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Jobs market remained depressed in the second quarter of 2019

Highlights

- The headline rate of unemployment jumped to 29% from 27.6% in the first quarter of 2019, showing persistence above the long-term average of 25.3%.
- Formal non-agricultural sector employment shrunk by 49 000 in quarter-on-quarter (q/q) terms in the second quarter of 2019. However informal non-agricultural sector employment expanded by 114 000 q/q and 219 000 in year-on-year (y/y) terms.
- The private household sector led with the most job losses, 49 000 jobs q/q in the second quarter of 2019, while the trade sector added 84 000 jobs q/q.
- Long-term unemployment as a share of total unemployment expanded to 71.5% in the first quarter of 2019, which is the highest recorded figure since the start of the series in 2008.
- The North-West University's Policy Uncertainty Index (PUI) expanded to 53.4 in the first quarter of 2019 from 51.1 in the fourth quarter of 2018, citing a decrease in confidence, which is negative for investment and employment growth.
- Company insolvencies have tapered off from the highs reached in 2018. The slowdown in liquidations in June 2019 is positive, but the numbers are still high, not bearing much comfort for employment growth.
- In Momentum Investments' view, unemployment is likely to remain at elevated levels as the economy is unlikely to grow fast enough to absorb new entrants into the labour market fully. Subdued job creation is likely to keep a lid on growth in consumption spending in the coming quarters.

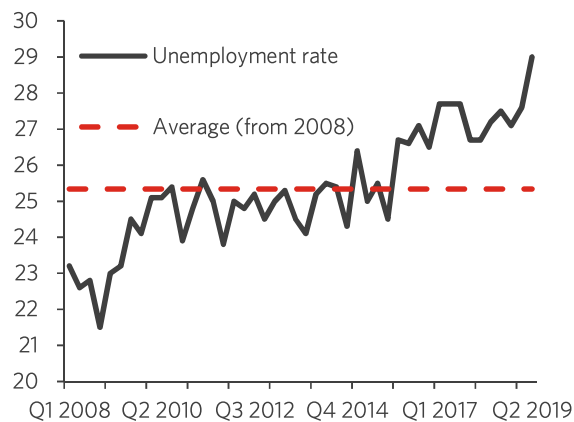
Record-high headline unemployment rate

Statistics South Africa (Stats SA) released its Quarterly Labour Force Survey (QLFS) data for the second quarter of 2019, showing a jump in the unemployment rate to 29% from 27.6% in the first quarter of 2019. The unemployment rate has persisted above the 25.3% long-term average (calculated from 2008) and is at a record high since the start of the series in 2008 (see chart 1). The expanded rate of unemployment (incorporating those who have given up looking for a job) rose from 38.0% in the first quarter of 2019 to 38.5% in the second quarter of 2019.

Formal non-agricultural sector employment shrunk by 49 000 in quarter-on-quarter (q/q) terms in the second quarter of 2019, however informal non-agricultural sector employment expanded by 114 000 q/q and 219 000 in year-on-year (y/y) terms. Permanent jobs declined by 77 000 q/q in the second quarter of 2019 but temporary jobs increased by 14 000 q/q. A rise in informal sector employment alongside a rise in temporary employment is traditionally a telltale sign of weakness in the economy as workers are willing to take up any form of employment and employers are actively cutting costs.

However, both permanent and temporary jobs declined by 25 000 y/y and 32 000 y/y respectively in the second quarter of 2019, indicating the employment market is deeply depressed.

