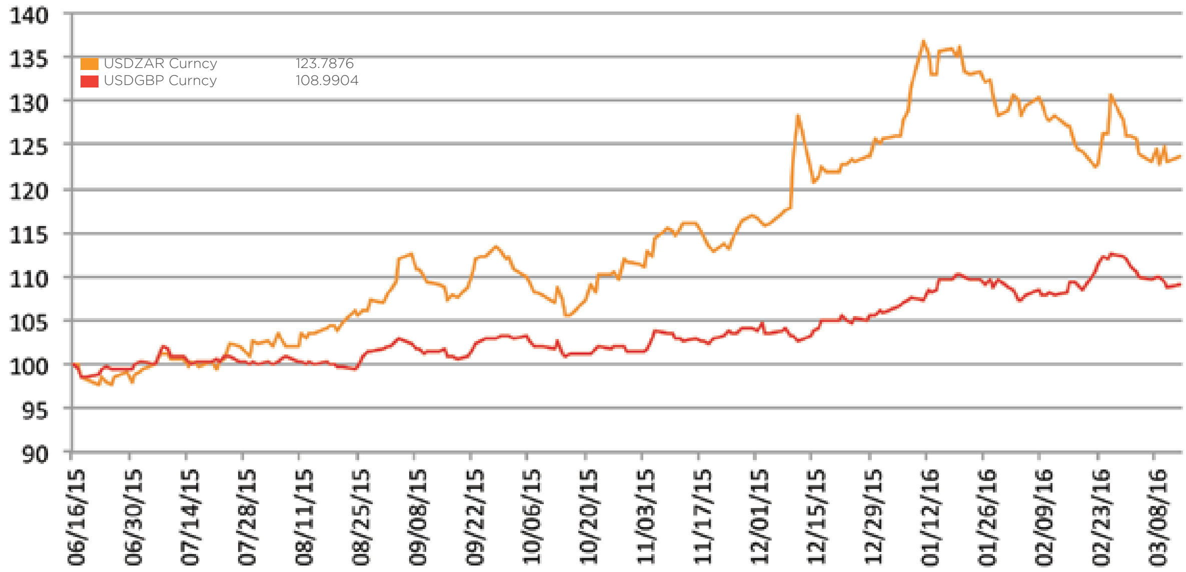
Electricity supply is another major constraint to growth across the whole of Africa. The IMF estimated that electricity constraints here in South Africa shaved more than 1% of GDP last year that is just over RBOBN. The electricity constraint on growth is even more pronounced across the continent. Nigeria's economy, for example, is 60% larger than that of South Africa's, but produces only about a quarter of the electricity generated by South Africa. It is estimated that poor infrastructure in Africa negatively impacts firm productivity by 40%, nearly much as the economic costs of crime and corruption. Furthermore48 sub-Saharan countries produce the same electricity as Spain. Addressing productivity and GDP by improving infrastructure, such as electricity generation capacity, is arguably easier than addressing constraints to growth as is the case in the OECD countries. Some of the main constraints to private sector electricity generation investment is that many sub-Saharan electricity consumers do not make a habit of paying for electricity consumption. Government departments and agencies, for example, owe more than $3billion to electricity generators and electricity tariffs are too low to entice private sector investments on a large scale. It is not only generation that is required, very expensive transmission infrastructure is also needed. In the absence of private sector investment in electricity, it is left up to the government. Recovery of commodities is critical to long term sustainable growth across the continent.

THE UNITED STATES

The United States is South Africa's second largest export trade country. South Africanexports to the US totaled more than R120bn, which is 13% greater than exports to the UK, our next largest export trade country. Unlike exports to China, US exports are more diverse and value additive. Transport manufactured equipment exports account for 21% and 13% of all exports destined for the US from South Africa and the Western Cape respectively. The US is also important to the Western Cape's agricultural and food sector, and accounts for about 40% of all Western Cape exports in this regard.

Just about all South African and Western Cape exports to the US are covered by the African Growth and Opportunity Act (AGOA). The act allows for 7000 goods to enter the United States free of any duties. South Africa also exports over R600m worth of goods from the local ailing textile, clothing and leather goods industries, of which 50% come from the Western Cape. The imminent resolution of the outstanding AGOA issues are therefore very important, both for South African and Western Cape exports. AGOA is an important instrument that supports South African and African exports to the US.

FIGURE 5: USD-ZAR AND GBP-ZAR DAILY



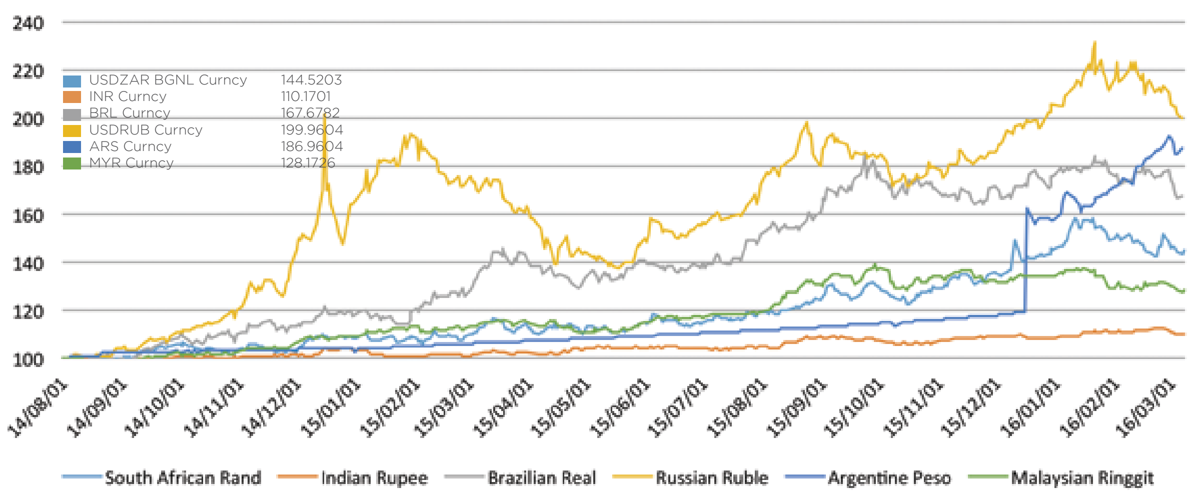
Source: INET

It was mighty over the past year, strengthening significantly against emerging and OECD currencies. The British pound depreciated 13% against the dollar from June to late February this year and is likely to depreciate further as BREXIT fears increase. The rand depreciated 25% over the same period.

We would expect that, as South African exports become more competitive through rand weakness, the volume of exports would increase. Historically, South African export volumes respond less positively than other countries to its currency weakness. Even if export volumes do not respond, the weaker local currency is a boon for local exporters as the same volume of exports would fetch 25% more randsOver the last 18 months, the rand depreciated by 42% (the GBP devalued by 21.5% over the same period), that is a 42% increase in export revenue while holding volumes constant.

One explanation for poorer than expected increases in export volumes to the US is that the dollar strengthened against the basket of just about all its trading partners. Because many emerging economies' currency devalued faster than that of the rand, relative competitiveness against US trading partners was neutralised.

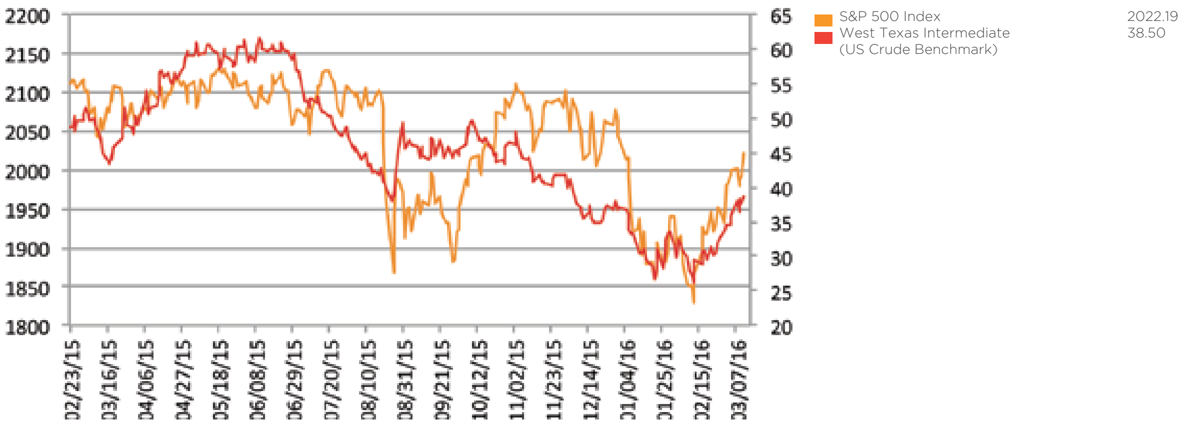
FIGURE 6: EMERGING MARKET CURRENCY FLUCTUATIONS



Source: INET

Dollar strength is factored into the oil price. We were taken aback by how much the lower oil price negatively impacted US markets. Traditionally, lower oil prices provide support to US consumer spending, which then provide buoyancy to US stock markets. but that did not happen this time. The main reason is that the US has become a dominant producer of crude oil. From 2009 to mid-2015, crude production in the US nearly doubled from less than 5m (bpd) to 9.6m bpd, while at the same time US crude imports decreased by more than 2.68m barrels per day (bpd) or 34%. From mid-2010 to 2016, natural gas production increased by more than 70% to 3.4m bpd of oil equivalent. Current crude stocks in the US stands at nearly full capacity at 1.2bn barrels. Oil exploration technology allows for record levels of output, not only in the US, but globally.However, but demand is increasing at a much lower rate, hence the record levels of stock-piled crude.

FIGURE 7: GROSS DOMESTIC PRODUCT



West Texas Intermediate (WTI), the US crude benchmark, traded for over $110 per barrel and, as late as July 2015, the commodity was still priced at over $100 per barrel. The effect of an $80 depreciation in WTI amounts to a loss of $184bn in revenue to the industry, and that does include the impact of the production of 1.2 bn barrels of natural gas. A decline in revenue impacts on thousands of US jobs in the sector.

It is not only significant losses in revenue or employment to the industry that is hurting US markets, but over-investment in production capacity will have resulted in an inefficient allocation of financial and other resources. Many of the investments in new exploration and offshore, onshore and fracking, werefunded by debt, either through debt bourses or by financial services firms. At current prices, energy firms will find it more difficult to service their debt obligations. If energy firms default, it will negatively impact the financial services sector.

Notwithstanding headwinds facing US energy firms and the drag it is having on US and global markets, US economic fundamentals are strong. Inflation is likely to remain low, which means the US Federal Reserve has monetary space and consumer debt levels are manageable. The US job market is nearing levels of full employment, which bodes well for the global economy and South African exports.

China and commodities

FIGURE 8: BRITISH POUND & EURO CURRENCY FLUCTUATIONS

Source: INET

Oil prices have slumped by 70% to below $30 per barrel, mainly due to increased global production. However many commodity prices fell without significant increased production. Oil and commodity prices soared on increased demand from China. China's increased demand for commodities appears to have been misunderstood by the markets. What the marketsaw as additional global demand in production – was rather due to a geographic shift in production of goods in China. As manufacturing shifted, new infrastructure and fixed capital was required, which was additive. Other new infrastructure was required to facilitate the migration of millions of Chinese workers to centres of production. By 2009, capital and infrastructure investments made up 44% of GDP, the last decade realised $10 trillion in cumulative investments in China, which supported one of the longest super-commodity booms.

FIGURE 9: COMMODITY PRICES

Source: INET

Like all bubbles, the commodities sector saw significant inflow of capital. Mining firms leveraged up to increase production of mining assets that would otherwise not be in the money. As we better understood the nature of the demand for commodities and realised that the levels of demand were not sustainable, commodities prices started falling back rather spectacularly. The consequence is that we are now left with mining firms that are Highlyleveraged and, if current commodity prices persist, will threaten not only their liquidity but also their solvencies.

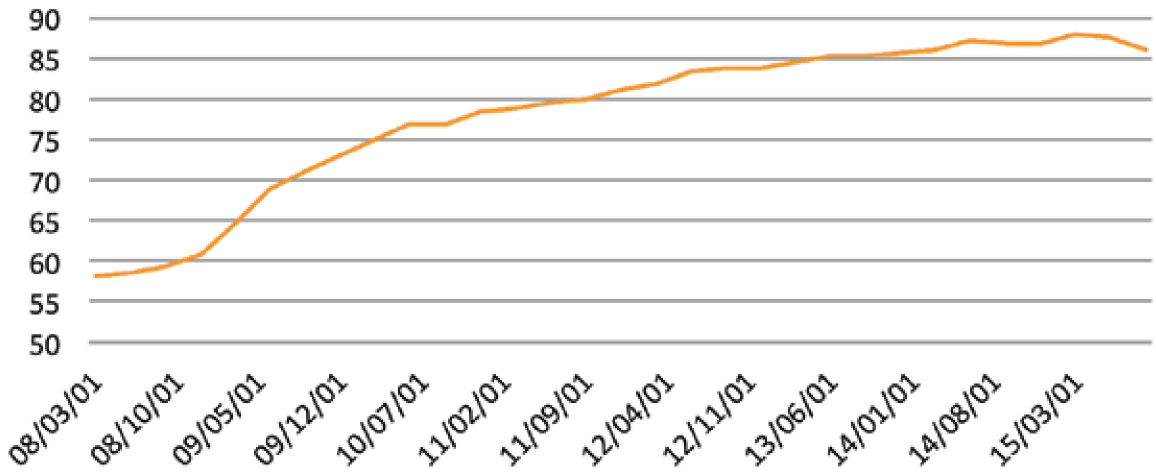
Some good news for the commodities sector is that China is in the process of rebalancing its economy from being investment-led to consumption. Household consumption accounts for 35% of GDP, the lowest amongst all major economies. As household consumption increases, this would present additional global demand, which may require additional infrastructureadditional commodity demands and hence.

China's economic rebalancing bodes well for the diversification of South African exports and for the Western Cape's export strengths.

THE EUROPEAN UNION

Since the 2008 financial crisis, growth across most of Europe was supported by either monetary or fiscal policy. One of the four criteria stipulated in the Maastricht Treaty is that government debt to GDP across each the union countries must not exceed 60%. Aggregated government debt to GDP across the union is currently above 85%. Union member countries have been deleveraging since 2015. Continued deleveraging will negatively impact economic growth, which in turn may impact demand for South African exports.

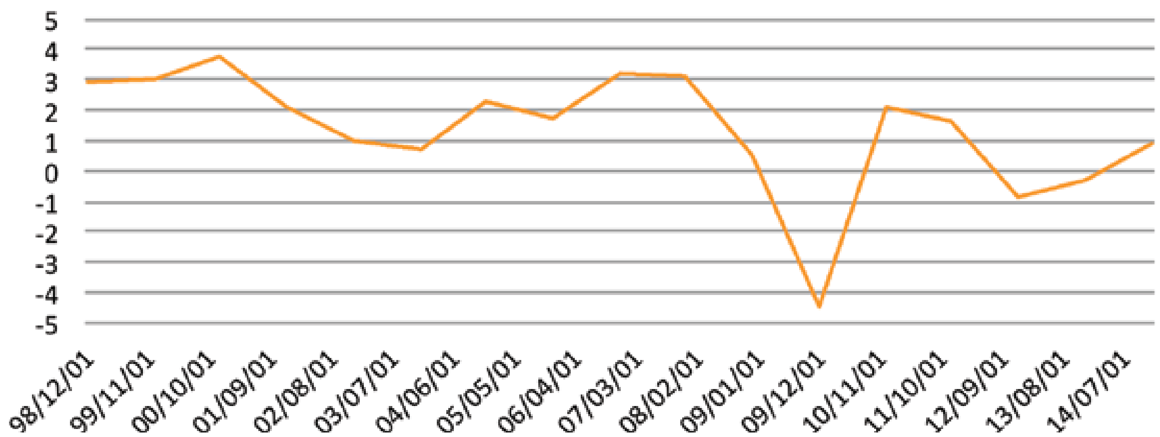
FIGURE 10: EU DEBT TO GDP (%)



Source: INET

Illustrated by the figure below, and notwithstanding aggressive counter-cyclical government-supported growth, over the last 20 years the European Union has not managed to grow more than 1.5% per annum. Furthermore, there are no obvious growth drivers to suggest that the Union will grow more than 2% per annum while relative productivity is declining over the medium term. GDP per capita is high at over $36 000 (PPP) per annum and the population is not growing – over the last 10 years population growth is 0.3% and is greying - Half of the population in the EU is older than 42,2 years, which are not obvious indicators to support long-term growth. Relatively high salaries accompanied by relative weakening global productivity in an increasingly globalised world is not going to support rapid growth rates.

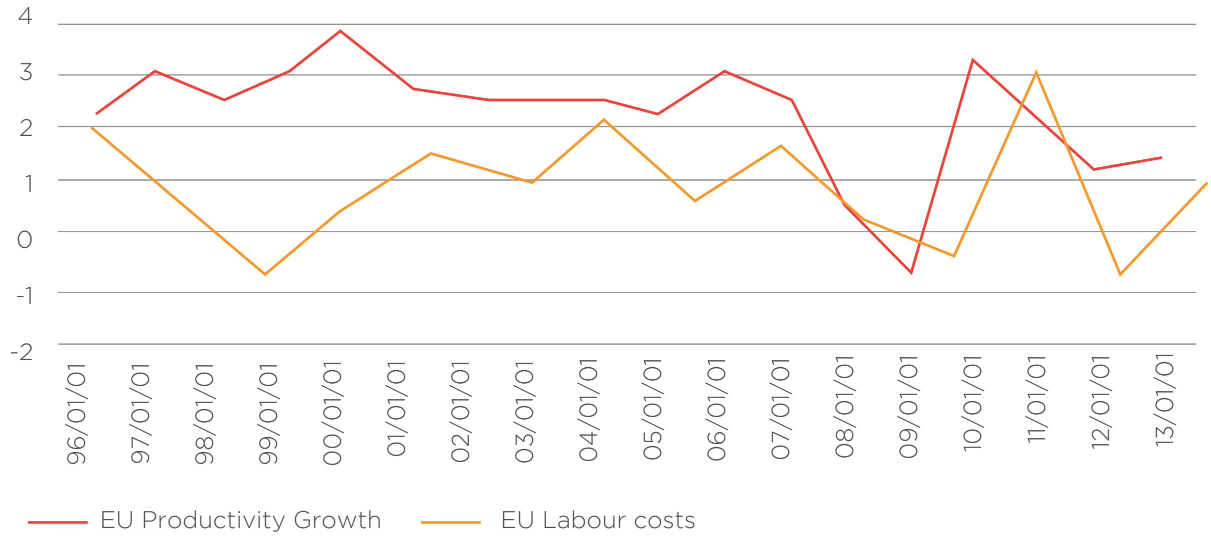
FIGURE 11: EU GDP GROWTH (%)



Source: INET

Relatively low wages, improving infrastructure and significant strides in educational outcomes in developing economies are sterilising the Union's competitive advantages. While the average worker in the EU (in absolute terms) is more productive than the average worker in emerging economies, productivity growth in the EU has averaged only about 1% over the last 20 years.

FIGURE 12: EU PRODUCTIVITY GROWTH AND EU LABOUR COSTS GROWTH (%)



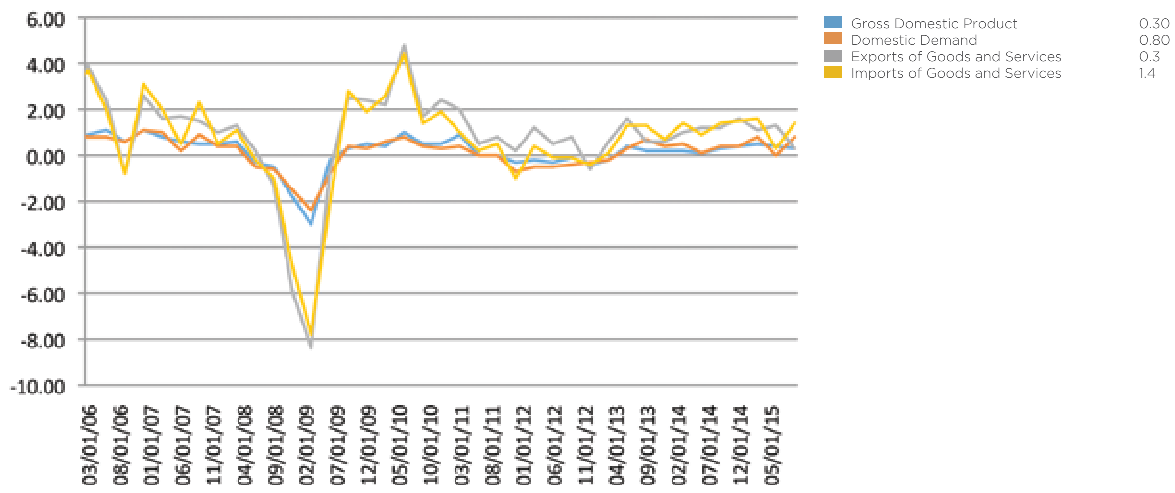
Source: INET

Over the same period, labour costs have increased more rapidly than productivity gains (1.6% vs 1% respectively). Slow fixed capital formation of 1% over the last 20 years is one of the reasons for low productivity growth, but the main reason for poor growth prospects is the greying and slow-growing population. From an economic growth perspective, the Union needs the relatively young and often educated asylum-seeking migrants. The old age dependency ratio (the ratio of persons over 65 compared against the population aged between 15 and 65 years old) is above 30% in Greece, Germany, Sweden, Portugal and Finland. This means that the cost of suppressing an elderly person is split between three working age adults – through a combination of taxation and direct support. Over the last 7 years, social benefits as a percentage of total GDP increased by more than 16% across the 28 EU countries.

Politically it may be very sensitive, but in economic terms,allowing more immigrants into the Union will shape the demographics in a manner that could better support economic growth and sustain current social support. Germany's Merkel's insistence on allowing more asylum immigrants into the EU, I am sure, is taking into account the need to bulge the working population.

The European Union is South Africa's most important non-mineral export destination and accounts for more than 40% of all Western Cape exports. Much of South Africa and the Western Cape's growth strategy hinges on export growth. Our economic interest in Europe's response to the refugee crisis will influence our economic outcomes much more than we think.

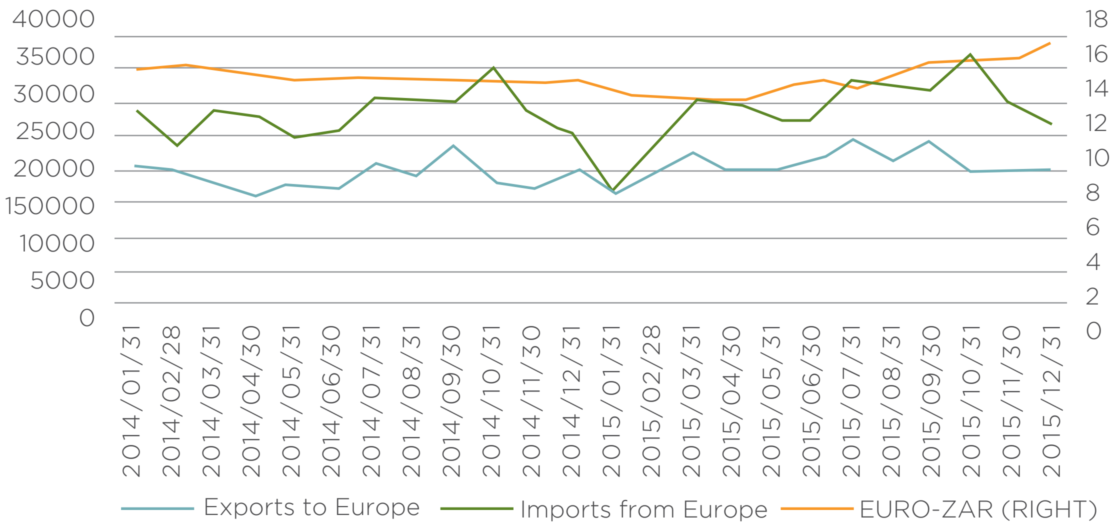
FIGURE 13: EU GDP DOMESTIC DEMAND EXPORTS



Source: INET

EU quarter 4 growth realised year on year growth of 0.3%, supported mainly by domestic demand. Inflation edged up slightly to 0.3%, which bodes well for the consumer as the labour costs have been increasing by more than 1% per annum over the last 10 years. Low inflation and much faster wage cost growth is, in part, supporting robust imports that have accelerated to 1.4%. Growth might be flat in the EU but imports, while not stellar, have been showing some growth over the last few years.

FIGURE 14: TRADE: EUROPE

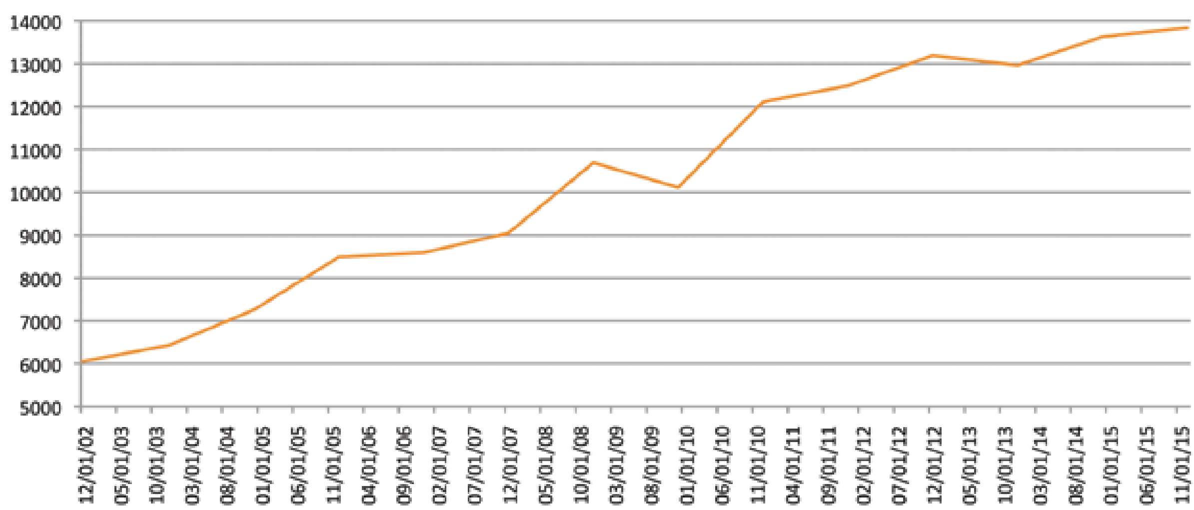


Source: Statistics South Africa

South African trade data with the EU is only available up to December 2015. The 2015 trade deficit between South Africa and Europe stood at R100bn. South African trade deficits normally narrow between December and January as imports speed up in anticipation of the December holiday shoppers. It is too early to say if the weakened rand has had an impact on either European imports or exports.

South Africa imports much of its heavy machinery and sophisticated goods from Europe. These goods are ordered months in advance, before the recent currency devaluation. Typically these type of imports do not always have immediate local substitutes and are therefore less sensitive to currency depreciations than fast moving consumer type goods. This is the case for most imports from the EU and US, which are predominantly large machines or high tech goods where one canexpect the weaker currency to have a more pronounced effect is on less sophisticated Chinese imports that do have local substitutes. Imports from Europe and the US would be less sensitive to currency fluctuations, particularly large machinery and high tech goods. South African exports to the EU will be more sensitive to currency depreciation. However, even if volumes are not affected, nominal rand revenues are likely to be positively affected.

FIGURE 15: EU GROWTH IN EXPORTS TO AFRICA

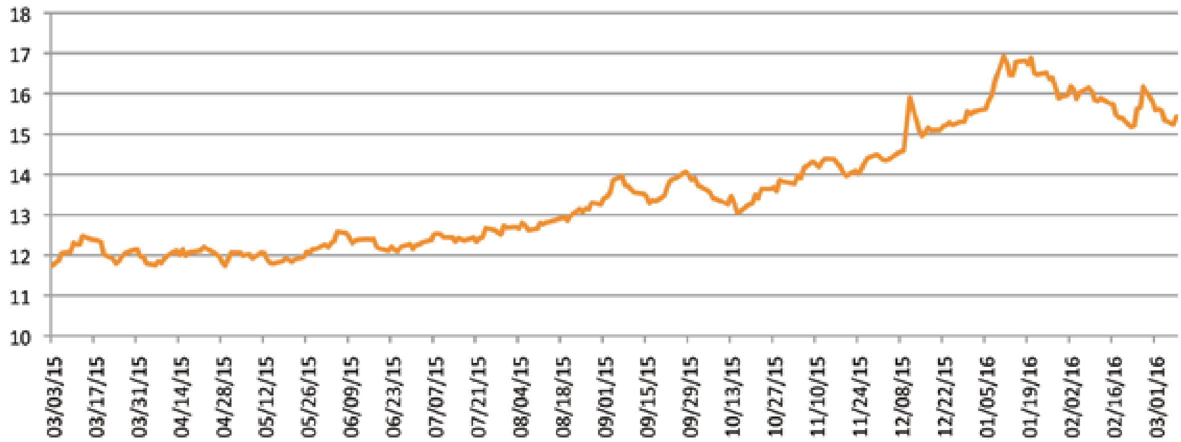


Source: INET

NATIONAL PERFORMANCE AND OUTLOOK

The local currency's devaluation has dominated conversations about the national economy and the mood in the country has turned even more negative,than usual. Against the US dollar, the rand depreciated by 29.6% from mid-October 2015 to mid-January 2016, and 43.4% from May 2015, to mid-January 2016. Over the Van Rooyen weekend alone the currency devalued by nearly 9%. However, the rand recovered most of the Van Rooyen losses days after Minister Gordhan was re-appointed as Finance Minister. Later on in this edition, we have a feature on the rand's collapse against the dollar, but it is suffice to say for now that much of the rand's devaluation is less about our own doing than it is about being a member of an emerging market and dollar strength.

FIGURE 16: USD-ZAR



Source: INET

One negative effect of rand weakness has been its effect on inflation. Oil imports make up about 24% of all imports. About 65% of our required crude, or 425 000 barrels per day, is imported. Even Sasols locally produced petrol and diesel uses the Basic Fuels Price to determine wholesale and consumer fuel prices, is determined by the price of international crude.

Employment performance

Over 2015,the national economy added 698,000 jobs, from 15.32million to 16.018million, over 2015. In a very tough year, dominated by, a contraction of agricultural activity,due to drought a slump in mining commodity prices, associated jobs losses as well asrolling blackouts across the country, the national unemployment rate increased by only 0.1%. The increase is mainly due to a significant decrease in discouraged workers (-124,000). The population aged between 15 and 64 years increased by 629,000, which is less than the number of new jobs of 698,000 created in 2015.

It was somewhat surprising and puzzling that agricultural jobs increased by 16% year on year, or by 118,000 jobs, during one of the worst droughts experienced in decades. It may be because farmers are culling livestock at a very rapid pace in an effort to prevent further financial loss. Quarter on quarter, however, agricultural employment has contracted by more 37,000.

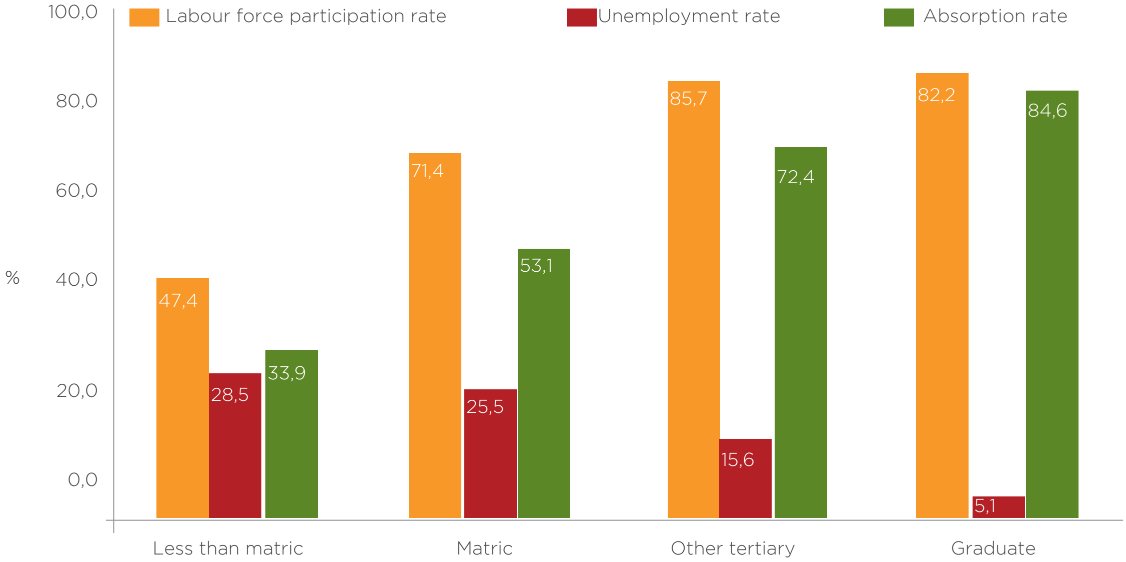
The financial and business services sector was the star performer at 11,5%, Thisnearly twice as many jobs as any other sector with 234,000 additional jobs over the past 12 months.

The overall employment creation figures are welcomed, but the slow rate of employment creation in the formal sector is of concern. Fifty-seven percent of all those employed are in the non-agricultural formal sector and 16.7% of jobs are found in the informal non-agricultural sector. Only 269,000 jobs were created in the formal sector against 236,000 in the relatively small informal sector. Stated differently, formal sector growth rate is 2.5% versus a 9.6% growth rate in the informal sector. While we welcome job creation in the informal sector, informal sector employment is, ordinarily, less productive than the formal sector. Informal jobs are less secure and associated with much lower incomes and tax contributions.

Another concern is that, of the 698,000 jobs created, 487,000 are classified as elementary. These are typically lower skilled and lower paid jobs, including vocations such as cleaning, refuse collection and similar. Unemployment is most acute amongst this cohort, so it is promising that the economy is absorbing more low-skilled workers.

It's no surprise that South Arica has an acute unemployment issue, but what is surprising is that according to the Organisation for Economic Co-operation and Development (OECD), South Africa is, and has been for a while now, experiencing full employment amongst its graduates.

