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## The Macro Research Desk

### Employment numbers disappoint in the first quarter of 2019

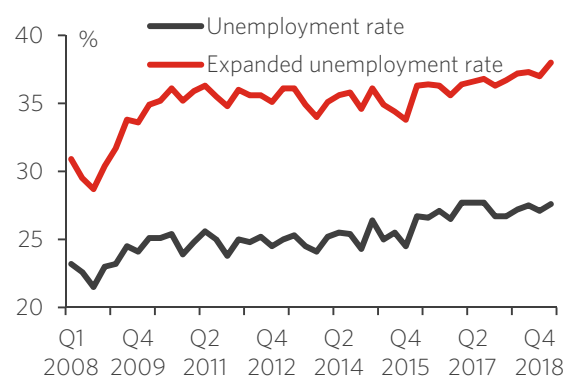
#### Highlights

- The first quarter of 2019 experienced a rise in South Africa's (SA) unemployment rate to 27.6% from 27.1%.
- The construction sector cut jobs by 142 000 in the first quarter of 2019, followed by the community and social services sector, which shed 50 000 jobs.
- Load shedding during the quarter likely contributed to the decline in the number of employees that work on a contractual basis. 124 000 jobs related to limited duration contracts were lost during the first quarter of 2019.
- Skilled jobs saw the largest increase in employment growth, while jobs at the non-skilled and semi-skilled levels experienced the largest declines.
- Youth unemployment rose to 55.2% in the first quarter of 2019, from 54.7% in the fourth quarter of 2018. This is higher than SA's peers and some European countries that also suffer with high levels of unemployment.
- Consumer confidence among the youth declined significantly and went into negative territory in the first quarter of 2019 to negative three index points from 18 index points in the fourth quarter of 2018.
- The Citizen Survey showed almost three in every four citizens listed unemployment as the largest problem in SA.
- The International Monetary Fund (IMF) expects unemployment in SA to rise marginally and remain sticky around 27% between 2019 and 2020.
- With the fiscus under strain, the onus of employment growth lies heavily on the private sector. In Momentum Investments' view, political uncertainty needs to abate and a recovery in domestic demand is required before firms can concentrate their efforts on hiring and investment again.

#### First-quarter employment numbers declined across the board

Statistics (Stats) SA released the quarterly labour force survey for the first quarter of 2019 and reported a rise in the unemployment rate to 27.6% from 27.1% in the fourth quarter of 2018 (see chart 1). Load shedding during the quarter likely contributed to the decline in workers employed on a contractual basis, which lost 124 000 jobs between the fourth quarter of 2018 and the first quarter of 2019. There was also a decline in permanent and unspecified employee numbers of 93 000 and 11 000, respectively, in the same period. Formal and informal sector employment shrunk by 126 000 and 68 000, respectively, during the period.

Chart 1: Unemployment rises marginally



Source: Stats SA, Momentum Investments, data up to Q1 2019

The largest decline in jobs emanated from the construction sector, which cut 142 000 jobs quarter on quarter (q/q) and 92 000 jobs year on year (y/y). Jobs in the community and social services sector also contracted by 50 000 q/q and by a notable 211 000 y/y. The largest gains were recorded in the transport sector, that rose by 59 000 q/q and 64 000 y/y, and the trade sector, which increased by 25 000 q/q and 69 000 y/y.

On an occupational split, managerial roles increased the most between the fourth quarter of 2018 and the first quarter of 2019 by 19 000 jobs and by 41 000 jobs relative to a year ago. Craft and related trade lost 101 000 jobs q/q and cut 22 000 jobs y/y.

Elementary jobs declined by 44 000 q/q and cut 87 000 jobs y/y. Domestic workers declined by 15 000 q/q, but increased by 22 000 y/y. Skilled jobs had the largest increase in employment growth, while growth in unskilled and semi-skilled jobs experienced the most significant declines. This trend suggests unskilled and semi-skilled workers face a larger threat of retrenchment in a tough economic climate.

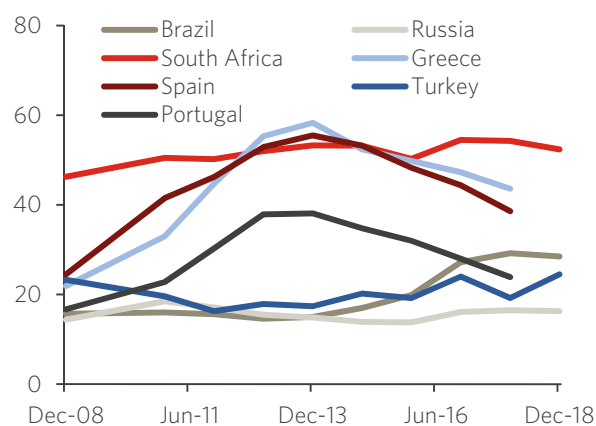
Limpopo, the Eastern Cape and Kwa-Zulu Natal accounted for the majority (81%) of job losses between the fourth quarter of 2018 and the first quarter of 2019. Job losses in these areas were concentrated in the agriculture sector, which also had a decline of 12 000 in the first quarter of 2019.

### Waning confidence among youth likely related to unemployment challenges

Youth unemployment (15 to 24 age group) rose to 55.2% y/y in the first quarter of 2019 from 54.7% in the fourth quarter of 2018. This above-50% rate is higher than SA's key peers, including Brazil and Russia, which reported 28.5% and the 16.3% in 2018, as well as some European countries that have also struggled with high unemployment rates (see chart 2). The expanded (including discouraged work seekers) youth unemployment rate increased to 69.1% in the first quarter of 2019 from 67.6% in the fourth quarter of 2018. The amount of unemployed people with a tertiary education spiked to 547 000 in the first quarter of 2019 from 482 000 in the fourth quarter of 2018.