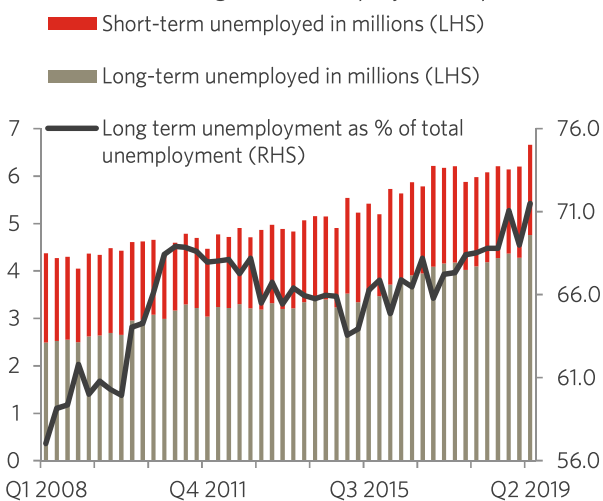
Chart 1: Unemployment rate shoots higher (%)



Source: Stats SA, Momentum Investments, data up to Q2 2019

Long-term unemployment increased by 48 000 q/q and short-term unemployment declined by 25 000 q/q in the second quarter of 2019. Long-term unemployment as a share of total unemployment expanded to 71.5% in the first quarter of 2019, which is the highest rate since the start of the series in 2008 (see chart 2).

Chart 2: Share of long-term unemployment up

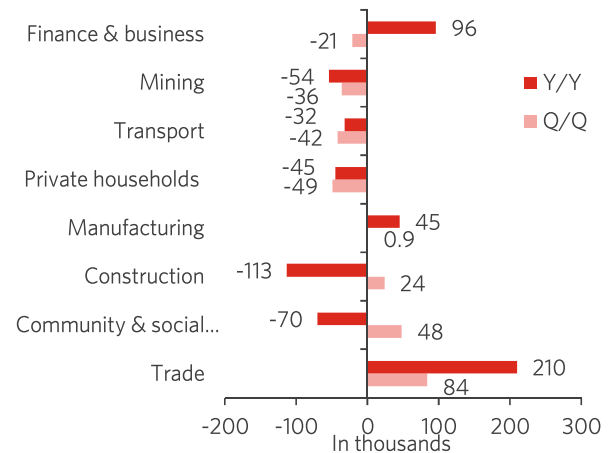


Source: Stats SA, Momentum Investments

The private household sector led with the most job losses, 49 000 jobs q/q in the second quarter of 2019

(see chart 3). The transport sector followed with 42 000 q/q job losses. Trade added 84 000 jobs q/q in the second quarter of 2019 and made a significant addition of 210 000 to total jobs y/y. Although the finance sector shed 21 000 jobs q/q, the sector added 96 000 jobs y/y. The construction sector added 24 000 q/q, but subtracted a significant 113 000 jobs y/y.

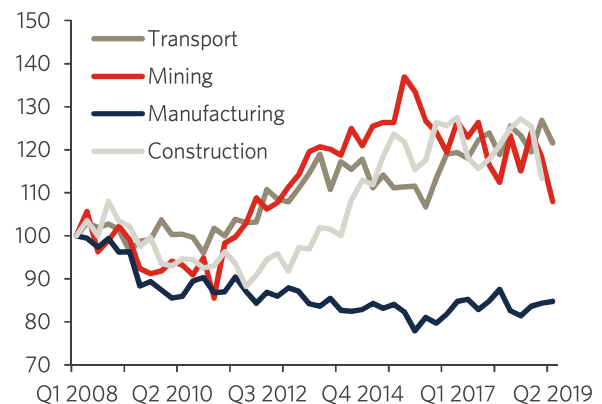
Chart 3: Trade a net contributor of jobs y/y and q/q



Source: Stats SA, Momentum Investments

The mining and construction sectors have shown a marked decline in the number of employed persons and employment in the transport sector recently rolled over from its upward trajectory of employment creation (see chart 4). The manufacturing sector has seen jobs grow at a structurally lower pace relative to other sectors (see chart 4).