FIGURE 17: LABOUR MARKET RATES BY EDUCATION, Q4: 2015



Source: Statistics South Africa

TABLE 1: EMPLOYMENT PER PROFESSION

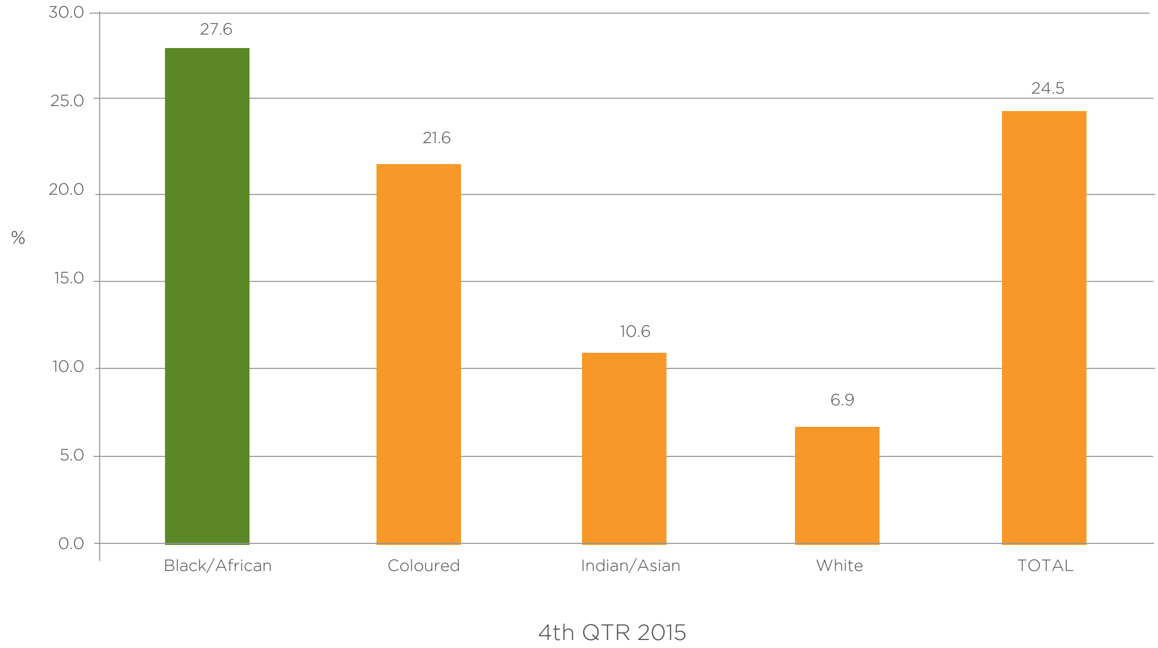
	Oct-Dec 2014	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Qtr-qtr change	Y-o-y change	Qtr-qtr change	Y-o-y change
	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Per cent	Per cent
Both sexes	15320	15459	15657	15828	16018	190	698	1,2	4,6
Manager	1337	1252	1246	1284	1314	30	-22	2,4	-1,7
Professional	654	782	750	800	772	-29	118	-3,6	18,1
Technician	1467	1419	1479	1471	1455	-16	-12	-1,1	-0,8
Clerk	1750	1670	1638	1669	1708	39	-42	2,3	-2,4
Sales and services	2448	2449	2469	2406	2529	124	82	5,1	3,3
Skilled agriculture	94	83	99	99	102	3	8	3,0	8,0
Craft and related trade	1957	1873	1921	2001	1989	-13	32	-0,6	1,6
Plant and machine operator	1315	1324	1370	1275	1278	3	-37	0,2	-2,8
Elementary	3356	3600	3679	3797	3842	45	487	1,2	14,5
Domestic worker	943	1009	1006	1025	1029	4	86	0,3	9,1

Source: Statistics South Africa

Unemployment amongst this cohort is 5.1%, 500% less than those with only a matric. Graduates are generally more productive, earn higher salaries and facilitate the production of more sophisticated goods and services. Because South African exports are significantly more sophisticated than that of similar economies, increasing graduates will likely lead to increase in exports. Professional job classification grew by more than 18%. Typically this job classification requires some type of tertiary degree.

Low unemployment rates amongst graduates could be hurting our export potential too The nature of South African non-mineral exports is unusualin that, for a typical emerging economy, our exports are relatively sophisticated. If the country is to increase exports of similar sophistication, it must increase its number of graduates.

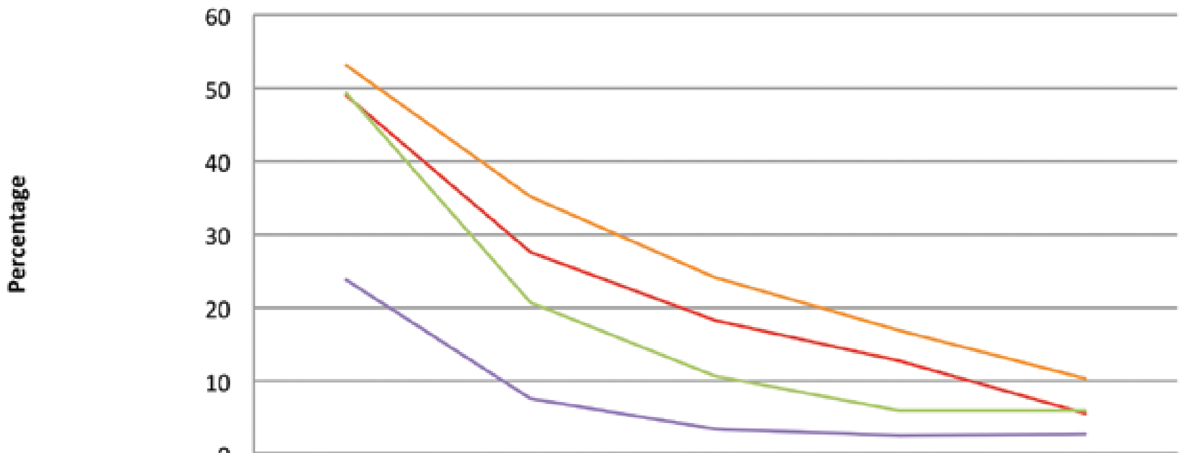
FIGURE 18: UNEMPLOYMENT RATE BY POPULATION GROUP



Sourse: Statistics South Africa

Distinct differences in employment is prevalent between race groups, but is explainable by variance in education levels amongst the different race groups. Addressing unemployment is best addressed through improvements in tertiary and degree education outputs.

FIGURE 19: UNEMPLOYMENT RATE BY EDUCATION AND AGE GROUP

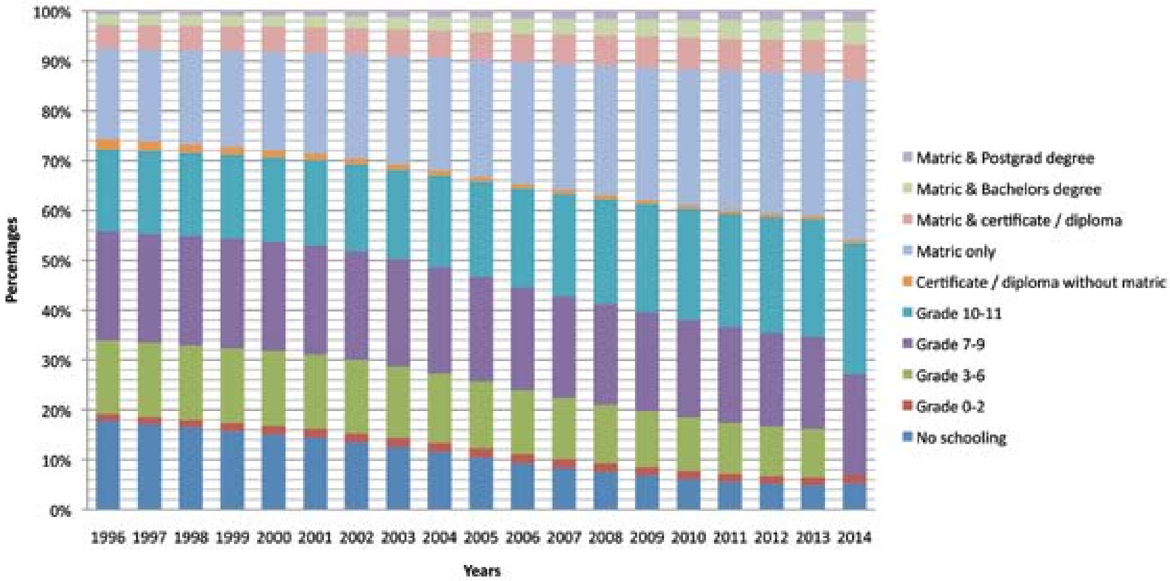


	15-24 yrs	25-34 yrs	35-44 yrs	45-54 yrs	55-64 yrs
Less than matric	53,1	35	24	16,7	10,3
Matric	48,9	27,6	18,4	12,7	5,5
Other tertiary	49,2	20,6	10,5	5,9	5,9
Graduate	23,8	7,7	3,3	2,5	2,7

Source: Statistics South Africa

The figure above illustrates very low unemployment rates as the population ages. The primary reason is that older people tend to become discouraged and stop looking for employment,and the official unemployment definition excludes those who are not actively looking.. We find this phenomenon less pronounced amongst graduates.

FIGURE 20: PROGRESS IN EDUCATION



The labour participation rate amongst graduates is over 89%, whereas inthe cohort of less than matric it is 47%. Stated differently,just less than half of those without matric are neither working nor seeking employment. Thisis of acute concern because nearly 60% of the population does not have a matric.

WESTERN CAPE PERFORMANCEAND OUTLOOK

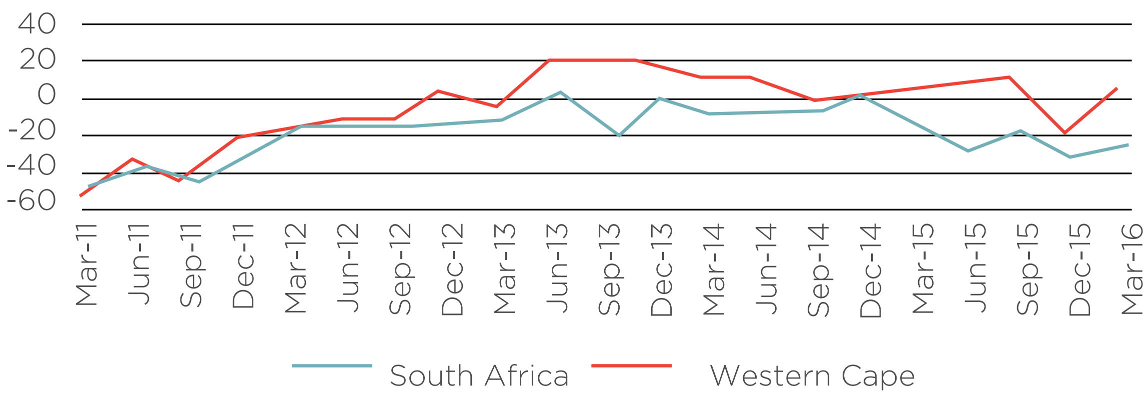
As described in the previous Quarterly Economic Bulletin, the employment transmission mechanism is that, as business confidence increases, more investment takes place, which creates more job opportunities and leads to increased employment. Business confidence is influenced by a myriad of factors that include market, macro and labour conditions as well as the ease with which government allows business to operate.

A provincial government's influence on market and macro conditions is very limited. These conditions are influenced by global factors, interest rates and the financial strength and resilience of the consumer. However, provincial governments can influence the ease with which business can operate, they can assist in addressing skills shortages and also address resistance experienced by local firms in accessing international markets. The general tone inwhich government engages with business is critical in fostering a relationship of trust between business and government, and must not be discounted.

In the Western Cape we believe that the general relationship between business and government over the last six years has improved significantly. Western Cape economic priorities are strongly influenced by private sector priorities. We are seeing the impact of this approach through differences between the Western Cape and the rest of South Africa in business confidence and longer term real estate investment plans.

Figure 21 below depicts Building Contractors' perceptions of business conditions into the 1st quarter of 2016. Building contractors' confidence has consistently remained above that of national building confidence over the last four years. This aggregated confidence is supported strongly by both residential and commercial construction. Confidence in the sector is also strongly supported by growth in guestsand large accommodation investments made in the sector in anticipation of increased international tourism.

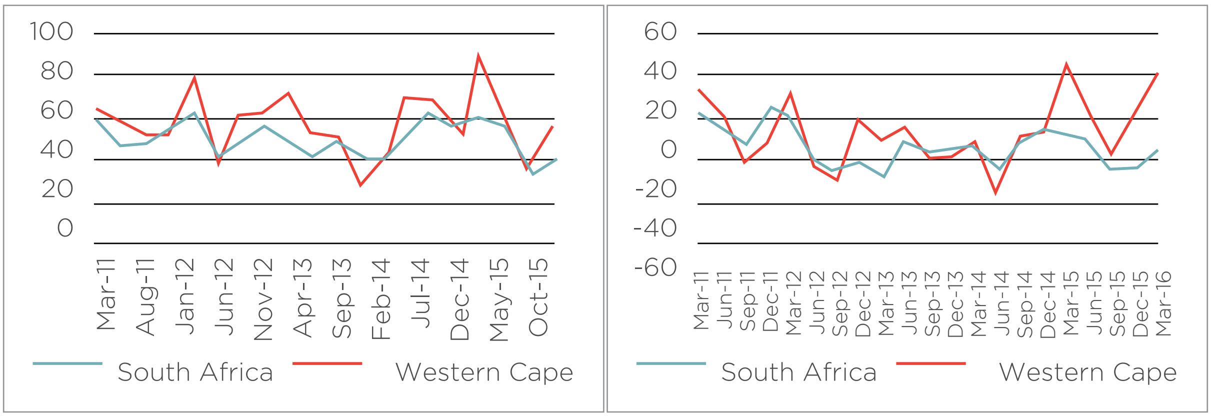
FIGURE 21: BUILDING CONTRACTORS EXPECTED CHANGE IN BUSINESS CONDITIONS



Source: BER

Residential home prices in the Western Cape have consistently exceeded national averages, driven in part by increased demand for housing across price ranges, but particularly in higher-valued property. We have not explored the reasons why Western Cape house prices are higher than that of the national average, but we imagine that the province is experiencing population inflows of higher net worth individuals that are demanding larger properties.

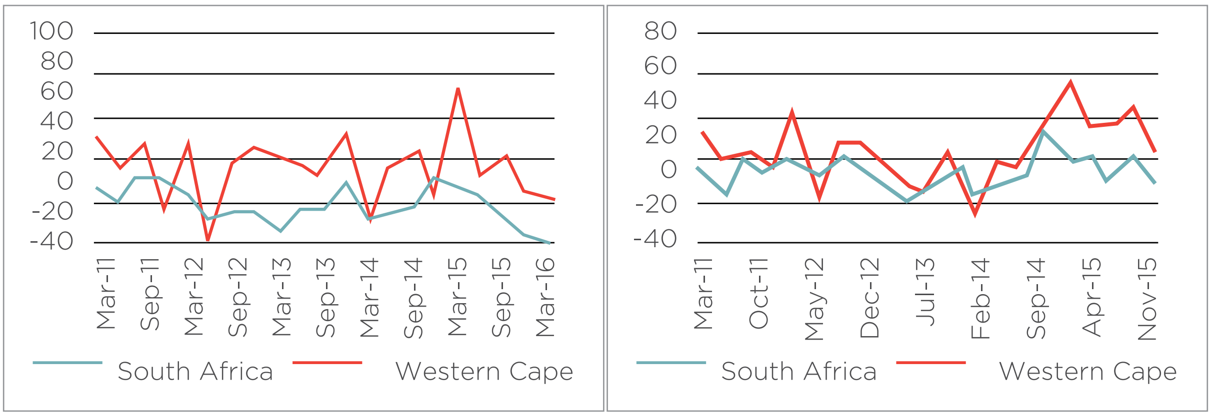
FIGURE 22 & 23: RETAIL BUSINESS CONFIDENCE AND RETAIL EXPECTED CHANGE IN BUSINESS CONDITIONS: SOUTH AFRICA AND THE WESTERN CAPE



Source: BER

Retail business confidence pretty much tracked national confidence, but we are starting to see retail confidence in the Western Cape improving at a much faster rate than that of national confidence. The state of the consumer is the single largest driver of retail confidence. Increases in interest rates, coupled with double digit electricity increases and food inflation, ought to have impactedhousehold disposable income negatively and susequesntlyinfluenced retail business conditions. Surprisingly, retail business conditions in the Western Cape have risen much faster than expected.

FIGURE 24 & 25: GROWTH IN RETAIL VOLUME OF SALES AND GROWTH IN NUMBER OF PEOPLE EMPLOYED: SOUTH AFRICA AND THE WESTERN CAPE



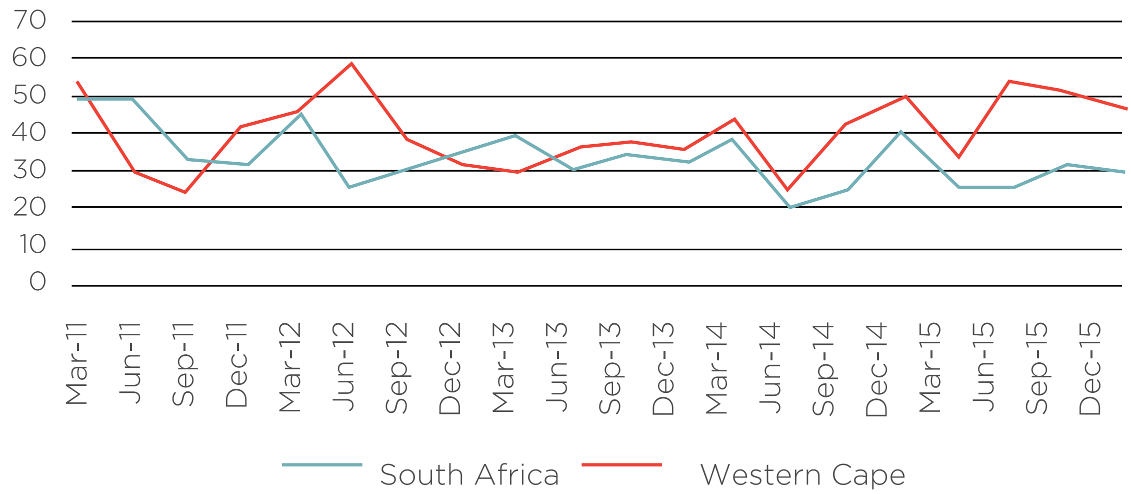
Source: Stats SA

Retail sales volumes and, surprisingly, employment in the sector is also holding up well. We have not looked at the causes of the differences between national and provincial retail sales volumes and people employed, but we suspect that increases in tourism may, in some part, explain the differences.

MANUFACTURING

Industry confidence levels of below 50 means that the industry expects a contraction, whereas the industry expects an expansion when they self-report confidence levels of above 50. National manufacturing confidence has remained negative for all reporting periods since 2012. While the gap between the Western Cape and national confidence has been widening, manufacturing confidence remains weak. We do expect sales to increase and to have a general increase in the sector due mainly to the currency depreciation. Accordingly, we have seen some supporting evidence in exports and also employment growth in the sector.

FIGURE 26: MANUFACTURING TOTAL BUSINESS CONFIDENCE

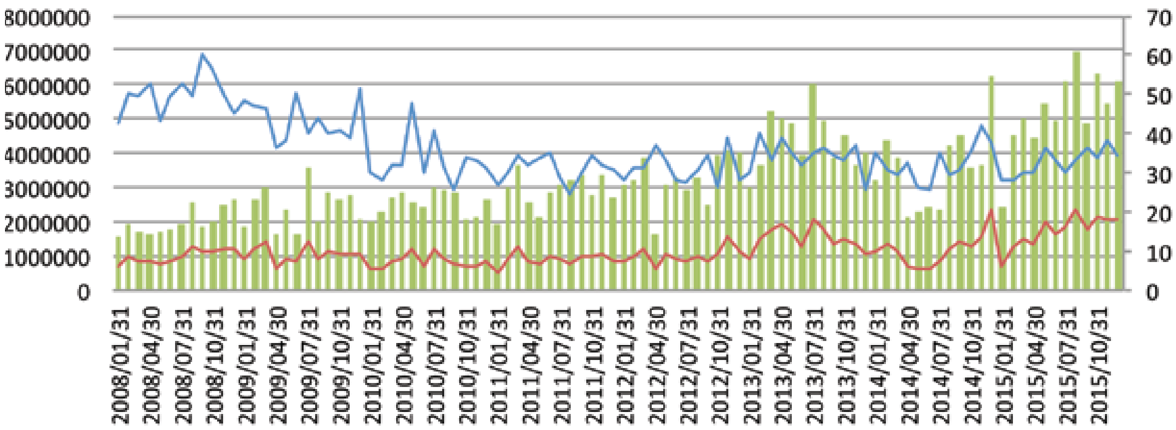


Source: BER

THE BUILDING SECTOR – BUILDING PLANS PASSED

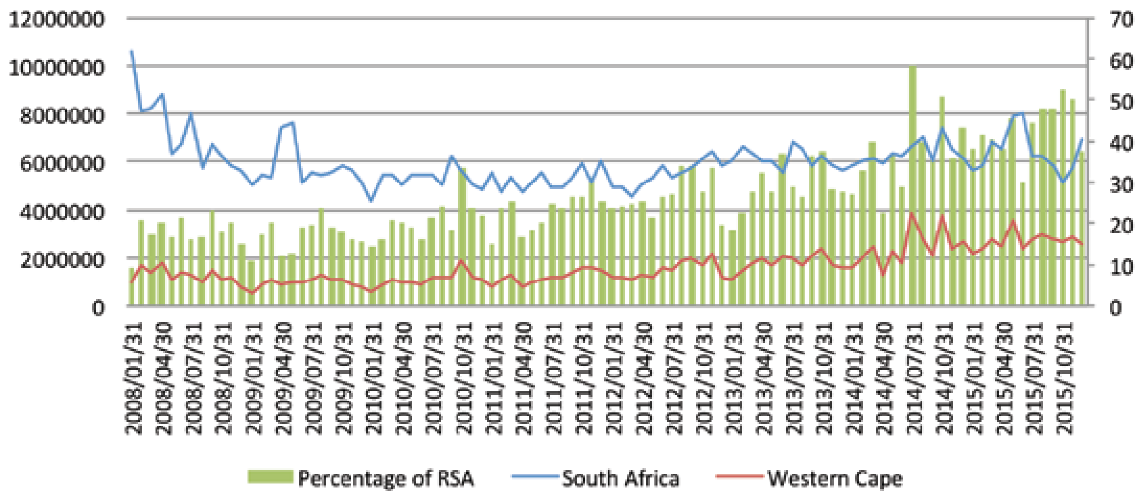
Figure 27 below depicts the total number of buildings completed in South Africa and the Western Cape with the green bars measuring the Western Cape's share as a percentage of total buildings completed in South Africa. The Western Cape's share of all building plans completed in the Western Cape is extraordinarily high. More than half of all Residential and Non-Residential buildings completed in the country were in the Western Cape. It is arguably the most significant indicator that shows that business is more confident in investing in the Western Cape than anywhere else in the country.

FIGURE 27: TOTAL BUILDING PLANS PASSED IN SOUTH AFRICA AND THE WESTERN CAPE



Source: Stats SA

FIGURE 28: TOTAL BUILDINGS COMPLETED IN SOUTH AFRICA AND THE WESTERN CAPE



Source: Stats SA

KEY LABOUR MARKETS DEVELOPMENTS IN 2015 QUARTER 4

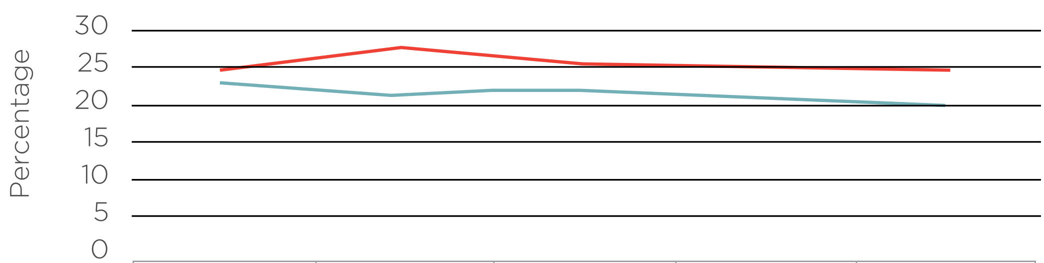
Although Statistics South Africa has introduced a new Master Sample which is different from the old Master Sample, which may have impacted on both quarter on quarter and year on year changes, it is important to note that the changes are across the board and hence will not affect comparison of key labour indicators across provinces.

Notwithstanding the above, the 2015 fourth quarter Statistics South Africa Quarterly Labour Force Survey (StatSA QLFS) released on 25 February 2016 shows positive movements in key labour market trends in the province; a decline in the unemployment rate and an increase in the number of people employed.

UNEMPLOYMENT

At the national level, the rate of unemployment on a quarter-on-quarter basis declined from 25.5 per cent to 24.5 percent, a decrease of1 percentage points decline between 2015Q3 and 2015Q4. In absolute terms, the number of unemployed fell from 5 418 000 to 5 193 000, which translates into a reduction of 225 000 people. At the provincial level, the rate of unemployment declined by 1.2 percentage points between Q3 and Q4, from 20.6 percent to 19.4 percent. Thus, the number of unemployed declined by 5.3 percent from 603 000 in 2015Q3 to 571 000 in 2015Q4, translating into a reduction of 32 000 people. The line graph below summarises the trend of unemployment rates since 2014Q4:

FIGURE 29: UNEMPLOYMENT TREND: 2014Q4 TO 2015Q4



	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4
Western Cape	22.9	21	21.7	20.6	19.4
South Africa	24.3	26.4	25	25.5	24.5

Source: Statistics SA

On a year-on-year basis, the national rate of unemployment increased by 0.2 percentage points from 24.3 in 2014Q4 to 24.5 in 2015Q4. The real change in absolute numbers saw an increase from 4 909 000 in 2014Q4 to 5 193 000 in 2015Q4, translating to an increase by about 284 000 people. The Western Cape had the highest decline in the rate of unemployment on a year-on-year basis of 3.5 percentage points, from 22.9 per cent in 2014Q4 to 19.4 per cent in 2015Q4. In absolute numbers, unemployed people in the province declined by 72 000 people from 643 000 in 2014Q4 to 571 000 in 2015Q4.

The trend graph above shows the national unemployment rates remained higher than the provincial rates across the five quarters (from 2014Q4 to 2015Q4). It is refreshing to note that 2015Q4 for the province has fallen below the 20 per cent mark, suggesting that, if sustained, then the province is on a trajectory to significantly reduce unemployment.

EMPLOYMENT

On a quarter-on-quarter basis, the number of employed people at national level increased by 1.2 per cent from 15 828 000 to 16 018 000, which translates to an increase of 190 000 people. On a year-on-year basis, the number of employed people at national level increased by 698 000 from 15 320 000 in 2014Q4 to 16 018 000 in 2015Q4. At provincial level, the Western Cape recorded the highest increase in employment on a year-on-year basis, with 210 000 people engaged between 2014Q4 and 2015Q4; this represents an increase from 2 170 000 to 2 380 000 people On a quarter-on-quarter basis the Western Cape was the second highest province in terms of jobs created or net employment during the quarter by creating jobs for 62 000 people.

It is interesting to note that on both quarter-on-quarter and year-on-year, the province scored consistently employment high, both figures being close to a third of the national average. This demonstrates a sustained trend of increasing employment.

EMPLOYMENT PERFORMANCE BY SECTOR

At a sectoral level, on a quarter-on-quarter basis, the sector which recorded the highest increase in employment in 2015Q4 was finance with 54 000 jobs, followed by manufacturing with 41 000 jobs and then construction with 20 000 jobs. The sectors which lost the highest number of jobs are agriculture, which shed about 31 000 jobs, and trade, recording a loss of 25 000 jobs. The fall in the last two sectors present a challenge in view of the fact that these sectors are capable of absorbing less skilled labour force, which constitutes a significant portion of the unemployed. Agriculture, for instance, is identified as one of themost important sector for labour force absorbtion. This loss can, however, be understood against the background of the current drought which obviously impacts massively on the sector.

INCREASE IN THE NUMBER OF DISCOURAGED WORK SEEKERS

When considering the fall in unemployment and increase in employment in the province, it then makes for an interesting observation that the number of discouraged work seekers increased. Ordinarily, increases in employment and a fall in unemployment should encourage discouraged work seekers to scout for work opportunities rather than continue to feel discouraged. This may require further investigation.

CONCLUSIONS ON LABOUR MARKET TRENDS

Although the fourth quarter is normally punctuated with an increase in employment (partially attributed to seasonal employment), the key employment indicators are encouraging for the province, with a decline in unemployment and expansion in employment. This isparticularly important, given the current drive to create an enabling environment for employment opportunities pursued at both national and provincial level.

Despite this success,The impact of drought is evident in the shrinking of employment in the agricultural sector, a disturbing development given the strategic importance of the sector in labour absorption.

The rise in the number of discouraged workers, if it persists in the next quarter, will warrant a need for further investigation.This given that when there are high employment prospects and unemployment is declining, this should be encouraging enough for those initially discouraged see opportunity and join the labour force by actively searching for employment.

TABLE 2: EMPLOYMENT BY SECTOR

South Africa	15320	15459	15657	15828	16018	190
			Thousands			
Formal sector (non-agricultural)	10911	10796	10835	10930	11180	250
Informal sector (non-agricultural)	2448	2483	2661	2661	2684	-37
Agricultural	742	891	669	869	860	-37
Private households	1219	1288	1292	1292	1294	13
Western Cape	**2170**	**2251**	**2257**	**2257**	**2380**	**62**
Formal sector (non-agricultural)	1695	1651	1651	1651	1747	90
Informal sector (non-agricultural)	221	208	233	233	264	2
Agriculture	131	252	215	215	214	-31
Private households	123	149	159	159	155	2

Source: Statistics SA

TABLE 3: LABOUR FORCE CHARACTERISTICS

	Oct-Dec 2014	Jul-Sep 2015	Oct-Dec 2015	Qtr-to-qtr change	Y-o-y change	Qtr-to-qtr change	Y-o-y change
					Thousand		Per cent
Population aged 15-64 yrs	**35643**	**36114**	**36272**	**158**	**629**	**0,4**	**1,8**
Labour force	**20228**	**21246**	**21211**	**-36**	**983**	**-0,2**	**4,9**
Employed	**15320**	**15828**	**16018**	**190**	**698**	**1,2**	**4,6**
Formal sector (non-agricultural)	10911	10930	11180	250	269	2,3	2,5
Informal sector (non-agricultural)	2448	2721	2684	-37	236	-1,4	9,6
Agriculture	742	897	860	-37	118	-4,1	16
Private households	1219	1280	1294	13	75	1	6,2
Unemployed	**4909**	**5418**	**5193**	**-225**	**284**	**-4,2**	**5,8**
Not economically active	**15415**	**14867**	**15061**	**194**	**-354**	**1,3**	**-2,3**
Discouraged work-seekers	2403	2226	2279	52	-124	2,3	-5,2
Other (not economically active)	13012	12641	12641	142	-230	1,1	-1,8
Rates (%)	**24,3**	**25,5**	**24,5**	**-1**	**0,2**		
Unemployment rate	43	43,8	44,2	0,4	1,2		
Employment/population ratio (absorption rate)	58,8	58,8	58,5	-0,3	1,7		
Labour force participation rate							

Source: Statistics SA

FIGURE 30: QUARTER-TO-QUARTER AND YEAR-ON-YEAR CHANGES IN THE FORMAL SECTOR BY INDUSTRY

	Mining	Manufacturing	Utilities	Construction	Trade	Transport	Finance	Services
Qtr-to-qtr change	37	-21	-4	-1	75	2	107	55
Year-onyear change	57	-17	18	120	-64	-75	173	60

Source: Statistics SA

TABLE 4: EMPLOYMENT BY INDUSTRY

Industry	Oct-Dec 2014	Jul-Sep 2015	Oct-Dec 2015	Qtr-to-qtr change	Y-o-y change	Qtr-to-qtr change	Y-o-y change
	Thousands					Per cent	
Total	**15320**	**15828**	**16018**	**190**	**689**	**1,2**	**4,6**
Agriculture	742	897	860	-37	118	-4,1	16
Mining	427	446	483	37	56	8,4	13,1
Manufacturing	1749	1774	1738	-36	-11	-2	-0,6
Utilities	104	127	123	-4	20	-2,9	19,1
Construction	1334	1460	1438	-21	105	-1,5	7,8
Trade	3247	3200	3280	80	33	2,5	1
Transport	952	898	900	2	-52	0,2	-5,4
Finance and other business services	2039	2160	2273	113	234	5,2	11,5
Community and social services	3501	3582	3624	42	123	1,2	3,5
Private households	1219	1280	1294	13	75	1	6,2

Source: Statistics SA

TABLE 5: EMPLOYMENT BY OCCUPATION

Occupation	Oct-Dec 2014	Jul-Sep 2015	Oct-Dec 2015 Thousand	Qtr-to-qtr change	Y-o-y change	Qtr-to-qtr change Per cent	Y-o-y change
Total	**15320**	**15626**	**16018**	**190**	**698**	**1,2**	**4,6**
Manager	1337	1284	1314	30	-22	2,4	-1,7
Professional	654	800	772	-29	118	-3,6	18,1
Technician	1467	1471	1455	-16	-12	-1,1	-0,8
Clerk	1750	1669	1708	39	-42	2,3	-2,4
Sales and services	2448	2406	2529	124	82	5,1	3,3
Skilled agriculture	94	99	102	3	8	3	8
Craft and related trade	1957	2001	1989	-13	32	-0,6	1,6
Plant and machine operator	1315	1275	1278	3	-37	0,2	-2,8
Elementary	3356	3797	3842	45	487	1,2	14,5
Domestic worker	943	1025	1029	4	86	0,3	9,1

Source: Statistics SA

TABLE 6: EMPLOYMENT BY PROVINCE

Province	Oct-Dec 2014	Jul-Sep 2015	Oct-Dec 2015	Qtr-to-Qtr change	Year-on-year change	Qtr-to-Qtr change	Year-on-year change
	Thousand					Per cent	
South Africa	**15320**	**15828**	**16018**	**190**	**698**	**1,2**	**4,6**
Western Cape	2170	2317	2380	62	210	2,7	9,7
Eastern Cape	1336	1372	1411	39	76	2,9	5,7
Northern Cape	320	302	312	9	-9	3,1	-2,7
Free State	772	795	825	30	53	3,8	6,9
kwaZulu-Natal	2520	2573	2529	-43	10	-1,7	0,4
North West	948	921	969	48	21	5,2	2,2
Gauteng	4881	5011	5090	79	209	1,6	4,3
Mpumalanga	1138	1184	1191	7	53	0,6	4,7
Limpopo	1235	1353	1311	-42	76	-3,1	6,1

Source: Statistics SA

TABLE 7: UNEMPLOYMENT RATE BY PROVINCE

	Official unemployment rate					Expanded unemployment rate				
	Oct-Dec 2014	Jul-Sep 2015	Oct-Dec 2015	Qtr-to-Qtr change	Year-on-year change	Oct-Dec 2014	Jul-Sep 2015	Oct-Dec 2015	Qtr-to-Qtr change	Year-on-year change
	Percent			Percentage points		Percent			Percentage points	
South Africa	**24,3**	**25,5**	**24,5**	**-1,0**	**0,2**	**34,6**	**34,4**	**33,8**	**-0,6**	**-0,8**
Western Cape	22,9	20,6	19,4	-1,2	-3,5	24,5	23,1	22,0	-1,1	-2,5
Eastern cape	29,1	29,2	27,4	-1,8	-1,7	41,9	42,5	40,3	-2,2	-1,6
Northern Cape	28,7	34,8	25,8	-9,0	-2,9	38,4	42,4	38,9	-3,5	0,5
Free State	32,2	31,5	29,8	-1,7	-2,4	39,5	37,7	36,3	-1,4	-3,2
kwaZulu-Natal	20,8	20,5	20,5	0,0	-0,3	37,9	35,6	36,8	1,2	-1,1
North West	25,2	25,4	23,9	-1,5	-1,3	40,0	40,7	38,9	-1,8	-1,1
Gauteng	24,6	28,6	27,6	-1,0	3,0	29,6	31,4	30,2	-1,2	0,6
Mpumalanga	26,6	26,2	25,7	-0,5	-0,9	40,5	39,0	39,4	0,4	-1,1
Limpopo	15,9	18,8	19,8	1,0	3,9	37,2	36,6	38,6	2,0	1,4

Source: Statistics SA

TABLE 8: EDUCATIONAL ATTAINMENT OF THE WORKING-AGE POPULATION

Education Status	Oct-Dec 2008	Oct-Dec 2009	Oct-Dec 2010	Oct-Dec 2011	Oct-Dec 2012	Oct-Dec 2013	Oct-Dec 2014	Oct-Dec 2015
	Thousand							
Less than matric	21154	21098	21170	21470	21740	21830	21893	22087
Matric	7310	7886	8201	8231	8645	8982	9380	9674
Other tertiary	2080	2168	2220	2402	2566	2543	2662	2576
Graduate	1138	1133	1247	1333	1188	1369	1396	1588
Other	305	299	347	357	266	299	313	346
Total	**31987**	**32584**	**33184**	**33792**	**34405**	**35022**	**35643**	**36272**
Proportion of working-age population (%)								
Less than matric	66,1	64,8	63,8	63,5	63,2	62,3	61,4	60,9
Matric	22,9	24,2	24,7	24,4	25,1	25,6	26,3	26,7
Other tertiary	6,5	6,7	6,7	7,1	7,5	7,3	7,5	7,1
Graduate	3,6	3,5	3,8	3,9	3,5	3,9	3,9	4,4
Other	1,0	0,9	1,0	1,1	0,8	0,9	0,9	1,0
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: Statistics SA

Indices South Africa		Last
Top 40	-0,84%	46 032,43
All Share	-0,81%	52 071,85
Resource 10	-1,87%	28 684,75
Industrial 25	-0,60%	70 692,92
Financial 15	-0,54%	15 697,93

Commodities		Last
Brent	0,54%	40,15
WTI	-0,18%	38,15
Gold	0,79%	1 234,0
Palladium	1,18%	568,6
Platinum	1,20%	971,0
Silver	0,68%	15,31
White Maize		4 720,00
Yellow Maize		3 120,00
Soya Bean		5 687,00
Sunflower Seed		6 550,00

Equity Index Futures		Last
ALSI Fut	-0,79%	46 649,00
NasMiniFut	-0,19%	4 473,50
S&PMiniFut	-0,19%	2 051,25

Equity Indices		Last
S&P Europe	-0,96%	1 367,47
EuroSTOXX 50	-1,32%	3 003,93
DAX	-0,55%	9 990,93
FTSE100	-0,68%	6 161,23
All Africa 30	0,51%	47,66
Dow Jones	0,47%	17 716,66
NasComp	0,47%	4 869,29
Nasdaq100	0,52%	4 490,88
S&P500	0,44%	2 063,95
Hang Seng	-0,13%	20 776,70
Nikkei225	-0,71%	16 758,67
S&P VIX	-1,08%	13,56

Gov. debt, South Africa		Yield
E170	2020-08-01	8,500
ES23	2023-01-25	9,015
R186	2026-12-21	8,450
R203	2017-09-15	7,345
R204	2018-12-21	7,690
R208	2021-03-31	8,075

Gov. debt, global		Yield
US10Y	-0,012	1,815%
US30Y	-0,017	2,639%
Bund10Y	-0,010	0,150%
Bund30Y	-0,011	0,827%
UK10Y	-0,024	1,409%

Interest rate futures		Last
Euribor3M		
Euro Bund	0,159%	163,520

Key economic indicators	Freq.	Date	Value	+/- 3M
Prime Overdraft Rate	Daily	2016-03-29	10,500	0,750
SA Repo Rate	Daily	2016-03-29	7,000	0,750
90-Day Bankers Acceptance	Daily	2016-03-30	7,105	0,588
Inflation Rate (All Urban)	Weekly	2016-02-28	7,000	1,800

Forex	+/-	Last
USDZAR	-0,136	14,7753
EURZAR	-0,081	16,8042
AUDZAR	-0,103	11,3461
GBPZAR	-0,148	21,2658

PORTFOLIO INSIGHTS

Russell Boezak

To call the direction of an equities market with the type of volatility seen since the start of 2016, would take a level of insight only found at a séance. The reality is that precisely at times, two things are usually searched for by the retail segment of the market (i.e. you and I, not the parts that are automated by machine or predetermined by fund mandate). Firstly, we want a voice of certainty to interpret the macro headwinds buffeting the economy that our portfolio counters and their sectors find themselves in. Secondly, we search for defensive investment ideas that volatile times such as these usually bring.

