

(Un)Employment Update

The recently released June 2008 Labour Force Survey enables us to update our understanding of employment trends. Consultants from the IMF helped Stats SA to improve its methodology, bring it in line with international practices and improve turn around times. Thus we now have the data available a mere two months after the survey, in contrast to six months later as in the past.

In spite of these improvements I remain wary of quarterly data (be they about economics, car sales or the labour market) simply because distortions gets exaggerated. Over the longer term these distortions tend to even out. I will continue to use longer time frames to determine trends.

The last BoE report on employment was in 2007 (reflecting the Sept 2006 numbers) and we pick up from there.

What has changed between Sept 2006 and June 2008 (21 months)?

	Sept 2006	June 2008	change
Number employed	12,5 mil	13,7 mil	9,6% (or 1,2 mil jobs)
Number in 15 – 65 age cohort	30 mil	30,7 mil	0,2% (or 0,7 mil jobs)
Absorption rate	41%	44,6%	3,6%
Unemployment rate	25,5%	23,1%	-2,4%
BoE forecast of employment by 2014	16,5 mil	15,5 mil	-6% (or 1 mil jobs)

So What?

- More than 1 million jobs were created in about two years on the back of strong economic growth.
- The changing demography of SA, which we have discussed often before, helped to slow down considerably the growth in the 15 –65 age cohort (the “working population”), resulting in a 3,6% improvement in the proportion of the working population that are actually working.
- These three changes (growth, more jobs, higher percentage working) have positive implications for poverty relief and social capital, but they exacerbate the inequality in society. Growth results in (most of) the rich improving their position at a quicker rate than the poor, and that exacerbates inequality.
- About 1,8 million jobs could be added to the labour market in the next six years to 2014. That will then take the total number of jobs to 15,5 million. That means a lot of new customers for the retail sector!
- This number is a million less than the 16,5 million jobs we forecast two years ago, simply because we then assumed a long term growth rate of 4,5% whilst we have now lowered the growth rate to 3,5% p.a. The 1% decline in economic growth is costing one million jobs.

The Longer View

Bill Emmot, editor of the Economist for 13 years, retired a few years ago and wrote about his own profession: “The journalist is constantly at risk of over-interpreting the short-term and under-rating the longer-term trends. ... What is needed is a longer view.” (my underlining).

It is a simple fact that the single news event quite often makes it impossible to see the trend. However, if one takes the longer term view, the trend becomes quite clear.

	Oct 1995	June 2008	Change
Number employed	9,5 mil	13,7 mil	+44% (or 4,2 mil jobs)
Number in 15 – 65 age cohort	24 mil	30,7 mil	+28% (6,7 mil people) ¹
Absorption rate	39%	44,6%	+5,6%
Size of the economy (GDP at year end) in constant 2000 prices	803 713 mil (end of 1995)	1 235 384 mil (end of 2007)	+53%

So What?

- The labour coefficient is a healthy 0,8 meaning that 1% growth in GDP results in 0,8% growth in the labour market. (Caution should be exercised with this relationship over the shorter term, like one quarter for example.)
- Research from various sources (Bhorat, Treasury Review of Local Govt) indicate that there has been a definite skills bias in jobs created in SA. This has been caused by mechanisation driven by technology, capital deepening and the need to improve productivity. One consequence is that jobs created require rising levels of skills and thus semi- and unskilled people are excluded from the labour market.²
- The only real solution is an improvement in the education system, particularly the FETs (Further Education and Training Colleges). This, however, takes time and will not alleviate the problem in the short term.
- The only short term solution is to expand the Public Works Scheme. We reported in last month’s Newsletter that this initiative has been quite successful and reached its target one year before deadline. With the experience gained, this initiative can now be expanded and upgraded and that will happen next year. However, do not be under the illusion that this is a permanent contribution to employment.

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¹ Of course not all people in that age group become work seekers (or to use the economist’s language, not all become “economically active”.) Some are students, some home makers, some are disabled, some simply do not want to work and a lucky few are trust fund babes.

² This runs 100% contrary to the Cosatu claim that only low-level jobs have been created e.g. casual workers in retail stores. Yes such jobs have been created, but the overall trend has been towards more skilled jobs.