

# Economic Commentary

## Quarterly Labour Force Survey

### More jobs go in the formal sector, while the unemployment rate remains almost unchanged as the ranks of the discouraged swell

- The unemployment rate edged up to 25,3% in the third quarter, almost unchanged from 25,2% in the second quarter, but still substantially above 24,4% in the third quarter of last year.
- Employment fell by a further 86 000 over the third quarter, with most of the job losses occurring in the financial sector, followed by community and social services as well as mining.
- The disappointing employment figures suggest that business confidence in most industries remains fragile, with companies still focusing on cutting costs and improving efficiencies despite four consecutive quarters of economic growth.
- Employment is expected to improve marginally in 2011, contained by the slow and subdued recovery and widespread uncertainty about the sustainability of the upswing.
- Today's figures confirm that the economic recovery remains fragile, which coupled with subdued inflation and a strong rand suggest that there is still a chance of another interest rate cut over the short term.

**Table 1 : Key labour market statistics**

	Employment (thousands)					Change (thousands)		
	Q3'2009	Q4'2009	Q1'2010	Q2'2010	Q3'2010	Latest quarter		YTD 2010
						Q-o-q	Y-o-y	
Labour force (15-64 yrs)	17374	17476	17471	17462	17371	-91	-3	-105
Employed	13133	13250	13076	13061	12975	-86	-158	-275
Formal sector (Non-agricultural)	9291	9344	9197	9088	9043	-45	-248	-301
Informal sector (Non-agricultural)	2029	2154	2054	2186	2172	-14	143	18
Unemployed	4241	4226	4395	4401	4396	-5	155	170
Unemployment rate (%)	24.4	24.2	25.2	25.2	25.3			
Discouraged work-seekers	1654	1710	1870	1938	2033	95	379	323
Labour force participation rate (LF/Pop)	55.0	55.1	54.9	54.7	54.2			

Source: Statistics South Africa

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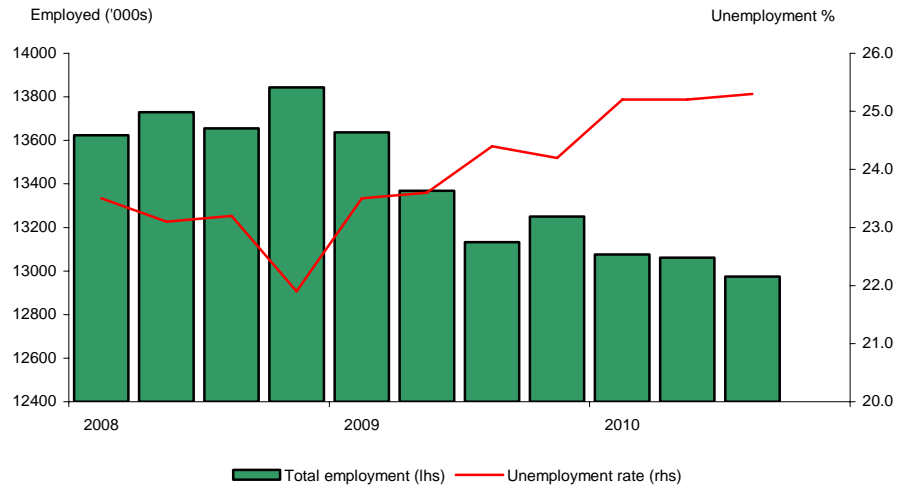
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#### Comment

The economy shed more jobs in the third quarter despite four consecutive quarters of economic growth. At the same time the labour force shrunk further as more potential work-seekers became discouraged and gave up actively looking for work, containing the increase in the unemployment rate. Consequently, the labour force participation rate fell to 54,2% in the third quarter from just over 55% at the end of last year, while the unemployment rate increased to 25,3% from 24,2% at the end of last year.

The formal non-agricultural sector shed the most jobs over the quarter, taking the number of job losses for the year to date in the formal economy to 301 000. The heaviest job losses occurred in the financial sector, where employment levels fell by 98 000 over the quarter, mainly reflecting the growing strain on profitability as the recovery in credit demand has been very slow, while bad debts have remained stubbornly high.

**Chart 1 : Actual employment levels and the unemployment rate**



Source: Statistics South Africa

The mining sector also shed 12 000 jobs over the quarter, but employment levels in most other major sectors rose marginally. There was some good news in the manufacturing and construction industries, where employment rose after a spate of retrenchments in the first two quarters of this year. Finally, employment in the agricultural sector not only rose over the third quarter, but it was up by 16 000 since the beginning of the year.

**Table 2 : Sector breakdown of employment**

	Employment (thousands)				Change (thousands)		
	Q4'2008	Q4'2009	Q2'2010	Q3'2010	Q3'2010 Q-o-q	YTD Q1-Q3	Since Q4'2008
Total	13844	13250	13061	12975	-86	-275	-869
Agriculture	764	624	630	640	10	16	-124
Mining	321	301	315	303	-12	2	-18
Manufacturing	1944	1792	1705	1713	8	-79	-231
Utilities	86	102	96	99	3	-3	13
Construction	1191	1127	1049	1076	27	-51	-115
Trade	3164	2933	2903	2947	44	14	-217
Transport	774	767	766	773	7	6	-1
Finance	1636	1812	1723	1625	-98	-187	-11
Community & social services	2661	2661	2710	2678	-32	17	17
Private households	1298	1129	1157	1119	-38	-10	-179

Source: Statistics South Africa

### Outlook

Although general economic conditions should improve gradually over the next 12 to 18 months, job creation will remain subdued. Employment is likely to remain under pressure during the remainder of 2010 and only improve marginally in 2011, as the economic recovery has so far been too weak to place much pressure on capacity and most companies expect slower and more subdued economic growth over the next three years than was the case during the previous upswing.

## Implications

The Labour Force Survey confirms that the economic recovery remains fragile, which coupled with subdued inflation and a strong rand suggests that there is still a chance of another interest rate cut over the short term. Although we expect the Reserve Bank's Monetary Policy Committee to pause over the next two meetings, with a possible 50 basis point cut in March next year, the risk remains firmly on the downside throughout this period. After the expected cut in March 2011, interest rates are expected to remain unchanged for the rest of 2011.

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