It is not difficult to find multiple learned economic and market voices that are negative on the rand, negative on the domestic economy, and ultimately negative on South Africa's prospects. They propose and encourage investment flight of companies to foreign exchanges and of retail investment capital to foreign, supposedly more stable and more predictable economies. A mass-sell of domestic equities is not the answer – a balanced approach is always the better option.

Another angle of insight to consider – retail investors need to take into account that if you plan to live here for any length of time, you probably want to ensure that the businesses around you are given every possibility to succeed, and the best way to do this is to capitalise on their business objectives (and yours, as a shareholder) through not only supporting them as a client but as an investor as well.

Secondly, whenever we buy at the top of the market we promise ourselves that next time we will follow our convictions and buy top quality shares priced down in a weaker market. Somehow, however, we tend to follow our emotions as opposed to our previous conviction by diminishing quality holdings in an instant, after we took months to painstakingly build up the position. We then rush into blue chip, but never hold it long enough to even collect a dividend to retrospective justify the seeming "flight to quality". The emotional curve we go through whenever this happens seems so inevitable that we need a set of "personal investment principles" to hang onto whenever the impulse becomes irresistible.

DEADLY SLUMBER

Consider **Woolworths** as a case in point. A solid retail counter with high visibility of earnings, predictable income, a strong management team, a diversified product set, and healthy dividend yield (dividend-to-earnings ratio). Put that aside for a second. Woolworths is a very popular, high-end, predominantly food retailer, and everyone either shops in Woolworths a lot or a little, and if not at all, it certainly is an aspiration. If you spend R2000 a month in Woolworths without really thinking, but you struggle to reconcile spending R24000 on a punt in Woolies shares, there is a subtlety that you are missing. You actually *are* the investment case for Woolworths. They sank a great deal of profit in their Australian purchases, and with the recent market turmoil have seen their share price drop from just above R100 to R81. If R100 can be considered as fair value, this is an almost 20% discount on offer. Add to that the recent announcement that the dividend is to be offered in cash or scrip, there will be some shares-in-issuance dilution, which may weaken the share price by perhaps at least another two percent or more. If you also figure that it may take at least one or two quarters for the additional scrip to be ingested, you could have the opportunity over the next few months to purchase a solid retail counter at a quarter discount of its fair value. On my way home tonight, I will pass by Woolies to pick up some bread, cheese, snacks for the kids' lunchboxes, and perhaps some chicken for a braai on Friday. This is a no-think purchase habit of many, the kind that retailers only dream of. The kind of behavioural economics that is invisible on daily-consumed commentary yet evident on the hardly-ever-studied cash flow statement (the actual report on the cash generated and used during a specific time interval).

HAPPY FAMILIES

Schroder European REIT plc proves an interesting investment case. The fund was listed in December 2015 and expects to pay a small dividend in June 2016. No P/E that I could find anywhere, but the London listed entity indicates a P/E of 5.67. The Schroder European REIT is an actively-managed and income-focused fund, targeting A- and B-grade continental European property. The Eurozone targets appear to be niche, where there may be a microplay, such as Brussels, the greater Paris region, and key German cities such as Berlin, Hannover, Frankfurt and Dusseldorf.

This is a defensive stock which is selected to help counter-balance the current weak investment climate in certain emerging markets. This counter is seen as defensive because listed property has long-term leases, good visibility of earnings as well as high-quality tenants such as corporates, which could prove for us an astute defensive position whilst we look for more liquid opportunities in our trading strategy. The initial fund size is €130M, with a growth target of £500M. Schroder RE is capitalising the Schroder RE REIT with 10% so there is some safety in its balance sheet reliance on its global asset management parent company. It is also a Rand-hedge stock given the current and forecasted ZAR currency weakness.

ABSOLUTE CONVICTION

An interesting higher-risk instrument I would like to include is **unsecured retail debt** offered by the Rainfin.com lending marketplace. Fixed income is a cornerstone of any portfolio, but since only institutions can afford to buy bonds in seven digit blocks or more, our choice is between retail bonds backed by the government, or direct lending using the Rainfin peer-to-peer platform. Each option has pros and cons. RSA retail bonds have a measure of liquidity in them, whereas the loans you provide on the lending platform are locked in for the duration of the term. The rate of return is also more favourable on the lending platform than the government bonds and additionally you have more flexibility on the lending platform. It is relatively easy to build a small debtors book containing mixed-risk rated loans of terms to 48 months, with an expected blended annualised return of between 12-15% pa. This does not take defaults into account, and the more popular the funding proposition of the loan, the less competitive the rate becomes. The credit risk management processes have matured in the last two years, meaning that the loan applications that do make it onto the platform have the best chance of being repaid.

Jasco is not the first company that springs to mind in the Technology sector, but the 80 cents-a-share stock has jumped 43% in the last six months which places it on the tech stocks as well as small cap radar. Just over half the revenue is delivered by the Carrier and Intelligent Technologies businesses, with earnings numbers up on the year before, while keeping operating expenses flat. The pipeline through its order book as well as a Pan-African drive through strategic partnerships bodes well for increasing revenue streams, and if viewed favourably by the market could lead to a resurgence in what has been a steady decline in its share price.

LAST BUS TO WOODSTOCK

Two more shares I would like to consider are **Calgro M3**, a shining light in the Construction sector, and **AdvTech,** the private education holdings company. Both companies are sub-R20 a share, do not have the highest market cap in their sectors, and are not the most widely held stocks held by funds due to their low cost and insufficient liquidity levels. Calgro's prospects (i.e. their government funded order book) are not dissimilar now to five years ago, when they jumped from Alt-X to the mainboard and were at the 30c a share level. They have interesting ways of managing execution risk when tackling property projects, and have astute management experience to realise their return objectives.

Don't take just my word for it but I have two daughters at Crawford who were on a two year waiting list before they got in. This was five years ago when the AdvTech share price was R6. It struck me then that as long as there are waiting lists for entry and long queues outside the gates during the school run, the share price was always going to go up. A portfolio manager would never give you this type of advice, but then neither is this advice - merely an opinion as to how the greatest investments can be derived by your own quiet observations. The scale of corporate property investments is growing at a rapid pace, especially in the high-density urban areas. Thousands of new employees entering the job market. Where will all their children go to school?

TABLE 9: PRICES FOR SELECTED SHARES

Investment Idea	Closing Price at 29-2-2016	Holding	% of Portfolio
AdvTech	1357c	R15,000	15%
Calgro M3	1820c	R15,000	15%
Jasco	77c	R15,000	15%
Rainfin		R15,000	15%
Schroders REIT	2201	R10,000	10%
Woolworths	8079c	R30,000	30%

Source: INET

NEXT QUARTER

We will delve into the performance of the individual counters, the general and specific challenges experienced, performance against the ALSI benchmark, as well as tracking our share performance as well as crafting our portfolio management platform in Microsoft Excel. Interesting formulae lie in wait.. Nag ou Grote!

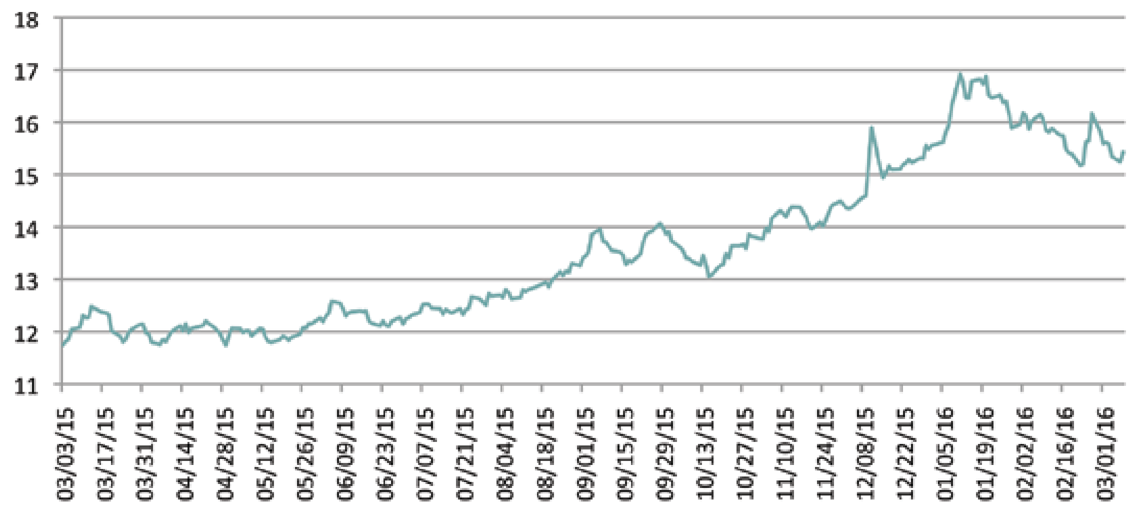
WHAT IS HAPPENING TO THE SOUTH AFRICAN RAND?

Nezaam Joseph and Gino Engle

I have always been fascinated by the entrepreneurial spirit. Those with it see opportunity whether things are looking on the up or when things start turning south. We South Africans appear to have lost some of that entrepreneurial spirit, and in so doing we see gloom and eminent collapse in much that happens to us as a country, and at times our pessimism blinds us to the opportunities that present themselves. If you are in the mood for a dollop of depression, a consultation from the fountain of analyses and insights, the book of Twitter, Facebook and popular mass media websites will not disappoint. And of course everything that is wrong is the country's fault, as if we are not part of the country.

The mood and sentiment of the country, its people and its businesses, are very relevant to growth prospects. The economic argument is that when firms are optimistic about the future and its prospects, they invest in infrastructure, buildings and big machinery - which require people, which in turn leads to employment, growth and profits. But, when we are permeated by negativity, it's difficult to be optimistic about future prospects. Optimism leads to a "can do" and "let's fix what's broke" attitude, pessimism more often leads to hopelessness and despair, which self-fulfils the pessimistic outlook. This leads me to the state of our currency.

FIGURE 31: THE USD TO RAND EXCHANGE RATE



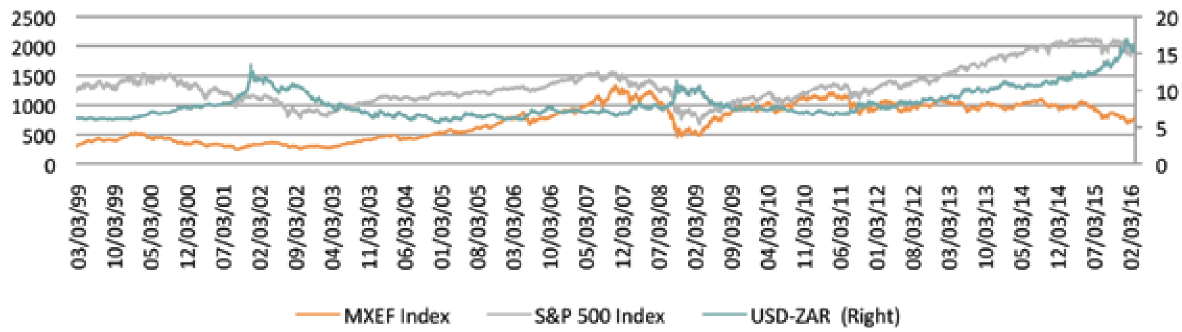
Source: INET

From October last year to early January our currency depreciated at neck-breaking speed, from R13 to the Greenback to R16.80; that is 29% depreciation in three months. The van Rooyen weekend alone saw a 9% depreciation in the currency. If you were fortunate enough to be on a winter vacation in the US this year, and unaware of the developments on local currency markets, you would have earned an additional unplanned credit card bill of 29%. That alone is reason enough to demand names as soon as you set foot on OR Tambo, or if you are slightly less well off, Cape Town International. So, what has been driving the rand's weakness and does the benefits outweigh the negatives?

Was rand weakness self inflicted?

There is a pervasive view that much of the rand's weakness is of our own making. Figure 32 below, however, shows that over the last 16 years, it was global events, not of our own making, that drove of rand weakness.

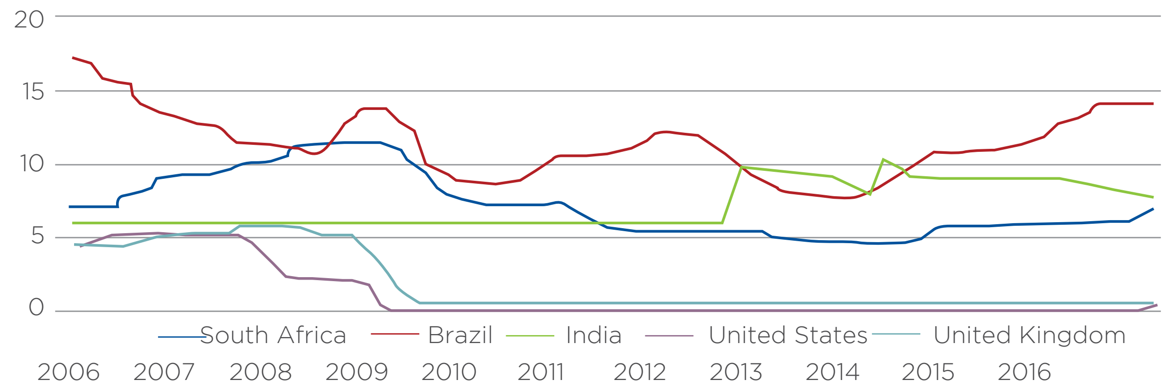
FIGURE 32: THE RAND AND GLOBAL EVENTS



Source: INET

The DotCom crash saw the S&P 500, an index that measures the performance of the largest 500 firms on the New York Stock Exchange (NYSE), lose more than a third of their collective value, which reverberated across all markets including emerging currency markets. The rand devalued from R6 to over R12 to the US$, that is a currency movement of over 100%, but three years later the rand strengthened to pre-crisis levels, much sooner than the S&P 500 recovery. Likewise, the 2007 crisis saw the rand depreciate by over 70%, and two years later the rand recovered all its losses, again years before the NYSE recovered its 2007 loses.

FIGURE 33: GLOBAL BANK RATES



Source: OECD, IMF

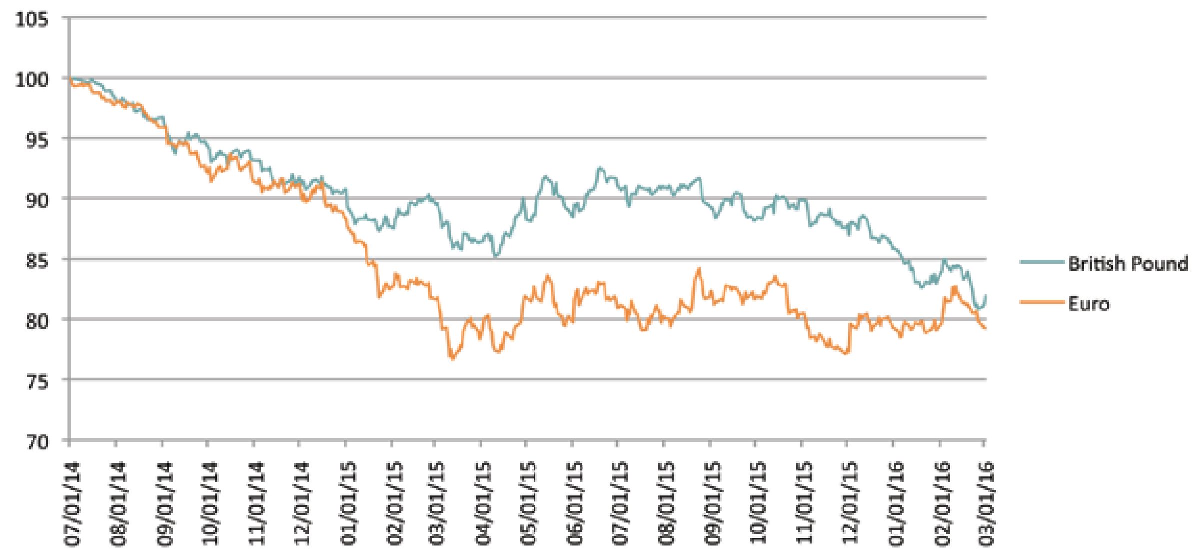
The current bout of rand dollar depreciation is more about dollar strength than it is about rand weakness. Developed economies lowered interest rates to record low levels for sustained periods. In addition to lowering interest rates, central banks (developed economies) injected further liquidity into markets by purchasing bonds, an open market operation known as quantitative easing. Because interest rates were exceptionally low, the excessive liquidity in search of yields found its way in developing economies where yields were much higher. Positive capital flows into emerging economies supported emerging market currencies. The US was the first major economy to tighten money supply by firstly arresting quantitative easing and secondly by increasing interest rates. Thus the US dollar started appreciating against most emerging currencies.

FIGURE 34: EMERGING ECONOMY CURRENCIES

Source: INET

The Brazilian real, Russian ruble and Argentine peso each devalued by more than 70%, more so than the South African rand's 50% depreciation. Even the fastest growing major economy, India, saw its currency devalue by more than 11% from later 2004.

FIGURE 35: USD TO POUND STERLING AND EURO



Source: INET

Tightening of the Federal Reserve's Bank monetary policy and the strengthening US economy drove US strength not only against emerging economies but also against developed currencies. The British pound and Euro devalued by about 20% against the dollar in just over 18 months.

COMMODITY WEAKNESS

South Africa is a major minerals commodity exporter. Mineral exports make up 50% of South African exports, and is a significant source of foreign currency. As it became evident that global growth was subduing much more than anticipated, the commodities super-cycle came to an abrupt end, reversing commodity prices aggressively. South Africa accounts for more than 90% of all platinum reserves globally and is the leading exporter of the mineral, a vital input into the production of vehicles. The decline of the metal's prices by nearly 50% since 2011 has affected the demand for the rand and employment prospects in the platinum metal group sector.

FIGURE 36: COMMODITY PRICES

Source: INET

The price plunge was not restricted to only platinum group metals. Iron declined by more than 70%, nickel by 60% and copper by 50%. Even gold, which ordinarily is a safe haven during times of uncertainty, declined by more than 35%. Lower commodity prices affect the local currency by the lower demand for the rand and by the impact the lower commodities have on local firm performance and GDP. When the economy and its firms perform poorly, the demand for local equities and corporate bonds by foreigners decline.

Endogenous support for rand weakness – While the data suggests that exogenous factors contributed significantly to rand weakness, that's not to say that South Africa did not score a few own goals. December saw three finance ministers in less than a week. The timing of the appointment of an untested and inexperienced finance minister, during these turbulent times, unfortunately coincided with bond downgrade concerns and added to the general pessimism over South Africa's immediate outlook. This led to a 9.3% devaluation of the currency against the USD in less than a week. By the end of February the currency clawed back more than two thirds of that week's losses against the USD and just about all of its losses against the GBP, after the appointment of Minster Gordhan.

Financial markets are strongly influenced by government signals to the extent that such signals affect confidence about the future. A strong, seasoned and responsible finance minister is more likely to ensure good governance amongst state-owned enterprises that issue billions of debt instruments guaranteed by government. The market would also look to such a leader to haul in government debt. Clearly the market did not have confidence that Minister van Rooyen could achieve those outcomes.

Government debt and weak domestic growth – The two most significant endogenous drivers of rand weakness are growing government debt levels and the weak economy. Government debt has expanded from 26% of GDP in quarter 1 2009 to 49% of GDP by quarter 3, 2015. In response to the financial crisis of '08, national government's expansive and counter cyclical fiscal positioning was appropriate, but continued for too long. Government debt grew to just under R2 trillion and, debt servicing costs grew to about R140 billion. Increasing government debt also affects the interest rate on all new government debt. As the debt ratio increases, so does the probability of default. The market responds by increasing the interest rates for South African debt. The yield or cost of government debt increased from just under 5,8% less than 3 years ago to over 9%; that is a 60% increase in the cost of local government debt attributable only to perceived market risk associated with government debt.

FIGURE 37: COST OF GOVERNMENT DEBT

Source: INET

Reducing government debt will be particularly challenging because the state salary bill is R467bn, which cannot be easily reduced. If government debt is reduced through a reduction in capital expenditure, it will likely impact growth in outer years because infrastructure such as electricity generation capacity, improved roads and ports are key to improving overall country competitiveness. Reducing government wage costs is generally slow and can only be achieved by reducing the state head count or kerbing salary increases.

Debt to GDP levels of 60% are ordinarily considered as being high, so the current debt levels of 49% is not considered as high, neither by OECD or emerging market standards. The reason ratings agencies are considering relegating the country's debt to sub-investment status (junk) is that GDP is virtually flat while at the same time salary increases of state employees breached 10% and social commitments continue to rise.

Secondly, the state has guaranteed loans issued by many of its state owned enterprises (SOEs). These SOEs have relatively weak balance sheets with questionable governance compliance, and if they do default on their debt obligations, the state would become liable. State bailouts to SOEs and poor financial decisions by SOEs, have increased the possibility of contingent liabilities becoming actual liabilities, which would raise the debt ratio and debt servicing costs, while at the same time redirecting funds that have been allocated to activities that may increase overall country productivity.

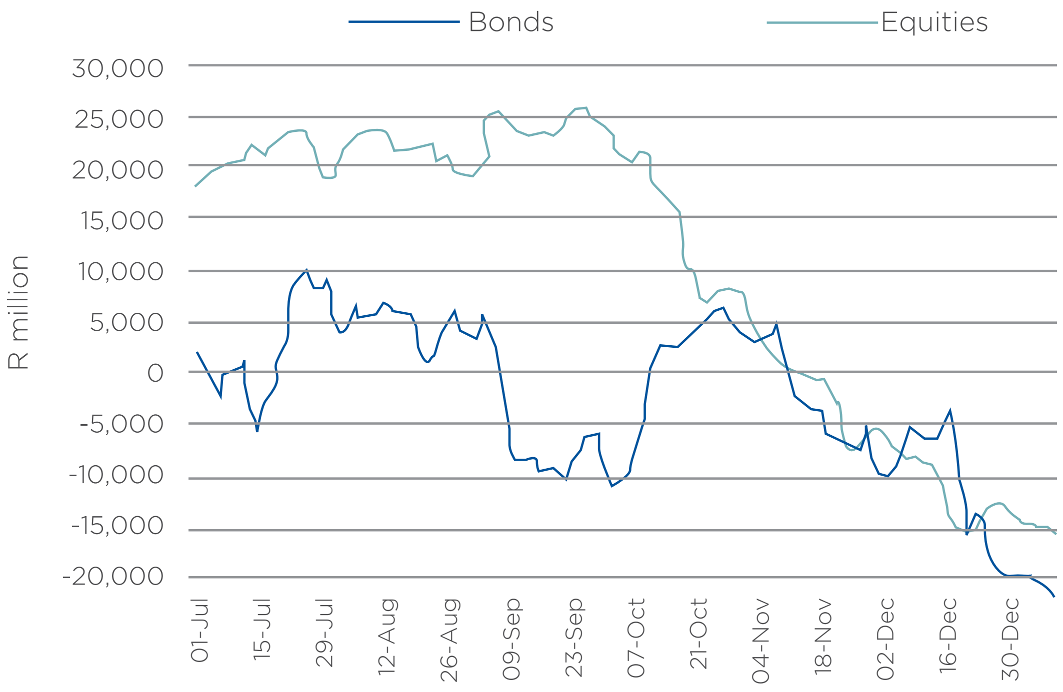
Thirdly, demands around more affordable education and much needed infrastructure spend by government and its state-wned enterprises such as Eskom will bear heavily on government budgets, either directly or through increases in its contingent labilities.

In a high growth environment, government can maintain the current level of spending, but the economy and tax collections are not growing fast enough to support the current levels of government spend. If government deficits rise by 3%, to maintain current debt ratios the economy must grow by 3%, which is not happening.

The mechanism whereby government debt affects the currency is that for government to reduce its deficit it must either cut government spending or increase tax collection. Both these options will negatively impact growth. If growth remains below 1% or turns negative, equity returns will be severely impacted, which will lead to a sell-off by foreigners of South African equity. As firms' balance sheets come under pressure, it will lead to increases in the costs of firm debt and also lead to bond sell-off by foreigners. Because foreign firms and individuals own more than 30% of government debt, corporate debt and local equities, a foreign sell-off will exert immense downward pressure on the rand. As the rand comes under pressure, returns on foreign owned local assets will come under further pressure, which will lead to further foreign sell-offs.

To conclude, increased debt levels increase the risk premium to government debt, which exerts downward pressure on the rand. The figure below shows that the foreign sell-off is currently underway. Fortunately, National Treasury is responding positively to concerns about government debt levels. Different spheres of government have announced cutting expenditure, ranging from freezing government head count to curtailing big ticket spending items.

FIGURE 38: CUMULATIVE NET PURCHASES BY FOREIGNERS



Source: Besa; JSE (I-Net)

PRODUCTIVITY

Productivity growth is fundamental to not increasing long-term living standards. Relative higher productivity is an incentive for multi-nationals to locate their production capabilities here, or (stated somewhat differently) lower relative productivity is an incentive for multi-nationals and local firms to relocate their factories abroad. A depreciating currency can improve competitiveness in response to increasing endogenously supplied input costs, such as wages and electricity.

Monetary (interest rates) or fiscal (government spend) policy is appropriate to stabilise short-term economic shocks, but neither is appropriate in sustainably increasing long-term living standards. South African productivity growth is anaemic and has been outperformed by both OECD and other emerging economies.

Accelerating productivity is not easy, and no short-term fixes exist to address the underlying causes for poor productivity growth. Monopolistic behaviour, which is present in many local industries, curtails innovation and increases input costs to downstream industries.

Education outcomes are of particular concern. Education is key to labour productivity but South African math outcomes remain one of the lowest in the world. University graduate pass rates are also low and recent issues about the quality of our graduates is concerning. Interventions required to improve educational outcomes in developing economies are often not educational in nature but frequently related to neighbourhood crime, substance abuse or the lack of healthy calories that is required for pupils to concentrate. That's not to say that such educational interventions will not assist in improving outcomes. Brazil's conditional educational grants has demonstrated good educational outcomes are possible.
The taxation system and political stability influences investment decisions, which in turn is critical to productivity growth. Productivity growth is impossible in the absence of investment in infrastructure and new technology. Addressing productivity is key to long-term growth and requires a whole of society approach to economic growth. It requires the development of a long term view to education, infrastructure spend, regulation and energy security. The development of the Western Cape Government's strategy regarding economic growth takes a 15 year view. It just so happens that the marketplace appreciates the direction the province is taking. We see this in the growing gap in business confidence between the Western Cape and the rest of the country, and we also see it in the relative growth in infrastructure plans passed in the province.

So we have structural issues that must be dealt with and they are long-term issues, but back to the effects of the recent currency depreciation. John Maynard Keynes, the infamous economist of the 1920's and 30's, said (and I am paraphrasing), in the long term we are all dead. We do know that currency depreciation may not address long-term productivity growth, but it does provide a synthetic instrument to address short-term competitiveness. That is, synthetically, exports become cheaper and imports become more expensive. We do see some evidence that the weaker currency is helpful and it suggests that the pain experienced because of the weaker currency is actually preferable to the alternative.

More on trade

Improvement in South African trade has been most encouraging, supported in no small part by the weakening currency. Admittedly the trade account was assisted by lower crude prices (imports grew by only 0.4%), exports grew by a robust 3.8%; this while the overall economy struggled to grow by 1%. The weak currency positively affected a number of sectors. Live products imports declined by over 7% and vegetable produce by 17.5%, while at the same time exports of these products increased, in rand terms, by 16.8% and 49.6% respectively. Imports of fats and oils decreased by more than 30% while exports increased by 27%. The increase in exports of livestock can be attributed to the drought, but not so much vegetable products. An obvious negative is that exports of food products increased while local prices are experiencing significant inflation because of local shortages.

The weak currency affected more than just commodity exports, but the manufacturing sector, with its deep value chain and strong employment multiplier across the economy also benefited. Vehicles and aircraft exports increased by a massive 24% in 2015. Wood products (14.5%), pulp and paper (12.4%), cement (12%) and precious metal (12.9%) all experienced robust growth. Even the previously ailing textiles (9.4%) and footwear (6.3%) sectors saw vigorous export improvements. One must not forget that the economy registered theses export levels while the economy itself barely managed positive growth rates.

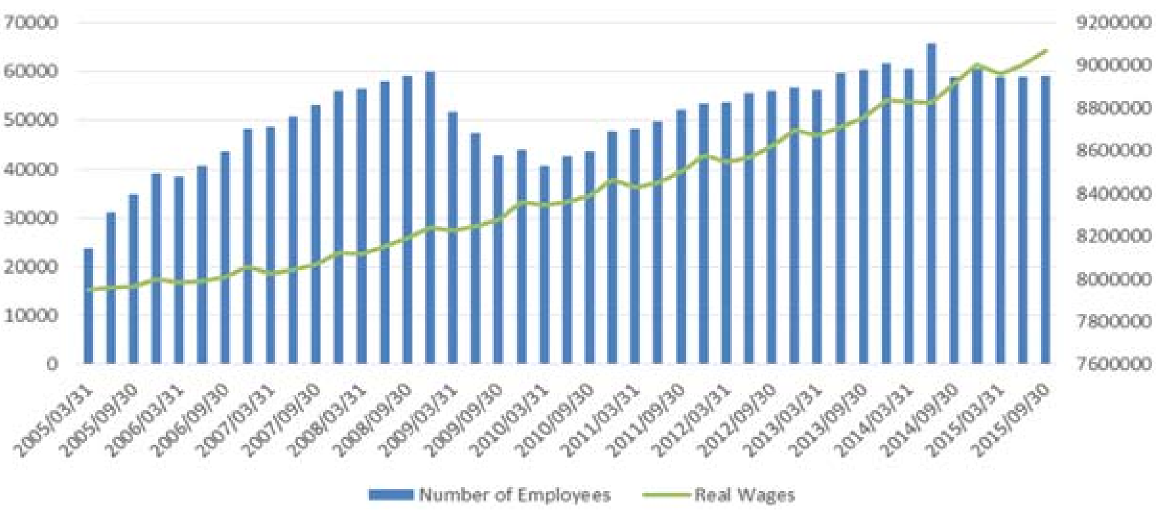
Currency weakness has significant positives for the country. It is for that reason that the International Monetary Fund (IMF) recommended that Nigeria devalue her currency or why the Chinese twice in 2015 devalued the Remnimbi. In the short-term currency weakness can be used as band-aid and to provide time for us address the deeper structural issues. A 20% currency depreciation effectively means that goods produced by SA Inc. just become 20% more competitive, internationally.

It is important to note that there are certain imports that do not have any local substitutes, such as crude oil and other sophisticated hi-tech manufactured goods. It is then likely that, for those goods at least, in rand terms imports will increase rather dramatically.

But are workers better off?

An interesting question arises when thinking about the international competitiveness of South Africa amid the rapidly depreciating rand. Simply, is the average South African better off in real terms? Two factors must be looked at to answer this question, the first is, can workers buy more goods and services than they did in the past, and secondly, and perhaps more contentiously, have the number of workers increased? Both these questions are answered rather quickly by looking at Statistics SA's Quarterly Employment Survey, which measures employment and wages in the formal non-agricultural business sector.

FIGURE 39: REAL WAGES AND EMPLOYMENT



Source: Statistics South Africa

FIGURE 40: REAL WAGE INCREASE

Source: Statistics South Africa

As illustrated by the figure above, real wages have been increasing steadily since 2005. In fact, as illustrated in the adjacent diagram, in real terms, on average, workers are better off by more than 2% per annum. That is, workers can purchase 2% more goods per annum. It often puzzles me that the labour force is as pessimistic as they are.

The second part to the question is also easy to answer. Less people are employed in the formal non-agricultural sector today than in 2009. Employment growth in the formal non-agricultural sector has been flat, hence the increase in unemployment. One of the reasons is low productivity growth. If wages in real terms grow faster than labour output growth, it means that the labour costs to manufacture a widget become more expensive. If our competitors, such as China, grow productivity faster than South Africa, all things being equal, Chinese imports become cheaper locally and we intend to import more. A weakening currency, however, in the short-term sterilises relative international productivity growth. Government policy must not be to reduce wages, but to improve productivity growth by improving educational outcomes, better infrastructure, more reliable and more cost-effective energy supply and a reduction in red tape. In the meantime, to stem the flow of jobs due to poor productivity and competitiveness, currency depreciation is but a temporary fix.