Chart 4: Job shedding (index: Q1 2008 = 100)

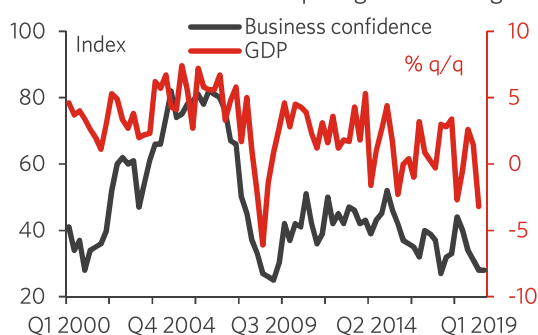


Source: Stats SA, Momentum Investments

The weak economic outlook signals sticky unemployment levels

Growth has disappointed serially (see chart 5). Growth in the first quarter of 2019 declined drastically by 3.2% q/q, which has driven the South African Reserve Bank (Sarb) and the market to revise their growth expectation downwards for 2019 and 2020. Weak demand suppressed by policy uncertainty continues to hold back investment, growth and employment.

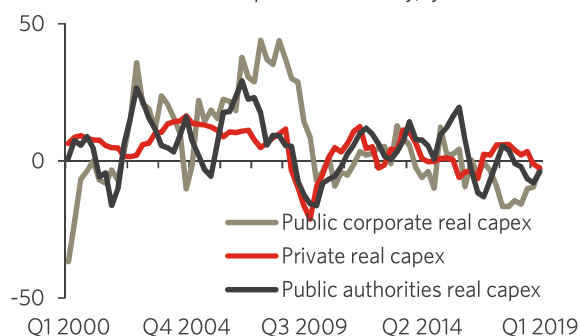
Chart 5: Weak confidence spilling into lower growth



Source: Stats SA, BER, Momentum Investments

Growth in investment can be a large employment growth contributor, but fixed investment growth has been muted since the 2008 financial crisis (see chart 6). The North-West University PUI expanded to 53.4 in the first quarter of 2019 from 51.1 in the fourth quarter of 2018, citing a decrease in confidence. Corporate spend on investment and hiring is likely to remain in a lull in the coming quarters as the pace of structural reform remains slow, hampering business sentiment.

Chart 6: Investment expenditure (% y/y)

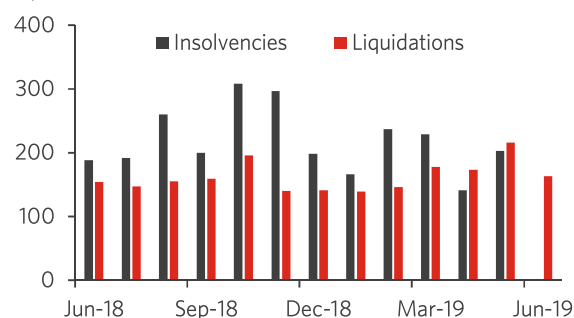


Source: Sarb, Momentum Investments

Company insolvencies have tapered off from the highs reached in 2018, but remained elevated at 203 in May 2019

(see chart 7). Liquidations have slowed from the 216 high in May 2019 to 163 in June 2019, but the number is still significant. This adds negatively to the gloomy employment picture.

Chart 7: Number of company insolvency and liquidations



Source: Stats SA, Momentum Investments

The National Minimum Wage Act (NMWA) came into effect on 1 January 2019 and the department of labour has reported that more than 360 employers have applied for exemption from the act, citing the inability to pay R20 per hour per worker. A significant 231 of these exemption applications have been granted and this paints the picture of significantly constrained employers facing rising input costs. The South African labour market has been labelled as relatively expensive with labour union intervention at the heart of this issue. The NMWA could lead to more job losses if more employers prove their inability to pay the hourly rate.

In Momentum Investments' view, unemployment is likely to remain at elevated levels as the economy is unlikely to grow fast enough to absorb new entrants into the labour market fully. Subdued job creation is likely to keep a lid on growth in consumption spending in the coming quarters.

Momentum Investments' well-diversified outcome-based solutions provide protection against South African economic weakness. It has appropriate exposure to local fixed income investments that benefit from the poor-performing economy and low inflation, and has meaningful global exposure unaffected by weak local growth conditions while gaining from the rand weakness likely associated with fragile local growth conditions.