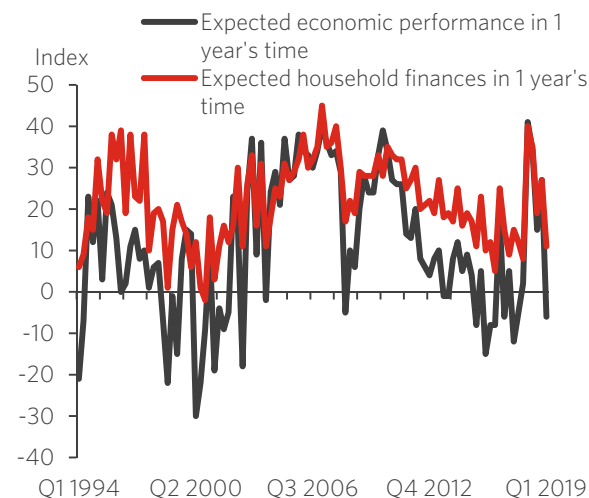
The Youth Employment Service (Yes) initiative was launched in 2018 to provide one million new job opportunities for a year, with a minimum stipend of R3 500 for the youth aged between 15 and 35. Job placements of 4 600 have already been made between government and 248 businesses, with the intention to grow business involvement. The Yes initiative intends on establishing 100 community hubs in 2019 to reduce youth unemployment.

Chart 2: Youth unemployment rate is above 50%



Source: Stats SA, Bloomberg, Momentum Investments

Chart 3: Deterioration in youth confidence on economic and financial conditions ahead



Source: BER, Momentum Investments

The Bureau of Economic Research's (BER) Consumer Confidence Index (CCI), surveyed specifically for the youth aged between 16 to 24, declined significantly to negative three index points from 18 index points in the fourth quarter of 2018. The sub-components measuring expected economic performance and household finances in one year's time declined in the quarter. Both sub-indices were at 27 index points in the fourth quarter of 2018 and declined to negative six index points for expected economic performance and 11 index points for expected household finances, respectively, in the first quarter of 2019 (see chart 3).

This signals the lack of confidence the youth has regarding economic conditions, including the expectation that job creation could improve in the next year.

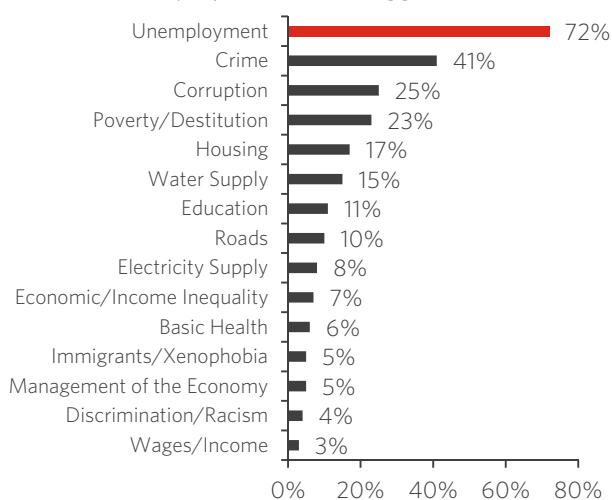
The job absorption rate among the youth continues to deteriorate in line with the higher unemployment rate to 11.1% in the first quarter of 2019, down from 11.4% in the fourth quarter of 2018. The labour participation rate, however, improved from 35.2% to 35.9% in the same period.

### Sentiment does not indicate a rebound in employment growth ahead

Popular opinions surveyed by the Citizen Survey and published for the fourth quarter of 2018 show that almost three in every four citizens listed unemployment as the largest problem facing the economy (see chart 4). In their Job Summit held in October 2018, the Presidency announced it aims to create 275 000 direct jobs every year. While this is yet to show up in the numbers, a less uncertain economic and political environment in the second half of the year should provide a more favourable backdrop for this goal to be realised.

94 000 jobs between the fourth quarter of 2018 and the first quarter of 2019 and will probably continue experiencing a decline over time as the sector faces digital migration competition.

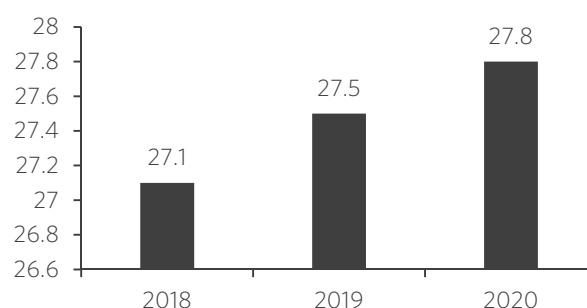
Chart 4: Unemployment is the biggest concern



Source: Citizen Survey, Momentum Investments

Banks in the finance sector announced job cuts of 1 200 workers and the closure of 91 branches at the start of 2019. The finance sector has seen a decline of

Chart 5: Unemployment to inch higher (%)



Source: IMF, Momentum Investments

While the rise in temporary staff for the latest national election could boost jobs numbers in the second quarter, lingering uncertainty and suppressed domestic demand could continue weighing on hiring decisions. The IMF expects unemployment in SA to rise marginally and remain sticky around 27% (see chart 5), based on its growth forecasts for the country of 1.2% in 2019 and 1.5% in 2020 (as published in its World Economic Outlook in April 2019). The IMF stated that the marginal recovery is likely to be driven by modestly reduced, but continued, policy uncertainty after the national elections. According to the report, structural reforms directed at product and labour markets are required to foster job creation.