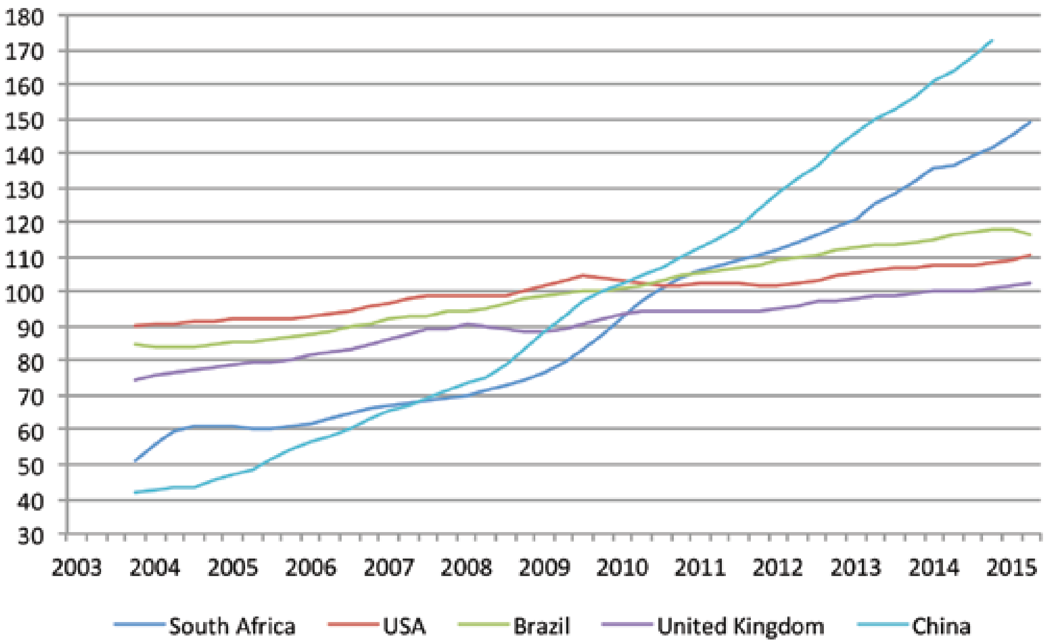
Some other salient fundamentals

Wage differentials between South Africa and the rest of the world – South African inflation hovers around 5%, and OECD inflation averages around 2%. Since 2008, OECD inflation has been averaging around 1%. To hold purchasing power constant, we would expect for the rand to depreciate, on average, by 3% per annum. Surely local workers cannot expect to get paid, in real terms, 3% more than international workers while holding worker output constant?

INFOBOX 1: REAL WAGES AND EXCHANGE RATES

Figure 4 below shows the quarterly trend of real wages – wages adjusted for inflation differentials – for a number of countries since 2003. Despite quarterly fluctuations, one can see that Chinese real wages have more than quadrupled in the past 12 years, compared to the slow growth in real wages in the United States and the United Kingdom. Unsurprisingly, South Africa real wages grew steadily by nearly 4-fold over the 12 year period, with rates far outstripping inflation and economic growth.

FIGURE 41: ANNUAL REAL WAGES



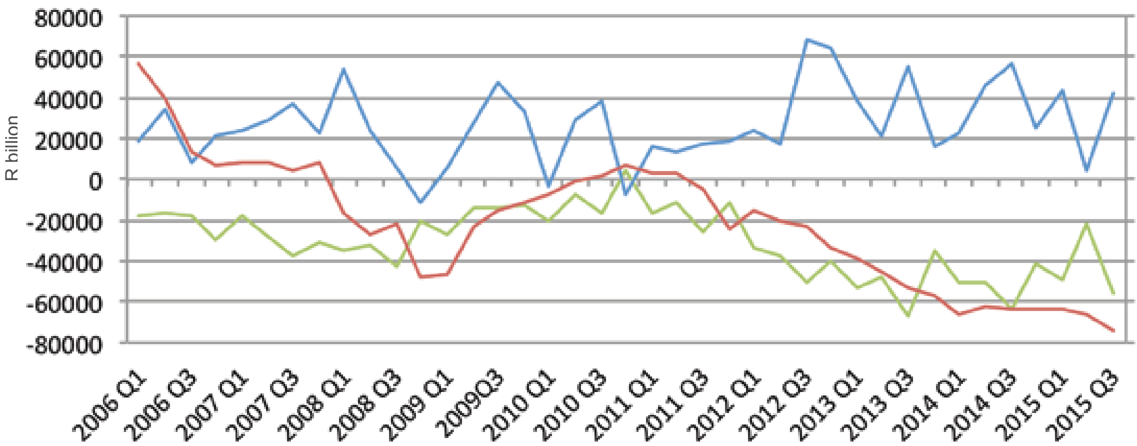
Source: International Monetary Fund

In conclusion, those who have employment are better off - period. In real terms workers can buy more goods without commensurate increase in production.

A quick note on capital flows

South Africa has run annual current account deficits (imports exceeding exports) every year since 2002 and portfolio flows – inflows of foreign capital into the bond and stock markets- have been funding the current account deficit.

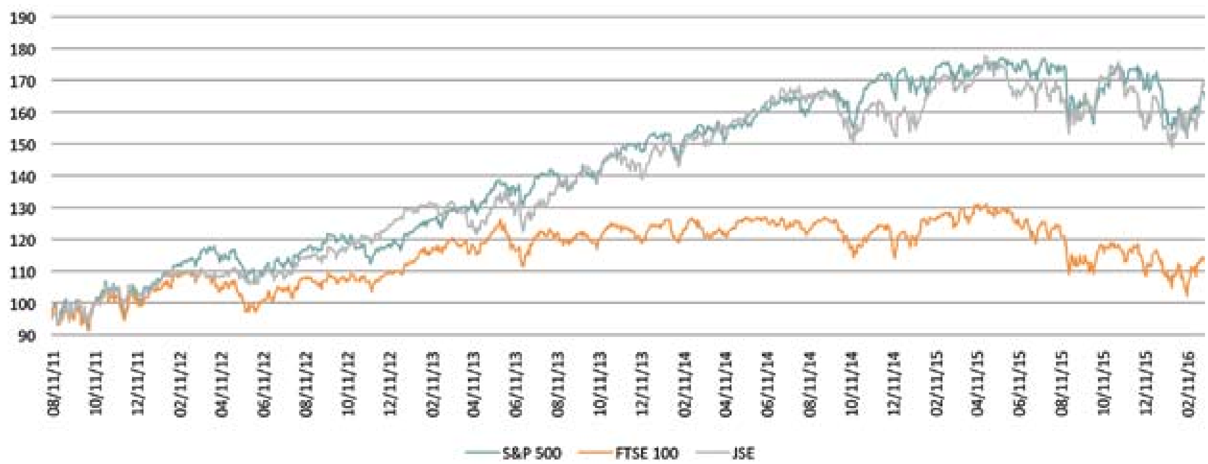
FIGURE 42: BALANCE OF PAYMENT



Source: SARB

Foreign capital finds South African markets attractive because of the performance of the Johannesburg Stock Exchange (JSE) and the favourable bond yield differentials.

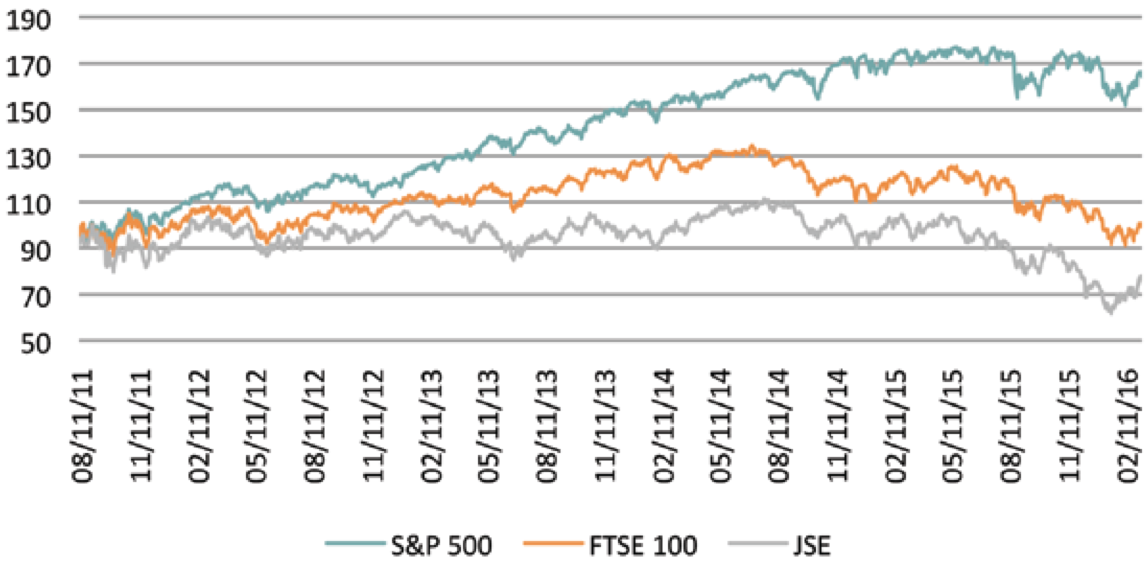
FIGURE 43: PERFORMANCE OF SELECTED STOCK MARKETS IN ZAR



Source: INET

As illustrated above, the JSE outperformed the S&P 500 and London's FTSE 100 by 20% and 51% respectively. In US dollar terms, however, the JSE underperformed rather dramatically, which may lead to further rand depreciation as capital flows outwards in search for superior returns.

FIGURE 44: PERFORMANCE OF SELECTED STOCK MARKETS IN USD



Source: INET

CONCLUSION

The rand has indeed depreciated rather rapidly over the past 18 months, but drivers of rand weakness have a lot to do with exogenous factors, such as tightening monetary policy in the US, commodity price collapses and US dollar strength - all events far beyond our control. Credit agencies are concerned about the level of government debt, but they (as do many market actors) are somewhat appeased by National Treasury's plans to reduce government debt ratios. These concerns do, and if not addressed, will severely impact the currency.

However, currency weakness does present opportunities to increase local manufacturing, supplying goods to both the internal and national markets through import substitution. While still very early, we do see some evidence of that happening. Because the rand has a history of recovering prior losses, we may not see the full benefits of the weaker currency and the temporary rand weakness may present more cons than pros.

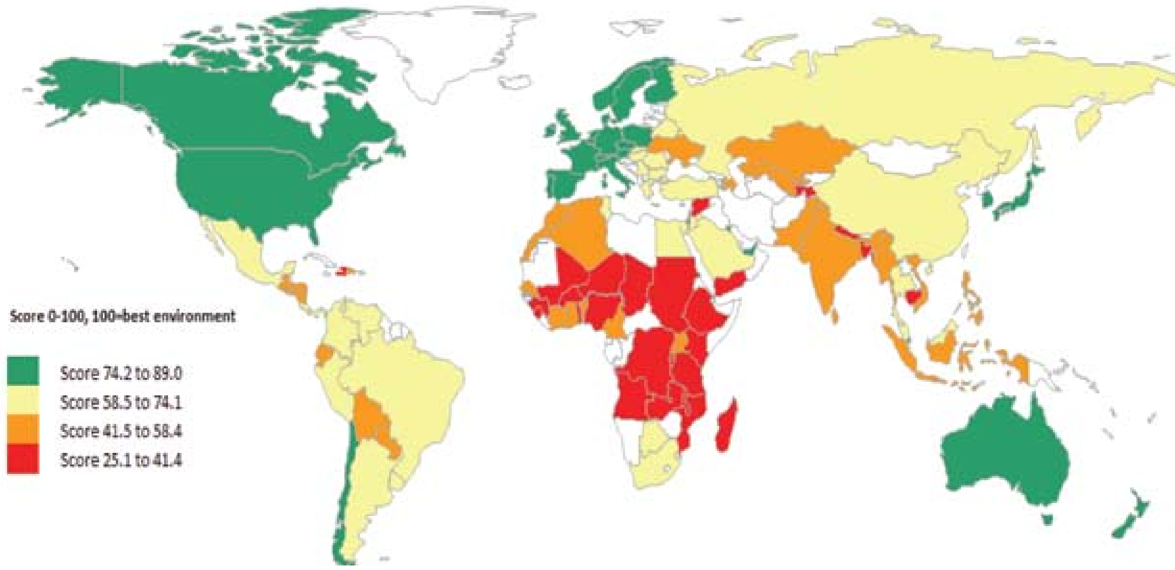
In conclusion, we South Africans are very self-critical and often overly pessimistic - we ought to do something about correcting those perceptions!

FOOD SECURITY

Victoria Delbridge

South Africa is an upper middle income country and on a per capita basis one of the richest on the continent, yet Statistics South Africa calculates, very conservatively, that more than 20% of the population lives below the food poverty line. Conservatively, more than 1,2 million people in the Western Cape live below the food poverty line. Other studies have shown that up to 40% of the population is food insecure. It is not that South Africa is a global outlier. On the Global Food Security Index, South Africa ranks 41 out of 109 countries. Insufficient food access is a violation of a basic human right enshrined in the constitution of South Africa and thus it is important that we understand its causes and implications.

FIGURE 45: GLOBAL FOOD INSECURITY COMPARISON



Source: Global Food Insecurity Index (2015)

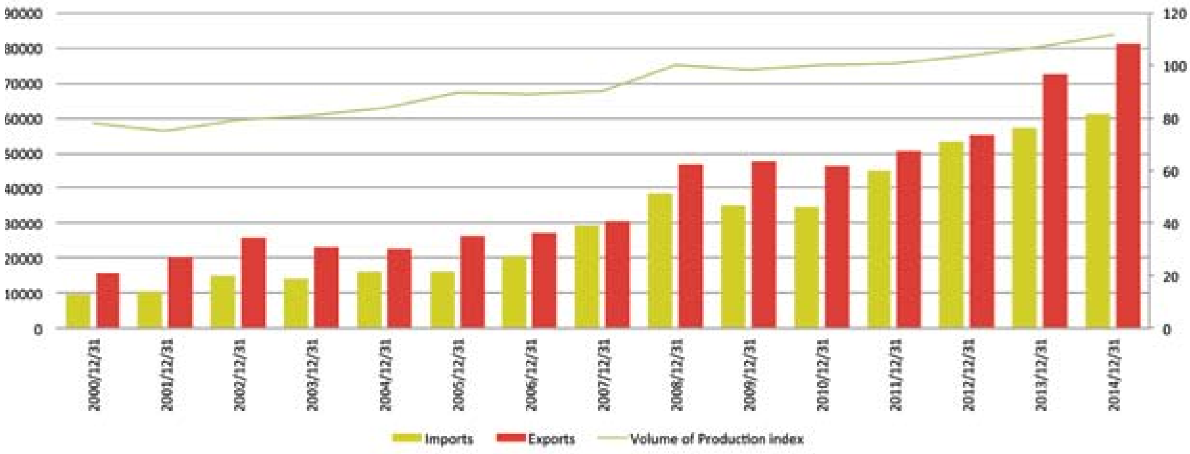
The World Food Summit in 1996 recognises food security as: *"a state in which all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life".* There are three dimensions to this definition; namely, food supply, food access and food utilisation.

FOOD SUPPLY

As a net exporter of food and well integrated into world commodity markets, South Africa is characterised as nationally food secure. Currently, the agricultural sector accounts for 2.4% of national GDP, and is the main sector for employment of unskilled workers. Figure 46 illustrates that local agricultural outputs have been increasing. Agricultural productivity and quality is among the best in the world. Imports and exports have also both increased, with a positive trade balance being maintained throughout. This trade balance has increased substantially since 2013 as a result of increased exports of citrus fruit, wine, grapes, apples, pears and maize.

Whilst the positive trade balance ensures a degree of domestic sovereignty in national food supply, it does not ensure that the population can easily access this food. Agricultural outputs are sold on international markets at generally 'one price'. One global price, often in US dollars, coupled with a variable currency results in significant food price inflation, which impacts heavily on the poor who spend the majority of their income on food. About 25% of household spend more than a quarter of their income in food. The complex distribution chains that make up the food supply system also provide potential for increased prices at differing input points and care needs to be exercised to ensure that each level remains competitive and free from cartels. This is a particular problem in South Africa where much of the food supply is controlled by a few large commercial entities. The World Bank suggested that by removing four cartels in maize, wheat, poultry and pharmaceuticals, 200 000 people could be lifted from poverty as a result of the decrease in cartel price inflation.

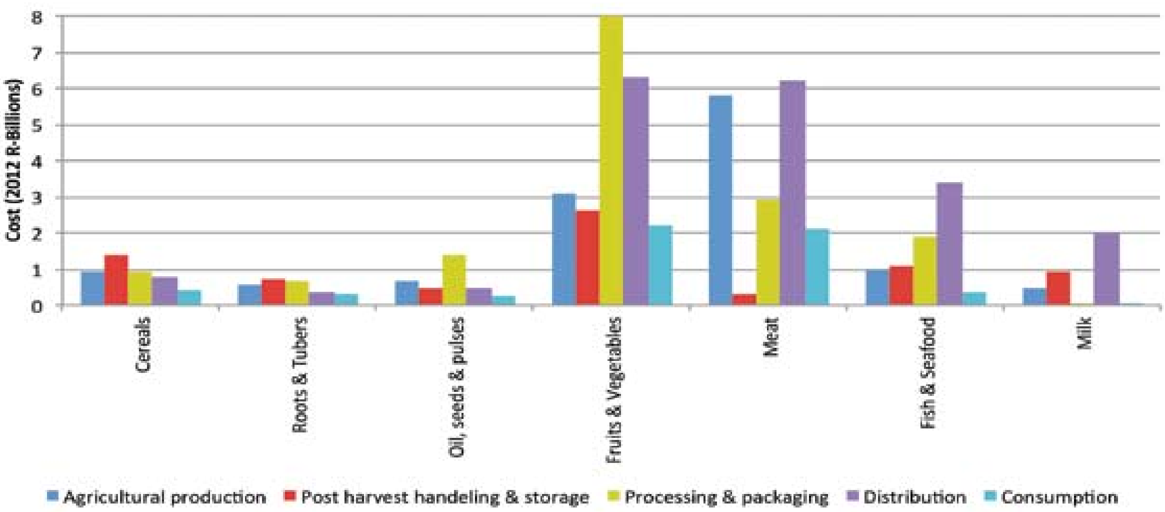
FIGURE 46: AGRICULTURAL PRODUCTION AND TRADE IN SOUTH AFRICA



Source: Department of Agriculture, Forestry and Fisheries (DAFF)

In South Africa, a third of all food produced is wasted, valued at R60 billion or 2% of national GDP. This wasted food is enough to feed all of South Africa's hungry. Most of the waste occurs on farms, in storage and in the manufacturing and distribution process. Besides the severe impact this has on food prices and food availability tothe poor, it also has severe environmental impacts which are likely to cause secondary rounds of development obstructions. Land-fills are over-used, scarce water resources are wasted and land degradation reduces future productivity.

FIGURE 47: COST OF FOOD WASTE

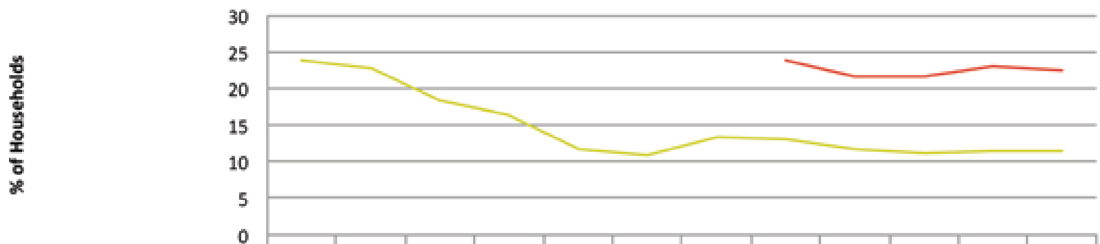


Source: Presentation by DR Susan Oelofse entitled "Food Waste in South Africa: Opportunities and Challenges". CSIR (2014).

FOOD ACCESS

In South Africa, high levels of structural unemployment, low wages, food price inflation and insufficient social safety nets mean that households have unequal resources to access the available food. Access is arguably the most important indicator of food insecurity as it determines the agency of the poor in achieving their own dietary requirements.

FIGURE 48: NATIONAL FOOD ACCESS INDICATORS



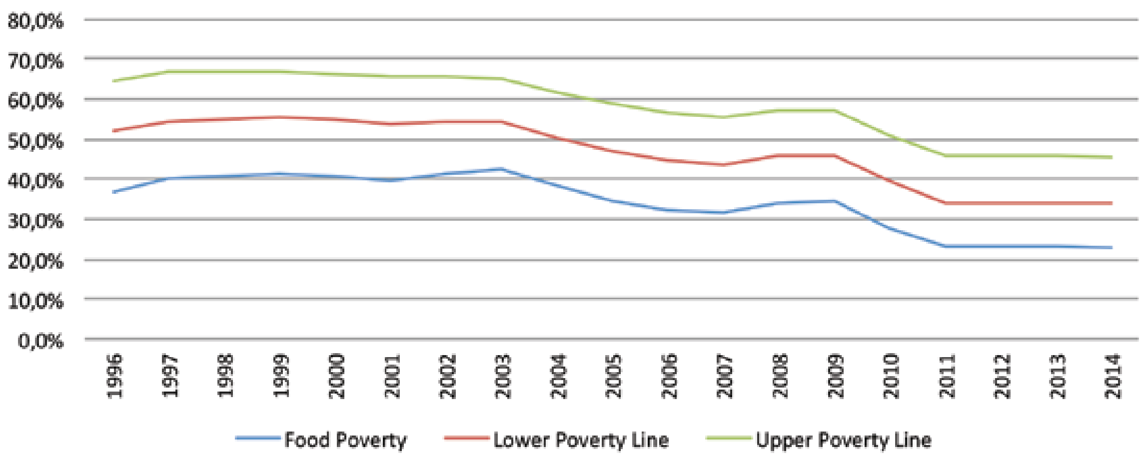
	2002	2003	2004	2005	2006	2007	2008	2010	2011	2012	2013	2014
Vulnerability to Hunger	23,8	22,6	18,4	16,3	11,7	10,8	13,3	13,1	11,7	11,2	11,4	11,4
Insufficient Food Access								23,9	21,5	21,5	23,1	22,5

Source: Stats SA General Household Survey 2014 Statistical Release.

Food access has been measured in a variety of ways; the most common are qualitative questions regarding the hunger experienced by a household as well as direct questions pertaining to access. The Stats SA General Household Survey uses the Household Food Insecurity Access Scale or *HFIAS*, which contains questions regarding the adequacy of the diet in terms of eating patterns, preferences and the variety of food eaten as a result of limited resources. As can be seen in Figure 48 above, the HFIAS found food insecurity to be 22.5% in 2014, consistently higher than the hunger score which was at 11.4% of the population in 2014. This is because hunger is seen only as the most severe form of food insecurity and therefore it does not represent the full extent of the problem.

It is also possible to get an idea of the financial restrictions on households by comparing household per capita income to the cost of a basic food bundle – this is known as the food poverty line (FPL). Stats SA estimates the FPL to be R335 per person per month in 2011 prices. Those living below the food poverty line have incomes that are lower than the amount required just to feed themselves, this is down to 22.8% of the population in 2014. The lower bound poverty line assumes people have enough income to afford a basic food bundle, but have to make some concessions in order to afford enough other goods. This makes up 33.8% of the population in 2014. The upper poverty line is based on individuals who are able to spend the required amount on food, the balance of their income is assumed sufficient to acquire other goods. The 2014 estimate stands at 45% of the population being below this level of basic need satisfaction.

FIGURE 49: NATIONAL POVERTY TRENDS

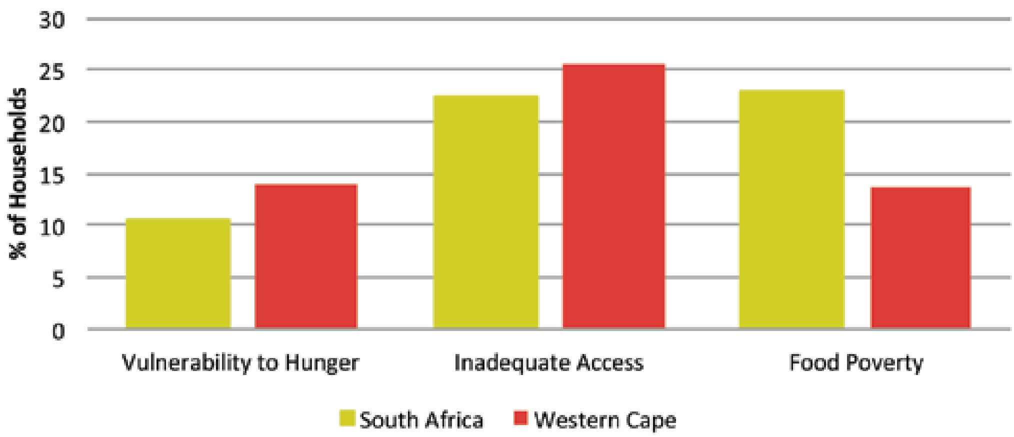


Source: IHS

As can be seen in Figure 48 and 49 above, both food poverty and hunger have been declining since 2002, with a slight spike after 2007 as a result of the global food price inflation crisis reducing household purchasing power. During this crisis the price of wheat rose 130%, rice increased by 90% and maize by over 30%. This was caused by multiple factors such as the increased use of cereals in the production of biofuel, rising oil prices, increased meat consumption and therefore greater demand for cereal-based animal feed, major droughts in Australia, floods in the US wheat fields and increased speculation in agricultural commodity markets by large investors. After the financial crisis in 2009, food and cereals dropped below total inflation as a result of the global recession and stabilising maize prices. This can be seen in the declining poverty trends post-2009.

What is perhaps more intriguing, is not the potential funds available for food consumption, but rather investigating how poor South Africans decide to allocate this budget in reality. Survey data suggests that the poorest South Africans only allocate around 35% of their income to food, which is a relatively low proportion in a developing country. Furthermore, over 60% of the population do not spend enough on food to meet the nutritionally adequate food bundle that determines the food poverty line – a figure that has not changed over time. This means that South Africans prefer to spend their money on other goods than on a nutritionally adequate diet, even as incomes rise. In South Africa, this manifests as a reliance on cheap, starchy foods such as maize and bread which, whilst filling, have little nutritional value.

FIGURE 50: FOOD INSECURITY INDICES 2014



Source: Stats SA General Household Survey (2014) and IHS

The Western Cape has higher counts of hunger vulnerability and inadequate access; however, food poverty is found to be much lower. This is confusing, as one would expect lower poverty rates to be associated with less hunger and better food access. It could be explained by the role of preferences elucidated above. Whilst people have more money available to spend on food in the Western Cape, they are choosing to spend it on other goods, leaving them still vulnerable to hunger and inadequate food access.

FOOD UTILISATION

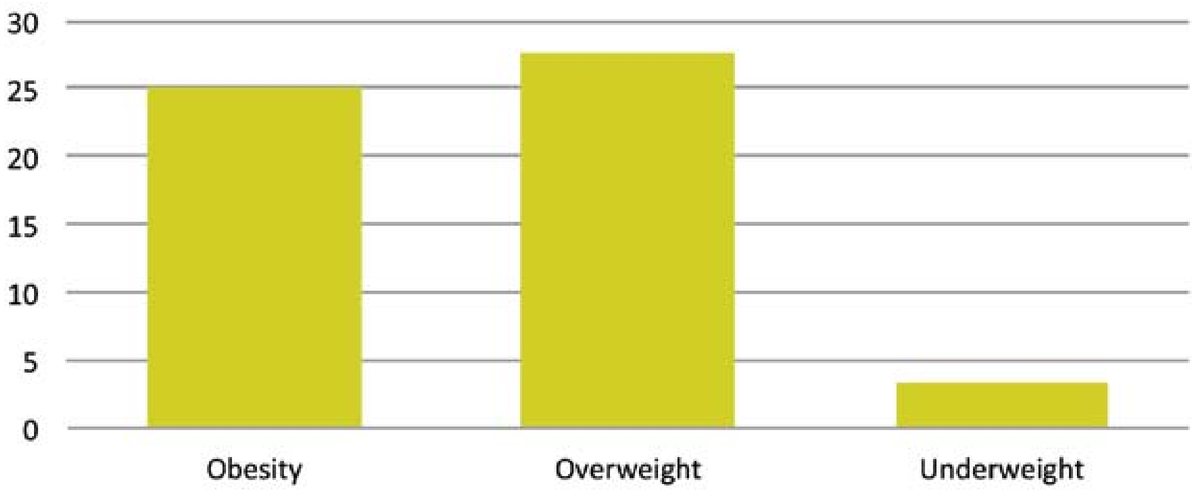
Food utilisation involves the nutritional outcomes of foods eaten. As we have already addressed, having enough money to buy sufficient food does not make one's diet nutritionally adequate. Furthermore, sometimes the nutrients from food are not sufficiently absorbed due to disease (such as HIV/AIDS) or bad storage and cooking practices. Nutrient deficiency and food related diseases have a large impact on the health and well-being of the population, which inhibits development objectives. These can include irreversible changes in child development such as poor cognitive development, weak educational performance, increased risk of morbidity and impaired immune functions.

In South Africa, over 50% of the adult population is classified as either overweight or obese, using the BMI standard. This is a direct result of diets that are high in carbohydrates and sugar, and has a strong female bias with 36% of females being obese versus only 12.2% of males. The incidence of child obesity is at 13.7% of the population, with a further 18.6% overweight. These trends appear to be gender neutral but increasing. Obesity is well-tolerated in South African cultures as it is often seen as a sign of success and wealth. This reduces incentives to moderate calorie intake or to eat a healthier diet, thus making intervention programs more difficult to implement.

Stunting and wasting develop in the first two years of a child's life as low height-for-age and low weight-for-age respectively. Stunting is a more acute problem than wasting as it can have non-reversible effects such as difficulties in absorbing nutrients and persistent infections. Wasting, on the other hand, can change rapidly depending on the availability of food or disease prevalence. As can be seen in Figure 52 below, stunting is also more prevalent than wasting in South Africa, affecting 21.2% of children under the age of 15. Underweight, or low weight-for-height, is not as significant a problem, affecting only 3.4% of adults and 8.5% of children. This is more prevalent amongst males than females.

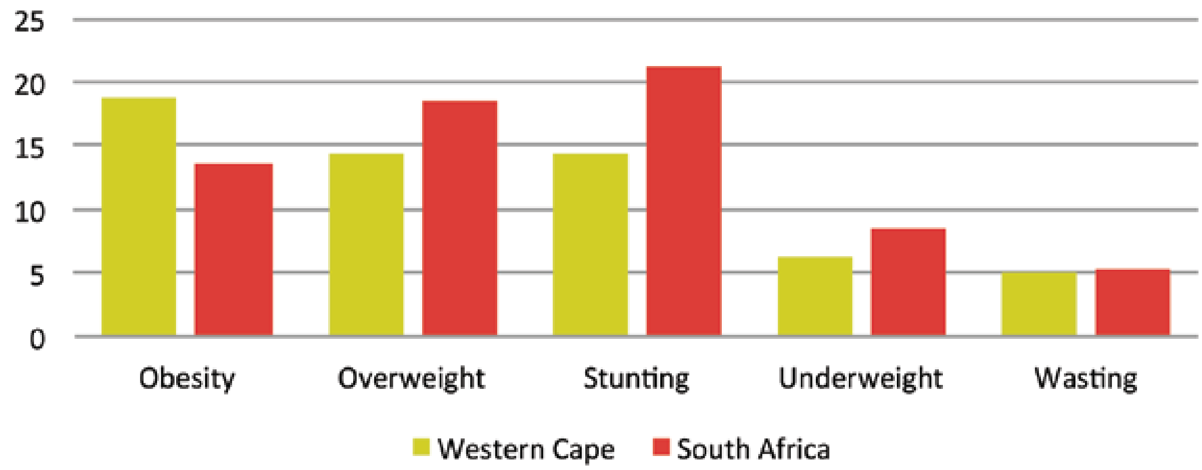
In South Africa we also face widespread micro-nutrient deficiencies, particularly with regard to iron and vitamin A. 43.5% of children under the age of 5 years are deficient in vitamin A and around 10% are deficient in iron. The absence of micronutrients does not manifest in as obvious a way as the hunger pangs of inadequate calorie intake, and this makes these sorts of deficiencies very dangerous. People often do not realise that the source of their ill-health is in their inadequate diets.

FIGURE 51: ADULT NUTRITIONAL INDICATORS 2012



Source: NIDS data in the 2014/15 Health Report.

FIGURE 52: CHILD NUTRITIONAL INDICATORS 2012



Source: NIDS data in the 2014/15 Health Report.

The Western Cape has lower counts on all the child nutritional indicators, except for obesity. Childhood obesity sits at 18.8% of the population in the Western Cape, 5% higher than the national level. This is likely due to the greater urban population in the province, with urban areas experiencing greater obesity due to lacking physical activity and low dietary diversity as there is less opportunity to supplement the diet with home-grown vegetables or meat from livestock. On the other hand, stunting in the Western Cape is much lower at 14.3% than the national total of 21.2%. This is likely due to the same reason of rural/urban divide. Rural areas are far more prone to stunting as a result of deficiencies in nutrient intake of new-born children. This is because mothers often are often not well informed about infants' nutritional needs. Urban populations make up 93.7% of the Western Cape and only 63.7% of the national population.

VULNERABILITY AND SHOCKS: 2015 DROUGHT

Food security is not a phenomenon of only the current period, but occurs as a result of the shocks experienced and actions taken by a household over time. A household with little savings or access to credit will have a hard time coping when a household member becomes unemployed or food prices go up. This results in reallocation of the household budget in which they must forgo other goods in order to afford enough food, or settle for a less diverse diet or fewer meals. More people get pushed into being food insecure in times of crises as we saw in Figure 48 and 49 above between 2007 and 2009. Protracted crises affect all three dimensions of food insecurity, with severe implications for poverty and development objectives. One such crisis is that which we are currently experiencing - severe drought. South Africa suffered one of its driest years on record in 2015. Amongst other fatalities, this has weighed heavily on agricultural production – reducing the nation's trade balances and inflating food prices. The contraction of the agricultural sector also weighs negatively on unemployment levels, as it is the main sector for employment in South Africa. The World Bank's South Africa Economic Update[1] 2016 projected that about 50 000 people in South Africa will be pushed into poverty by the current drought.

Excessive food price inflation has a disproportionate impact on the poor because it makes up a greater share of their income, reducing their already feeble spending power. Poor households will increasingly be forced to allocate a greater proportion of their expenditure to food, with the result that diets will become less diverse, lower in quality, and energy intake will drop as people try to cope with the situation. This will also mean reduced expenditure on other goods necessary for development such as health and education. Food price inflation is set to increase exponentially until 2017 when the effects from reduced planting will be felt.

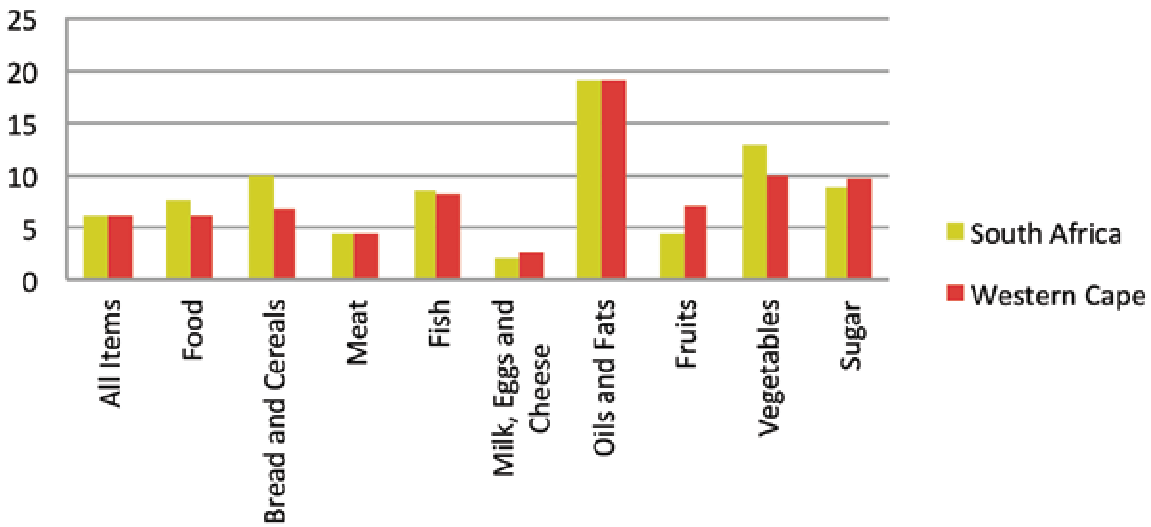
One of the most heavily affected crops in the country is maize. Maize is a staple food in Southern Africa and a key source of high calorie intake for lower income households. It is estimated from the Income and Expenditure survey of 2010/11 that 33% of the lowest income decile food expenditure is on bread and cereal products. In 2015, farmers planted only 1.3 million hectares of maize, half of the usual 2.6 million hectares. This means that we will need to import as much as 5 million tonnes over the next year to make up for the shortfall. Maize prices have already increased by 20% and are set to increase by another 10% before the end of the year, putting substantial pressure on lower income households to find substitutes. Many of these substitutes, such as rice, potatoes and other grains, will also need to be imported - again knocking the trade balance and leading to greater import dependence and associated higher prices.

