Economic Commentary

21 October 2020

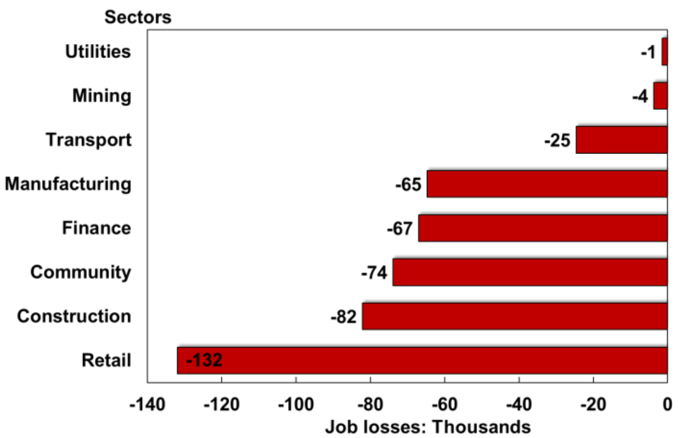
Making sense of SA's labour market

Economics | South Africa

Navigating the landmines while forecasting South African employment

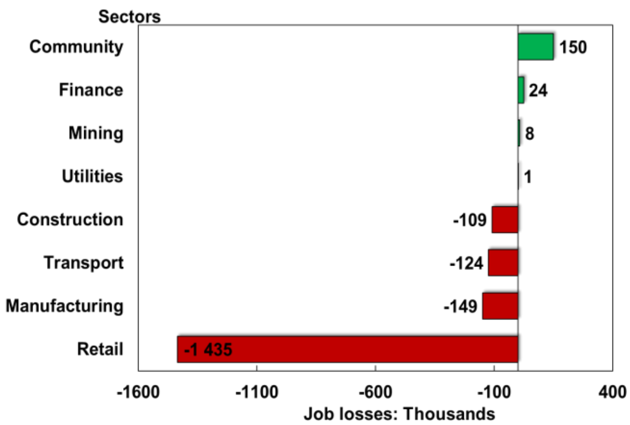
- Earlier this year we released a report (see *COVID-19: Labour implications* dated 30 April 2020) setting out our forecast for job losses in 2020. Our main takeaway at the time was that 1.6 million jobs were going to be shed this year and it would have taken over three years for jobs to reach their pre-crisis peak. Since then, more employment statistics have been released and our forecasts have changed to reflect this. **We now expect around 500 000 jobs to be shed this year and for jobs to reach their pre-crisis peak in the second half of 2023**.
- **The large difference between our current and initial forecast is the result of several factors**. First, **our employment model is largely based on our view of GDP growth** and because GDP declined significantly (-51% q-o-q saar) in the second quarter, this exaggerated the extent of job losses in our model. It should be noted that the relationship between a percentage drop in GDP and a percentage drop in employment was never one to one, but because of the outsized influence of GDP in our model, expected job losses were greater than actual job losses in the second quarter.
- Second, the **current labour environment is such that many employees maintained a 'job attachment' and were thus considered employed**. This could mean that an employee is temporarily absent from work because of the pandemic but gets paid partially or in full because the employer deems the impact of COVID-19 on their business as a very temporary supply disruption that will be reversed soon and so does not let go of staff permanently. The delineation between permanent job losses and temporary job losses is unclear and so influences forecasts.
- Third, there were many **anomalies in the official statistics** that added complexity to the forecasting process. For example, COVID-19 related data collection challenges were such that the latest (Q2) statistics from the Quarterly Labour Force Survey (QLFS) cannot be compared to previous quarters. Our initial forecast was based on the historical series and did not consider the current break in the series. The QLFS also reported that the unemployment rate in the second quarter dropped to its lowest level since the start of the QLFS, primarily because of a shrinkage in the labour force. Not only was this outcome unexpected, but it makes future forecasting very challenging. This is because insight into when households will return to the labour force in the coming months will be required to make accurate forecasts (for more detail see our report *Labour Force Survey* dated 29 September 2020) and this insight can only really be obtained by conducting a household survey.
- **Stats SA has two main employment surveys, the QLFS, which is a household survey and the Quarterly Employment Survey (QES), which is an enterprise survey**. From the QLFS you can calculate an unemployment rate, but the same cannot be done from the QES. The number of employed decreased by 13.6% (2.2 million jobs lost) according to the QLFS and by 6.4% q-o-q (648 000) according to the QES over the second quarter. **Our model outcome for job losses lies somewhere between these two surveys**.

Chart 1: Change in number of employees (current)



Source: NGEU calculations

Chart 2: Change in number of employees (previous)



Source: NGEU calculations

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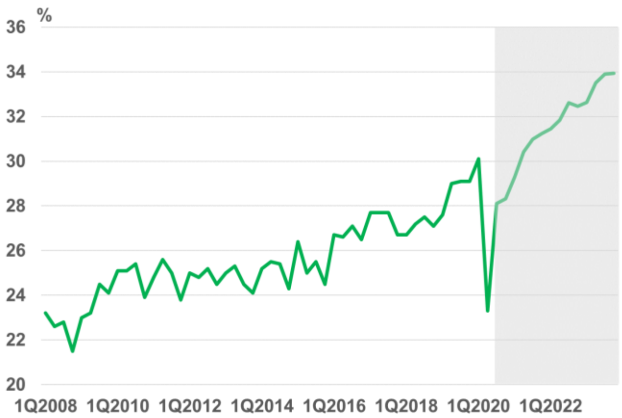
The sectoral trends between our initial and current job forecasts have changed significantly as can be seen in Charts 1 and 2 above. The retail sector accounts for most job losses in both the current and previous forecasts. The forecasts are primarily based on the historical QES series. Below are forecasts for unemployment and employment based on the QLFS. The QLFS forecasts show that the unemployment rate will tick up from the 23% recorded in the second quarter to 34% at the end of the 2023.

Chart 3: Unemployment rate forecast



Source: NGEU calculations

Chart 4: Number of employed (QLFS forecast)

Source: NGEU calculations

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