

Developments in the Labour Market

- The increase in formal *private sector* employment registered in the 4th quarter of 2000 has unfortunately not been sustained. Private sector employment declined again in 1st Quarter 2001.
- The good news is that the *public sector* is continuing to reduce staff numbers. In public enterprises and general government (the traditional bureaucracies), employment numbers are declining.
- On an index of 100, general government has now shrunk from 105,8 in 1995 to 95 in the 1st quarter of 2001. Public enterprises shrunk staff numbers from 101,4 in 1994 to 71,8 at the end of March. These are substantial improvements.
- *Relatively, employment in the public sector is now declining faster than in the private sector.*

No pain; no gain

- The shrinking public sector is bad for employment and miserable for the individuals concerned -- but it is good for the overall economy. Funds are being released for capital projects without the need for additional government borrowing.
- For example, the Intergovernmental Fiscal Review (IFR), released this week, *reveals that the reductions in provincial employment numbers were sufficient to enable an increase in capital expenditure.*
- In the current fiscal year, capex spending by the provinces are already growing by 19%, while a further increase of 46% is budgeted for next year -- rendering a whopping 74% increase in provincial capex budgets over two years.

Wage dispute in the public sector

- These trends feed into the current wage dispute between Government and the public service unions. Government wants a retrenchment agreement for civil servants whilst the unions are opposed to it. An agreement was reached on increases, but not on retrenchments.
- *It seems to me Government's strategy is to further reduce employment in some areas of the public sector, in order to release funds for the employment of more people elsewhere -- such as the planned recruitment of 20 000 more police officers.*

Informal labour market to the rescue?

- The Labour Force Survey (LFS) released in Sept 2001 – the third of its kind - contains valuable information. If compared to the 1996 census data interesting trends emerge.
- In the 4,33 years between the census and the survey the population grew by 9% but employment (formal and informal) by 30% - from 9,1 mio to 11,9 mio people.
- The *number* of unemployed remained at between 4,2 and 4,6 million.
- *Thus it appears that there is a lot of small enterprise activity out there creating jobs.*

Productivity, unit labour cost and inflation

- After last year's record 6% productivity increase, a further increase of 5% was registered in the 1st quarter of 2001.
- Rising productivity and moderate wage settlements combined to suppress the growth in unit labour cost to 4,2% in the 1st quarter of 2001.
- This bodes well for inflation and should help to neutralise some of the inflationary consequences of the declining international value of the currency. (Maybe that is what the bond market is telling us!)

Sources: September 2001 Quarterly Bulletin, SA Reserve Bank;
Intergovernmental Fiscal Review; Labour Force Survey, Sept 2001; press reports.

First published on 12 October 2001 on the BoE Securities website.