Figure 53 below shows the inflation for specific food groups in South Africa and the Western Cape from January 2015 to January 2016. Inflation overall is at around 6% for both South Africa and the Western Cape. This is dangerous territory for meeting the Monetary Policy Committee's inflation target of 3-6%, and is likely to overshoot it in the light of food inflation pressures. National food inflation is about 1.4 percentage points higher than overall inflation, a result made up of mixed reactions to the drought. Meat and animal products have had much lower inflation due to a rapid increase in the supply of livestock for slaughter. This is a result of decreased availability of cereals for livestock feed. On the other hand, cereals, sugar, oils and fats and vegetables have had very high inflation rates due to the reduced production resulting from drought. These effects have, however, varied by province.

Food inflation in the Western Cape has managed to remain level with overall inflation, 1.4 percentage points lower than national food inflation. The most substantial difference is seen in the categories of breads and cereals as well as vegetables. If food inflation remains in the 6% range, with salaries also rising at that rate, it ought not to increase the number of households below the FPL. The Western Cape agri-activity was also not as negatively affected as the 5 drought stricken provinces and rising agri-prices actually paid dividends to Western Cape farmers. The end result is that it is unlikely that the Western Cape has or will experience any significant rise in the number of food insecure households, but our sister provinces would have been severely impacted.

1. South Africa Economic Update – Promoting Faster Growth and Poverty alleviation through Competition

FIGURE 53: CPI INFLATION FOR VARIOUS FOOD GROUPS



Source: Stats SA Short Term Indicators Quantec

POLICIES

Despite the Western Cape's resilience to the prevailing drought, food insecurity remains a pressing issue both within the province and nationally. It is important to have reliable policy measures in place in order to ensure the population is consuming sufficient nutritious food and also to facilitate vulnerable households to cope with the effects of shock events.

- *Nutritional education and school feeding programmes* – we have seen that over 60% of South African's do not spend enough on food to enjoy a nutritionally adequate diet. Many of these people are above even the upper bound poverty line, and thus have sufficient resources available to afford this diet if they so desired. Nutritional education is needed from a young age in order to encourage a preference for nutritious food in the South African population. School feeding programmes have been very successful internationally and locally in making sure that students are able to concentrate better in school and learn the important role of nutrition in their development.

- *Monetary and in-kind transfers* - Social protection systems have become an important tool in the fight against hunger. More than one hundred countries implement either conditional or unconditional cash transfer programmes that focus on promoting food security and nutrition, health and education, particularly for children. South Africa has made significant progress in this regard, but there is still a long way to go. Perhaps in-kind transfers of fruit and vegetables rich in micro-nutrients could have a more direct impact of incentivising people to eat healthier food, as monetary transfers do not ensure that household food consumption will improve.

- *Food banks and limiting wastage* – Putting an end to food wastage could have the most significant impact on food insecurity by both lowering prices and increasing food transfers. It is needed that companies all along the food supply chain work closely together to ensure that wastage is kept to a minimum and excess or left-over food is efficiently distributed to the poor via the food bank. This has been a focus of the Western Cape 110% Green Food Forward Project. Pick 'n Pay estimate that this is an opportunity to provide much needed employment as well and that they could create 5 000 jobs per year until 2020 in this regard.

- *Support for subsistence agriculture* - Although the ability of family farming and smallholder agriculture to spur growth through productivity increases varies considerably, its role in reducing poverty and hunger is key. It adds variety to the diet and increases intakes of micro-nutrients. Access to land is the greatest constraint to subsistence farming in urban areas, but through education and support programmes it is possible to overcome these constraints with clever container gardening concepts. There are a number of organisations providing support in this regard such as *Soil for Life* and *Abalimi Bezekhaya*. For those who want to use small-holder farms to produce more than just for their families, access to markets is a necessary requirement so that farmers are able to fetch decent prices for the goods they produce. Organisations such as *Harvest of Hope* provide this link in the Western Cape and have been successful at integrating small urban farmers into the marketplace.

CONCLUSION

Whilst the prevalence of hunger and food poverty has decreased, households do not seem to increase the amount spent on food to achieve a nutritionally adequate diet. This comes down to the role of preferences in the population. Increased cash transfers are able to lift those in dire need out of poverty and hunger, but it does not change food consumption behaviour. The very important development outcomes of a food secure nation are not realised unless people are eating enough calories *and* sufficient micro-nutrients.

In South Africa, and particularly the Western Cape, there is a severe problem of over-nutrition when it comes to starchy foods. This has resulted in high rates of both adult and child overweight and obesity. Diets based on maize and bread are filling but are low-quality, offering few other nutrients which support optimal body functioning and health. Getting the balance right requires widespread nutritional education.

Reducing diet related diseases and conditions will rapidly reduce the pressure on the public health system. It will also increase the productivity of the work force and the education outcomes of school children. Improved food security will thus have vast impacts on the economic growth and development potential of South Africa.

Food security is further threatened by shock events such as the 2015 drought. Luckily, the Western Cape seems to have avoided the negative impacts which will severely impact other provinces in the country. However, extreme food price inflation is set to increase until 2017, and we cannot yet rule out that this will not filter through to the Western Cape over the coming months. In the face of such a crisis, many households will be pushed below the poverty line and will have to turn to alternative measures to ensure they can eat enough. These measures may include lower quality diets, reduced numbers of meals or increased number of households participating in subsistence agriculture.

Urgent support is needed for those vulnerable to hunger and reduced food access through support in subsistence farming, redistribution of food unused by retailers to the poor and a concerted effort to reduce food waste throughout the agri-processing supply chain. When this is coupled with increased preferences for nutritional food, South Africa is likely to climb up the Global Food Insecurity Index and enjoy all the associated benefits of a healthy population.

SKILLS DEVELOPMENT - AN OPPORTUNITY TAKEN

Anthony Phillips

1. SKILLS DEVELOPMENT - A PROBLEM SIMPLIFIED

1.1 INTRODUCTION

South Africa's economic performance has been less than optimal to ensure higher levels of economic growth, absorb existing and new labour market entrants as they become available.

The reasons for this challenge is multifaceted and can in the main be attributed to the peculiar South African social setting; the inability of our current education system to adequately prepare prospective and current labour market entrants for uptake into the economy; the current depressed economic climate; and the inability of public and private sector stakeholders to facilitate the transition of youth from the education-to-employment system.

These are among an exhaustive list of reasons as to why South Africa has a significant headache with stubborn unemployment. Disaggregation of the unemployment challenge reveals, however, unacceptable levels of youth unemployment, which directly links to low education attainment levels; high secondary school, college and university drop-out rates; "socially inadequately prepared youth"; a lack of entrepreneurial activity and innovation to either find or create employment and ownership of the economy.

YOUTH **The youth narrow unemployment rate in the Province is 35.5%**

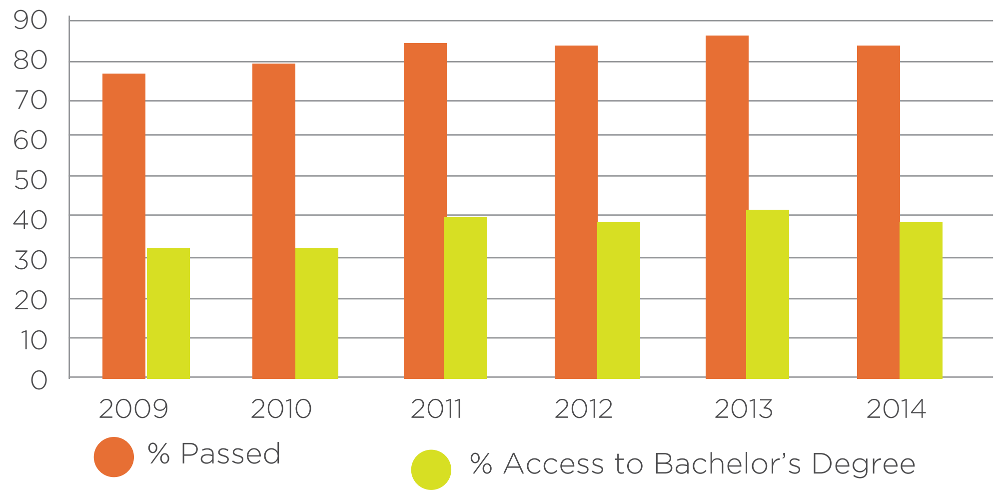
896 000

Youth employed in the Western Cape aged between 15 and 34

2.1 million

The Western Cape Youth working-age population

FIGURE 54: WESTERN CAPE NATIONAL SENIOR CERTIFICATE RESULTS, 2009- 2014



Source: Western Cape Education Department 2015

Figure 54 illustrates that the Grade 12 learner pass rate remains above 80 per-cent, while 38.8 percent achieved a pass (allowing them to enter a Bachelor's degree study programme). However, enrolment for Mathematics and Physical Science remains a challenge.

FIGURE 55: LEVEL OF EDUCATION OF UNEMPLOYED YOUTH IN SOUTH AFRICA, 2008 - 2015

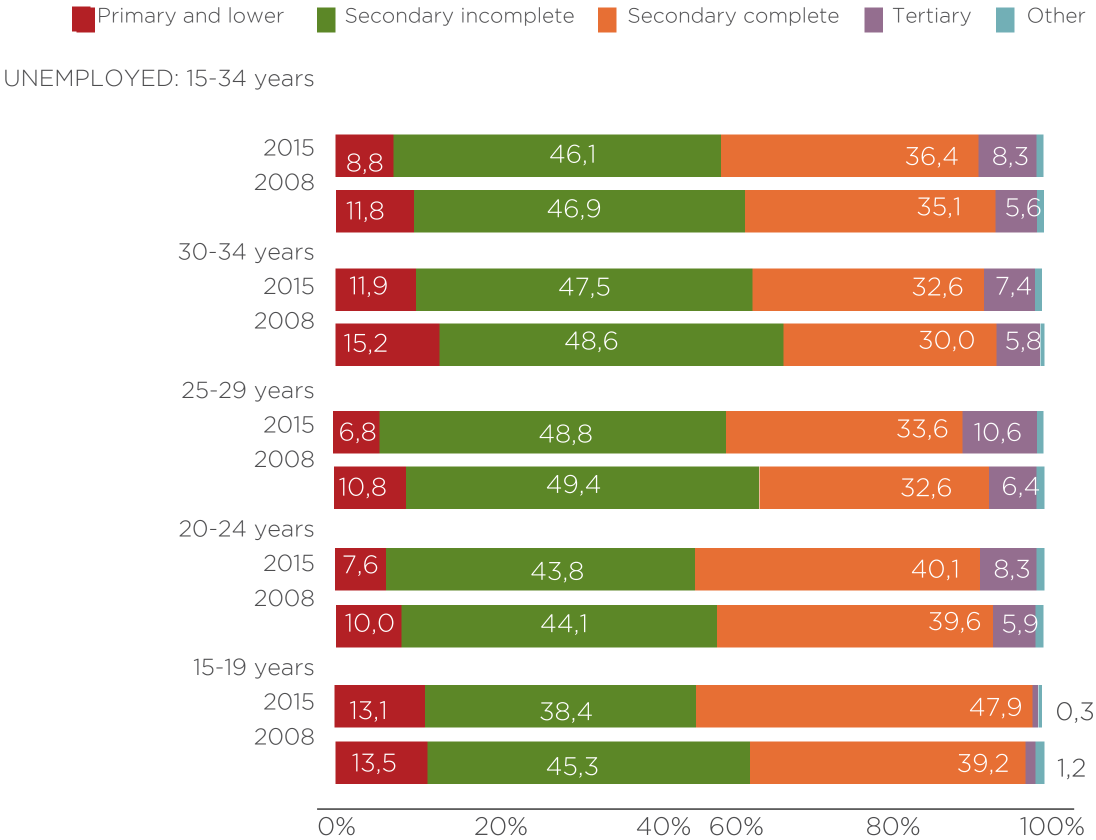


Figure 55 shows that, despite improvements in the education profile of unemployed youth over the period 2008–2015, in 2015, as many as 43–49% of youth in every age cohort except the youngest (15–19 years) had not completed their secondary education.

The consequence of youth unemployment is legion and the delay in employing youth results in delays in affording young people with an opportunity to strengthen their existing skill sets. Apart from the fact that the economy is unable to absorb these new entrants into the work environment at the rate that they become available, it has been found that youth have been applying ineffective methods of finding employment. Lack of social networks and support to access training and up-skilling opportunities are further contributors to the unemployment challenge.

The inability of youth, even when employed, to display an appropriate level of interpersonal interaction to "fit in" and keep employment speaks to challenges beyond the "technical" dilemma of competence to perform functional employment. This dilemma could also stem from multi-generational, and an inability to translate parental conditioning.

It has been noted from recent developments around the world that unemployed youth holds a profound challenge for the stability of countries at large, given that there is a possibility that these unemployed youth can become alienated from a society that is unable to provide opportunities to improve their life prospects and also those of future generations.

2. CAN SOMETHING BE DONE AND IF SO WHAT?

The National Development Plan (NDP) aims to eliminate poverty and reduce inequality by 2030. According to the plan, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

The situational analysis of the South African population compiled for the National Development Plan highlights that a significant proportion of our economically-active population can be classified as youth. This fact holds profound possibilities for putting our economic growth onto a higher trajectory and creates an opportunity for higher levels of employment uptake – despite the current reality that the major contributor to our unemployment challenge is that of youth underemployment.

The National Skills Development Strategy (NSDS III) focuses on South Africa's skills development priorities and provides indicators to measure progress in its implementation. The NSDS III is guided by seven key developmental and transformation imperatives, which include: class; race; gender; geography; age; disability; and HIV/AIDS. The strategy has a number of core pillars:

- Economic sector strategies, programmes and projects (that are aligned to government and industry development strategies and that are developed with, and supported by, sector stakeholders);

- Relevant sector-based programmes addressing the needs of unemployed people and first-time entrants to the labour market are developed and piloted by SETAs, with rollout being planned, managed and funded, where appropriate, in partnership with the NSF;

Professional, vocational, technical and academic learning programmes that result in qualifications or part qualifications registered on the National Qualifications Framework (NQF) that address critical and scarce skills needs.

- Professional, vocational, technical and academic learning (PIVOTAL) programmes. These are programmes, which provide a full occupationally directed qualification. PIVOTAL courses will normally be offered by arrangement between a SETA, an educational institution, an employer and a learner;

- Programmes that contribute towards the revitalisation of vocational education and training, including the competence of lecturers and trainers to provide work-relevant education and training, and promote occupationally directed research and innovation;

- Incentives for training and skills development capacity in the co-operative, NGO and trade union sectors, including community and worker education initiatives, contributing to effective training of youth and adults;

- Partnerships between public and private training providers, between providers and SETAs and between SETAs, addressing cross-sectoral and inter-sectoral needs; and

- An increased focus on skills for rural development to support rural development.

The NSDS places great emphasis on relevance, quality and sustainability of skills training programmes to ensure that they impact positively on poverty reduction and inequality. It focuses on the following goals, each of which have attached to them outcomes and outputs that will be the basis for monitoring and evaluation of NSDS implementation and impact:

The key driving force of the NSDS III is improving the effectiveness and efficiency of the skills development system. This strategy represents an explicit commitment to encouraging the linking of skills development to career paths, career development and promoting sustainable employment and in-employ progression.

- Establishing a credible institutional mechanism for skills planning;
- Increasing access to occupationally-directed programmes;
- Promoting the growth of a Technical Vocational Education and Training college system that is responsive to sector, local, regional and national skills needs and priorities;

- Addressing the low level of youth and adult language and numeracy skills to enable additional training;
- Encouraging better use of workplace-based skills development;
- Encouraging and supporting co-operatives, small enterprises, worker-initiated, NGO and community training initiatives;
- Increasing public sector capacity for improved service delivery and supporting the building of a developmental state; and
- Building career and vocational guidance

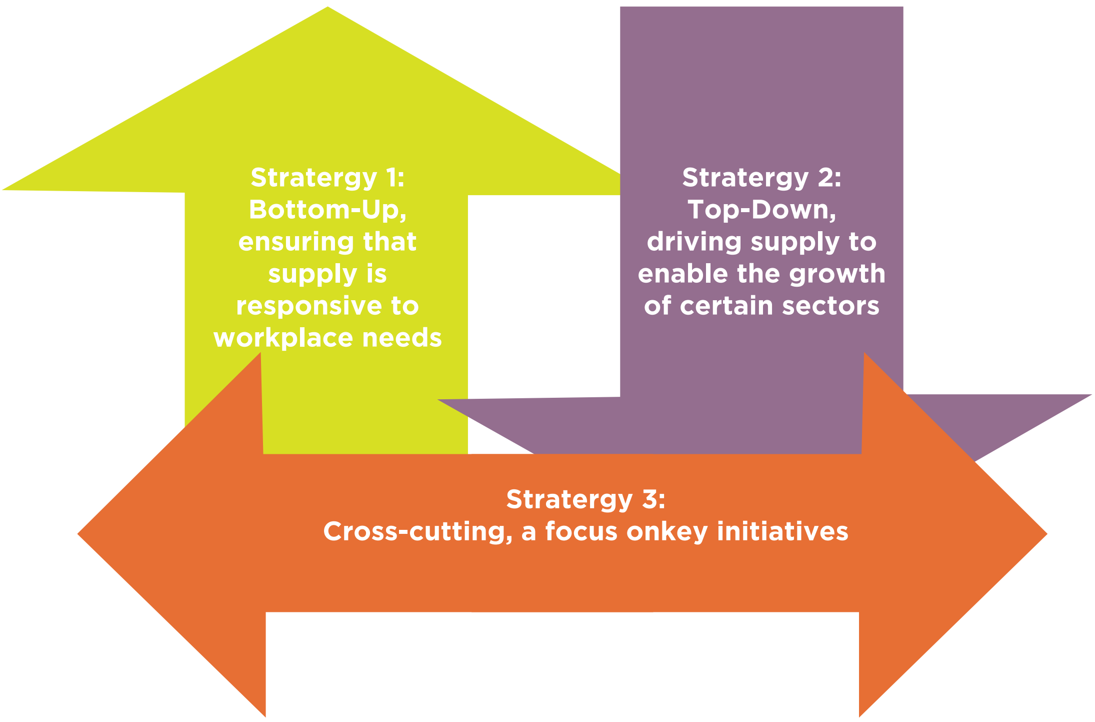
3. A RESPONSE TO THE NATIONAL SKILLS DEVELOPMENT STRATEGY - A PROVINCIAL PERSPECTIVE

The Western Cape has developed a skills development strategy across stakeholders represented in the Provincial Human Resource Development Council and Provincial Skills Forum.

The Framework aims to:
- Support the increased alignment between demand and supply and – in some cases - to enable supply to play a catalyst role for demand;
- Ensure that individuals in the province have the requisite foundational education and skills required to actively participate in, and contribute to, the economy of the Western Cape;
- Align planning processes with national imperatives, provincial developments and local ecologies so as to ensure that the strategies put in place for skills development both ensure that the relevant skills are available and that the necessary conditions for economic strategies are both addressed and stimulated;
- Enable role players in the province (government, private sector, providers and NGOs) to jointly contribute to the successful implementation of this framework;
- Establish a mechanism to address blockages that may arise in this process (through engagement of the players as well as specific initiatives collaboratively undertaken where required).

A graphical representation of the Framework is set out below and represents a three-pronged strategy: a bottom-up strategy, a top -own strategy as well as one that focuses on cross-cutting initiatives.

FIGURE 56: THREE-PRONGED APPROACH REPRESENTING THE SKILLS FRAMEWORK



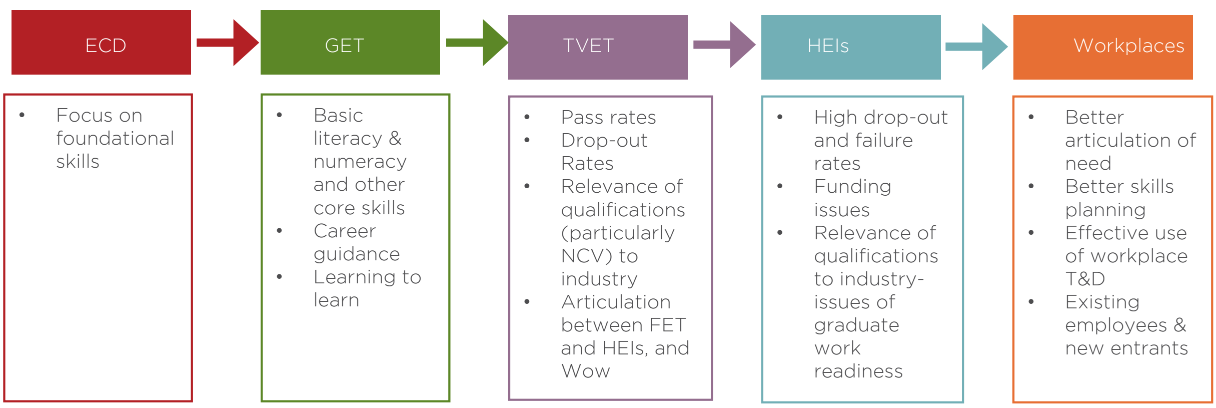
3.1 STRATEGY 1: ENSURING THAT SUPPLY IS RESPONSIVE TO WORK PLACE NEEDS

This component includes the need for a proactive approach to firm support on the demand-side and suggests the importance of working with employers to reshape their demand for skills. The key characteristics of this strategy are as follows:

- It creates a space where workplaces can articulate their skills needs (demand) – the focus of this will be on short-term demand. However, in certain cases (such as the example provided of the Oil and Gas Industry) where employers can plan for the medium- to longer term, last mentioned will be encouraged;
- It creates a space for stakeholders to determine what will be required to meet these needs – in the short term, and where relevant in the medium- to longer term. This process will also consider who needs to do what to meet these needs;
- Stakeholders to determine whether there are any obstacles to addressing these needs (in terms of the skills pipeline – discussed below);
- Stakeholders to determine an approach to addressing these obstacles; and,
- These engagements will take place in sub-committees within the Provincial Skills Forum (PSF).
- Where stakeholders cannot resolve the challenge, they will elevate this to the Provincial Skills Forums: Technical Working Groups.

In this "bottom-up" approach the focus is on ensuring that workplaces are able to indicate their current shortages as well as where possible to suggest any anticipated shortages; indicate any obstacles that they are experiencing in recruiting and retaining individuals with the relevant skills; and in implementing occupational programmes that are intended to meet these skills requirements. As indicated, the lens that is utilised to undertake this analysis of obstacles to ensuring the relevant supply is in place is the skills pipeline. That is, there is an assessment of the challenges at each step of the pipeline, so that it is possible to understand the different interventions that will be required to ensure that the supply is able to address demand and that there is an adequate pool of individuals with the relevant skills, knowledge and attitudes to enter the workplace, and to improve levels of productivity within it. The pipeline includes a focus on:

FIGURE 57: SKILLS PIPELINE USED TO IDENTIFY SKILLS INTERVENTIONS



Using this lens of analysis may identify any number of challenges such as: inability to access graduates with the relevant basic education and/or technical skills; difficulties in accessing providers that can offer the requisite programmes; insufficient access to funding to support skills provision; etc. This engagement should be coupled with a process of ensuring that these challenges are discussed and that agreement is reached on interventions that can be implemented to address them.

3.2 STRATEGY 2: DRIVING SUPPLY TO ENABLE THE GROWTH OF CERTAIN SECTORS

This component of the strategy relies on the proactive approach to 'articulating' demand that has been adopted within the Western Cape and then driving the skills to grow the sector. The characteristics of this strategy are:

- This strategy has relevance for those sectors that are being driven by the Western Cape Government: that is, where the Government is putting in place plans and resources to enable the growth of the sector – these sectors are described below.
- This longer planning horizon will allow for medium- to long term planning of supply.
- This will allow for interventions to be put in place across the skills pipeline.

This approach also draws on the concepts implicit within the skills ecosystem approach. The focus on the imperative to address skills issues in the context of "the wider drivers of productivity and economic development: these being business strategy, new technology, changing models of service delivery, work organisation and job design". At the same time, this approach focuses on the "organisations, institutions and firms in a certain local area or labour market that constitute area-based partnerships for training and skills development" (OECD, 2012) This recognises that "... local skills partnerships are not just for providing skills, they are for knowledge exchange as well".

"This approach carries with it the understanding that local partnerships in training have advantages in that local agents are better able to develop skills that meet their specific needs, increase knowledge flows and information within communities, drive local innovation through new ideas, utilise local knowledge, develop capabilities and skills and common ownership, increase transparency and accountability, and supplement limited resources of the formal education and training system" (OECD, 2012).

Practically, this approach will ensure that the Western Cape government will focus on those economic sectors which it is actively driving and, together with business, determine the skills that will be required to support the achievement of these economic imperatives in the medium- to longer term. Existing business will also be encouraged to consider the implications of these developments for their own businesses and related skills needs. This strategy is therefore aligned to the Western Cape Government's (WCG) approach towards accelerating job growth in the province – Project Khulisa.

Project Khulisa

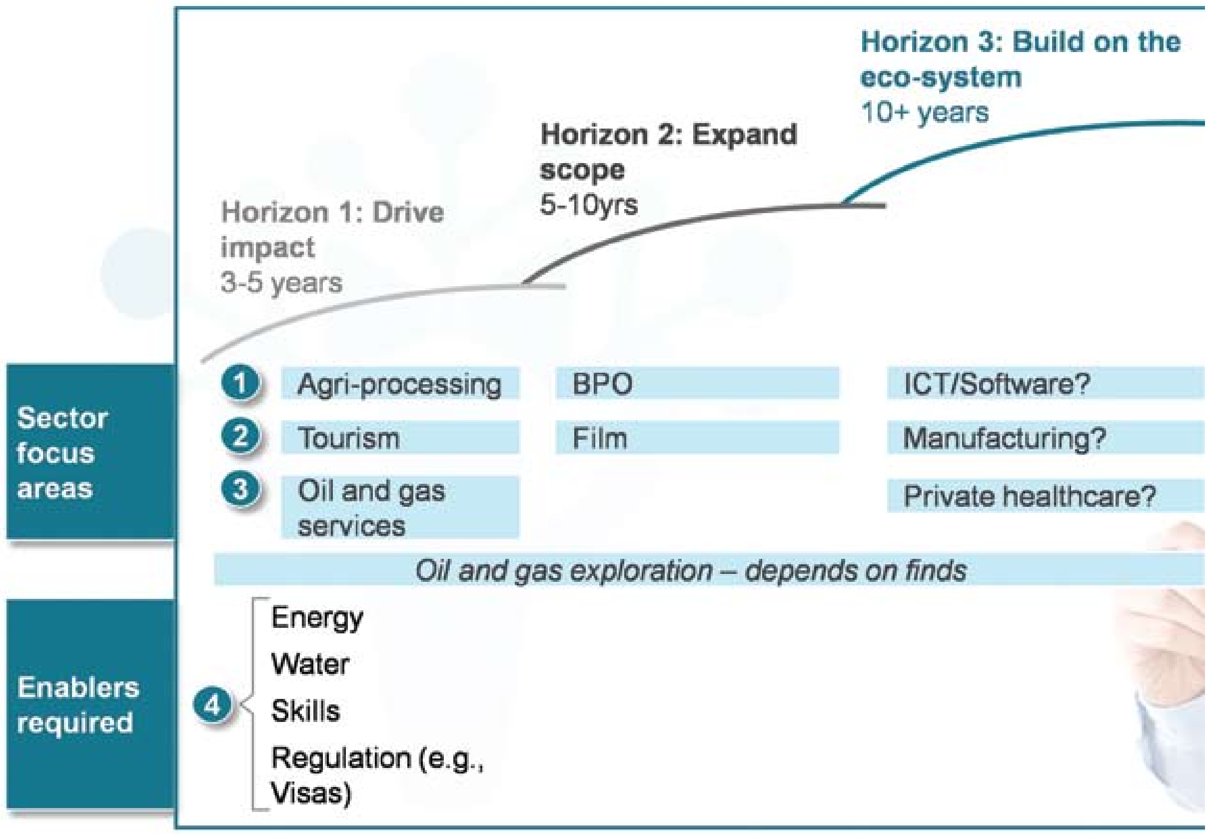
The WCG's focus on creating an enabling environment for the whole economy to grow and create jobs, through Project Khulisa, has identified those areas of the WC economy which have the greatest potential for accelerated and sustained economic and employment growth within a 3 - 5 year framework.

FIGURE 58: PRIORITY SECTORS IDENTIFIED WITHIN PROJECT KHULISA

It has been identified that significant opportunities exist that require government investment and action to realise. Further to this end six sectors were identified as the focus of Project Khulisa:

- **Tourism –** including both business and leisure tourism, as well as other more specialised niches
- **BPO –** includes the entire potential BPO service offering (both what the Western Cape currently offers, and other offerings that the province has identified as critical factors to provide going forward)
- **Agri-processing –** with a focus on food and beverages; includes export and domestic product potential
- **Film –** including film, television, and commercials, along the entire production value chain
- **Oil & gas –** with the focus on areas of immediate potential, particularly midstream services such as rig repair; exploration was purposely discounted as the lead teams are too long to deliver impact on jobs and growth within the next five years
- **Renewables –** considered from a sector perspective (i.e., the construction of sites, associated manufacturing and operations)

FIGURE 59: PROJECT KHULISA FOCUS IS SPLIT INTO 3 HORIZONS



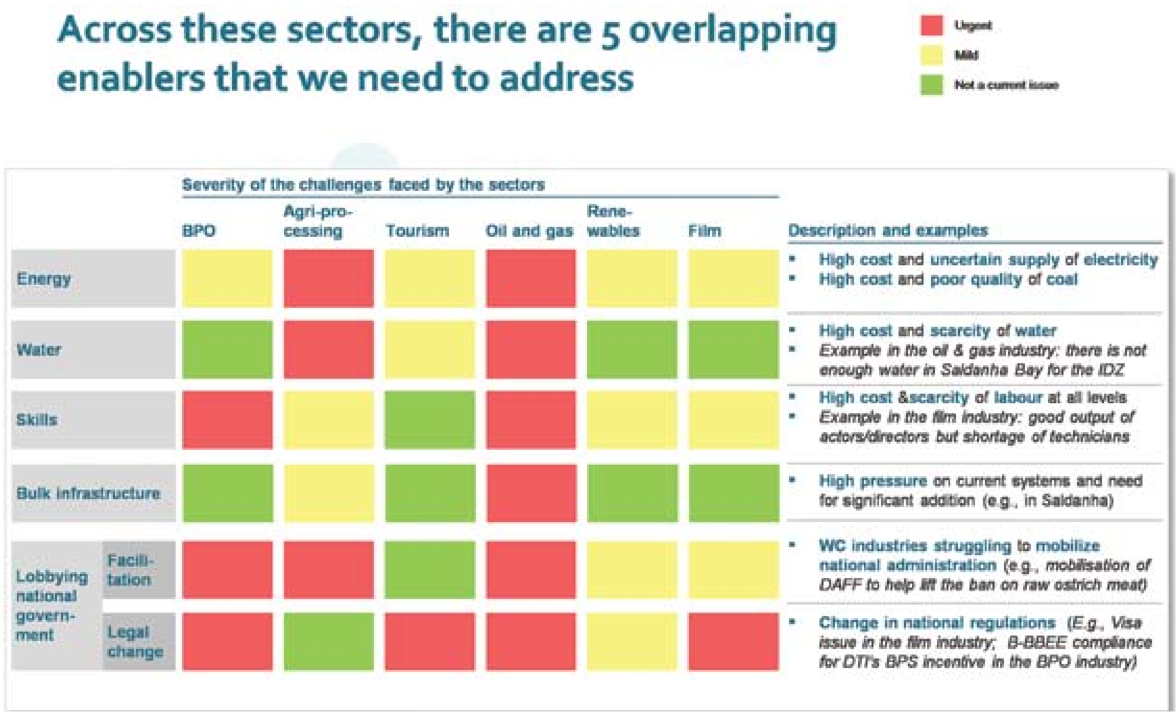
Source: Project Khulisa (2014)

The initial focus of Project Khulisa is split into **three horizons**. In horizon 1, the WCG will drive impact in three focus sectors – **agri-processing, tourism and oil & gas services** – as well as in the required **enablers.**

Five key enablers of growth and job creation in the aforesaid sectors were also identified – namely; energy, security, water, skills development, other infrastructure, and reducing red tape. These enablers are transversal in nature and envisaged to be the building blocks to grow the entire WC economy.

To this end the skills development components will focus on each sector and initiatives identified will address the sectors in Horizon 1.

FIGURE 60: 5 OVERLAPPING ENABLERS AS PER PROJECT KHULISA



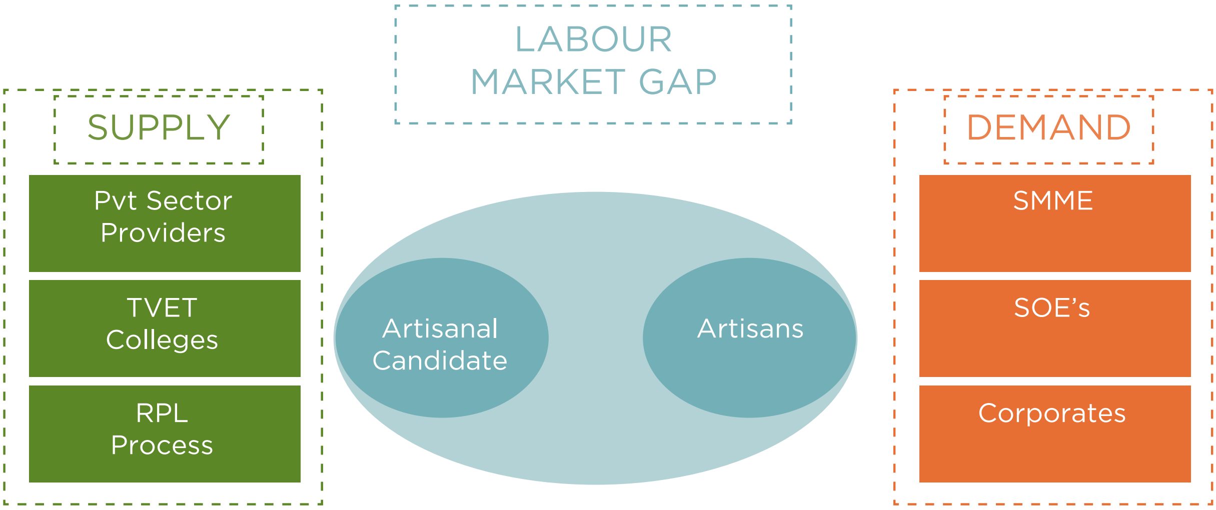
Source: Interviews, team analysis

It is suggested that within the context of these identified sectors, the Province will be in a position to plan for the kinds of skills that will be required to grow this industry in the immediate as well as in the medium- to long term. Whilst this component focuses on a sector approach, in so far as it considers key sectors that are drivers and enablers in the Province, it is suggested that this process should map out, where possible, the spatial areas in which the economic interventions will be implemented. The West Coast is one of these areas identified for focused interventions.

