

Nedbank

Economic commentary

4 May 2010

Quarterly Labour Force Survey

The unemployment rate increases in the first quarter of the year

- Employment decreased by 171 000 in the first quarter of 2010, with employment in both the formal and informal sectors declining
- Most of the job losses were in the financial sector
- Further job losses are disappointing as we expected employment to increase along with improving economic conditions.
- We expect economic conditions to improve further during the remainder of 2010, which should encourage companies to hire more
- These numbers are unlikely to have a significant impact on monetary policy, taking into account the Governor's recent remarks

Latest (Q1 2010)

Unemployment rate: 25,2% Q1 2010 - (24,3% Q4 2009)

Total employment: (Thousands) 12 803 Q1 2010 - (12 974 Q4 2009)

Research

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Figure 1: Total number of employees

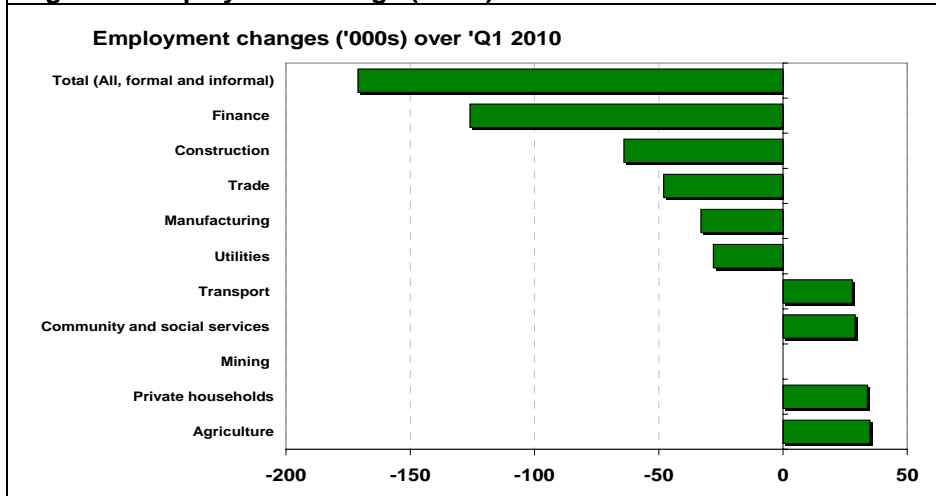


COMMENT

Despite signs of an improvement in economic conditions during the first quarter of the year, job losses continued with the formal and informal sectors shedding 140 000 and 100 000 jobs respectively. However, jobs were added in the agricultural sector and private household. Total employment decreased by 171 000 during the period, with a sectoral breakdown showing that a large number of jobs were lost in the financial sector (down by 126 000 or 7,2% q-o-q), followed by the construction, trade and manufacturing sectors, down by 64 000 (5,9%), 48 000 (1,7%) and 33 000 (1,9%) respectively. However, employment in the agricultural and transport sectors increased over the quarter, rising by 5,7% and 3,8% respectively, while no change in employment was recorded in the mining sector.

On an annual basis, total employment fell by 6,1%, with employment contracting in all sectors besides transport and community and social services, which recorded marginal increases of 1,3% and 0,2% respectively.

Figure 2: Employment change ('000s) over 'Q4 2009



OUTLOOK

General economic conditions are expected to improve further during the remainder of the year. This, combined with low interest rates should encourage companies to hire more employees. However, a sector such as the construction industry could experience further job losses as projects relating to the World Cup come to an end and relatively few new infrastructure projects are being announced. Some companies, particularly in the services sectors could be hesitant to expand their labour forces until the recovery has gained significant momentum. This will contain employment gains.

IMPLICATIONS

Further increase in the level of unemployment is not encouraging and suggests that consumer spending will improve at a slow pace. However, the numbers are unlikely to have a significant impact on monetary policy, taking into account the Governor's recent remarks. Our view is that there could be a window of opportunity for a cut in the third quarter as inflation and inflation expectations ease further. However, this would require some setback in the global and local economic environment.

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