West Coast Industrial Plan

There will then be a process of mapping out the resources available to enable this intervention (both natural resources, level of technology as well as critical human resources) within the geographic area and to then determine how these resources can be maximised and what will still be required to ensure the success of the economic intervention.

FIGURE 61: IDENTIFYING THE GAP BETWEEN SKILLS SUPPLY AND SKILLS DEMAND



In figure 61 above, the Framework suggests that the institutional arrangements that have been established in some of the key economic focus areas should play a key role in mapping out skills demand, and for ensuring that the supply of skills is able to both support and accelerate the economic growth areas.

This will involve the following activities:

- The relevant institution will undertake an analysis of the skills that are likely to be required in the medium- to long term. For example, with infrastructure there is a need to consider how the projects will be rolled out and then to determine which skills will be required, and at what points and which skills are already available in the geographic area. This will enable an analysis of possible shortages. In other examples, it may be that there is an intention to drive growth in a particular sector within the geographic area: it will then be necessary to establish which skills will be important to enable the industry to grow and again to determine which of the requisite skills are already in place and which additional enabling skills need to be put in place. Additionally it must be pinpointed which skills can be developed over the medium- to longer term so that, once the sector begins to have traction, there are people with the relevant skills in place that can avail of these opportunities.

- In analysing what is required in respect to the above (in terms of ensuring that the relevant skills are in place and/or developed), it is proposed that there is a need for a supply pipeline analysis. As previously indicated, this considers what provision is already in place in the area (district) from early childhood, through schooling, further education and training, higher education and the workplace. It will also consider where the challenges lie. There will be a parallel process of establishing what the educational and skills profile of individuals are within the area and an assessment undertaken re: what will be required to enable the requisite number of individuals to develop the relevant education, skills and levels of work readiness.

- There will then be a process of actively working across the pipeline with the relevant institutions (including schools, further education and training colleges, higher education as well as private, NGO and workplace providers) to establish whether these institutions can indeed meet this demand in the medium- to long term. It is anticipated that, as there is a longer lead time, it will allow these institutions to design new programmes where relevant, or make changes to existing programmes where this is more appropriate. This process will then also inform enrolment planning and can be important in terms of the allocation of bursaries within the province. There will also need to be a process of determining whether workplaces can offer sufficient spaces to enable workplace experience where required and, linked to this, ascertaining what kind of support (funding) is available to enable this. The possibility of moving individuals across workplaces to gain experience may also be considered within the context of this regional model.

- Critically, the processes outlined above will also consider what other support is required to enable the individuals to move through the system – this could include supporting effective selection and assessment processes, development of bridging programmes as well as mentorship and supervision, as is required. Interventions to put this support in place may then be determined.

The National Certificate Vocational (NCV) is a new and modern qualification offered at TVET Colleges since January 2007. It is offered at Levels 2, 3 and 4 of the National Qualifications Framework which are equivalent to Grades 10, 11 and 12.

- Finally, there is a need for a monitoring and review mechanism to be established to establish whether supply is effectively meeting demand.

This process should ensure that the different stakeholders are actively involved in driving it, and that supply and demand support and grow each other. It is further suggested that, as this component is implemented, there may be a need for additional initiatives to be put in place to support aspects of the pipeline as may be required.

3.3 STRATEGY 3: A FOCUS ON KEY INITIATIVES

In addition to the above, the Western Cape will also support a number of key initiatives that are intended to support supply in accordance with demand that has either already been identified, through a number of processes in the province, or alternatively that may be identified in the future through the work that is carried out in strategies one and two (as per the above).

Some examples of the kind of initiatives that have already been introduced and/or considered in the Western Cape are listed below:

- The improved sourcing and placement of matric and National Certificate Vocational (NCV) graduates in a way that ensures that there is effective selection, assessment and matching. This project will also consider the possibility of bridging programmes being put in place for these young people where relevant. There are already a number of initiatives within the NGO sector that are supported by business and which focus on the selection, assessment, matching and bridging of young people so that they are able to enter workplaces for which they are both prepared and matched to. These programmes aim to achieve:

Recognition of Prior Learning (RPL) is a process of identifying your knowledge and skills against a qualification or part thereof. The process involves the identification, mediation, assessment and acknowledgement of knowledge and skills obtained through informal, non-formal and/ or formal learning.

  (i) Greater levels of sustainable employment for these young people; and
  (ii) Employers that will be more open to employing young people. These interventions are also being used to source, assess, match and bridge young people into learning programmes (including apprenticeships and learnerships) so as to improve the throughput rates achieved.

- It is also recognised that there are insufficient numbers of young people completing matric and their NCV with the requisite mathematics and science. To this end there will be a consideration of the way in which the stakeholders can support learners in school to improve their level of maths and science, whilst at the same time ensuring that they have greater levels of exposure to various careers.

- A project that focuses on the imperative to train artisans and professionals: this project identifies the priorities for artisans and professionals and considers the blockages that have been identified with respect to their development. Such constraints include: the challenges associated with sourcing and selecting individuals that meet the criteria to access the programme and that have the competence and aptitude to successfully complete the learning programme; determining the type of support that learners require to improve throughput; ways to increase access to the workplace as well as to support this workplace learning - both during the learning programme (work integrated learning) as well as after the learning programme, where it will be necessary to ensure that there is a strong mentoring component built into the process (lessons about ways for workplaces to enhance the value of this experience through the induction process as well as training on specific skills that may be required and for providers to support this mentorship process in the workplace can be drawn on in this regard). The focus will also consider whether there is a need for revised curriculum, lecturer development as well as supervisory training.

- Recognition for Prior Learning (RPL): it is suggested that there is a need to consider ways in which RPL can be used more effectively to support individuals to access certain learning programmes as well as, where possible, be awarded credits (against a programme or unit standards) towards the qualification that they will be undertaking;

- Attracting new talent by using migration policies as a means of solving skills gaps and labour shortages;

- To support the implementation of the different components of this framework there will be a need to support the utilisation of a database of individuals within each geographic area (and their skills profile), as well as that provides an indications of demand.

- It has also been proposed that there is a need for an intervention that builds the capacity of individuals that support the process of determining demand and for ensuring that supply both contributes to this growth and addresses the demand emanating from this growth

3.4 SKILLS DEVELOPMENT FRAMEWORK PRINCIPLES

There is a need to:

- Break down the 'silo' barriers across industry, education and training organisations, local government, employment and training agencies, and households;

- Ensure that there is an integration of the policies and strategies to support skills and economic development;

- Sufficient levels of decentralisation to enable interventions to be tailored to local conditions and to support local initiatives. It is suggested that there is a need to both decentralise so that local government can play a greater role and in a way that encourages public employment service (PES) agencies to play a more proactive role;

- Nurture and create partnerships as a way of "*mobilising resources and achieving the biggest possible impact"*, and to support local employment and economic development;

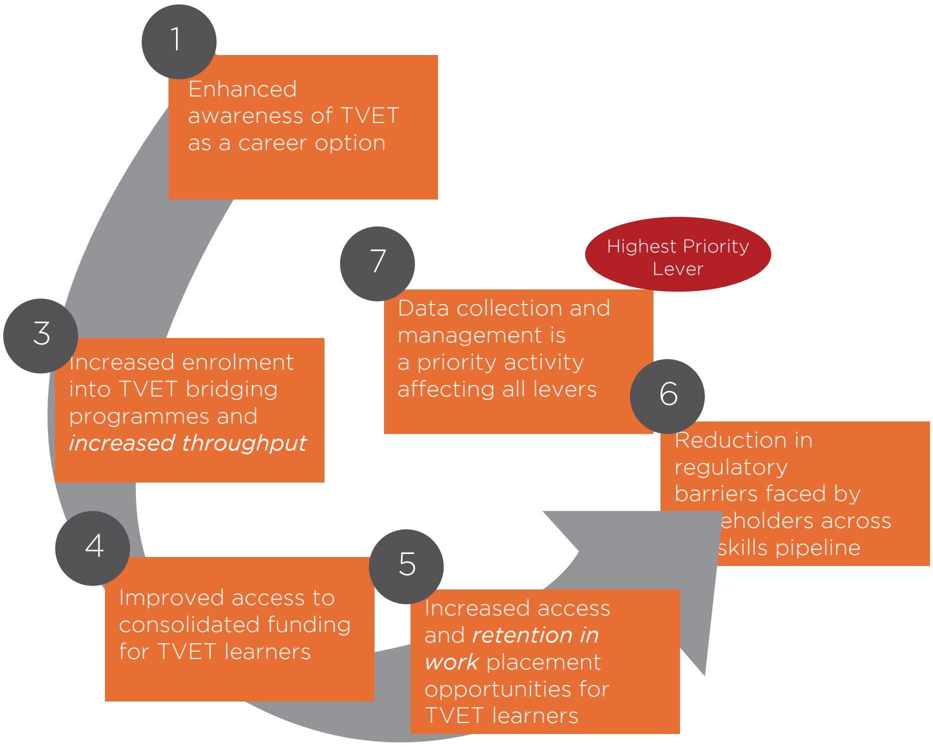
- Both informal and formal networks: Informal networking refers to the loose connections and contacts between individuals. Networks are more formal and usually form around a common interest, but activity generally relates to actions of independently operating organisations. This approach accepts that there is a need for activity beyond the actions of independently operating agencies or individuals;

- Leadership, which is based on trust and the ability to develop strong interpersonal relationships, must come from Government, as well as other players in society. Building trust is a key function of intermediaries and is important because relations of trust and sharing act to reduce transactional costs as stakeholders acquire a better understanding of their counterpart's needs and expectations

4. IMPLEMENTING THE SKILLS DEVELOPMENT FRAMEWORK

For this term of political office (ending in 2019), Province has identified nine "Game Changers" to change the face of the Western Cape; including Project Khulisa (growth in priority economic sectors) Energy Security, After-school, Reducing Alcohol Harms, Water and Sanitation, Conradie, E-learning, Broadband and Artisanal and Related Technical Skills (Figure 9 – Skills Game Changer).

FIGURE 62: LEVERS OF THE SKILLS GAME CHANGER



In the editions to follow, the implementation Skills Development Framework will be showcased. The various initiatives, how it is implemented and lessons learnt will be shared. Furthermore, detail will be provided on each lever (deliverables) in upcoming editions.

PERFORMANCE OF THE TOURISM INDUSTRY

Supplied by Wesgro

1. AWARENESS OF KEY MARKETS AND TOURISM TRENDS

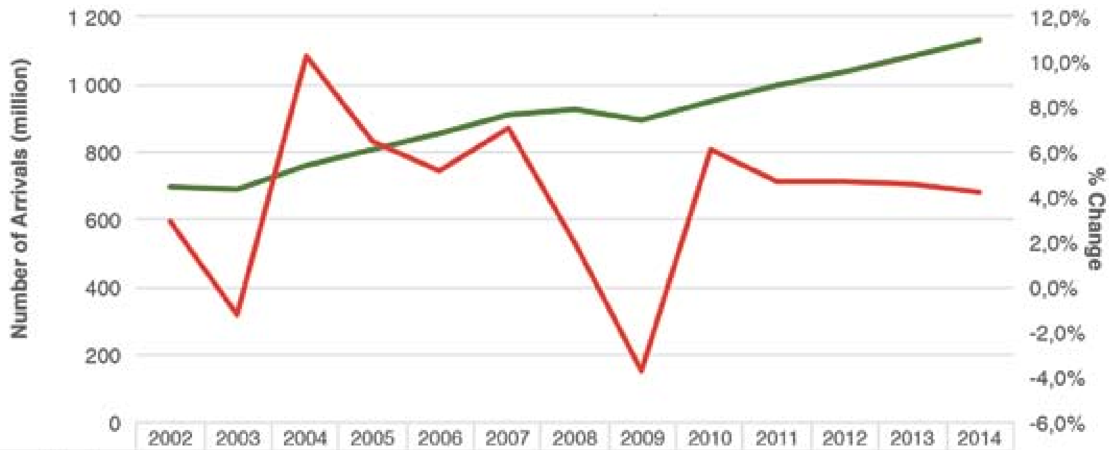
GLOBAL TOURISM ENVIRONMENT

According to the 2015 edition of the United National World Tourism Organisation (UNWTO) Tourism Highlights, an ever-increasing number of destinations worldwide have opened up to and invested in tourism globally. Destinations have started to evolve their tourism industry into a key driver of socio-economic progress, through the creation of jobs and enterprises, export revenues and infrastructure development.

Over the past six decades, tourism has experienced continued expansion and diversification to become one of the largest and fastest-growing economic sectors in the world. A number of new destinations have emerged in addition to the traditional markets of Europe and North America.

Despite ongoing economic challenges, tourism has shown virtually uninterrupted growth. Globally, international tourist arrivals increased from 25 million in 1950 to 278 million in 1980, 527 million in 1995, 1133 million in 2014 and topping the 1 billion mark in 2012. Similarly, international tourism receipts earned by destinations worldwide surged from US$ 2 billion in 1950 to US$ 104 billion in 1980, US$ 415 billion in 1995 and to a remarkable US$ 1245 billion in 2014.

FIGURE 63: INTERNATIONAL TOURIST ARRIVALS



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Arrivals	698	689	760	809	851	911	929	894	949	993	1 039	1 087	1 133
% Change	2,9%	-1,3%	10,3%	6,4%	5,2%	7,1%	2,0%	-3,8%	6,2%	4,6%	4,6%	4,6%	4,2%

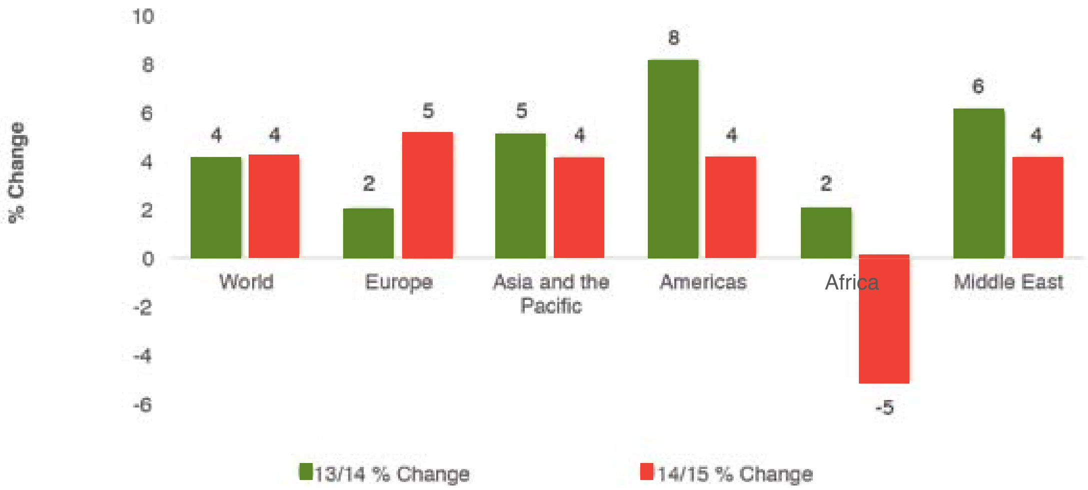
Source: UNWTO, 2015

INTERNATIONAL TOURISM IN 2014:

- The Americas recorded the strongest growth with an 8% increase in international arrivals, followed by Asia and then the Pacific and the Middle East (both +5%). In Europe, arrivals grew by 3%, while in Africa they were up by 2%.
- International tourism receipts reached US$ 1245 billion worldwide in 2014, up from US$ 1197 billion in 2013, corresponding to an increase of 3.7% in real terms.
- France, the United States, Spain and China continued to top the rankings by both international arrivals and receipts. Mexico re-entered the top 10 by arrivals at position 10. By receipts, China and the United Kingdom both moved up two places, to 3th and 7th positons respectively.
- China, the world's top tourism source market, continued its impressive pace of growth, increasing expenditure abroad by 27% in 2014 to reach a total of US$ 165 billion.

INTERNATIONAL TOURISM IN 2015

FIGURE 64: % CHANGE IN INTERNATIONAL TOURIST ARRIVALS



Source: UNWTO, 2015

Globally, international tourist arrivals increased by 4.3% in the first eight months of 2015, fueled by robust results achieved in Europe. International tourists (overnight visitors) who travelled the world between January and August 2015 reached 810 million, 33 million more than recorded during the same period of 2014.

Regionally, Europe (the world's most visited regional destination) reflected a significant 5% increase in international tourist arrivals, recording the highest growth rate across all regions besides being a notable result for a rather developed region. Asia and the Pacific, the Americas, and the Middle East all respectively enjoyed a 4% increase in international arrivals, while the limited data available for Africa points to an estimated 5% decrease in arrivals.

The euro zone continued to benefit from a weaker currency and a sustained economic recovery. Central and Eastern Europe (+7%) rebounded from the previous year's decline. Northern Europe (+6%), Southern Mediterranean Europe (+5%), and Western Europe (+4%) all reflected solid results for sub-regions which have many mature destinations.

Oceania (+7%) led growth in Asia and the Pacific region, followed by South-East Asia (+6%), with Thailand showing a strong rebound after weaker results in the previous year. Arrivals grew by 4% in South Asia and by 3% in North-East Asia, with Japan continuing to show remarkable growth.

The depreciation of the US dollar has stimulated outbound travel from the United States, whilst simultaneously making travel to the country more expensive. The Caribbean and Central America (both +7%) saw the highest growth in the region, largely driven by the US and European markets.

Though demand has been positive overall, tourism flows have been largely determined by the comparatively strong currency fluctuations. A number of destinations have benefited from more favourable exchange rates, while others have become more expensive, but at the same time these experienced an increase in purchasing power abroad.

GLOBAL LONG-TERM OUTLOOK:

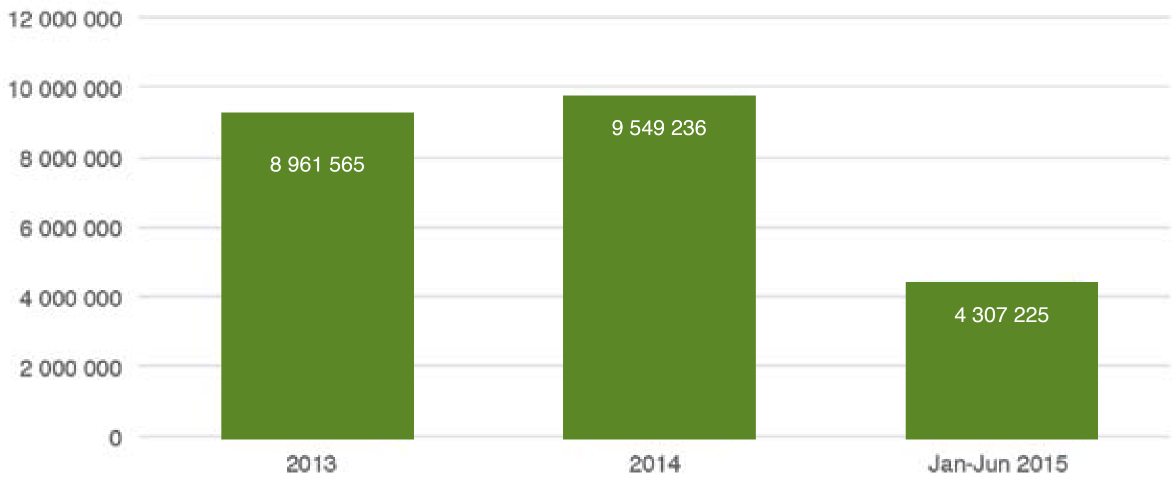
- According to UNWTO's long-term forecast **"Tourism Towards 2030",** international tourist arrivals worldwide are expected to increase by 3.3% a year between 2010 and 2030 to reach 1.8 billion by 2030.
- Between 2010 and 2030, arrivals in emerging destinations (+4.4% a year) are expected to increase at twice the rate of those in advanced economies (+2.2% a year).
- The market share of emerging economies increased from 30% in 1980 to 45% in 2014, and this is anticipated to reach 57% by 2030, equating to over 1 billion international tourist arrivals.

NATIONAL TOURISM ENVIRONMENT

Performance:

According to South African Tourism (SAT) and Statistics South Africa (StatsSA), StatsSA made changes to the release of its Tourism & Migration reports in 2014 and now no longer reports on transit arrivals. As a result of this change, the weighting methodology has been revised and tourist arrivals are now not comparable to reports prior to 2013. Despite methodology changes, South Africa recorded a total of 9.5 million tourist arrivals in 2014, which reflects growth of 6.6% year-on-year. This performance was above the global average, which saw a 4.7% increase in tourist arrivals.

FIGURE 65: TOURIST ARRIVALS TO SOUTH AFRICA



Source: SATourism, 2015, UNWTO, 2015

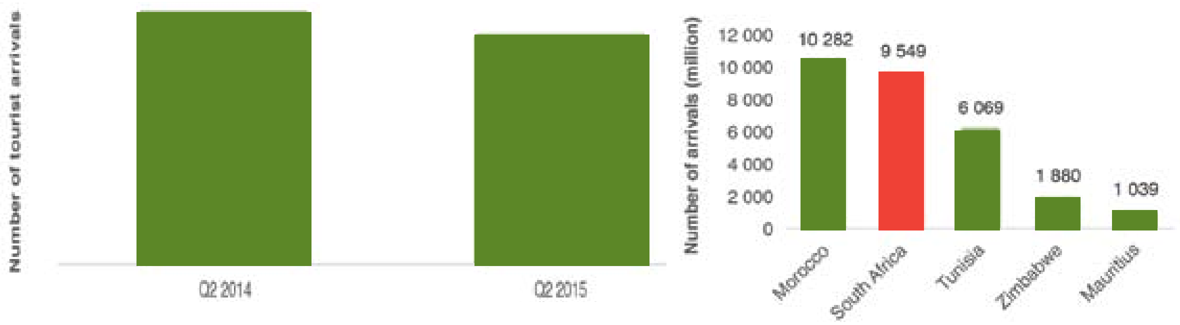
When compared to global competitor countries, South Africa ranked 33rd in terms of tourist arrivals in 2014, down from its previous ranking of 30th. In Africa, South Africa ranked as the second most visited country (after Morocco) in 2014.

Africa and the Middle East ranked equally as the strongest contributors to South Africa's tourist arrivals, recording 7.3 million tourists and growing by 8.1% year-on-year. Growth from the Africa land markets remained strong in 2014, reflecting an 8.8% increase, while the Africa air markets declined during the same period. A decline was evident in all air markets, with the exception of Angola (+17.6% growth) and Egypt (+5.7% growth).

Growth from the Americas (+0.3%) was driven by North America (+4.0%), while Central and South America declined by 16.4%. Asia & Australasia saw a 10.5% decrease in tourist arrivals due to declines from all key source markets.

Europe ranked as South Africa's second largest contributor to tourist arrivals and grew by 6.8% year-on-year. While the United Kingdom remains the largest contributor to volume, double digit growth rates were recorded for France (16.8%), the Netherlands (14.5%), Spain (13.0%), Poland (19.6%) and Hungary (18.7%).

FIGURE 66: TOURIST ARRIVALS TO SOUTH AFRICA AND TOP 5 AFRICA DESTINATIONS FOR INTERNATIONAL TOURIST ARRIVALS

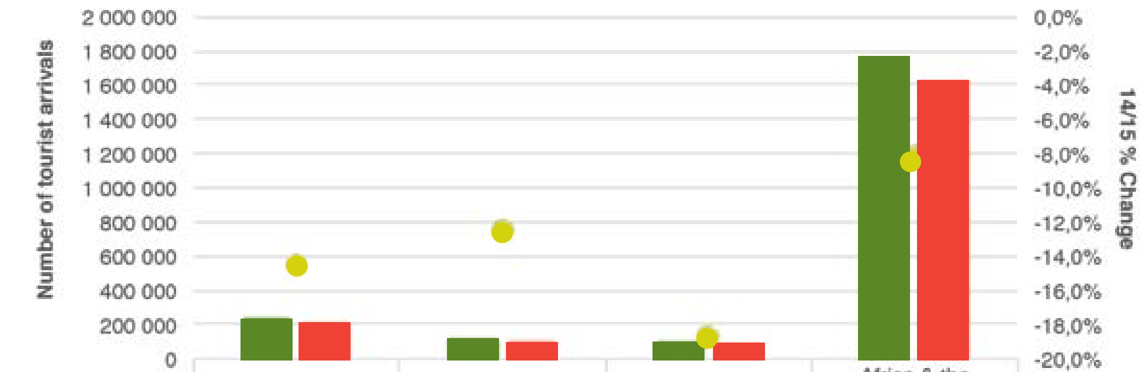


Source: SA Tourism, 2015

The second quarter of 2015 saw over 2 million tourist arrivals in South Africa, yet registering a year-on-year decline of 9.5% as compared to the same period in 2014. Negative growth was further recorded across all regions to South Africa, with the largest declines evident from Asia and Australasia (-18.6%) and Europe (-14.5%).

Against this, the total foreign direct spend (excluding capital expenditure) grew by an estimated 10.3% in Q2 2015, reaching a total of R15 billion. Increase in spend is largely attributed to increased bed nights spent by tourists in South Africa. Tourism revenue has also increased across all regions, with the exception of the Africa land markets which declined by 8.3%.

FIGURE 67: NUMBER OF TOURIST ARRIVALS TO SOUTH AFRICA BY REGION



	Europe	Americas	Asia & Australasia	Africa & the Middle East
Q2 2014	240 435	108 242	106 106	1 768 427
Q2 2015	205 669	94 778	86 322	1 624 904
14/15 % Change	-14,5%	-12,4%	-18,6%	-8,1%

Source: SATourism, 2015

The United States, the United Kingdom and Germany ranked as South Africa's top three international markets in Q2 2015. Five of the top ten international markets represented the European region and, while declines were registered across all countries, tourism revenue from the region increased by 12.5% to an estimated R3.1 billion in Q2 2015 as compared to the R2.8 billion captured in Q2 2014. The increase was driven by an upsurge in average length of stay and average spend per tourist.

Amongst the Africa markets, Zimbabwe, Lesotho and Mozambique remained South Africa's largest contributors to tourist arrivals. A declining trend was experienced across all Africa markets in the top ten ranking - apart from Botswana, which recorded a year-on-year increase of 2.7%.

TABLE 10: TOP 10 INTERNATIONAL SOURCE MARKETS TO SOUTH AFRICA

RANK	COUNTRY	TOURIST ARRIVALS		Q2 14/15 % GROWTH
		Q2 2014	Q2 2015	
1	USA	79,690	73,558	-7.7%
2	UK	78,384	68,617	-12.5%
3	Germany	42,358	32,483	-23.3%
4	India	27,369	22,799	-16.7%
5	France	23,949	22,710	-5.2%
6	Australia	26,783	22,547	-15.8%
7	Netherlands	18,778	17,176	-8.5%
8	China incl. Hong Kong	20,293	16,407	-19.1%
9	Canada	12,840	10,739	-16.4%
10	Italy	11,691	8,805	-24.7%
TOP 10 AFRICA MARKETS TO SOUTH AFRICA, Q2 2014/2015				
RANK	**COUNTRY**	**TOURIST ARRIVALS**		**Q2 14/15 % GROWTH**
		Q2 2014	**Q2 2015**	
1	Zimbabwe	518,789	448,772	-13.5%
2	Lesotho	352,768	343,264	-2.7%
3	Mozambique	307,295	280,370	-8.8%
4	Swaziland	228,926	211,168	-7.8%
5	Botswana	140,963	144,771	2.7%
6	Namibia	52,806	52,644	-0.3%
7	Zambia	43,007	39,010	-9.3%
8	Malawi	35,939	27,331	-24.0%
9	Nigeria	15,812	14,544	-8.0%
10	Angola	12,226	10,068	-17.7%

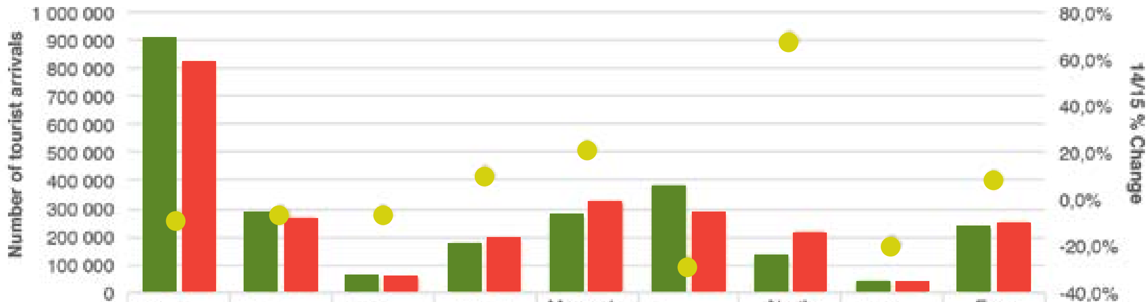
Source: SA Tourism, 2015

PROVINCIAL TOURISM ENVIRONMENT

Provincial Performance:

Gauteng (812,332), Mpumalanga (324,424), Limpopo (276,063) and the Western Cape (261,957) captured the largest share of tourist arrivals in South Africa and ranked as the most visited provinces in Q2 2015. Overall, tourists visited only one province (1.20) during Q2 2015. However, tourists from air markets tend to also travel within the country and visited more provinces (1.53 on average).

FIGURE 68: PROVINCIAL DISTRIBUTION OF TOURIST ARRIVALS TO SOUTH AFRICA



	Gauteng	W.Cape	E.Cape	KZN	Mpumalanga	Limpopo	North West	N.Cape	Free State
Q2 2014	893 006	280 595	57 901	171 475	267 234	383 035	126 936	40 085	229 376
Q2 2015	812 332	261 957	54 407	189 415	324 424	276 063	213 596	32 241	249 867
% Change	-9,0%	-6,6%	-6,0%	10,5%	21,4%	-27,9%	68,3%	-19,6%	8,9%

Source: SA Tourism, 2015

Gauteng and the Western Cape recorded the largest share of bed nights held in South Africa, reaching a combined total of 10 million in Q2 2015. Strong growth rates were recorded across most provinces, with the exception of Gauteng (-2.0%), Mpumalanga (-7.7%) and Limpopo (-5.6%).

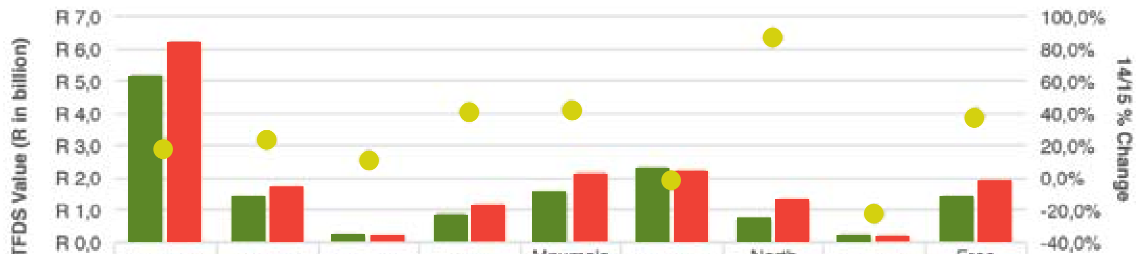
FIGURE 69: PROVINCIAL DISTRIBUTION OF BED NIGHTS HELD IN SOUTH AFFRICA

	Gauteng	W.Cape	E.Cape	KZN	Mpumalanga	Limpopo	North West	N.Cape	Free State
Q2 2014	6 373 939	3 523 361	558 064	1 586 657	2 187 647	1 025 401	649 805	215 230	2 174 296
Q2 2015	6 249 023	3 751 049	616 397	1 630 024	2 018 590	967 543	1 520 028	310 309	2 435 882
% Change	-2,0%	6,5%	10,5%	2,7%	-7,7%	-5,6%	133,9%	44,2%	12,0%

Source: SAT ourism, 2015

The largest tourism revenues in Q2 2015 were attained by Gauteng (R6.1 billion), Limpopo (R2.2 billion) and Mpumalanga (R2.1 billion). The strongest growth in Total Foreign Direct Spend (TFDS) was achieved in North West (86.7%), Mpumalanga (42.0%), KwaZulu-Natal (40.7%) and the Western Cape (22.6%).

FIGURE 70: ESTIMATED TOTAL FOREIGN DIRECT SPEND BY PROVINCE



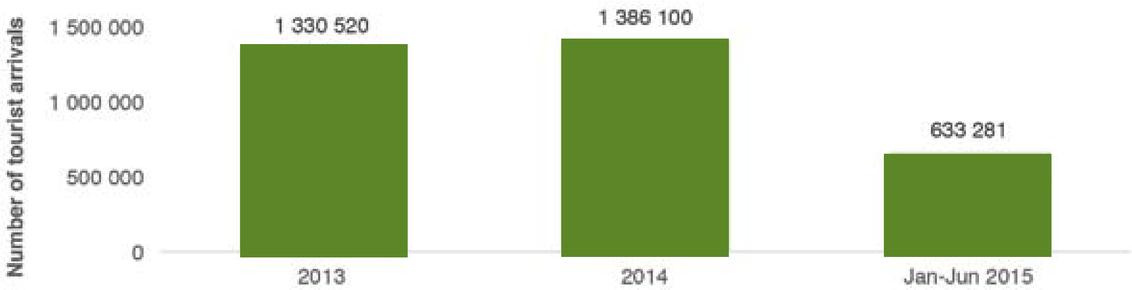
	Gauteng	W.Cape	E.Cape	KZN	Mpumalanga	Limpopo	North West	N.Cape	Free State
Q2 2014	R 5,1	R 1,4	R 0,2	R 0,9	R 1,5	R 2,3	R 0,7	R 0,2	R 1,4
Q2 2015	R 6,1	R 1,7	R 0,2	R 1,2	R 2,1	R 2,2	R 1,3	R 0,2	R 1,9
% Change	18,5%	22,6%	11,9%	40,7%	42,0%	-2,4%	86,7%	-22,0%	38,4%

Source: SA Tourism, 2015

WESTERN CAPE PERFORMANCE:

Despite StatsSA implementing methodological data changes in tourist arrivals (which excluded transit visitors from the year 2013), tourist arrivals in the Western Cape reached 1.4 million in 2014, hence achieving a year-on-year increase of 4%. Between January and June 2015 the province welcomed a total of 633,281 tourist arrivals for the period and already accounted for 46% of South Africa's tourist arrivals into the first six months of 2015, highlighting potential growth prospects for international tourist arrivals in the Western Cape.

FIGURE 71: TOURIST ARRIVALS TO THE WESTERN CAPE



Source: SA Tourism, 2015

During the second quarter of 2015, the Western Cape accounted for 13% of all South African tourist arrivals and received 11.3% of South Africa's tourist spend. In addition, the Western Cape held 19.5% of South Africa's bed nights recorded during the period. The Western Cape held the following share of tourist arrivals during Q2 2015:

- Western Cape's share of **Africa land** tourists visiting South Africa 2.8%
- Western Cape's share of **Africa air** tourists visiting South Africa 21.4%
- Western Cape's share of **Americas** tourists visiting South Africa 52.5%
- Western Cape's share of **Asia & Australasia** tourists visiting South Africa 47.0%
- Western Cape's share of **European** tourists visiting South Africa 58.7%

TABLE 11: TOURISM PERFORMANCE INDICATORS

	Q2 2015
Total tourist arrivals in the Western Cape in Q2 2014	280,595
Total tourist arrivals in the Western Cape in Q2 2015	261,957
Q2 2014/15 growth in tourist arrivals in the Western Cape	-6.6%
Western Cape's share of tourists visiting South Africa	13.0%
Western Cape's share of spend from tourists	11.3%
Western Cape's share of bed nights spent by tourists visiting South Africa	19.5%

Source: SATourism, 2015

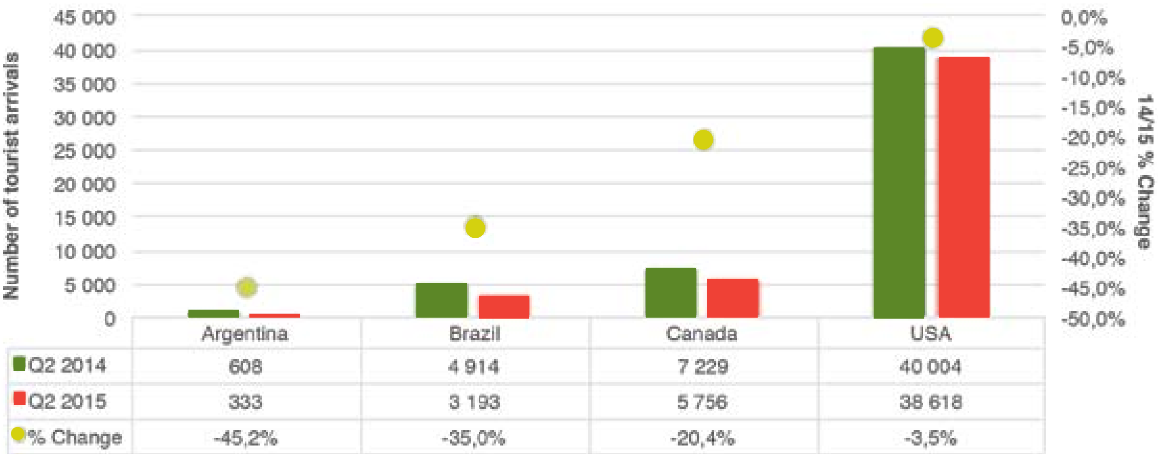
The Western Cape welcomed a total of 261,957 tourists during the second quarter of 2015. A year-on-year decline was experienced for the quarter, as well as across all global regions to the Western Cape. Despite the overall decline in tourist arrivals, Europe sustained a strong presence as the Western Cape's strongest international market and contributor to tourist arrivals.

FIGURE 72: TOURIST ARRIVALS TO THE WESTERN CAPE AND TOURIST ARRIVALS TO THE WESTERN CAPE BY REGION

Source: SA Tourism, 2015

The United States ranked as the Western Cape's most robust Americas market, driving tourist arrivals during Q2 of 2014 and 2015. Canada represented the second largest share of tourist arrivals from the region, followed by Brazil and Argentina.

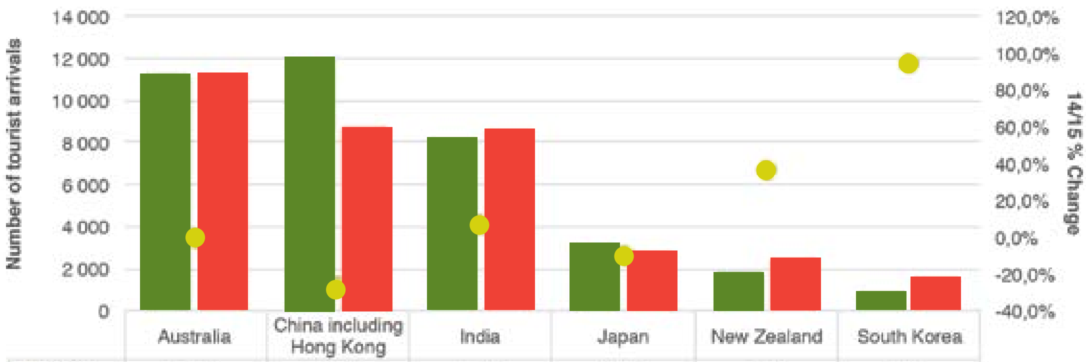
FIGURE 73: AMERICAS TOURIST ARRIVALS BY SOURCE MARKET



Source: SATourism, 2015

Australia ranked as the star-performing source market from the Asia & Australasia region, recording 11,071 tourist arrivals for the quarter, followed by China (incl. Hong Kong) and India as the second and third largest Asia markets for the Western Cape. While New Zealand and South Korea ranked as the smaller markets from the region, these two markets each recorded strong growth rates of 36.3% and 95.0% respectively. India followed with the third highest growth rate, increasing by 6.7% year-on-year.

FIGURE 74: ASIA AND AUSTRALIA TOURIST ARRIVALS BY SOURCE MARKET

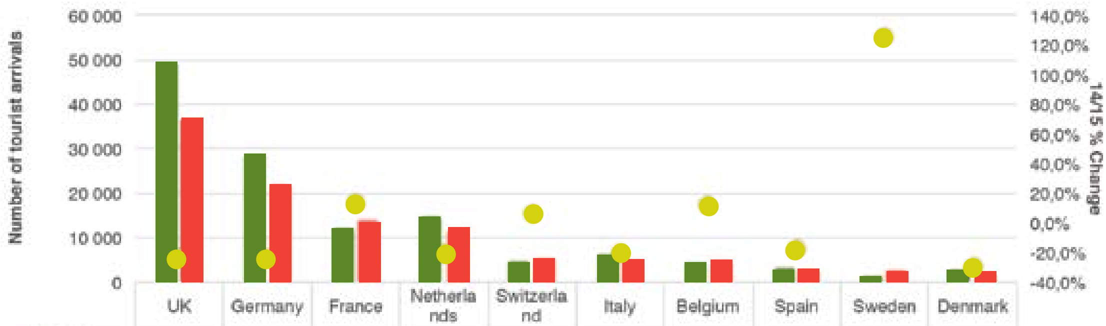


	Australia	China including Hong Kong	India	Japan	New Zealand	South Korea
Q2 2014	11 142	11 770	7 992	3 035	1 748	777
Q2 2015	11 071	8 581	8 527	2 728	2 382	1 515
% Change	-0,6%	-27,1%	6,7%	-10,1%	36,3%	95,0%

Source: SA Tourism, 2015

Europe ranked as the Western Cape's strongest contributor to international tourist arrivals, driven by tourists originating from the United Kingdom, Germany and France. While off a low base, Sweden recorded the highest growth in tourist arrivals, registering a significant 125.7% for the quarter. Additional markets which showed a positive growth rate included France (13.1%), Switzerland (5.5%) and Belgium (12.2%).

FIGURE 75: EUROPEAN TOURIST ARRIVALS BY SOURCE MARKET

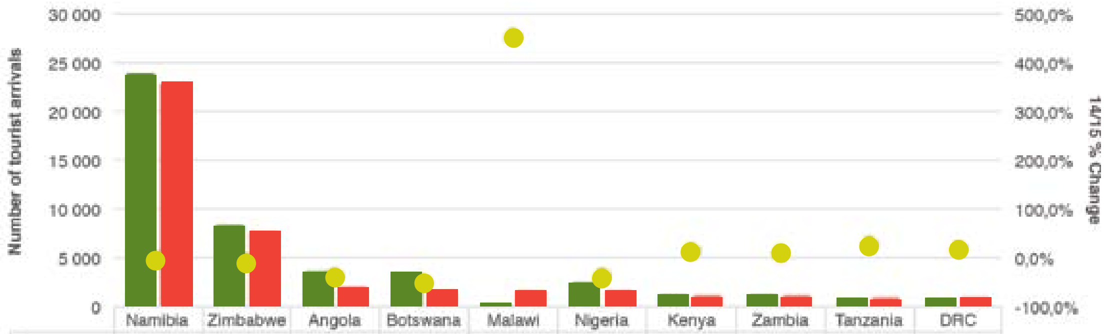


	UK	Germany	France	Netherlands	Switzerland	Italy	Belgium	Spain	Sweden	Denmark
Q2 2014	48 363	28 380	12 166	14 328	4 608	5 997	4 205	3 294	1 098	2 457
Q2 2015	36 779	21 764	13 762	11 319	4 859	4 781	4 716	2 731	2 478	1 728
% Change	-24,0%	-23,3%	13,1%	-21,0%	5,5%	-20,3%	12,2%	-17,1%	125,7%	-29,7%

Source: SA Tourism, 2015

During Q2 2015, Namibia (22,637), Zimbabwe (7,629) and Angola (2,084) ranked as the Western Cape's strongest Africa markets, with significant growth recorded for Malawi (451.4%), Kenya (13.5%), Zambia (9.6%), Tanzania (27.7%) and DRC (17.5%).

FIGURE 76: AFRICA AND THE MIDDLE EAST TOURIST ARRIVALS BY SOURCE MARKET



	Namibia	Zimbabwe	Angola	Botswana	Malawi	Nigeria	Kenya	Zambia	Tanzania	DRC
Q2 2014	23 816	8 301	3 436	3 383	288	2 403	1 018	1 032	766	742
Q2 2015	22 637	7 629	2 084	1 592	1 585	1 454	1 155	1 131	978	871
% Change	-4,9%	-8,1%	-39,3%	-52,9%	451,4%	-39,5%	13,5%	9,6%	27,7%	17,5%

Source: SA Tourism, 2015

The strong presence of the European tourist market is evident in the top ten ranking of international markets to the Western Cape. Five of these represented Europe, with positive growth rates achieved for France (13.1%) and Switzerland (5.5%). The United States maintained a strong presence in the Western Cape, ranking as the top international market for the province.

The Africa land markets dominated the top ten Africa markets to the Western Cape, positioned in the top five spots, with the exception of Angola (in 4th place), which ranked as the Western Cape's strongest Africa air market.

TABLE 12: TOP 10 INTERNATIONAL SOURCE MARKETS TO THE WESTERN CAPE

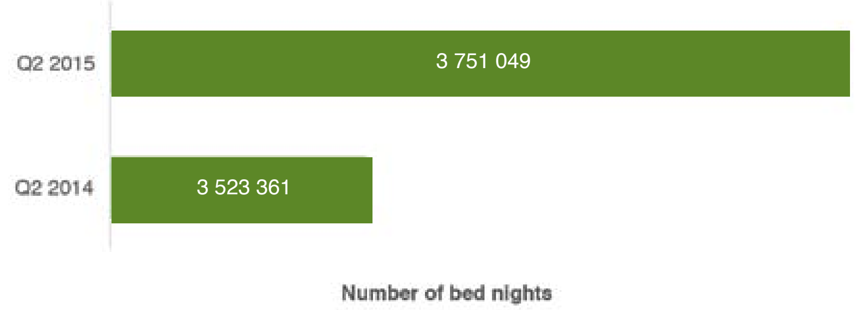
RANK	COUNTRY	TOURIST ARRIVALS Q2 2014	TOURIST ARRIVALS Q2 2015	Q2 14/15 % GROWTH
1	USA	40,004	38,618	-3.5%
2	UK	48,363	36,779	-24.0%
3	Germany	28,380	21,764	-23.3%
4	France	12,166	13,762	13.1%
5	Netherlands	14,328	11,319	-21.0%
6	Australia	11,142	11,071	-0.6%
7	China incl Hong Kong	11,770	8,581	-27.1%
8	India	7,992	8,527	6.7%
9	Canada	7,229	5,756	-20.4%
10	Switzerland	4,608	4,859	5.5%
TOP 10 AFRICA MARKETS TO THE WESTERN CAPE, Q2 2014/2015				
RANK	COUNTRY	TOURIST ARRIVALS Q2 2014	TOURIST ARRIVALS Q2 2015	Q2 14/15 % GROWTH
1	Namibia	23,816	22,637	-4.9%
2	Zimbabwe	8,301	7,629	-8.1%
3	Lesotho	-	6,522	-
4	Angola	3,436	2,084	-39.3%
5	Botswana	3,383	1,592	-52.9%
6	Malawi	288	1,585	451.4%
7	Nigeria	2,403	1,454	-39.5%
8	Swaziland	-	1,267	-
9	Kenya	1,018	1,155	13.5%
10	Zambia	1,032	1,131	9.6%

Source: SA Tourism, 2015

WESTERN CAPE VISITOR TRENDS AND PATTERNS:

Bed nights held in the Western Cape:

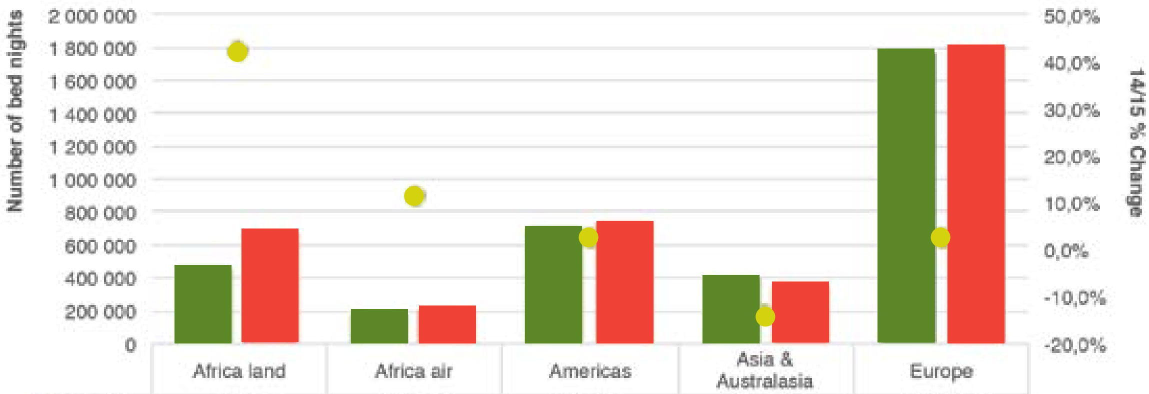
FIGURE 77: TOTAL BED NIGHTS HELD IN THE WESTERN CAPE



The Western Cape held 19.5% of South Africa's bed nights recorded in Q2 2015, remaining at a steady share as compared to the same period during 2014 (19.1%). The Western Cape recorded 3.8 million bed nights for the quarter, increasing by 227,688 bed nights over the previous year. The Western Cape not only held a strong share of bed nights for the quarter but, despite the period forming part of the off-peak season, reflected a year-on-year increase of 6.5% in Q2 2015.

With Europe ranking as the Western Cape's strongest contributor to tourist arrivals, it comes as no surprise that the region dominated in the number of bed nights held in Q2 2015. The Western Cape recorded 1.8 million bed nights from Europe, followed by the Americas (727,314) and the Africa land region (668,759).

FIGURE 78: TOTAL BED NIGHTS HELD IN THE WESTERN CAPE BY REGION

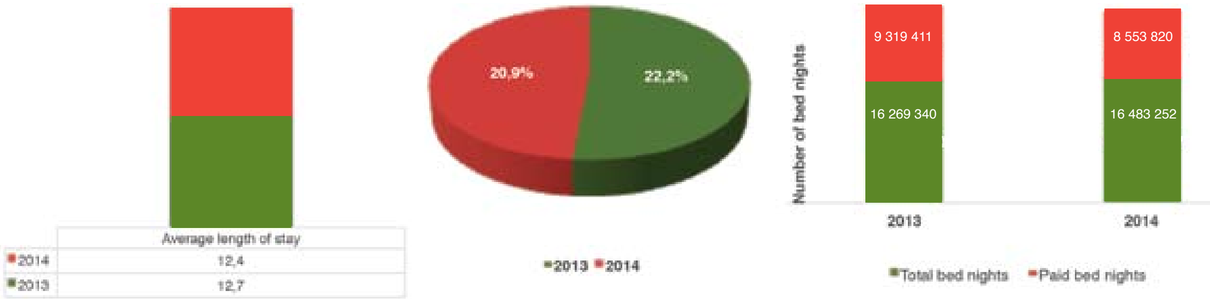


	Africa land	Africa air	Americas	Asia & Australasia	Europe
Q2 2014	469 488	181 272	709 106	406 180	1 757 315
Q2 2015	668 759	201 900	727 314	350 307	1 802 769
% Change	42,4%	11,4%	2,6%	-13,8%	2,6%

Source: SA Tourism, 2015

The Western Cape accounted for 20.9% of South Africa's bed nights in 2014, translating into a total of 16.5 million bed nights held in the province. This reflects a positive increase of 1.1% from the 16.3 million bed nights recorded in 2013. An average length of stay of 12.4 nights was recorded amongst tourists who visited the Western Cape during 2014.

FIGURE 79: AVERAGE LENGTH OF STAY IN THE WESTERN CAPE, 5 SHARE OF SOUTH AFRICA'S BED NIGHTS, TOTAL BED NIGHTS HELD IN THE WESTERN CAPE

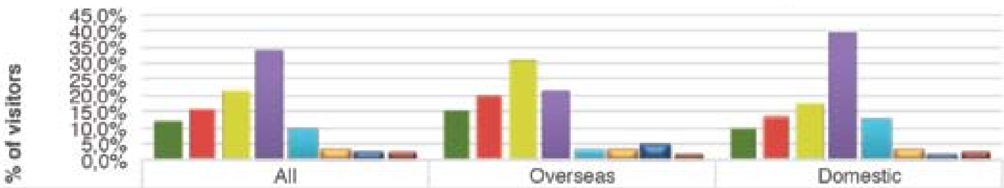


Source: SA Tourism, 2015

Of the total bed nights held in 2014, 51.9% represented paid bed nights in the Western Cape, accounting for 8.6 million of the total bed nights. This serves as an extremely important economic indicator for the province, indicating strong growth prospects for the accommodation sector with over 50% of bed nights paid for in the province.

The preponderance of overseas travellers (30.7%) preferred to overnight in B&B accommodation, followed by 21.0% that enjoyed utilising self-catering establishments and 19.4% that preferred guesthouses. Almost half of the respondents from the domestic market (39.3%) indicated a preference for self-catering accommodation (39.3%), followed by 17.3% who chose B&Bs and 12.8% who preferred guesthouses.

FIGURE 80: ACCOMMODATION USED BY VISITORS TO THE WESTERN CAPE

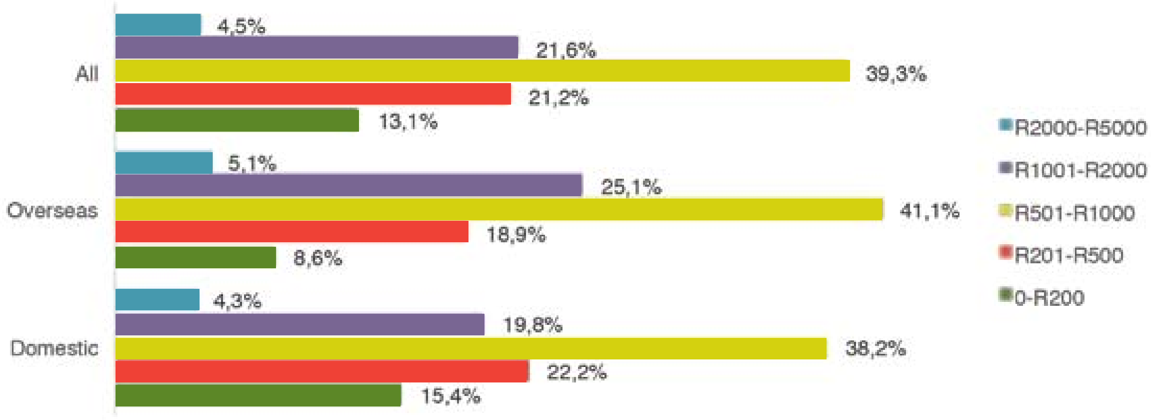


	All	Overseas	Domestic
Hotel	11,7%	15,0%	9,6%
Guesthouse	15,0%	19,4%	12,8%
B&B	21,2%	30,7%	17,3%
Self-Catering	33,3%	21,0%	39,3%
Friends & Relatives	9,5%	2,8%	12,6%
Camping/caravan	3,1%	3,0%	3,1%
Backpackers	2,5%	4,8%	1,6%
Second home/holiday house	2,0%	1,4%	2,2%

Source: Wesgro Tourism Primary Research, 2015

The overseas and domestic markets demonstrated a similar trend in their expenditure on accommodation, with the largest share from each market indicating an average range of R501-R1000 per night.

FIGURE 81: AVERAGE SPEND ON ACCOMMODATION IN THE WESTERN CAPE

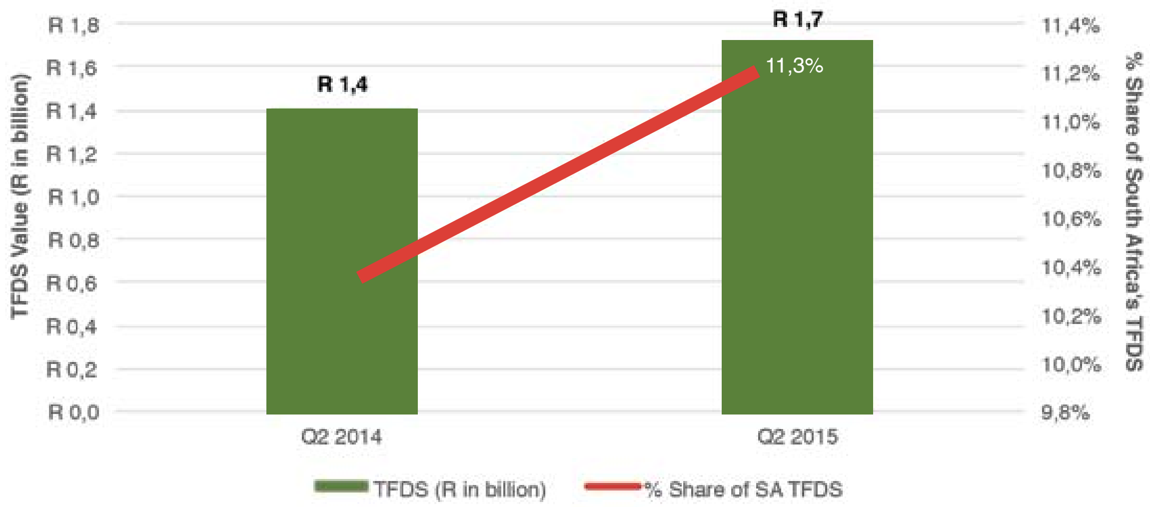


Source: Wesgro Tourism Primary Research, 2015

TOTAL FOREIGN DIRECT SPEND (TFDS) IN THE WESTERN CAPE:

The Western Cape captured 11.3% of South Africa's tourism revenue during the second quarter of 2015, reaching R1.7 billion in TFDS for the quarter. This represents an increase of a robust 22.6% as compared to the R1.4 billion recorded in Q2 2014. The solid increase in TFDS resulted in an R300 million increase in revenue for the province.

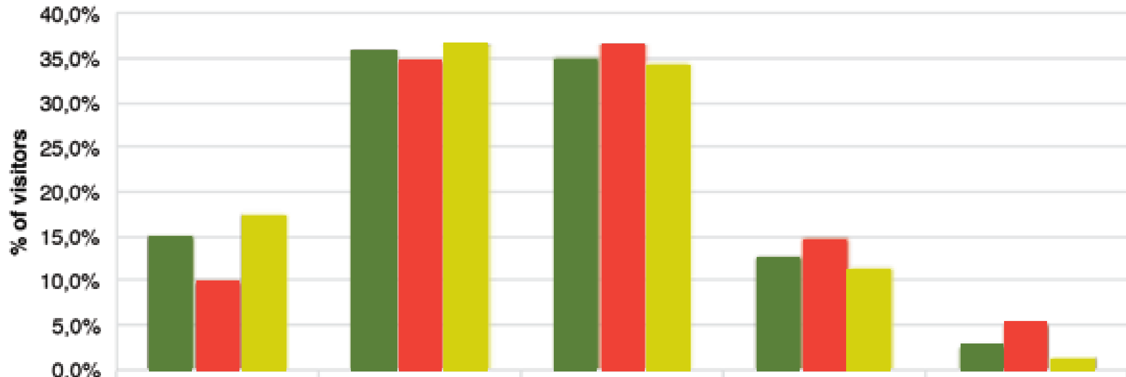
FIGURE 82: TOTAL FOREIGN DIRECT SPEND (TFD5) IN THE WESTERNCAPE



Source: SA Tourism, 2015

Between April and June 2015 the largest share of overseas (36.1%) and domestic (36.1%) markets to the Western Cape indicated an average daily expenditure range of R501-R1000 and R201-R500 respectively. The strong expenditure levels can largely be attributed to the increasing demand from visitors seeking new and unique experiences, and the popularity of the Western Cape's fine dining restaurants.

FIGURE 83: AVERAGE DAILY SPEND IN THE WESTERN CAPE



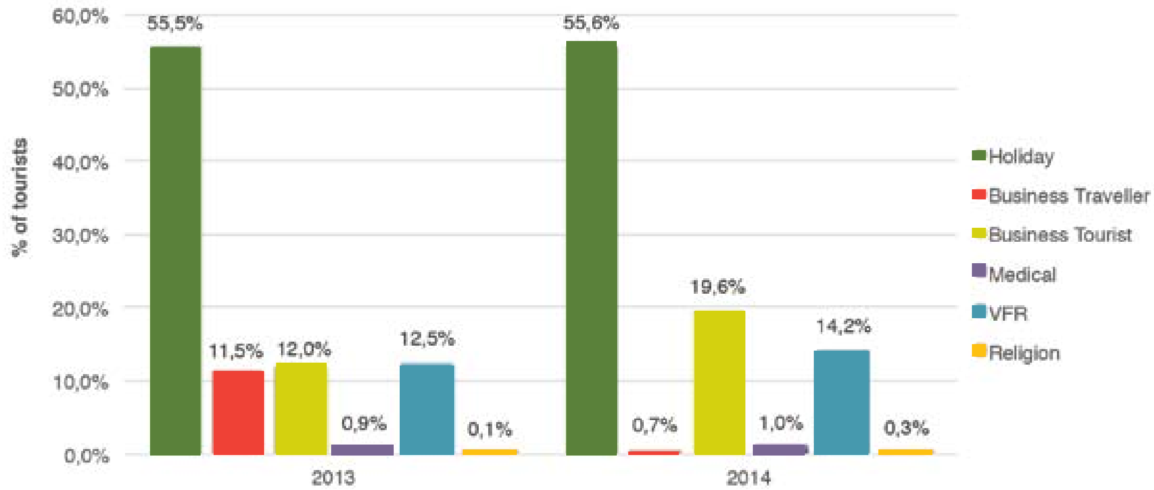
	0-R200	R201-R500	R501-R1000	R1001-R2000	More than R2000
All	14,8%	35,6%	34,6%	12,5%	2,5%
Overseas	9,9%	34,3%	36,1%	14,7%	5,0%
Domestic	17,2%	36,1%	34,0%	11,3%	1,4%

Source: Wesgro Tourism Primary Research, 2015

MAIN PURPOSE OF VISIT TO THE WESTERN CAPE:

Holiday ranked as the leading motivation for travel to the Western Cape, highlighting the prominence of the Western Cape as a popular leisure destination. When observing the year-on-year trend below, a clear shift can be seen across the years, with the share of business tourists surpassing the share of VFR tourists in 2014. This is interesting to note when taking a closer look at the year-on-year decreasing share in business travellers, compared to the solid increase of business tourists from 12.0% in 2013 to 19.6% in 2014. It points to a growing trend in combined business and leisure travel to the Western Cape.

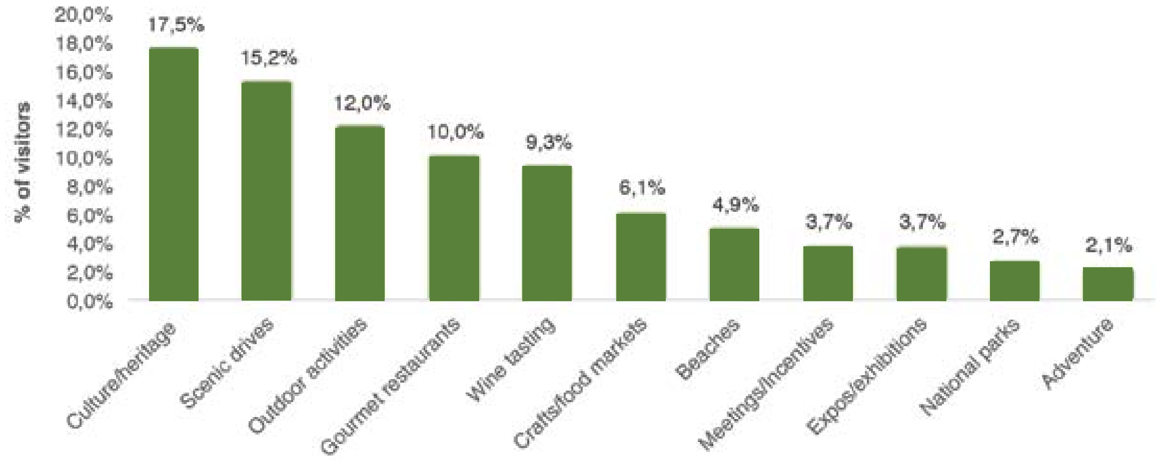
FIGURE 84: MAIN PURPOSE OF VISIT TO THE WESTERN CAPE



Source: SA Tourism, 2015

Culture/heritage (17.5%), scenic drives (15.2%), outdoor activities (12.0%), gourmet restaurants (10.0%) and wine tasting (9.3%) ranked as the top activities undertaken in the Western Cape between April and June 2015.

FIGURE 85: MAIN ACTIVITIES UNDERTAKEN BY VISITORS TO THE WESTERN CAPE



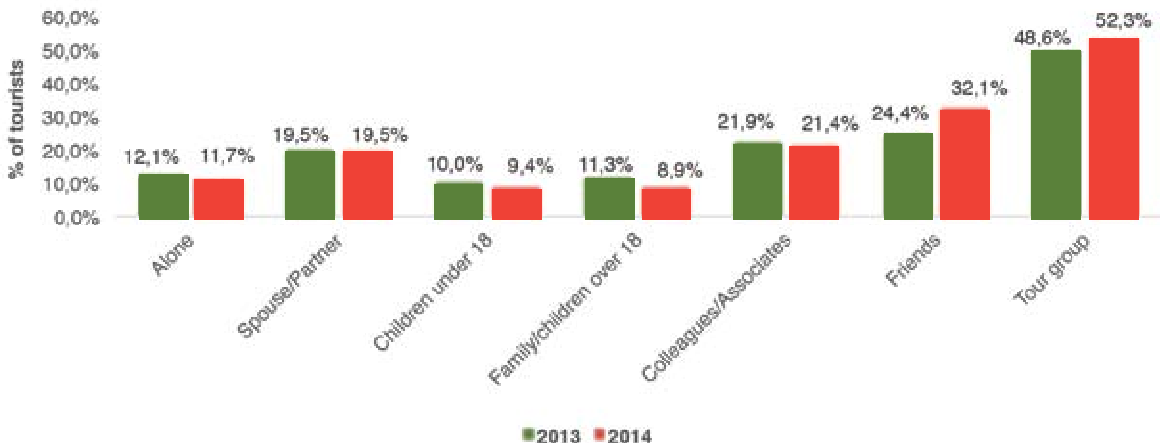
Source: Wesgro Tourism Primary Research, 2015

TRAVEL GROUPS TO THE WESTERN CAPE:

Travelling in tour groups represented the largest share of tourists in 2014, accounting for 52.3% of visitors and which has steadily increased from the 48.6% share in 2013. Travelling with friends (32.1%) ranked as the second most popular travel party, which has also increased as compared to the share of 24.4% recorded in 2013. 21.4% of tourists travelled with colleagues/associates, a trend which underscores the strong growth in the share of business tourists illustrated by the figure above.

Travelling with spouse/partners reflected a share of 19.5% and remained at a steady rate across the two years. Solo travellers represented 11.7% of tourist arrivals and families travelling with children under 18 (9.4%) and over 18 (8.9%) represented the smallest proportion of tourist groups to the Western Cape.

FIGURE 86: TRAVEL GROUPS TO THE WESTERN CAPE

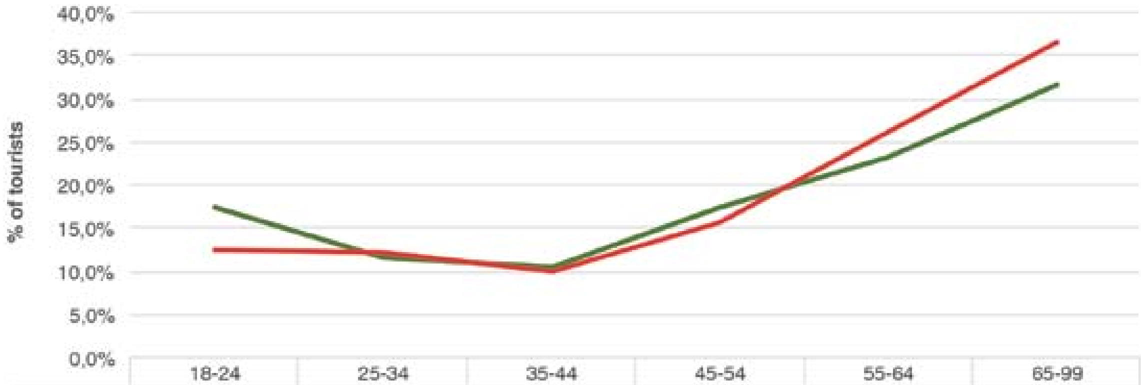


Source: SA Tourism, 2015

AGE PROFILE OF TOURISTS TO THE WESTERN CAPE:

The most prominent age group of tourists to the Western Cape ranged between 65-99 (36.6%) and 55-64 (26.1%) years. These age groups have also increased in the year-on-year share as compared to 2013. The age group 45-54 years followed, with a share of 15.7% tourists, and the younger age groups between 18-24 years and 25-34 years represented an average of 12% of travellers respectively.

FIGURE 87: AGE PROFILE OF TOURISTS TO THE WESTERN CAPE



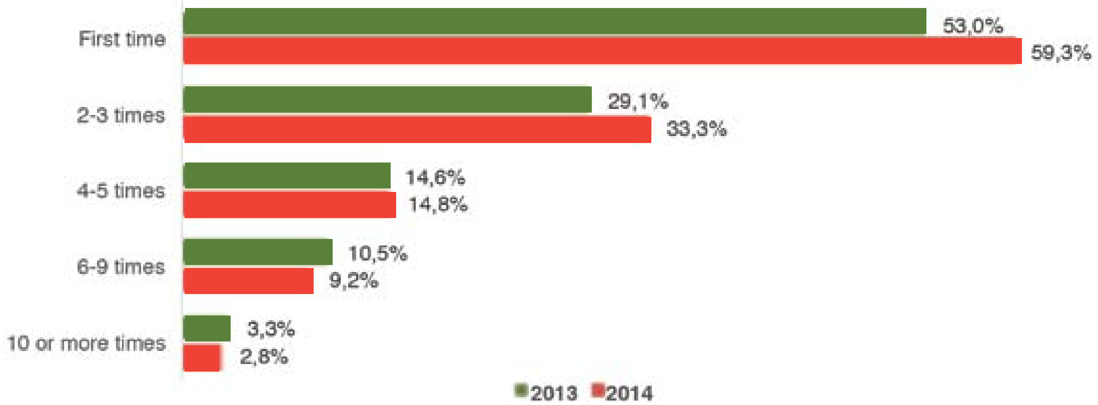
	18-24	25-34	35-44	45-54	55-64	65-99
2013	17,5%	11,7%	10,5%	17,5%	23,3%	31,7%
2014	12,5%	12,2%	10,0%	15,7%	26,1%	36,6%

Source: SA Tourism, 2015

REPEATER RATE TO THE WESTERN CAPE:

In 2014, 59.3% of travel was first time visits to the Western Cape, which had also increased from the share of first time visits recorded in 2013 (53.0%). This is an extremely important indicator for Western Cape marketers to monitor the influence and effectiveness of destination marketing efforts. An even more significant indicator to watch is the rate of return visits to a destination. From the findings indicated below, the Western Cape holds a solid share of return visits (2-3 times 33.3% and 4-5 times 14.8%). The share of tourists in these groups also respectively increased over those recorded in 2013, clearly showing the Western Cape as a preferred summer/leisure destination of choice.

FIGURE 88: REPEATER RATE OF TRAVEL TO THE WESTERN CAPE



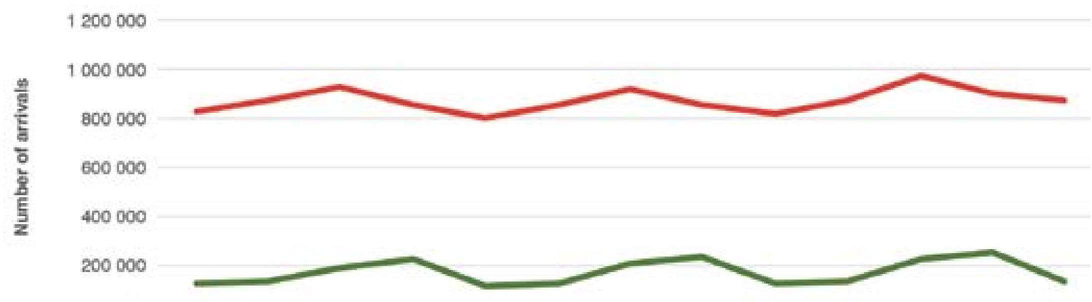
Source: SA Tourism, 2015

2. ACCESSIBILITY

PERFORMANCE OF WESTERN CAPE AIRPORTS:

Cape Town International Airport recorded 133,227 international arrivals (a 7.3% increase) and 872,649 domestic arrivals (a 7.2% increase) during April and June 2015. From the trend observed below, it is evident that the peak in international passengers are received during the summer months, whereas domestic arrivals are more dominant during the winter months (which is the off-peak season for the tourism industry).

FIGURE 89: ARRIVALS THROUGH CAPE TOWN INTERNATIONAL AIRPORT

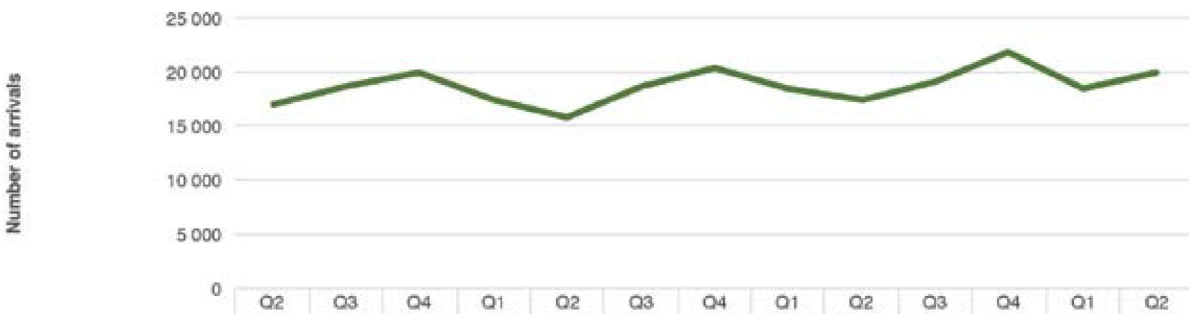


	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
International Arrivals	120 205	129 688	188 638	223 047	111 747	123 499	208 957	230 722	124 141	133 755	219 165	249 845	133 22
Domestic Arrivals	821 909	870 036	927 131	849 785	799 000	851 746	915 232	856 514	813 793	873 279	970 208	903 065	872 64

Source: ACSA, 2015

Regional arrivals through Cape Town International Airport reached a total of 19,839 , growing by 14.1% between April and June 2015. When observing the trend below it is evident there is drop in regional arrivals recorded during April and June every year.

FIGURE 90: REGIONAL ARRIVALS THROUGH THE CAPE TOWN INTERNATIONAL AIRPORT



	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Regional Arrivals	16 924	18 679	19 898	17 487	15 786	18 669	20 317	18 535	17 387	19 126	21 847	18 417	19 839

Source: ACSA, 2015

Regional arrivals are defined by the Government Gazette by the landing charge in respect of an aircraft which lands at a company airport that has been engaged in a flight where the airport of departure of that aircraft is Botswana, Lesotho, Namibia or Swaziland.

Arrivals through George Airport reached a total of 79,166, growing by 19.7% between April and June 2015. When observing the trend below it is evident there is slight drop in arrivals during April and June every year, but they peak during October and December every year.

FIGURE 91: ARRIVALS THROUGH THE GEORGE AIRPORT

Source: ACSA, 2015

3. ATTRACTIVENESS OF TOURISM OFFERINGS AND NICHE MARKETS

PERFORMANCE OF WESTERN CAPE ATTRACTIONS

The table below illustrates the regional attractions of the Western Cape. These incredible attractions welcomed both domestic and international visitors and serve as strong indicator of tourism demand for the Western Cape. Amongst Cape Town attractions there was a declining trend across all attractions; however, a positive 0.7% increase was recorded for Kirstenbosch Botanical Gardens. In the Cape Overberg all the attractions experienced positive growth, though a decline was experienced at Stony Point. The Cape Garden Route and Klein Karoo's attractions all recorded decline. Cape West Coast had positive double digit growth (13.6% at the West Coast National Park) and the Karoo National Park in the Cape Karoo also experienced double digit growth of 15.1%. Amongst all the regions in the Western Cape the Kogelberg Nature Reserve experienced the highest growth (39.7%) and Agulhas National Park (39.1%).

TABLE 13: TOTAL NUMBER OF VISITORS BY PARTICIPATING REGIONAL ATTRACTION

ATTRACTIONS	Apr-Jun 2014	Apr-Jun 2015	% Change
Cape Town			
Kirstenbosch Botanical Gardens	175,205	176,449	0.7%
Robben Island	64,341	58,526	-9.0%
V&A Waterfront Shopping Centre	5,225,453	5,073,436	-2.9%
Table Mountain National Park	548,573	446,702	-18.6%
Table Mountain National Park: Boulders	136,422	111,857	-4.5%
Table Mountain National Park: Cape of Good Hope	180,635	157,061	-13.1%
Table Mountain Aerial Cableway	202,493	175,220	-13.5%
Cape Overberg			
De Hoop Nature Reserve	3,008	973	-
De Mond Nature Reserve	989	1,384	-
Cape Agulhas Lighthouse	3,606	5,069	-
Agulhas National Park	4,239	5,897	39.1%
Bontebok National Park	2,456	3,216	30.9%
Harold Porter National Botanical Gardens	7,904	8,389	6.1%
Kogelberg Nature Reserve	741	1,035	39.7%
Stony Point	12,561	12,166	-3.1%
Cape Garden Route & Klein Karoo			

ATTRACTIONS	Apr-Jun 2014	Apr-Jun 2015	% Change
Cango Caves	49,280	38,791	-21.3%
Wilderness National Park	10,861	8,694	-20.0%
Tsitsikamma National Park	49,516	47,766	-3.5%
Cape West Coast			
West Coast National Park	29,545	33,571	13.6%
Cape Karoo			
Karoo National Park	7,475	8,604	15.1%

Source: Wesgro Tourism Primary Research, 2015

Of attractions most visited by tourists to South Africa in 2014 seven of the top ten were in the Western Cape, which included the V&A Waterfront, Cape Town central city, Table Mountain Aerial Cableway, Cape Point, the Cape Winelands, the Cape Garden Route & Klein Karoo and Robben Island. Additional Western Cape attractions included the Cape Town township tours, Cape Agulhas and the Karoo ostrich farms. The diversity of these top attractions confirms the enduring popularity of the Western Cape's city and regional tourism offerings.

TABLE 14: ATTRACTIONS OR LANDMARKS VISITED BY TOURISTS IN SA

Top 20 attractions or land marks	2013	2014
V&A Waterfront	828000	918000
Cape Town Central City	816000	774000
Table Mountain Cableway	663000	760000
Cape Point	723000	718000
The Winelands	609000	661000
The Garden Route	257000	324000
Robben Island	324000	291000
Durban beach front	227000	252000
Kruger Park via Skukuza, Numbi, Malelane, Crocodile Bride	200000	246000
Apartheid Museum	179000	227000
Sandton Square/Sandton City	42000	214000
Whale watching	134000	191000
Beaches Wild coast	145000	187000
Cape Town township tours	173000	166000
Lion and rhino Park	156000	164000
Blyde River Canyon God's Window	106000	156000
Tour of Soweto	142000	156000
Cape Agulhas	111000	147000
Elphant Coast Game Parks	107000	134000
The Karoo ostrich farms	94000	119000

Source: SATourism, 2015

WESTERN CAPE'S COMPETITIVE ADVANTAGE IN "WINE TOURISM"

South Africa is one of the oldest wine producing countries outside Europe; the first wine was pressed on 2 February 1659 from vine cuttings imported from France. Wine tourism is described as visitation to vineyards, wineries, wine festivals and wine shows. Winetasting and experiencing the features of a wine-producing region through meeting winemakers and touring the vineyards and wine cellars are the main motivations for visitors. Currently, wine tourism is recognised as an emergent area of special-interest tourism all over the world and is increasingly becoming an essential tourism market for many wine-producing regions.

Niche wine tourism has been growing due to wide-ranging interests in wine and also the support it receives from government officials, as they are aware of the wine's industry's potential to create economic opportunities in rural communities. South African wine tourism has emerged as a strong and growing special-interest aspect in tourism, representing an increasingly significant sector in regional and rural tourism. This is largely due to South Africa's longstanding track record for producing high-quality wine over several centuries, and the industry playing an essential role in translating the country's wine tourism market into one of best developed in the world (according to International Wine Review). Through its growth it is regarded as possibly the leading segment of the South African tourism industry and a significant contributor to the economy. (Bhakay, 2012 , Kirkman 2010 & Goodnews 2015)

According to Home and Away rentals (2006), the top five gastronomic break destinations in the world are France, Belgium, Florida, Portugal and Italy. However, tourist behaviour is changing over the years as they are requiring more than sun, sea and sand - they want to experience something new and take part in other activities, such as gastronomy tourism. Any individual can access and experience it any day, any time of the year and anywhere as they do not need to rely on any other factors in order to partake and enjoy.

The tourism sector is a major contributor to the Western Cape's economy, making the province South Africa's leading destination for international tourists, which is strongly led by the European market. Niche wine tours are a major product for international visitors, which has been identified not only as a tourism product, but also a basic attribute in the brand strategy of the local tourism industry. Since the establishment of South Africa's first wine route in the Stellenbosch area in 1971 and numerous other wine routes now operative in the province, wine tourism creates an unique experience and image for the Western Cape. The niche wine tourism market has become one of the major sources of revenue for the Western Cape, drawing many international tourists to experience the local wines and accompanying services.

The historic, cultured town of Stellenbosch and its surrounding vineyards is one of the most popular attractions for international tourists in the Western Cape. It has become even more desirable to travelers due to their being able to indulge in associated experiences such as taking in the beautiful scenery of the region, admiring Cape Dutch architecture, discovering a unique lifestyle and local culture, its rural setting and universities, golfing, arts and crafts. (Jiang, 2008)

The majority of wine tourists to the Western Cape originated from overseas markets (54.2%) and 43.3% were from the domestic market. However, there is an even spread amongst both markets travelling to the Western Cape specifically to go on wine tours. Germany and the United Kingdom were the top overseas markets to the Western Cape for wine tours, and internally the Western Cape and Gauteng were the top domestic markets. The majority of visitors on wine tours travelled in pairs (61.4%) and in fours (10.7%), which could either refer to couples or families. There were more overnight visitors then day visitors to the Western Cape for wine tours, preferring mostly to stay 1 to 2 nights; however, they also enjoyed staying for longer periods of time (7 nights and more). Self-catering accommodation was most the popular, followed by guesthouses (25.9%), B&Bs (21.3%) and hotels (13.9%). Surprisingly, word of mouth (26.7%) and internet/websites (32.1%) were the most favourable sources of information amongst such visitors.

Visitors to the Western Cape for wine tourism preferred to rent cars with a percentage share of 41.4% (likely mostly international market) and own motor vehicles 43.2% (likely domestic market). The main average daily spend of such visitors was between R501-R1000. (Wesgro: 2015)

WESTERN CAPE'S COMPETITIVE ADVANTAGE IN "GOURMET TOURISM"

According to Callanan M & Thomas S (2011) "food is one of the essential elements of the tourist experience". Gastronomy is becoming an important attribute in the development of niche travel; in fact many tourists' main interest in travelling is gastronomy. According to Kivela J & Jonh C (2006) gastronomy is often referred to exclusively as the art of cooking and good eating; however, they state that is only part of it. Someone that is seriously interested in gastronomy is often involved in tasting, preparing, experimenting, researching, discovering, understanding, experiencing and writing about food. The word 'gastronomy' is derived from the Greek, *gastro* meaning stomach and *gnomos* knowledge or law.

According to Poon: "Gastronomy is a new form of tourism." Recreational gastronomy tourists are generally the more conservative type - they appreciate and actively seek the familiarity of their home foods while on holidays. Diversionary gastronomy tourists are the kind that want to escape from the mundanity of their everyday life, including day-to-day shopping and preparing food for the family.

According to the International Culinary Tourism Association:

- Almost 100 per cent of tourists dine out when travelling, and each dining opportunity is a chance to get familiar with local food to which, if the restaurants satisfy them, they will return and pass it on (word of mouth)
- Dining is consistently one of the top three favourite tourist activities
- Gastronomy, art and wine tasting are the only art forms that affect all five human senses - sight, sound, smell, taste and touch - giving an unique experience
- There is a high positive correlation between tourists who are interested in gastronomy and those interested in museums, shows, shopping, etc.
- Interest in cuisine when travelling is not confined to any particular age, sex, or ethic group
- Unlike other niche products, gastronomy is available year-round, any time of the day and in any weather.

In Europe, the primary demand for food and wine travel represents 600 000 trips each year. The secondary demand is estimated at 20 million annual trips. According to tourism experts, the prospects are optimistic and the expected growth for this segment will be between 7% and 12% per year. In Portugal alone, the wine sector now represents circa 17 percent of the total output of the agricultural sector, reaching 900 million euros per year. In fact, food and wine tourism has seen a growing demand in recent years. Today, we witness an increasing number of travelers interested in culinary destinations, a trend that seems to consolidate year after year.
The values of society have changed and, today, products like wine and food are associated with leisure and relaxation, and not merely basic necessities. Food is now a cultural element, an experience similar to visiting a museum or going to a music concert. Food and wine helps to project an image of a country that is culturally rich and stimulating, with reasons for attracting ever more diversity. This can be seen as a strong element for capturing new markets and raising awareness of the innovation and quality incorporated into traditional products.

Besides helping to reduce the seasonality of tourism demand, it encourages community involvement in the design of the tourism product and allows the visitor to discover a country through new lenses. Thus food and wine tourism should be viewed as a business with great prospects for the country and possibly even a way out of the economic crisis. With the sale of regional products, food tourism helps small producers, creating jobs and generating wealth. This should be a reason for hotels and restaurants to focus on the use of domestic products, as these are already of great quality and diversity. (UNWTO Global Report on Food Tourism, 2015)

If you are looking for the best in food and wine to be savoured among the most breathtaking settings on earth, then South Africa is the country to visit as it is well-known for its superb food and wines. South Africa is in fact the perfect incentive destination, with outstanding cuisine paired with exquisite, award-winning wines.

A wide range of fabulous restaurants are to be found in the country's major cities. There are also homegrown cuisines from which to choose - for example, a good old-fashioned braai (barbeque) with all the trimmings, a Cape Malay curry to make your heart sing, an enormous platter of periperi prawns served up with a view of the ocean and a groaning table of Afrikaner specialties such as melktert. There are a number of township restaurants serving up chisa nyama, chakalaka and home-brewed beer. African restaurants are also popular, where music, art and traditional face painting is mixed with the hospitable atmosphere. Gourmet experiences might include eating with your feet in the sand or the water, with sharks swimming in the background, in caves, at the edge of a cliff overlooking the ocean, under starry skies deep in the bush or on a luxury yacht.

Many of the wine estates boast award-winning restaurants where you can taste world-class local cuisine, or book a picnic basket and enjoy feasting in the winelands as you watch the grapes grow. There are also other delectable items that tourists can indulge in, such as hand-crafted chocolate and smoked salmon trout, which is raised in mountain dams in the area. . South African cuisine is so much more than an old-fashioned braai and the local tourism market has a keen understanding that travelers are seeking an authentic gourmet experience. Over the past few years, places like Franschhoek (the culinary capital of SA) and the KwaZulu-Natal Midlands have become popular destinations thanks to a reputation for superb cuisine based on an abundance of local produce.

Lowveld fine dining is worth a self-drive food safari, with gourmet gems dotted along the popular R40 tourist route between Mbombela (Nelspruit) and Hazyview. The subtropical largesse of the Lowveld landscape is reflected in the abundance of local, seasonal produce and the size of the portions served. Lowveld fine dining prices are modest and the climate is ideal for outdoor meals

The majority of visitors for gastronomy tourism to the Western Cape originated from the overseas market (56.2%) and 42.2% were from the domestic market. Germany and the United Kingdom were the top overseas markets to the Western Cape for gastro tourism, whereas the Western Cape and Gauteng were the top domestic markets. The majority of visitors to gourmet restaurants in the Western Cape travel in pairs (likely couples) reflecting a 59.6% share and those travelling solo 13.8% (possibly business tourists).

The majority of visitors to gourmet restaurants belong predominantly to the age group 51-70, followed by the 36-50 and 21-35 age groups respectively. There were more overnight visitors (61.4%) than day visitors (36.8%) to the Western Cape for cuisine, whereby overnight visitors preferred to stay longer in accommodation establishments. Visitors to the Western Cape that went to gourmet restaurants preferred mostly to stay 1 to 2 nights; however, they also enjoyed staying for longer periods of time (7 nights and more). Self-catering accommodation was the most popular use of accommodation by visitors travelling to the province for gastronomy tourism, followed by guesthouses (24.5%), B&Bs (23.1%) and hotels (15.9%). Unsurprisingly, word of mouth (31.3%) and internet/websites (27.3%) were the most favourable sources of information amongst such visitors. Visitors to the Western Cape for gastro tourism prefer to rent cars with a percentage share of 44.0% (which is likely the international market) and own motor vehicles (36.7%), which could possibly be the domestic market.
(Wesgro: 2015)

WESTERN CAPE'S COMPETITIVE ADVANTAGE IN "CULTURE & HERITAGE TOURISM"

The country is scattered with historical battlefields from the Anglo-Zulu War and the South African (Anglo-Boer) War. Famous sites include Isandlwana in KwaZulu-Natal, Kimberley's Magersfontein and the concentration camp cemetery near Polokwane. Towns such as Mamre, Elim, Wupperthal and Ebenhaezer are some of the most historically interesting Mission Route sites in South Africa, where you are able to learn more about the influence of the missionaries who flocked to South Africa from all over Europe. Soweto's Heritage Trail is a powerful reminder of the events that characterised South Africa's liberation struggle, such as the student uprising on 16 June, 1976. It includes Hector Pieterson Square, dedicated to the first student to die in the student uprising. You can also visit numerous cultural villages and museums to learn more about how indigenous and colonial inhabitants lived and how the various languages, customs and traditions of South Africa are celebrated today. (SA Tourism, 2015)

One of the best ways to experience South Africa's diverse cultures is to attend a country festival. Take the Williston Winter Festival, held at the brink of spring each year. It's a friendly riot of dust-dancing by the local Namas and country singing by their white Afrikaans counterparts. The long tables groan with food dishes from both cultures and strangers are made more than welcome in their midst. It's quintessential South Africa, putting her best foot forward. The growth of cultural tourism as an economic force is undeniable. Tourists looking for unique and authentic experiences are increasingly interested in cultural sites and innovative arts programming, and travel to find these attractions.
(SA Tourism, 2015)

Culture, according to the White Paper on Arts, Culture and Heritage (South Africa, 1996a) by the Department of Arts, Culture, Science and Technology, is the dynamic totality of distinctive spiritual, material, intellectual and emotional features which characterise a society or social group. It includes the arts and letters, but also modes of life, the fundamental rights of the human being, value systems, traditions, heritage and beliefs developed over time and subject to change.

An earlier definition of cultural tourism described in the White Paper on Development and Promotion of Tourism (South Africa, 1996b: v) by the Department of Environmental Affairs and Tourism (DEAT) includes cultural aspects which are of interest to the visitor and may be marketed as such. These include customs and traditions of people, their heritage, history and way of life. The definition of cultural tourism in the 2006 White Paper on Tourism is expanded to include culture, heritage and the physical environment. It is described as that activity, which enables people to experience the different ways of life of other people, thereby gaining at first hand an understanding of their customs, traditions, the physical environment, the intellectual ideas and those places of architectural, historic, archaeological or other cultural significance which remain from earlier times.

The UNWTO (1985) defines cultural tourism from two different approaches. The narrow definition includes movement of persons essentially for cultural motivations such as study tours, travel to festivals and other cultural events, visits to sites and monuments, travel to study nature, folklore or art, and pilgrimages. The International Council on Monuments and Sites (ICOMOS) Article 3 of the Charter of 1976 defines cultural tourism as that form of tourism whose object is, among other aims, the discovery of monuments and site. It exerts upon these a very positive effect insofar as it contributes – to satisfy its own ends - to their maintenance and protection. This form of tourism in fact justifies the efforts which maintenance and preservation demand due to the social, cultural and economic benefits that they bestow on all the populations concerned (Ivanovic, 2008).

Some cultural tourism categories have been outlined as:
- heritage tourism,
- arts tourism,
- urban cultural tourism,
- rural cultural tourism,
- indigenous cultural tourism, and
- contemporary (popular) cultural tourism

The majority of visitors for cultural tourism to the Western Cape originated from the overseas market (54.6%) and 43.8% were from the domestic market. Germany and the United Kingdom were the top overseas markets to the Western Cape for cultural tourism, whereas the Western Cape and Gauteng were the top domestic. The majority of visitors for cultural tourism travelled in pairs with a 59.9% share and those travelling alone 15.3%, which could respectively be couples and business tourists. The majority of these visitors belong predominately to the 51-70 age group, followed by the 36-50 and 21-35 age groups.

There were more overnight visitors (60.5%) then day visitors (39.5%) to the Western Cape for cultural tourism, and overnight visitors preferred to stay longer in accommodation establishments. B&Bs were the most popular use of accommodation by visitors travelling to the province for cultural tourism, followed by guesthouses (25.1%), self-catering (23.3%) and hotels (14.2%). The main sources of information about cultural tourism were word of mouth (31.9%) and internet/websites (24.1%). Visitors to the Western Cape for cultural tourism prefer to rent cars with a percentage share of (36.3%), presumably from the international market, and own motor vehicles (37.4%), presumably from the domestic market. Between R501-R1000 and R201-R500 was the main average daily spend of visitors travelling to the Western Cape for cultural tourism. (Wesgro Primary Research: 2015)

WESTERN CAPE'S COMPETITIVE ADVANTAGE IN "BUSINESS TOURISM"

Business tourism can be described as a trip undertaken with the purpose of attending a conference, meeting, exhibition, an event or as part of an incentive. This sector is also commonly referred to as the Meetings, Incentives, Conferences and Exhibitions (MICE) sector. Business travel is the most diverse and fragmented sector and has been divided into fifteen different categories of travel, including individual general business trips, training courses, product launches, and corporate hospitality and incentive travel.

With demand showing steady signs of growth, facilities for meetings and events have responded. Global expansion has occurred in many regions, particularly in hotel stock and major new convention centres - including Krakow in Poland and Nigeria's first dedicated International Convention Centre, the Calabar. These expansions have been matched by the development of a number of new Convention Bureaus, from Hangzhou in China to Spain's Costa Brava.

The developing economies, in particular China and the Middle East, reflected the most significant growth with respect to boosting demand for corporate events. The incentive travel sector has also seen a resurgence in 2014, with convincing evidence of growth in demand, rising budgets and the use of a greater variety of destinations for the hosting of such events. Greater levels of confidence have also been noted amongst planners of international associations' conferences, with signs of increasing budgets and attendance. Cities in Europe and Asia are particularly successful at winning these events. However, Australasia and the Middle East have increasingly been asserting themselves as host destinations for international association conferences.

In the context of corporate events in particular, the MICE industry's fortunes is largely dependent upon the performance of a number of key sectors in the economy. The volume of meetings, product launches, incentive trips and training sessions generally reflects the level of economic activity, innovation and profitability of these market segments. The Information and Communications Technology, Automotive, Pharmaceutical and Construction industries create considerable demand for business events of all types and the following trends reflect their individual performance over the past year.

According to the global association conference's insights, provided by the Marketing Challenges International's survey report: ''Trends in International Association Meetings from North America'', more than 40% of North American executives surveyed saw increased budgets and higher attendance compared to the previous two years. 91% of planners expect those budgets to increase or remain the same for their upcoming events. Europe dominated as the primary host destination for international meetings, though Asia has also made a strong showing in recent years and the Middle East appeared to be firmly on the radar for future meetings.

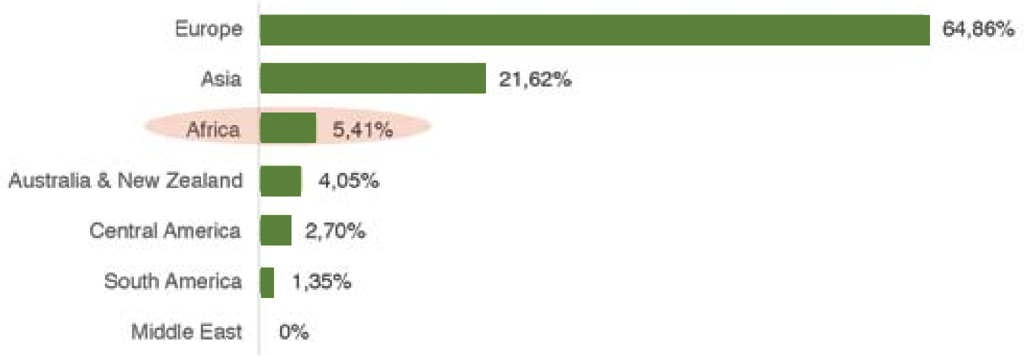
Marketing Challenges International further state that a significant percentage of association planners expressed willingness to repeat locations for their largest international events. Location and cost have proven to be the driving factors for site selection, though association planners showed less concern for destination reputation, suggesting that emerging destinations have a role to play in association meetings and events.

During the research and planning stages, the largest share of event planners surveyed (83%) utilised convention bureaus and tourist boards as a crucial resource. Additional resources used by planners included site visits (74%), marketing materials (52%), impartial advice (51%), venue finding services (45%) and bid support (45%).

When observing international trends in site selection, Europe remains dominant in hosting international meetings, with 65% of surveyed planners hosting their last international meeting there and three-quarters of those respondents specifying Western Europe as the selected region. Asia also ranked as a popular host destination among association planners, with 22% of respondents who hosted their last international meeting in the region. Amongst the respondents 36% selected China, 21% Japan and 29% selected Southeast Asia, with a number of planners specifically identifying Malaysia as the location of their last event.

According to the 2014 International Congress and Convention Association (ICCA) country and city rankings, it is evident that Europe is dominant in the worldwide ranking for the number of meetings per country. Six of the top ten rankings represented the European region, with Germany positioned in second place with 659 meetings recorded in 2014. Following Germany, Spain (578), the United Kingdom (543) and France (533) each ranked amongst the top five countries globally. When taking a closer look at the number of meetings held per city, Paris held the number one position in the ICCA ranking, logging a total of 214 meetings in 2014. Following Paris, Vienna (202), Madrid (200), Berlin (193), and Barcelona (182) followed in the top four positions.

FIGURE 92: LOCATION OF LAST INTERNATIONAL MEETING



Source: EIBTM Trends Watch Report, 2015

Business Tourism Growth Opportunities for the Western Cape:

- In April 2015, **Tsoga Sun** announced it would be commencing construction of a 500-room hotel complex in Cape Town city centre. The ZAR680mn development is expected to be completed and ready to host the lucrative leisure and business tourism sectors in 2017.

- In addition, during April 2015, **Carlson Rezidor** further announced plans to open the first hotel in South Africa under its Radisson Red brand. The Tourism leisure and business sectors will be complemented by a 235-room hotel situated on the V&A Waterfront in Cape Town, due to open in late 2016.

- The Cape Town International Convention Centre (CTICC), renowned as a multi-purpose conference and exhibition centre and the hub of Cape Town's business and entertainment, hosted 535 events in 2013/14, which included:
  - 33 international conferences
  - 28 national conferences
  - 14 exhibitions
  - 17 trade fairs
  - 53 banquets
  - 40 special events
  - 350 other (meetings, events and film shoots)

- The CTICC generated R2.8bn for the city's GGP of which R853m was made up by induced tourism.

TABLE 15: TOP OVERSEAS AND DOMESTIC BUSINESS TRAVELLER MARKETS TO CAPE TOWN AND THE WESTERN CAPE

Western Cape	Cape Town
United Kingdom (22.1%)	United Kingdom (18.4%)
Germany (11.6%)	Australia (10.3%)
United States, France (6.8% each)	United States (9.2%)
Western Cape (75.0%)	Gauteng (47.9%)
Gauteng (13.9%)	Western Cape (27.4%)
Eastern Cape (3.7%)	Eastern Cape (12.8%)

TOP 5 ACTIVITIES UNDERTAKEN BY BUSINESS TRAVELLERS TO CAPE TOWN AND THE WESTERN CAPE, JAN 2014-JUN 2015	
Western Cape	**Cape Town**
Meetings/Incentives (31.3%)	Outdoor activities (21.9%)
Expos/Exhibitions (20.4%)	Gourmet restaurants (17.2%)
Gourmet restaurants (8.8%)	Culture/heritage (15.2%)
Outdoor activities (8.6%)	Beaches (10.3%)
Culture/heritage (8.0%)	Meetings/Incentives (9.5%)

Source: Wesgro Tourism Primary Research, 2015

4. REGIONAL VISITOR TRENDS

The table below illustrates the key trends and patterns of the six regions of the Western Cape. The regions all welcomed a positive percentage share of overseas and domestic visitors; however, Cape Town and the Cape Winelands experienced the highest percentage share of overseas visitors, while the Cape Karoo and Cape West Coast experienced the highest percentage share of domestic visitors. Top markets for all the regions were the United Kingdom and Germany and top domestic markets were Gauteng and the Western Cape. Holiday/leisure and business ranked as the top two reasons for travel to the Western Cape. Visitors to all the regions preferred to travel in either pairs or fours, though people to Cape Town and Cape Garden Route & Klein Karoo preferred to travel alone.

Visitors to the Cape Winelands and Cape West Coast preferred to travel in fours. Those visiting the Cape Karoo and Cape West Coast preferred to travel in threes and in the Cape Overberg preferred to travel in bigger groups of five and more. Own motor vehicle, rented car, shuttle service and tour buses ranked as the main mode of transport for visitors to the regions of the Western Cape. The main sources of information used to gather information on the various regions included word of mouth, internet/websites and TV/Radio.

Top accommodation used was self-catering, B&Bs and guesthouses; however, visitors to Cape Town also preferred to use hotels, visitors to the Cape West Coast preferred to use rented houses/apartments and visitors to the Cape Karoo stayed with friends and relatives. Visitors to Cape Town stated culture/heritage as their main activity, visitors to the Cape Winelands' top activity unsurprisingly was wine tasting; visitors to the Cape West Coast, Cape Overberg and Cape Garden Route enjoyed scenic drives and visitors to the Cape Karoo enjoyed culture/heritage.

TABLE 16: OVERVIEW OF REGIONAL VISITOR TRENDS AND PATTERNS

TOURISM INDICATOR	Cape Town	Cape Winelands	Cape West Coast	Cape Overberg	Cape Garden Route & Klein Karoo	Cape Karoo
% Share overseas	59.0%	47.0%	14.6%	36.1%	26.5%	6.1%
% Share domestic	41.0%	52.0%	83.6%	63.8%	73.5%	93.4%)
Top international Markets	Germany (19.3%)	Germany (22.6%)	Germany (29.9%)	United Kingdom (32.6%)	Germany (39.2%)	United Kingdom (23.1%)
	United Kingdom (11.3%)	United Kingdom (15.9%)	United Kingdom (24.7%)	Germany (21.2%)	United Kingdom (22.3%)	Belgium, New Zealand, Australia (15.4%)
	United States (9.3%)	France (8.8%)	Netherlands (9.2%)	United States (8.5%)	United States (6.6%)	Germany, United States, Belgium (7.7% each)
Top domestic markets	Gauteng (40.7%	Western Cape (78.4%)	Western Cape (61.6%)	Western Cape (86.2%)	Western Cape (76.4%)	Western Cape (57.5%)
	Western Cape (28.4%)	Gauteng (11.8%)	Gauteng (18.5%)	Gauteng (7.0%)	Gauteng (10.2%)	Gauteng (16.6%)
	KwaZulu-Natal (14.8%)	KwaZulu-Natal (3.7%)	KwaZulu-Natal (4.9%)	Eastern Cape (3.5%)	Eastern Cape (6.9%)	Free State (5.7%)
Main purpose of visit	Holiday/leisure (85.9%)	Holiday/leisure (98.5%)	Holiday/leisure (45.3%)	Holiday/leisure (96.5%)	Holiday/leisure (88.7%)	Holiday/leisure (94.8%)
	Business (11.7%)	Honeymoon/weddings (0.9%)	Business (28.3%)	Business (2.8%)	Business (7.8%)	VFR (2.9%)
	Education (1.3%)	Business (0.5%)	Honeymoon/weddings (12.1%)	VFR (0.2%)	VFR (1.9%)	Business (2.4%)
Most common travel group size	Pairs (52.4%)	Pairs (58.9%)	Fours (43.2%)	Pairs (47.4%)	Pairs (43.6%)	Pairs (43.9%)
	Alone (26.2%)	Fours (13.0%)	Threes (37.8%)	Five & More (18.7%)	Alone (36.1%)	Threes (14.6%)
Most common length of stay per town/ city	7 & more nights (31.6%)	1 night (43.2%)	1 night (61.7%)	1 night (35.6%)	1 night (40.2%)	1 night (63.3%)
	5-6 nights (16.7%)	2 nights (26.8%)	2 nights (38.3%)	2 nights (34.4%)	2 nights (21.8%)	2 nights (20.0%)
Most common mode of transport	Tour Bus (32.4%)	Rented car (40.5%)	Rented car (44.3%)	Rented car (37.3%)	Rented car (37.8%)	Own Motor Vehicle (6.3%)
	Shuttle Service (31.2%)	On foot (local residents) (3.6%)	Own Motor Vehicle (34.1%)	Tour Bus (4.1%)		Rented car (2.4%)
Top information sources	Word of mouth (38.3%)	VICs (49.4%)	Word of mouth (79.2%)	Internet/websites (21.7%)	Word of mouth (40.7%)	Word of mouth (76.7%)
	Internet/websites (28.0%)	Internet/websites (20.3%)	TV/Radio (10.1%)	Word of mouth (20.7%)	Internet/websites (20.4%)	TV/Radio, Books/ Magazines, Return Visit (5.3% each)
Average daily spend	R501-R1000 (47.0%)	R1001-R2000 (55.1%)	R1001-R2000 (87.4%)	R201-R500 (38.2%)	R501-R1000 (32.5%)	-
Type of accommodation	Guesthouses (37.5%)	Self-catering (43.3%)	Rented House/apartment (36.9%)	Self-Catering (36.2%)	Self-Catering (32.2%)	Friends/Relatives (85.7%)
	Hotel (27.2%)	B&B (23.9%)	B&B (15.4%)	B&B (30.7%)	Hotel (22.3%)	Guesthouses (14.3%)
Average daily spend on accommodation	-	R501-R1000 (51.4%)	R0-R200 (48.0%)	R501-R1000 (39.1%)	R501-R1000 (32.5%)	-
Top three activities undertaken	Culture/heritage (13.4%)	Wine tasting (40.9%)	Scenic drives (64.6%)	Scenic drives (28.1%)	Scenic drives (26.0%)	Culture/heritage (92.8%)
	Outdoor activities (14.3%)	Scenic drives (15.9%)	Culture/heritage (6.5%)	Gourmet restaurants (18.5%)	Outdoor activities (10.1%)	Scenic drives (3.6%)
	Gourmet restaurants (13.4%)	Gourmet restaurants (10.8%)	Gourmet restaurants (5.9%)	Culture/heritage (15.9%)	Culture/heritage, Gourmet restaurants, Wine tasting,(9.3% each)	Meetings/Incentives (2.4%)

Source: Wesgro Tourism Primary Research, 2015

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